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CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

August 25, 1965

IN BROAD REVIEW

The broad advance in economic activity appears to be continuing but no comprehensive data are available to show whether the sharp advances in production and employment from June to July -- smaller than seasonal declines -- were carried forward into more than seasonal increases in August. In commodity markets industrial prices have edged up a little but price changes have continued to be selective, without any general response to developments in Vietnam. Steel ingot production is declining in anticipation of reduced shipments of finished steel in September, assuming a wage settlement is at hand.

Financial markets have shown signs of nervousness during August, with yields moving gradually higher in all maturities of U.S. Government securities and also on both new and seasoned corporate bonds. This atmosphere has been partly a reflection of market discussion of sterling difficulties and of possible domestic inflationary developments, and partly a result of supply pressures arising from the still sizable dealer inventories of longer-term Government securities and the unseasonably large current and prospective flow of corporate offerings. Interest rates continued generally stable on municipal bonds, mortgages, and private short-term market instruments.

Bank loans and investments seem headed for an expansion of significantly more than seasonal dimensions in August, following a strong June increase and July decline. Loan increases account for the bulk of the recent rise, with business loan expansion continuing vigorous relative to usual seasonal patterns.

The money supply grew at a 5 per cent annual rate in July but has shown little further increase on average thus far in August. Money growth has been uneven during 1965; for the year to date it has averaged about a 3 per cent annual rate. Time deposit expansion at commercial banks picked up in July and August, with both CD's and savings deposits sharing in the more vigorous expansion. The rate of increase in time deposits since midyear has approached the high rates posted in the first two months of 1965; and, as was true in that earlier period as well, stronger time deposit growth seems to be accompanied by less vigorous increases in inflows to other savings intermediaries.

According to early indications, the U.S. payments position moved back into deficit in August, following a surplus in the second quarter and approximate overall balance in July.

August 24, 1965.

SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest Period	Amount: Latest Period	Amount: Preced'g Period	Amount: Year Ago	Per cent change: Year Ago*	Per cent change: 2 Yrs. Ago*
Civilian labor force (mil.)	July '65	76.2	75.7	74.2	2.7	4.1
Unemployment (mil.)	"	3.4	3.6	3.7	-7.5	-17.7
Unemployment (per cent)	"	4.5	4.7	5.0	-	-
Nonfarm employment, payroll (mil.)	"	60.5	60.4	58.3	3.9	6.6
Manufacturing	"	18.1	18.0	17.3	4.5	6.3
Other industrial	"	7.9	7.9	7.7	1.7	3.7
Nonindustrial	"	34.5	34.4	33.2	4.1	7.5
Industrial production (57-59=100)	"	143.6	142.4	132.9	8.1	14.3
Final products	"	140.8	140.1	132.3	6.4	12.5
Materials	"	146.5	144.3	133.6	9.7	16.3
Wholesale prices (57-59=100)1/	"	102.9	102.8	100.4	2.5	2.3
Industrial commodities	"	102.1	102.1	100.8	1.3	1.5
Sensitive materials	"	102.3	102.5	99.1	3.2	4.9
Farm products and foods	"	103.7	103.5	98.1	5.7	3.9
Consumer prices (57-59=100)1/	June '65	110.1	109.6	108.0	1.9	3.3
Commodities except food	"	105.1	105.2	104.3	0.8	1.7
Food	"	110.1	107.9	106.2	3.7	4.9
Services	"	117.6	117.5	115.1	2.2	4.2
Hourly earnings, mfg. ($)	July '65	2.63	2.62	2.54	3.5	6.9
Weekly earnings, mfg. ($)	"	107.68	107.14	102.97	4.6	8.1
Personal income ($ bil.)2/	"	530.6	528.8	496.1	7.0	14.2
Retail sales, total ($ bil.)	"	23.8	23.3	21.9	8.3	14.7
Autos (million units)2/	"	9.0	8.9	7.6	17.9	17.4
GAF ($ bil.)	"	5.5	5.2	5.1	7.1	18.1
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	"	1,459	1,562	1,500	-2.7	-8.2
Factory workweek (hours)	"	41.0	41.0	40.6	1.0	1.5
New orders, dur. goods ($ bil.)	"	22.0	20.9	21.3	3.5	20.3
New orders, nonel. mach. ($ bil.)	"	3.2	3.1	2.9	9.8	22.5
Common stock prices (1941-43=10)1/	"	84.91	85.04	83.22	2.0	22.9
Inventories, book val. ($ bil.)	June '65	113.4	112.8	106.6	6.3	11.1
Gross national product ($ bil.)2/	QII-65	665.9	656.4	624.2	6.7	14.2
Real GNP ($ bil. 1958 prices)2/	"	601.4	597.5	575.9	4.4	10.4

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

August 24, 1965

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SELECTED DOMESTIC FINANCIAL DATA

	Week ended Aug. 20	Four-Week Average	Last six months High	Last six months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent)	4.13	4.11	4.13	2.00
U.S. Treas. bills, 3 mo., yield (per cent)	3.82	3.82	4.00	3.77
Net free reserves 2/ (mil. $)	-153	-168	13	-233
Member bank borrowings 2/ (mil. $)	491	533	620	270
Security Markets (N.S.A.)				
Market yields 1/ (per cent)				
5-year U.S. Treas. bonds	4.21	4.19	4.22	4.12
20-year U.S. Treas. bonds	4.26	4.24	4.26	4.19
Corporate new bond issues, Aaa	4.67	4.62	4.67	4.42
Corporate seasoned bonds, Aaa	4.50	4.48	4.50	4.42
Municipal seasoned bonds, Aaa	3.15	3.16	3.17	3.03
FHA home mortgages, 30-year 3/	5.44	5.44	5.45	5.44
Common stocks S&P composit index 4/				
Prices, closing (1941-43=10)	86.69	86.20	90.10	83.06
Dividend yield (per cent)	3.05	3.06	3.15	2.89

	Change in July	Average change last 3 mos.	Annual rate of change (%) 3 mos.	Annual rate of change (%) 1 year
Banking (S.A., mil. $)				
Total reserves	23	47	2.4	5.8
Bank loans and investments:				
Total	-700	1,400	6.1	10.6
Business loans	800	1,000	18.5	10.9
Other loans	-600	900	9.8	12.0
U.S. Government securities	-1,500	-1,000	-20.3	-3.9
Other securities	600	500	14.6	17.0
Money and liquid assets:				
Demand dep. & currency	700	500	3.5	3.8
Time and savings dep.	1,700	1,400	12.3	15.2
Nonbank liquid assets	-500	200	0.9	5.5

N.S.A.--not seasonally adjusted. S.A.--seasonally adjusted.
1/ Average of daily figures. 2/ Averages for statement week ending August 18.
3/ Latest figure indicated is for month of July. 4/ Data are for weekly closing prices.

U.S. BALANCE OF PAYMENTS

	1965					1964		1964
	Julyp	June	May	QII	QI	QIV	QIII	Year
	Seasonally adjusted annual rates, in billions of dollars							
Balance on regular transactions				0.4	- 3.0	- 6.2	- 2.4	- 3.1
Current account balance					5.3	8.0	8.0	7.7
Trade balance 1/		4.0	5.5	5.1	3.7	7.2	6.7	6.7
Exports 1/		25.8	26.9	27.0	22.4	26.8	25.5	25.3
Imports 1/		-21.8	-21.4	-21.9	-18.7	-19.6	-18.8	-18.6
Services, etc., net					1.6	0.8	1.3	1.0
Capital account balance					- 7.8	-12.5	- 9.1	- 9.7
Govt. grants & capital 2/					- 3.3	- 4.1	- 3.7	- 3.6
U.S. private direct inv.					- 4.0	- 3.3	- 2.2	- 2.4
U.S. priv. long-term portfolio				(0.3)	- 2.7	- 3.3	- 2.4	- 2.0
U.S. priv. short-term					1.2	- 2.3	- 1.6	- 2.1
Foreign nonliquid					1.0	0.4	0.8	0.4
Errors and omissions					- 0.4	- 1.7	- 1.2	- 1.2
	Monthly averages, in millions of dollars							
Deficit on regular transactions (seas. adjusted)				- 44	244	517	198	259
Additional seasonal element				- 17	172	- 1	-143	---
Financing (unadjusted)	199	- 63	- 50	- 27	72	518	340	259
Special receipts 3/	179	0	0	55	22	52	1	29
Liabilities increase								
Nonofficial 4/	-176	62	- 184	- 56	57	217	187	129
Official 5/		217	- 37	- 50	- 287	300	129	86
Monetary reserves decrease	196	- 342	171	23	281	- 50	23	14
of which: Gold sales	(80)	(313)	(117)	(197)	(277)	(57)	(- 7)	(10)
[Memo: Official financing] 6/		(- 125)	(134)	(- 27)	(- 6)	(301)	(153)	(129)

1/ Balance of payments basis which differs a little from Census basis.
2/ Net of associated liabilities and of scheduled loan repayments.
3/ Advance repayments on U.S. Govt. loans and advance payments for military exports: assumed zero in absence of information.
4/ Includes international institutions (except IMF), commercial banks and private nonbank.
5/ Includes nonmarketable bonds.
6/ Decrease in monetary reserves, increase in liabilities to foreign official institutions, and special receipts.

THE DOMESTIC ECONOMY

Industrial production. Output of consumer goods changed little in June and July but output of business equipment and of materials rose considerably further, bringing the total index of industrial production to 143.6 per cent of the 1957-59 average. At this level it was 8 per cent above a year ago.

Auto assemblies in July were at the level prevailing since April -- an annual rate of about 9-1/2 million units, and in August, after allowance for the model changeover cutback, they will be at or close to the July rate. Production of home goods, apparel, and staples in July continued at slightly below early spring levels. Business equipment, including both commercial and industrial machinery, rose further in July and was 4 per cent above the March-April average.

Output of iron and steel as well as most other metal materials increased in July reflecting in part the possibility of a strike in the steel industry. Inventories of steel mill products at manufacturing consumers, at a record level at the end of June, apparently increased further in July. Steel ingot production declined in August reflecting the expected sharp curtailments in September production of finished steel, assuming that there will be either a settlement or a strike rather than another deferment.

Output of most nondurable materials, including chemicals, paper, rubber, and petroleum, also rose further in July.

Gross national product. Gross national product in the second quarter was at a seasonally adjusted annual rate of $665.9 billion, $9.5

billion more than in the first quarter. In terms of constant prices, GNP was 4.4 per cent higher than a year earlier.

The second quarter gain of $9.5 billion compares with an increase of $15.3 billion in the first quarter. The second quarter estimates, based on the Commerce Department's recently revised income and product series, indicate a trifle more expansion in overall activity than the old figures but basically the same pattern of developments.

One effect of the revision of the income and product accounts was to raise the estimate of gross national product for recent periods -- by $6.1 billion for 1964, by $7.6 billion in the first quarter of this year and by $7.9 billion for the second quarter of this year. The growth trend in output for the entire postwar period is little changed by the revision but the trend for recent years is raised somewhat. The aggregate measures of income were also raised. Further comments on the revisions -- substantial for some components -- appear in Appendix A.

Labor market. Demands for labor have continued to respond strongly to rising levels of expenditure for goods and services. The increase in nonfarm employment in July was large, about in line with the accelerated increase shown earlier this year. Moreover, the employment rise outpaced rapid growth in the labor force and unemployment in July moved down to 4.5 per cent in July, the lowest rate since 1957. Long-term unemployment has also been reduced.

Employment in nonfarm establishments increased by 165,000 in July and was 2.3 million higher than a year ago -- the largest July to

July increase since 1958-1959. Manufacturing employment increased 90,000 in July with almost the entire gain in the five metal-producing and fabricating industries; other hard goods showed only small gains and nondurable goods employment declined somewhat in July.

MANUFACTURING EMPLOYMENT
(Seasonally adjusted)

	Per cent increases at annual rates		
	June to July 1965	Jan. to July 1965	Jan. 1964 to July 1965
Manufacturing	6	5	4
Metal and metal fabricating industries 1/	13	9	7
Other manufacturing	1	2	2

1/ Includes steel and other primary and fabricated metals, autos and other transportation equipment, machinery and electrical equipment.

Much of the vigor of the expansion in manufacturing employment over the past year and a half is attributable to gains in the metals and metal-fabricating industries, which account for about two-fifths of all manufacturing employment. After rising in the early recovery period, employment in the metals group leveled off in 1962 and 1963 but since the start of 1964 it has expended by 700,000, while in all other manufacturing industries employment has increased by only 300,000.

Shortages of metal workers continue to be reported for some skills and in certain labor market areas. But for the most part, needs for higher skills are being met by a longer work week, upgrading of employed workers and expansion of private and public training programs. Most of the need for less skilled workers, until recently, had been met by the rehiring of laid-off workers. But with the unemployment rate among blue collar workers relatively low, employers increasingly have been taking on available younger workers, without previous experience, for entry occupations. The workweek has declined somewhat from the very high first quarter level, possibly indicating some easing in the labor supply situation.

Employment in trade and public and private services continued to advance further in July. Over the past year employment in these industries advanced by 4 per cent, as compared with 4.5 per cent in manufacturing accounting for three-fifths of the rise in total nonfarm employment. Expansion in these activities has not generally been limited by shortages of professional managerial or other skills.

Youth. This summer an unprecedented number of young workers entered the labor force reflecting the rapidly growing population in these age groups and particularly the number reaching age 18. Between May and July 2.9 million teenagers and 0.6 million young persons 20-24 years sought jobs after schools closed for summer vacation, a total of 3.5 million or 800,000 more than last year. Over the year from July 1964 to this July, the 14 to 24 year group accounted for 1.6 million of a 2.2 million increase in the labor force. Sustained economic activity and campaigns by business and government to find employment opportunities for young people no doubt contributed to the sharply stepped up rate of growth in the labor force.

Sufficient jobs were available to absorb the large increase of young entrants in the labor force this summer. While the number of unemployed teenagers in July was about the same as last year, it was lower than earlier this year. About one-third of the employment rise for teenagers from July 1964 was in service activities, largely in private household work and educational services. About one-fourth was in Federal, State and local government jobs. More teenagers than a year ago were also employed in durable goods manufacturing and retail trade.

Approximately one-third of the new entrants have graduated from high school and college and will remain relatively permanent members of the labor force. The others are mostly temporary summer workers who can be expected to return to school in the fall. However, because of favorable business conditions, a somewhat larger number than usual may not return to school, remaining in the labor force this fall to look for permanent jobs.

Labor costs. Earlier it had been thought that unit labor costs might be showing some upward trend in the second quarter because of some firming in wages and some slowdown in productivity gains. However, upward revisions in the production index in the second quarter and the rather sizable gain in output shown for July now indicate that unit labor costs have remained stable in recent months. In July the unit labor cost index was at the May level and well below any other July in the current upswing.

Average hourly earnings in manufacturing in July were $2.62, up 9 cents, or 3.6 per cent from a year earlier. This is a somewhat higher rate of increase than in the previous year. However, it mainly represents the effects of more overtime pay rather than any acceleration in the rise in basic wages. If adjustments are made for overtime pay, the rate of increase in manufacturing wages shows little upward trend.

Minimum wages. The last step in raising minimum wages under the 1961 Amendments of the Fair Labor Standards Act will become effective in early September. The minimum wage will increase 10 cents to $1.25 an hour for 810,000 workers, mainly in the lower paying trades and service industries; it is estimated the annual cost will be $162 million. About 29.5 million workers or 45 per cent of total private employment will now be covered by the $1.25 minimum.

Meanwhile, the House Education and Labor Committee has approved and sent to the House a bill to further raise the minimum wage to $1.75 an hour and include an additional 7 million workers under the Act. The minimum wage for workers now covered would increase in 3 annual steps starting with $1.40 on July 1, 1966 and reaching $1.75 an hour on July 1, 1968. Covered for the first time would be workers in hotels, motels, restaurants, laundries, private hospitals, and regular employees on large farms. The bill also lowers the current annual sales-volume exemption in certain industries, thereby including additional workers in retail trade, construction and motion picture theatres. Newly covered workers would start with a $1.00 minimum wage on January 1, 1966 and would advance by 5 steps to the $1.75 an hour minimum on July 1, 1970. Provisions for double time for overtime proposed by the Administration have beem eliminated from the bill. It is uncertain whether final action will be taken before Congress adjourns this fall.

Prices. The industrial commodity price index was unchanged from mid-June through July, but apparently has risen 0.1 per cent in August. Now at an estimated 102.2 per cent of the 1957-59 average, the industrial commodity total has risen about 1.5 per cent from a year ago. The total wholesale price index has declined slightly from the peak reached in mid-July, according to the weekly estimates. Prices of foodstuffs, which accounted for most of the rise in the total index earlier this year, have edged downward in recent weeks as a result of increased market supplies.

Prices have recently been advanced for some paper products, and, mainly because of Mexican export restrictions, for sulphur and sulphuric acid. But most of the upward pressure on the industrial price level continues to be concentrated in metals and machinery. The index of steel mill products reached a new high in July as producers raised prices on certain types of sheet. And quantity discounts on a wide variety of steel products were changed -- but with the effect on average steel prices still unclear. In early August prices of stainless sheet, already a fourth below the 1957-59 average, were reduced further.

Nonferrous market conditions are mixed. Early in August, copper producers advanced prices on a range of shapes, but later they rescinded some of the increases. Prices of copper scrap continue to edge upward indicating further tightness. Aluminum production remains at capacity, and many market observers expect a rise in the ingot price this fall. Zinc shortages, however, have eased, mainly because of a seasonal decline in demand, and lead prices appear to be coming under downward pressure as production from new mines increases. The price of tin continues to fluctuate at advanced levels, causing strong pressures to find substitutes; next year different forms of "tinless" tinplate are expected to be in volume production.

While the price index for electrical machinery has changed little over the past year, as in the preceding two years, indexes of metalworking and construction machinery have risen over 3 per cent from a year ago, reflecting mainly strong demands.

Orders for durable goods. According to the "advance" figures, new orders received by manufacturers of durable goods rose 5 per cent in July, following two months of decline, and were 3 per cent above the second quarter average. Large July gains were reported in new orders for defense oriented products and products of machinery and equipment industries.

Even though shipments by durable goods manufacturers rose further in [illegible], the backlog of unfilled orders increased rather sharply, to a level nearly one-eighth higher than a year earlier; shipments were up 5 per cent.

ORDERS FOR MANUFACTURERS' DURABLE GOODS
(Per cent change)

	New orders		Unfilled orders
	July 1965 from July 1964	July 1965 from 2nd qtr. 1965 average	July 1965 from July 1964
All durable goods	3.5	3.1	12
Excluding defense products	8	4	16
Excluding iron and steel	5	3	11
Excluding defense products and iron and steel	11	4	15
Machinery and equipment	16	8	17
Defense products	-22	-3	6
Iron and steel	-11	4	27

Retail sales. Retail sales rose 2 per cent in July, according to the "advance" estimate and were 8-1/4 per cent higher than a year earlier. The sharp gain from June to July, which lifted total sales to a new high, reflected large increases at furniture and appliance, apparel, and general merchandise stores and more moderate increases in most other types of stores. Auto sales rose slightly from their already high June level.

New car sales and stocks. Sales of new domestic automobiles in the first 10 days of August were lower than a month earlier by about the usual seasonal margin and were 8 per cent above a year ago. Total deliveries for the model year ending in September will be about 8.8 million vehicles, including a half million imported cars, an increase of 6 per cent over the 1964 model year.

Dealer inventories on August 10 were moderately lower than a month earlier, but almost a quarter higher than on that date last year. They are still unusually high relative to sales and some auto industry economists expect weakness to develop in the used car market with the unusually large sales of nearly-old model cars to be made.

Consumer credit. Demands for auto credit have continued strong this summer, but in line with the swift pace of auto sales. About 7 out of every 10 new cars and 6 out of 10 used cars have been purchased on credit, proportions about the same as usual for this season.

The expansion in auto credit so far this year, at a $3.6 billion annual rate represents a somewhat greater share of total instalment credit expansion than last year, just as consumer outlays for autos have represented a greater share of consumption expenditures. While typical minimum downpayments and maximum maturities have not been changing, contracts with the most liberal terms are accounting for a gradually increasing share of the total at commercial banks; three-fourths of all new car contracts now being written call for a 36-month payoff, up from 65 per cent five years ago.

Personal income. Personal income rose somewhat further in July to a seasonally adjusted annual rate of $530.6 billion and was 7.0 per cent above a year earlier, according to the recently revised estimates. The July rise in the total was rather small -- only 0.3 per cent -- mainly because of a large drop in farm proprietors' income, which had increased sharply in the spring months. Excluding agricultural income, the July increase was larger than the increases of May and June.

Wages and salaries rose 0.6 per cent, which was somewhat above the average for the first half of the year. Increases in payrolls were widespread. Half of the increase was in manufacturing, with the largest gains there in metals and machinery.

Personal interest and transfer payments edged up slightly in July. Business and professional proprietors' income, rental income, and dividends were little changed.

Revised annual and quarterly data for personal income and its major components for the period since 1960 are shown in Table A - T-2.

Residential building. Seasonally adjusted private housing starts declined in July, but the decline was associated with a 2 per cent upward revision in the already advanced June rate and was to a level still somewhat above the low reached last January. On a three-month moving average basis, starts in the May-July period were at an annual rate of 1.51 million -- fairly near the May-July rate last year and the average rate for all of 1964.

Seasonally adjusted building permits were also down in July from an improved June rate. The decline was moderate, however, and was concentrated in permits for structures of 5-or-more units, which had shown some recovery in recent months. Regionally, total permits dropped in the Northeast and South, maintained their earlier reduced rate in the West, and turned sharply upward in the North Central states.

PRIVATE HOUSING STARTS AND PERMITS

	July 1/ (thousands of units)	Per cent change from	
		Month ago	Year ago
Starts (total)	1,459	- 7	- 3
Permits (total)	1,230	- 2	- 3
1 family	708	1	4
2-4 family	97	17	- 6
5-or-more family	425	- 9	-11

1/ Seasonally adjusted annual rate; preliminary.

The number of single-family homes for sale by speculative builders declined further in June, and amounted to only 4 months' supply at the improved June rate of sales. This compared with about 5 months' supply in June of the preceding two years.

Vacancy rates in rental dwellings financed with FHA-insured mortgages averaged 6.5 per cent in mid-March, according to FHA's annual occupancy survey. This rate was below the high of 7.2 per cent in 1950, and was only slightly above last year's figure. The year-to-year change was similar to that shown by Census Bureau estimates for total rental vacancy rates.

Crop production. With weather conditions generally favorable in most farm areas thus far in 1965, a record harvest is expected from an acreage only slightly larger than that of 1964. Increases in yields are in prospect for all major crops. Largest increases in production are forecast for those crops most adversely affected by last year's drought in the Corn Belt. Gains in output of 15 per cent and 27 per cent, respectively, are in prospect for corn and sorghum grains, and an increase of 23 per cent for soybeans. Output of food grains is expected to be moderately larger. Declines are indicated for tobacco, cotton, and sugar crops because of reductions in acreage.

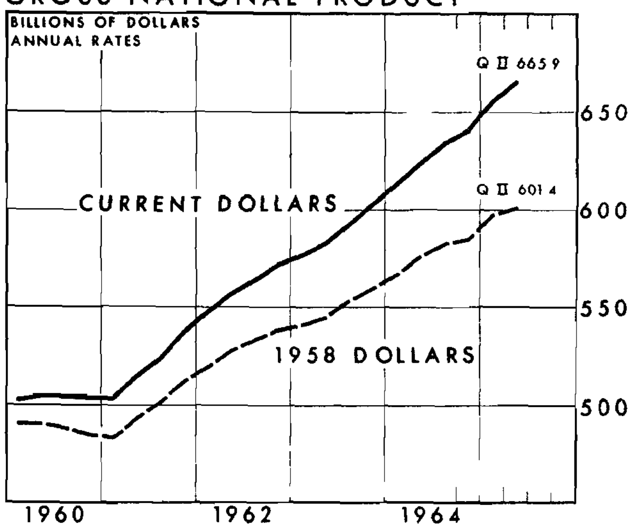
The prospective average yields of 7 per cent above 1964 and 5 per cent above the previous record of 1963 are in line with the sharply rising trend of the past 10 years which has been interrupted only by the dry weather of 1964. In a recent report to the Senate Agriculture Committee, Dr. Wilcox of the Legislative Reference Service attributes the increases to four main factors: increased drawbar power and improved implements which permit more timely and effective field operations; the development of higher yielding crop varieties; the increased use of chemicals to control pests and weeks; and most important, the greater use of fertilizers, particularly the use of nitrogen, which has doubled in the past 10 years. Another factor contributing to higher yields has been expansion in acreages of crops grown under irrigation. Dr. Wilcox suggests that further increases in yields are highly probable mainly as a result of further increases in fertilizer use and other improvements in farm practices. In the next 5 to 10 years he sees probable increases of a third in corn yields and from a tenth to a fifth in wheat and cotton yields.

A recent USDA study shows that corn yields in the Corn Belt adjusted by a weather index increased from 30 bushels per acre to 70 bushels between 1929 and 1962. Hybrid seed, generally adopted between 1933 and 1948, accounted for about 20 bushels of the 40 bushel increase. Yields were nearly stable in the five years after 1948. Since 1954, expanded use of fertilizer, chemicals, closer planting, and other supporting practices has pushed yields up another 20 bushels.

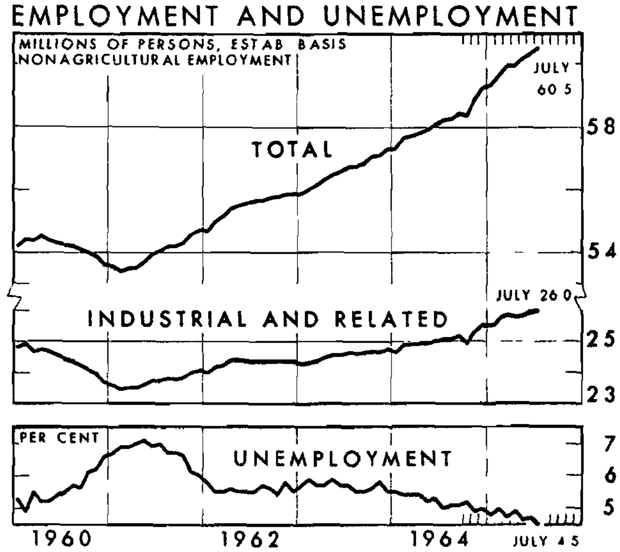
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

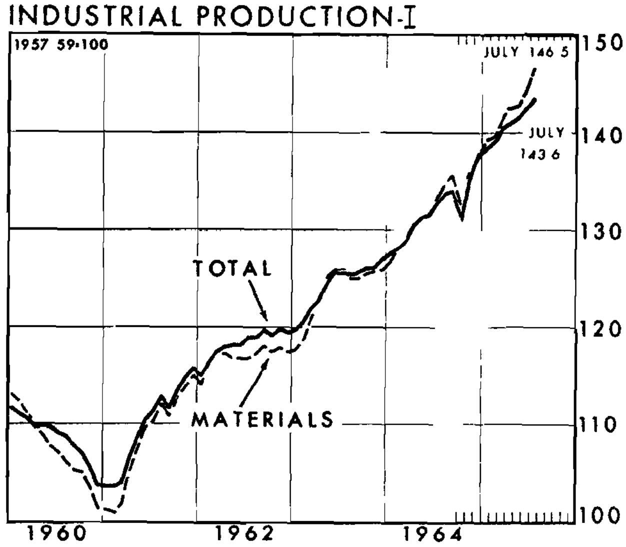
GROSS NATIONAL PRODUCT



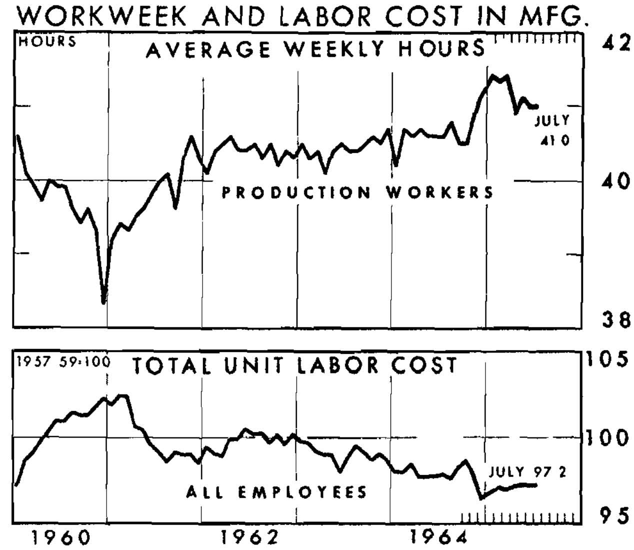
EMPLOYMENT AND UNEMPLOYMENT



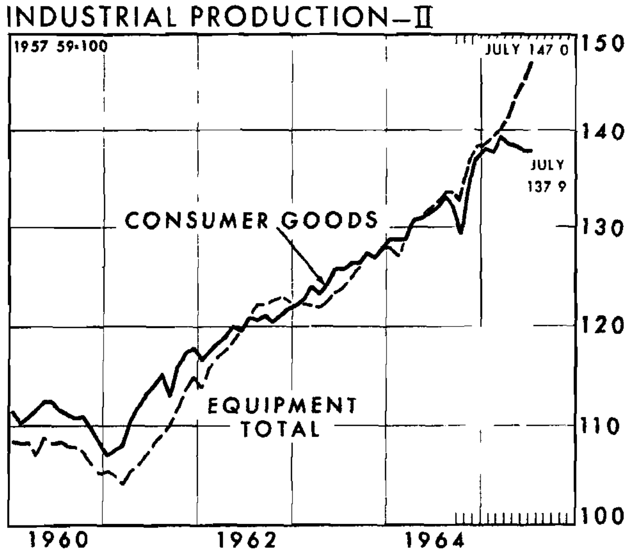
INDUSTRIAL PRODUCTION-I



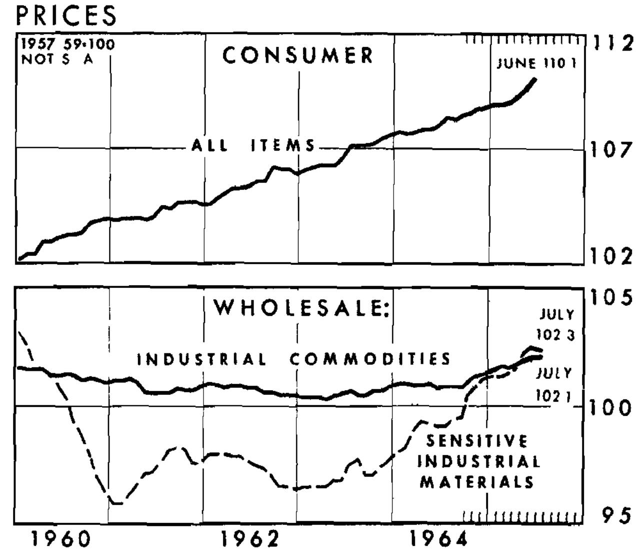
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION—II



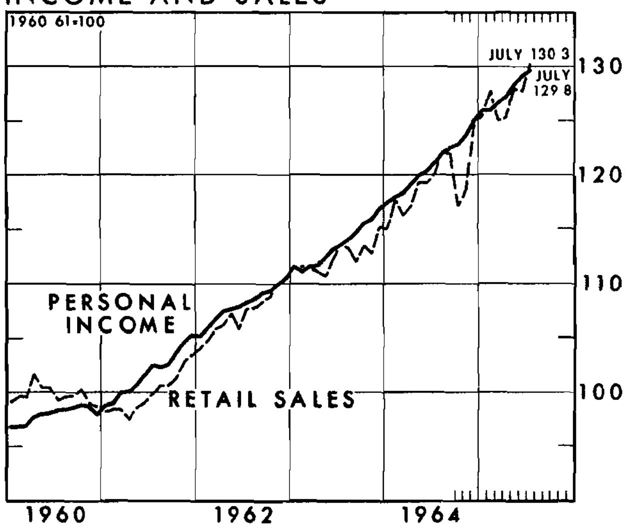
PRICES



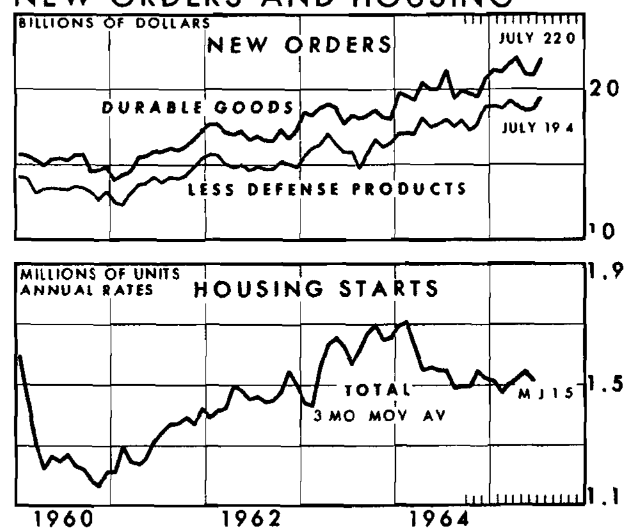
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

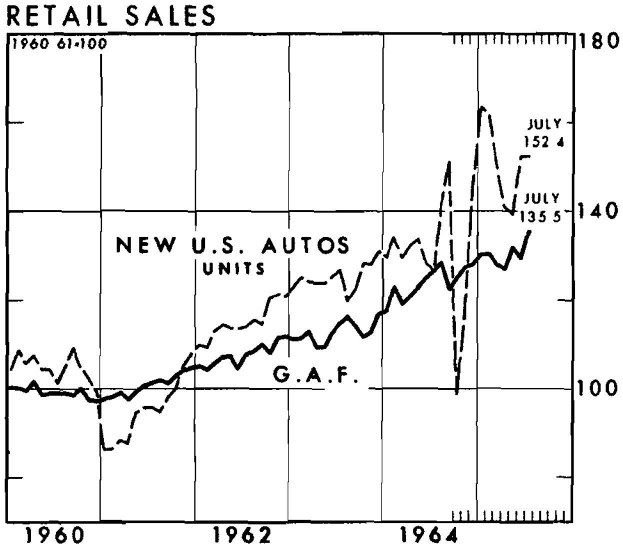
INCOME AND SALES



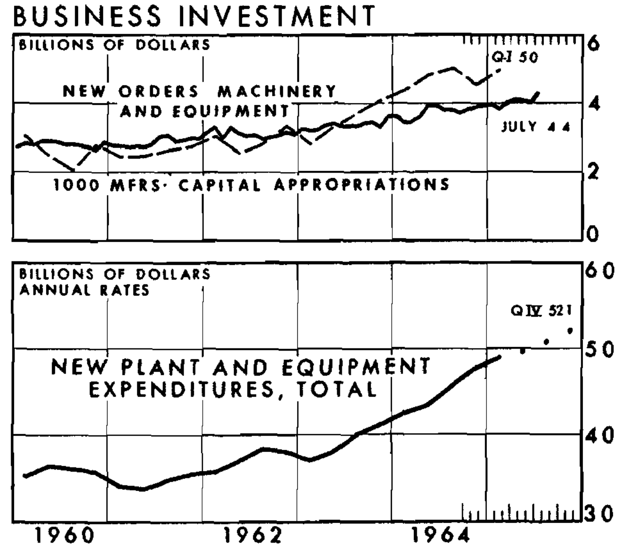
NEW ORDERS AND HOUSING



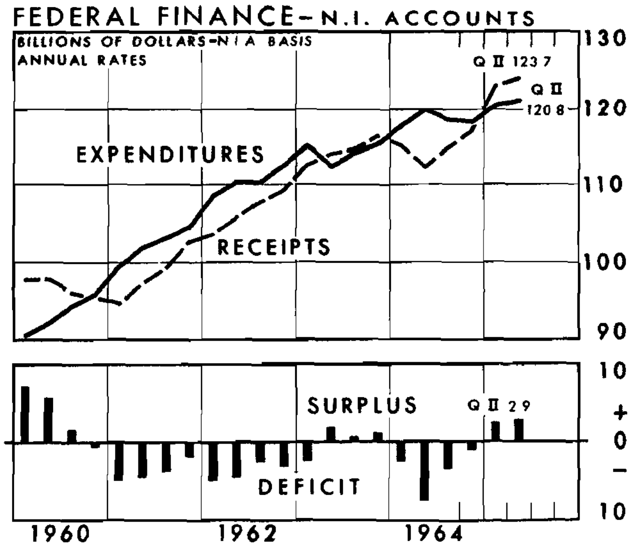
RETAIL SALES



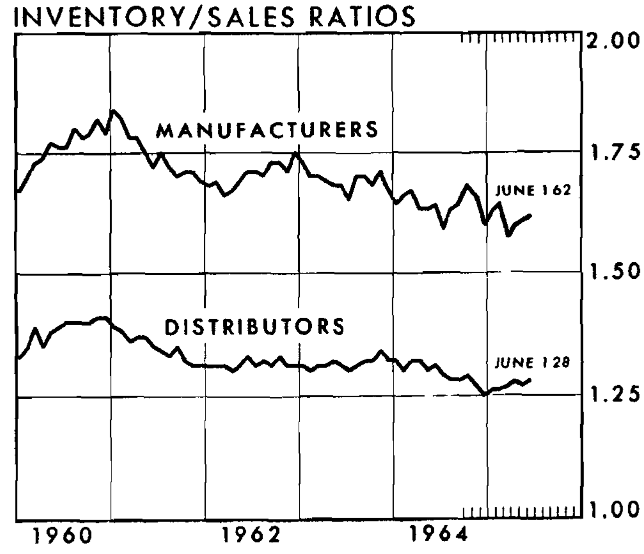
BUSINESS INVESTMENT



FEDERAL FINANCE—N.I. ACCOUNTS



INVENTORY/SALES RATIOS



DOMESTIC FINANCIAL SITUATION

Bank credit. A significant seasonally adjusted August expansion of bank credit seems in prospect, although the rise is likely to be less than the extraordinary increase of August a year ago. Loans and investments of weekly reporting member banks showed a contraseasonal rise of $550 million during the first two weeks of August.

Continued marked increases in loan portfolios were the chief feature of the credit expansion at reporting banks. Government security holdings declined, but total investments changed little -- as holdings of municipals and other securities registered an offsetting gain. (Purchases of other securities were heaviest at banks outside New York City, where savings accounts and other time deposits rose rapidly.) Though the growth of total loans over the two weeks was no larger than last year, it was substantially greater than in the comparable period of most earlier years.

As in other recent months, the major source of the rise in loan volume during early August was heavy business credit demands. Manufacturers of durable goods continued to add large amounts to their indebtedness to banks, and wholesale trade firms also were heavy borrowers. Increasing outlays for inventories and fixed capital, which have increased external financing requirements of firms in these industries throughout 1965, may thus be continuing in August.

In meeting demands for loan accommodation by business and other customers this year, banks have cut deeply into their portfolios of Treasury securities. The seasonally adjusted decline in bank ownership of Governments during the first seven months, in fact, exceeded the growth of business loans over the same period. But banks have not yet felt compelled to restrict their acquisitions of mortgages, as they did in earlier periods of economic expansion when business credit demands were heavy. Real estate loans recorded an average monthly increase of about $350 million in the first seven months of 1965 -- approximately in line with last year's rate of increase -- and further growth is in prospect for August, judging by reporting bank data for the first two weeks. Sharp increases in time deposits have probably been a key factor in sustaining bank demands for mortgages.

Time deposits and money. Growth in commercial bank time deposits accelerated in July to a seasonally adjusted annual rate of 15 per cent, the highest rate since February, and this higher rate of advance continued in the early weeks of August.

Large increases in outstanding CD's at banks outside New York City in July, and at New York City banks in early August, contributed to the increased rate of expansion. But increases in savings accounts at weekly reporting member banks--and apparently at other banks also--have been unusually large. The advance in time deposits at country member banks seems to have moderated in the third week of August, but there is little doubt that the month will record another strong gain in time accounts at all commercial banks.

In contrast with the recent sharp increase experienced in time deposits, growth in the money stock moderated in July to a 5 per cent annual rate, after an exceptional increase in June. Thus far in August, the money supply has shown little growth, even though Treasury deposits at commercial banks have declined on a seasonally adjusted basis. On an average daily basis, the seasonally adjusted money stock in the first three weeks of August was virtually unchanged from the same period a month earlier.

Bank reserves. Member bank borrowings over these three weeks were moderately higher than the average for July, but so also were excess reserves. Consequently, net borrowed reserves, at a $172 million average for the three weeks, were close to the $178 million level of June and July.[1/]

The effective rate on Federal funds was 4-1/8 per cent on 14 of the past 15 trading days. Fractional amounts of Federal funds traded at 4-1/4 per cent during a few recent days.

U.S. Government securities market. Yields in the Treasury bond and bill markets have risen in recent weeks. Since late July, the average yield on Treasury bonds due in more than 10 years has moved up 5 basis points to the highest level since the spring of 1964.

YIELDS ON U.S. GOVERNMENT SECURITIES

Date (Closing bids)	3-month bills	6-month bills	3 years	5 years	10 years	20 years
1965						
Highs	4.00	4.05	4.18	4.22	4.27	4.26
Lows	3.76	3.81	4.00	4.08	4.17	4.17
1965						
July 28	3.81	3.88	4.09	4.15	4.20	4.21
Aug. 10	3.85	3.94	4.14	4.19	4.24	4.24
Aug. 24	3.87	3.97	4.18	4.27	4.27	4.27

1/ Based on average of daily figures for all reserve weeks ending in the month, as used in the reserve memorandum to the FOMC.

The recent rise in Treasury bond yields has occurred in an atmosphere of growing market discussion of possible inflationary developments in the economy and a potential need for tighter monetary policy in the months ahead. Factors contributing to this market environment have included the uncertain economic impact of developments in Viet Nam on an economy already operating at an advanced rate and entering a period of seasonally high business activity. Further contributing to the bond market's halting performance have been uncertainties as to the dimensions of the steel wage settlement and the possibility of a sterling crisis. Against this background, U. S. Government securities dealers have intensified their efforts to reduce sizable positions in intermediate- and long-term Treasury bonds. The dealers have encountered only indifferent investment demand in the market and they have continued to absorb some selling of Treasury securities on switches into corporate bonds whose yields have risen more than those on Treasury bonds in recent months. While the recent advance of Treasury bond yields did stimulate some net investment demand around mid-August, a large part of the reduction in dealer bond positions in recent weeks has continued to be accounted for by official account buying. The accompanying table shows net dealer positions in Treasury notes and bonds on selected dates since their recent peak on May 10.

DEALER POSITIONS IN TREASURY NOTES AND BONDS ON SELECTED RECENT DATES
(Par values in millions of dollars)

Date (1965)	Securities maturing in: 1 - 5 years	5 - 10 years	Over 10 years
May 10	213	626	247
May 28	78	480	234
June 30	170	374	278
July 30	9	308	307
Aug. 24	175	177	220

Treasury bill rates inched slightly higher during the first three weeks of August. Market demand for bills continued strong during the first half of the month but has tapered off somewhat recently and is expected to be seasonally less robust until around mid-September.

Other short-term rates have shown little net change over recent weeks.

Corporate and municipal bond markets. As in the Treasury bond market, yields on corporate bonds have moved higher since late July due chiefly to changed investor expectations about the likely future course of interest rates. Yields on seasoned corporate issues of top quality have risen to their highest level since the spring of 1960, and yields on new issues adjusted to an Aaa basis have advanced about 10 basis points, breaking through the previous high of 4.60 per cent reached during the period of peak market congestion last June. While yields on municipal bonds have recently edged down very slightly from their early July highs, a sharp increase in the advertised inventories of municipal dealers during the past week suggests that some shift in the balance of pressures has been developing in this market as well.

BOND YIELDS

	Corporate Aaa		State and local government	
	New	Seasoned	Moody's	Bond buyer (mixed qualities)
1964				
High	4.53	4.45	3.16	3.32
Low	4.30	4.35	2.99	3.12
1965				
High	4.67 (8/20)	4.50 (8/20	3.17 (7/8)	3.30 (7/1)
Low	4.33 (1/29)	4.41 (3/12)	2.94 (2/11)	3.04 (2/11)
Week ending:				
July 23	4.56	4.48	3.16	3.25
Aug. 6	4.58	4.47	3.16	3.25
Aug. 13	4.64	4.48	3.15	3.23
Aug. 20	4.67 p/	4.50	3.15	3.23

Despite the advance in the average yield on Treasury bonds since late July, the spread between this series and that on new corporate bonds has widened to the largest margin since early 1962. Because yields on seasoned corporate issues respond more sluggishly to market influences, the spread between Moody's Aaa series and yields on Treasury bonds has narrowed from 34 to 30 basis points. At this level, however, the spread is substantially wider than that generally prevailing between early 1963 and early 1965. Revised lender estimates of the prospects for further yield advances on corporate and Treasury bonds also raise the possibility of changes in the earlier trend toward somewhat more liberal terms on mortgage loans.

Public offerings of new corporate bonds have been in unseasonably large volume during August and somewhat larger than initially estimated. Volume has been substantially lighter than during the second quarter, however, and unsold balances of new nonconvertible debt issues have been kept at a low level, as underwriters have terminated syndicates quickly in the face of rising yields. This places underwriters in a good technical position to bid for the more sizable flow of offerings scheduled for this week and for September.

New issue volume in the municipal bond market has been relatively light during August. This moderation of new offering pressures relative to July helps to explain the continued stability of yields in this market. It permitted dealers to reduce their advertised inventories from $900 million in early June to less than $700 million in mid-August. More recently, however, their advertised inventories have expanded to more than $800 million.

BOND OFFERINGS[1/]
(In millions of dollars)

	Corporate				State and local govt.	
	Public offerings		Private placements			
	1965[e/]	1964	1965[e/]	1964	1965[e/]	1964
Jan.-Aug. average	470	339	616	463	936	927
June	748	468	980	623	972	939
July	540	234	500	411	1,000	943
Aug	450	183	500	433	700	799

1/ Includes refundings--data are gross proceeds for corporate offerings and principal amounts for State and local government issues.

Stock market. Common stock prices, as measured by Standard and Poor's 500 stock index, have risen a little more than 1 per cent on balance during August and are now about 6 per cent above the June 28 low. They remain about 4 per cent below the record high reached last May. Trading volume has averaged close to 5 million shares per day, considerably more than in July and well above the usual level of August activity. Customer credit in the stock market declined to $6.8 billion at the end of July with reductions in net debit balances reported by member firms of the New York Stock Exchange accounting for the entire 3.5 per cent decline during the month.

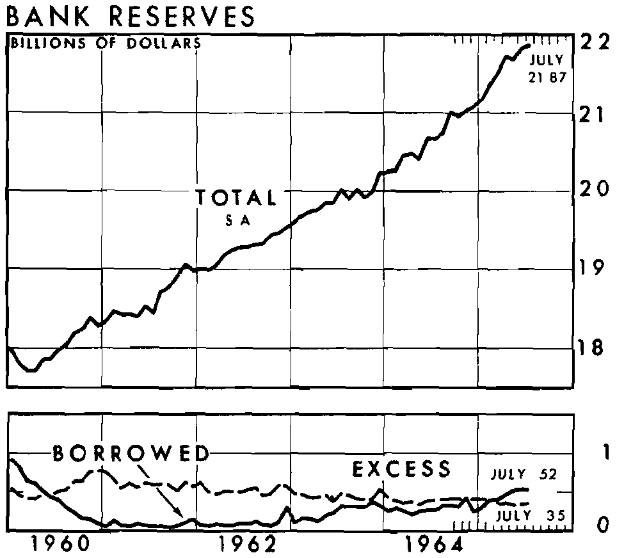
Mortgage markets. While savings inflows to specialized mortgage lenders, particularly savings and loan associations have continued to weaken, mortgage funds generally have remained ample and lender demands for conventional mortgages generally have continued at a high rate. In July, the FHA-secondary market yield series was again unchanged at 5.44 per cent. Contract interest rates for conventional first mortgages on homes, as reported by the Federal Housing Administration, also remained about unchanged in July from earlier levels. For loans on new homes, the average was 5.80 per cent; for loans on existing homes, 5.85 per cent.

Purchases in the secondary market by the Federal National Mortgage Association, while far below earlier peaks, were above sales again in July, and were at the highest level since the spring of 1962. Part of the recent advance appears to reflect some lessening of interest by private institutional lenders in low-rate Federally-underwritten mortgages.

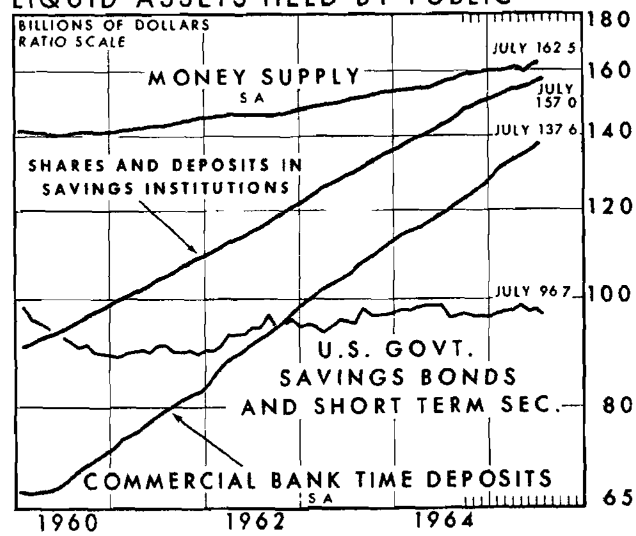
Delinquencies of 30 days or more on home mortgages edged up to 3.0 per cent in the second quarter of the year, according to the regular survey conducted by the Mortgage Bankers Association of America. The rate exceeded a year earlier for the first time since the end of 1963. Both conventional and Government-underwritten mortgages shared in the shift. The average rate of foreclosures reported for loans held or serviced by the MBA sample also edged higher. Except for conventional loans, however, foreclosure rates continued below a year earlier.

FINANCIAL DEVELOPMENTS - UNITED STATES

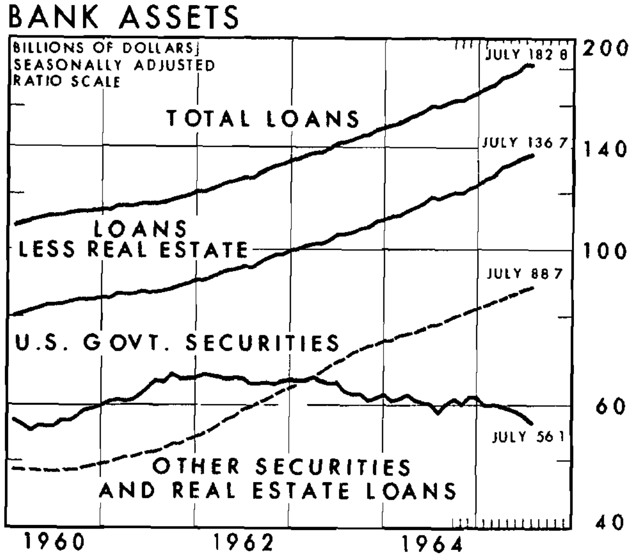
BANK RESERVES



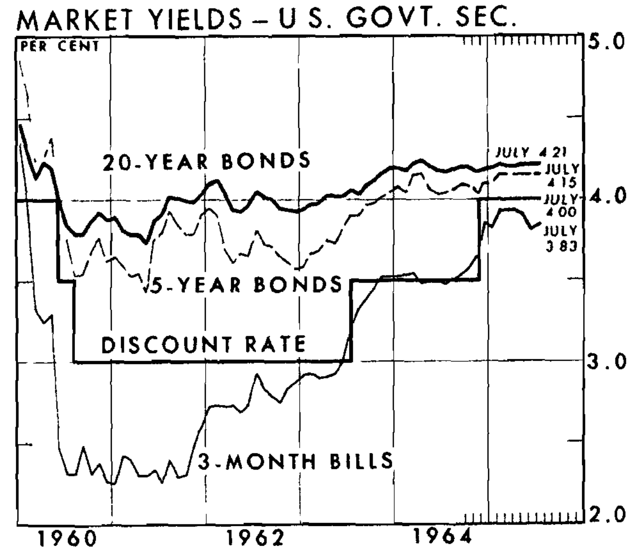
LIQUID ASSETS HELD BY PUBLIC



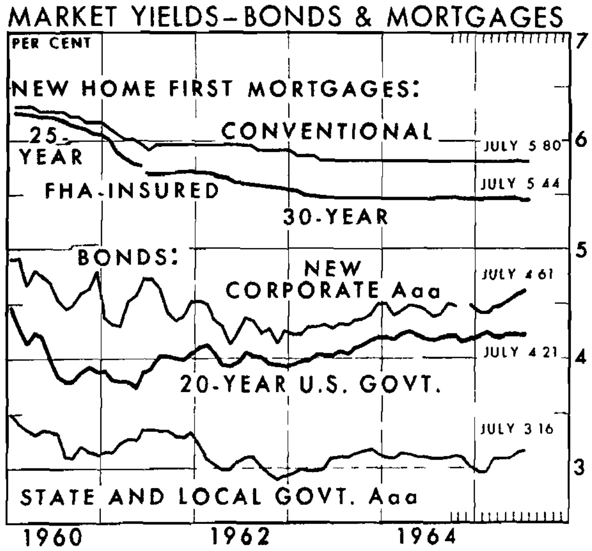
BANK ASSETS



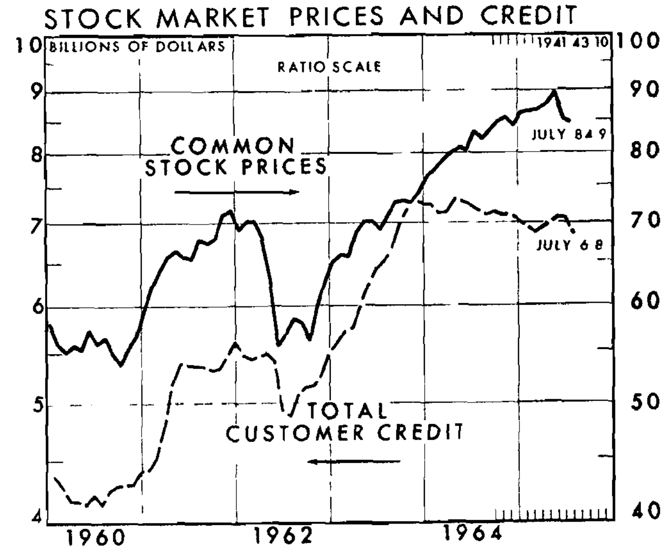
MARKET YIELDS – U S. GOVT. SEC.



MARKET YIELDS–BONDS & MORTGAGES



STOCK MARKET PRICES AND CREDIT



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. Incomplete data suggest the reappearance of a sizable deficit in U.S. payments in August. The deterioration appears larger than could be accounted for on seasonal grounds. Preliminary data for July indicate approximate balance on regular payments transactions, after rough allowance for seasonality. (On an unadjusted basis, there was a deficit of $200 million.) Statistics on trade and capital transactions in July and August are not yet available.

The Commerce Department released its preliminary estimates of the balance of payments in the second quarter on August 17. These estimates show a seasonally adjusted surplus on regular transactions of $132 million for the quarter. For the first half of the year, the over-all deficit is now estimated to have been $1-1/4 billion on an annual rate.

The published figure for the second quarter surplus is is somewhat smaller than earlier estimates, mainly because special transactions in the form of net advance payments on military exports were higher than anticipated. (The figures on such net advance payments are based on gross receipts from foreign countries for military purchases less estimated deliveries; the latter are very rough estimates on a current basis because of long lags in Defense Department reporting and the figures are subject to substantial revision.) More complete and detailed estimates for the second quarter balance of payments will be available in mid-September.

Export and import data do not yet go beyond June. July export data, when available, will remain difficult to interpret because of the seaman's strike affecting American bottoms. This strike probably delayed government-financed exports more than "commercial" shipments and thus curbed aid disbursements as well. Recent data on new export orders for durable goods, which cover about one-third of all exports, show an increase in the second quarter after little change over the previous year. Some of the increase results from orders for new jet aircraft, which may not be for delivery for two years or more. But there was also a noticeable pickup in new orders for electrical and nonelectrical machinery, as shown in the following table.

NEW EXPORT ORDERS FOR DURABLE GOODS1/
(monthly averages, millions of dollars, not seasonally adjusted)

	1964				1965		
	I	II	III	IV	I	II	June
Total	668	713	678	694	675	779	898
Aircraft	71	84	83	71	100	117	206
Machinery	367	394	361	377	366	423	457
Other	230	235	234	246	209	239	235

1/ Excluding motor vehicles and parts.

Imports in the second quarter, as reported previously, were up 19 per cent, or $3.5 billion at an annual rate, from a year earlier. More detail on the composition of this advance is now available and presented in the table below. Totals shown for the second quarter include some arrivals delayed by the dock strike in January-February, which for some categories may exaggerate the increases from a year earlier.

About one-third of the increase in total imports between the second quarter of 1964 and the second quarter of 1965 resulted from higher imports of steel and nonferrous metals. Imports of other industrial supplies also accelerated, the rate of increase (13 per cent) being more than double that of the previous year. An equally marked acceleration occurred in the increase in capital equipment imports; in addition to heavy deliveries of commercial jet aircraft in the second quarter, imports of a wide range of machinery items were up from a year earlier by nearly 50 per cent. Consumer goods imports advanced by a further one-fifth over this period, though this rate of increase may have been somewhat slower in recent months.

The rise in U.S. imports has benefited Japan in particular. About half the increase in steel imports has been from Japan, and about one-third of the growth in imports of consumer goods, notably radios, TV sets, and motorcycles. The bulk of the increase in capital goods imports has come from Western Europe.

U.S. IMPORTS
(In millions of dollars)

				Second quarter 1/		
	1962	1963	1964	1964	1965	Per cent Change
Industrial Supplies	8,887	9,164	9,766	9,802	11,781	20
of which:						
Petroleum	1,833	1,856	1,911	1,856	2,139	15
Steel	530	692	826	839	1,501	79
Non-ferrous metals	1,102	1,140	1,263	1,226	1,605	31
Capital Equipment	843	935	1,161	1,148	1,647	43
of which:						
Machinery	652	750	920	904	1,316	46
Aircraft	130	95	90	84	151	80
Consumer Goods	2,708	2,888	3,388	3,246	3,966	22
of which:						
Apparel & other non-durables	787	812	973	888	1,128	27
Passenger cars	509	570	754	768	903	18
Electrical appliances	293	321	347	316	419	33
Food, Beverages and other	3,967	4,178	4,370	4,245	4,550	7
Total	16,405	17,164	18,685	18,440	21,944	19

1/ Annual rates, not seasonally adjusted

Prices and wages in industrial countries. Prices continued to climb in most European countries during the first half of 1965, with consumer prices advancing more strongly than wholesale prices. Increases in wholesale prices were larger in the first half of 1965 than last year for the Netherlands, Germany, the United Kingdom and Canada, but have continued to be small in France and Italy. Consumer prices advanced more strongly in 1965 than last year in France, the Netherlands, Canada and Japan; and they continued to rise rapidly in the United Kingdom. Only Italy showed a definite moderation in the upward momentum of consumer prices.

PRICE TRENDS IN SELECTED INDUSTRIAL COUNTRIES
(Per cent change in period)

	Consumer Prices			Wholesale Prices		
Country	Dec. 63 June 64	July 64 Dec. 64	Dec. 64 June 65	Dec. 63 June 64	July 64 Dec. 64	Dec. 64 June 65
E.E.C.						
France	+0.9	+1.3	+3.0	-1.0	+1.8	-1.1
Germany	+1.1	+1.4	+1.3	+0.3	+1.7	+1.2
Italy	+2.9	+2.9	+1.5	+0.1	+1.7	+0.4
Netherlands	+4.6	+1.8	a/+5.3	+3.8	+1.0	a/+4.6
United Kingdom	+3.1	+1.7	+3.2	+2.8	+1.7	+2.5
Canada	+0.8	+1.1	+1.6	--	+0.3	+2.4
Japan	+3.3	+1.5	+6.1	-1.2	+0.7	--

a/ December 1964-May 1965.

By contrast, wage increases slowed down in all the major European countries shown in the table--except in Britain--after exceptionally large increases last year.

WAGE TRENDS IN SELECTED INDUSTRIAL COUNTRIES
(Per cent change in period)

Country	Dec. 63 June 64	July 64 Dec. 64	Dec. 64 June 65
E.E.C.			
France a/	+ 3.8	+2.9	g/ +1.3
Germany b/	h/ + 3.5	+6.1	h/ +2.7
Italy c/	+ 9.1	+5.5	+3.8
Netherlands d/	+15.1	+3.5	i/ +4.1
United Kingdom e/	+ 2.2	+1.7	+2.0
Canada f/	--	+3.0	g/ +1.4

a/ Hourly wage rates, all occupations.
b/ Hourly earnings in industry.
c/ Hourly wage rates, including family allowances, in industry.
d/ Hourly wage rates in industry.
e/ Weekly wage rates.
f/ Average hourly earnings in manufacturing.
g/ January-March.
h/ January-April.
i/ January-May.

Italy. The stabilization program has definitely slowed upward price movements in Italy in 1965. Through mid-year the rise in wholesale prices was quite small and advances of both consumer prices and wages have slowed down perceptibly.

In 1964, prices and wages had continued to rise even though the pace of demand slacked off and industrial production, employment and hours worked registered sharp cuts. The rise in wholesale prices, however, was greatly slowed, but consumer prices advanced by 5.8 per cent, almost as much as in 1963. Price inflation in 1964 was patently the result of the further round of extraordinary wage increases in the year.

Contract wages in industry rose far less in the early months of this year than they did last year. Reportedly, no new wage contracts were signed in the first half of 1965. As a result, the increases in wages in 1965 would therefore have originated in old contract settlements.

France. Over the first half of 1965, France continued to enjoy a high degree of stability in wholesale prices. But consumer prices have continued to move up, and at a somewhat faster rate than last year.

In 1964, the French authorities were highly successful in slowing down the increase in wholesale prices by means of monetary and fiscal restraints and the imposition of a general freeze on factory prices (instituted in September 1963). A decline of 0.6 per cent in food prices helped to hold down the rise in the aggregate wholesale price index; prices of industrial raw materials and semi manufactures increased by 2.5 per cent, but this was less than in 1963.

In the first half of 1965, the general level of wholesale prices declined by 1.1 per cent, a bit more than a year earlier, primarily because of seasonal declines in food prices. But consumer prices rose by 3 per cent, compared to just under 1 per cent in the first six months of 1964. Special factors contributed to this acceleration. A dispute between the doctors and the Social Security system led to higher medical costs and produced a rise of 1.6 per cent in the consumer price index in the month of June. However, it seems that the dispute will be resolved and that doctors' fees will fall back to about their previous levels.

The increases in hourly wage rates have been slowing down in France: the rise in the first six months of 1965 was less than half the growth in the same period a year earlier.

Germany. Prices in Germany have continued to advance strongly under the influence of vigorous demand pressures. At the wholesale level, the recent upward movement reflects to a considerable extent increases in prices for basic and producers' goods, although prices for capital goods and consumer goods (excluding food, beverages and tobacco) have also risen. In this period, consumer prices have also increased, mostly due to higher food prices; but even if seasonally sensitive products (potatoes, vegetables, fruits, eggs, fresh fish) are excluded from the index, consumer prices have risen considerably more rapidly in the first half of this year than in January-June of 1964.

Hourly earnings increased by 2.7 per cent in the first four months of 1965 as compared with 3.5 per cent in the comparable period last year. However, recent increases in hourly earnings have been somewhat more rapid than during the last half of 1964.

The Netherlands. In recent months, prices have again begun to exhibit a strong upward trend. Recent prices increases have mainly been attributable to the effects of bad weather on the potato and vegetable crops; but increases in charges for Government services also raised some prices.

Although labor market tensions appear unrelieved, wage settlements have remained within the 5 per cent guidelines agreed upon in December 1964. However, the recent approval of the controversial wage contract for the Philips Company by the Board of Government Mediators suggests a major change in Dutch wage setting procedures. The contract is to run for three years, rather than the customary one year, and the introduction of an escalator clause, which permits a maximum of 2 per cent per annum compensation for increases in living costs, will make it more difficult to contain inflationary tendencies. The Philips agreement may well furnish the basic pattern for future contracts; and the important metal industry recently reached an agreement which contains all the major provisions of the Philips arrangement contract. Government approval of this contract is still pending, however.

United Kingdom. Prices and wage increases in the United Kingdom were quite vigorous in 1964, and there is only the slightest hint of any moderating tendency in the first six months of 1965, mostly because of the pressure of continued demand growth. Part of the rise in the cost of living index was due to higher taxes on drink and tobacco that were imposed in the budget for 1965-66 presented in April 1965.

Price advances in Britain in 1964 and early 1965 were larger than they had been in the E.E.C. countries (except for the Netherlands) and there has been no tendency for the rate of advance to slacken in Britain as it has in most major European countries during 1965.

The continued price and wage pressure has reflected labor shortages, which have been persistent since mid-1964 and have intensified in recent months. The authorities have had little success in pursuing an incomes policy. In fact, wage settlements in the most recent period have on the average exceeded the recommended guidelines. In addition, some manufacturers tended to raise prices in anticipation of the activation of the new Price and Incomes Review Board.

Canada. Canadian prices have recently begun to move upward more rapidly. The total wholesale price index, virtually unchanged throughout 1964, advanced by 2.4 per cent in the first six months of this year. The recent increase was concentrated in the April-June quarter, when the upward pace of price increases accelerated for non-ferrous metals, iron products, and animal products.

The upward movement in consumer prices has also accelerated in the first six months of this year. Almost one-half of the increase occurred in June, and should be attributed to a seasonal rise of food prices. Even so, the rate of rise was substantially higher in the first half of 1965 than in the first half of 1964.

Continued vigorous economic expansion and tightening labor market conditions in Canada have been reflected in an increase of 1.4 per cent in average hourly earnings in manufacturing in the first six months, compared with no change in the comparable period in 1964.

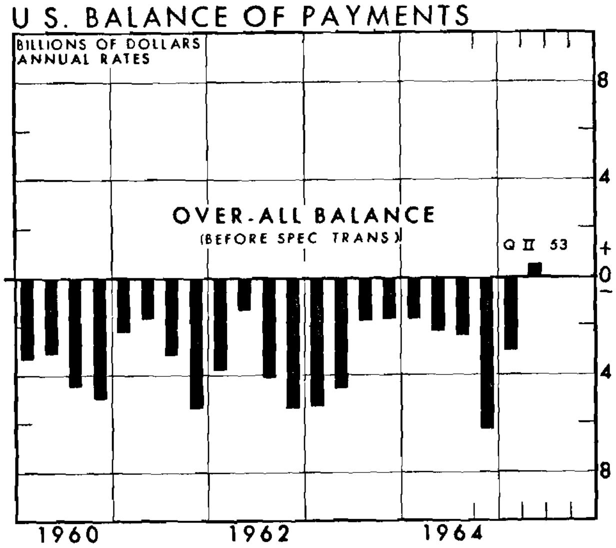
Japan. Wholesale prices have continued to move within an extremely narrow range. During the initial stage of the upsurge of Japanese economic activity in 1963 and 1964 wholesale prices advanced by 2 per cent but since then prices have on the whole shown little change. The wholesale price index in July was the same as two years earlier, and lower than it was in 1957. Export prices have declined by a little more than 1 per cent over the past year ar have continued at levels well below those of the mid-1950's.

Consumer prices, on the other hand, have ri en steadily and markedly. In July, the Tokyo consumer price index was 7 per cent higher than a year earlier, reflecting in part sharp advances in food prices.

U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

U S. BALANCE OF PAYMENTS



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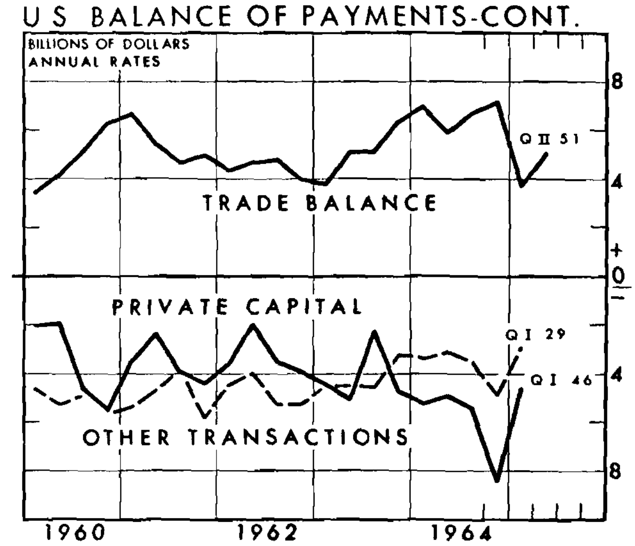
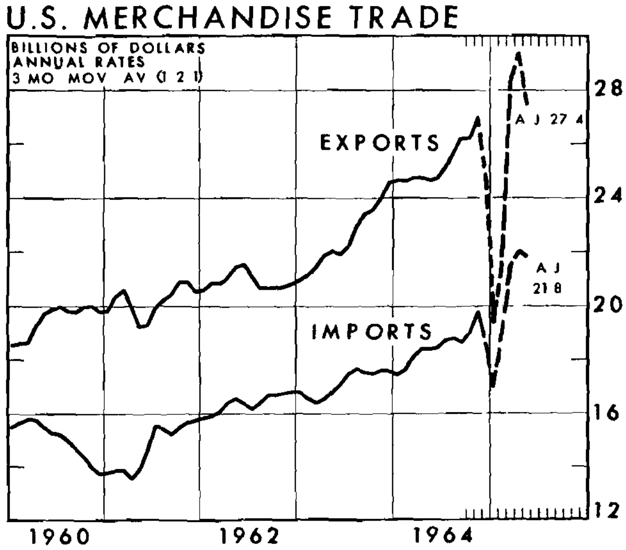
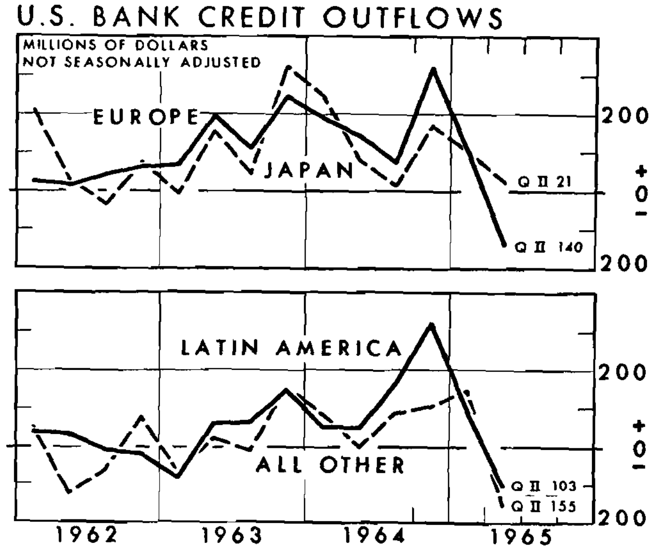


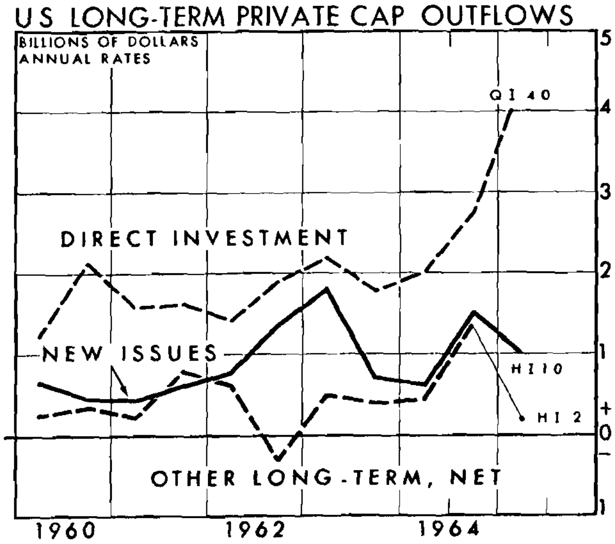
U.S. MERCHANDISE TRADE



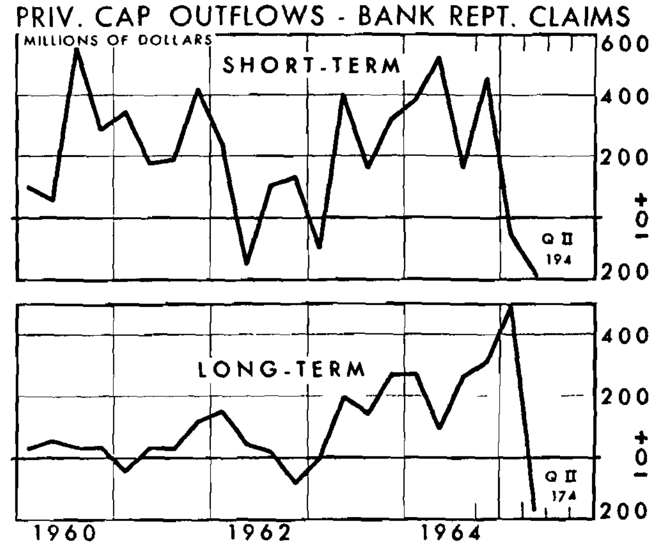
U.S. BANK CREDIT OUTFLOWS



U S LONG-TERM PRIVATE CAP OUTFLOWS



PRIV. CAP OUTFLOWS - BANK REPT. CLAIMS



APPENDIX A: REVISION OF GROSS NATIONAL PRODUCT AND NATIONAL INCOME ESTIMATES*

A comprehensive revision of the U.S. national income and product accounts has been completed by the Department of Commerce, and the first report on it was released last week. Further descriptive and analytical material will be found in the August Survey of Current Business and a complete report is tentatively scheduled for next spring.

The revision extends back to 1929 for annual data and back to 1946 for quarterly figures (1947 for constant dollar). However, most of the changes were in the postwar period, especially in recent years. Revised data for some of the principal aggregates are shown in Table A--T-1 and A--T-2 from 1960 to date.

An appraisal of the full significance of the revision for economic analysis will require considerable further study, including a more detailed analysis of the separate effects of the statistical and the conceptual revisions. The description which follows hits first the principal changes in magnitude, emphasizing those revisions which are probably of greatest significance in a reappraisal of recent economic trends.

Highlights.

The revised estimates depict a pattern of overall economic activity--both in terms of long-term growth and in terms of cyclical patterns--quite similar to that pictured by the now superseded figures. However, a number of the components were revised strikingly, in some cases by statistical revisions, in others by changes in concept.

Total GNP was lowered 1 per cent in the early postwar period and raised about that much in recent years. Output in 1964, in current prices, is now estimated at $628.7 billion, $6.1 billion more than before, and in the second quarter of 1965 at a seasonally adjusted annual rate of $665.9 billion, $7.9 billion more than before. Aggregate measures of income, both national and personal, were also raised in recent years. Differences for selected components for selected periods are shown below.

The personal saving rate has been reduced markedly for recent years; in 1964, for example, it was lowered from 7.5 per cent to 6.0 per cent.

Corporate profits before tax have been raised considerably, in 1964 by $7.2 billion to $64.8 billion. Two thirds of this increase resulted from statistical revisions, one third from conceptual revisions.

The Federal deficit, national income basis, is shown to be appreciably lower in recent years, in some periods shifting to a surplus. What had been indicated by the former estimates as a position of balance followed by a deficit in the first and second quarters of this year are now shown as a substantial surplus in each quarter.

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* Prepared by J. Cortland G. Peret, Economist, Division of Research and Statistics.

EFFECT OF REVISIONS
(Billions of Dollars)

	1948	1953	1957	1958	1960	1964
GROSS NATIONAL PRODUCT	-1.9	-.8	-1.6	2.8	1.2	6.1
PCE-Durable goods	.0	.4	.4	.6	.4	1.7
PCE-Services	-2.2	-1.9	-2.0	-2.3	-2.9	-2.4
Business fixed investment	-1.4	-2.0	-1.2	1.1	1.2	2.5
Producers' durable equipment	-.9	-.8	-.1	1.9	2.7	4.3
Change in business inventories	--	--	-.3	.5	.1	1.1
Residential structures	4.3	4.2	3.1	2.7	1.8	1.5
NATIONAL INCOME	.7	-.8	-.8	.4	.0	4.2
Wages and salaries	.2	.2	.1	.1	-.5	1.9
Other labor income	--	--	.4	.6	.9	2.4
Rental income of persons	.7	2.1	2.9	3.2	3.7	5.8
Corporate profits before tax	2.2	2.3	4.0	4.0	5.5	7.1
Undistributed profits	2.4	2.6	4.5	4.4	5.8	8.0
Net interest	-2.4	-5.4	-7.8	-8.0	-9.8	-11.6
PERSONAL INCOME	-.2	-.1	-.3	.9	-.3	3.6
Interest paid by consumers	1.5	3.8	5.8	5.9	7.3	10.0
PERSONAL SAVING	2.4	-1.5	-2.9	-2.4	-4.6	-6.2

Growth.

The rate of growth of real GNP was not significantly changed. The average annual rate of growth from 1948 to 1964 was raised to 3.7 per cent from 3.6 per cent when measured exponentially with terminal years (compound rate of interest formula). When measured exponentially by least squares fitting of straight line trend to logarithms of all years for the period, the growth rate is still 3.4 per cent. Longer term growth rates for aggregative measures of income were also little changed.

The revision did raise the growth rate from 1960 to 1964, to 4.5 per cent from 4.2 per cent (trend line method). From 1953 to 1964, however, the rate is about the same as before. For components, trends were altered substantially in some cases.

Cycles

The cyclical patterns shown for the broadest aspects by the new estimates generally are little different. The peak to trough declines in the 1953-54 and 1957-58 recessions, however, are now somewhat milder.

The peak of the 1958-60 business expansion now comes in the first quarter of 1960 instead of in the second and thus, the length of that expansion is shortened slightly.

Revised and former figures for three cyclically important components--investment in business fixed capital, business inventory change, and residential construction--are shown in constant (1958) dollars since 1953 in Chart A --C-1.

The new figures indicate that business fixed investment, in both real and current dollar terms, declined much less in the 1958 recession, and in recent years has shown greater expansion. The estimate for 1964, in terms of current dollars, is revised up by $2.5 billion; part of a $4.3 billion upward adjustment for equipment was offset by an opposite movement in nonresidential construction. The share of business fixed investment in GNP during the second quarter of this year is now shown to be 10 per cent, as compared with 9 per cent at the beginning of the recovery in early 1961, 9-1/2 per cent in the first half of 1960 and 10-1/2 per cent in 1956 and 1957.

The rate of business inventory accumulation is shown to be larger--or liquidation smaller--throughout the period from early 1961 to date and, beginning in 1963, revisions have amounted to $1 billion or more most of the time. As a consequence for the whole period from the beginning of 1961 to date inventories are shown to be up $4-1/2 billion or one-fourth more than before.

For residential construction--referred to in the new tables as "structures"-- the principal change was a reduction in growth (early levels were raised more than recent levels) but this altered the shape of shorter-term fluctuations (including trend elements), reducing upswings as compared with downswings.

Personal saving

Since the early 1950's personal saving is shown to be a considerably smaller share of disposable personal income than before. In 1964, while disposable income is raised some $3 billion, personal saving is cut $6.2 billion to $26.3 billion. The downward revision in personal saving stems largely from an upward revision in imputed rent of homeowners. (Personal consumption expenditures have been defined to exclude interest paid by consumers and personal transfers to foreigners. But in calculating personal saving account is taken of these items, as well as of consumption expenditures.)

The saving rate is now at a lower level for recent years, but the quarter-to-quarter movements indicated by the new figures are similar to those of the old.

PERSONAL SAVING

	Amount (Billions of Dollars)		Ratio to Disposable Income (per cent)	
	Revised	Difference from former	Revised	Former
1948	13.4	.2	7.1	5.8
1953	18.3	-3.3	7.2	7.8
1957	20.8	-1.8	6.7	7.6
1958	22.3	-2.4	7.0	7.8
1960	17.0	-4.7	4.9	6.2
1964	26.3	-6.2	6.0	7.5
1964 - I	23.3	-6.2	5.5	7.0
II	27.3	-6.7	6.3	7.9
III	25.0	-6.0	5.7	7.1
IV	29.5	-6.0	6.6	8.0
1965 - I	23.8	-6.4	5.3	6.7
II	23.0	-9.3	5.0	7.1

Statistical revisions

As noted above the revision incorporated both statistical changes and definitional changes. The more important statistical changes affected personal consumption expenditures for services, investment in structures, and investment in producers' durable equipment.

A large increase in the rental value attributed to owner-occupied dwellings tended to raise the services component of consumption outlays but not enough to offset the effects of conceptual revisions.

The estimates of investment in nonresidential structures were reduced--$1.4 billion in 1964--with public utility construction most affected, reflecting improvements in the use of basic source data from regulatory agencies.

Estimates of investment in nonfarm residential structures were revised upward substantially, particularly in the decade after World War II, on the basis of data provided by 1956 National Housing Inventory and the 1960 Census. The maximum revision was about $4 billion in 1950.

Producers' durable equipment estimates were revised upward, by $5.7 billion in 1964. This revision resulted from use of data from the 1958 Census of Manufacturers and similar data from the Annual Survey of Manufactures through 1962, and beginning in the third quarter of 1964, inclusion of upward revisions in plant and equipment survey data not introduced earlier. A large part of the Census-based revision was in 1958 in the form of a smaller reduction in outlays during the 1957-58 recession.

On the income side, large revisions have raised corporate profits, and undistributed profits, primarily because of an increased allowance for profits not reported to the IRS on income tax returns. Other small changes also tended, on net, to increase corporate profits.

Conceptional revisions

The major definitional change is in the treatment of interest paid by consumers to persons, an item that in 1964 amounted to $10 billion. This is no longer regarded as reflecting production, hence is excluded from GNP and personal consumption expenditures and from national income and net interest. This interest item is treated as an outlay, however, in obtaining personal saving and thus personal saving is unaffected.

Other conceptual changes involved transfer payments to foreigners by persons, purchases of small tools, transactions in second-hand fixed assets among the major sectors of the economy, and commissions arising in the sale and purchase of new and existing assets. The effects of these changes are generally small. A final conceptual change to be noted here is the exclusion of NASA purchases of goods and services from the defense category and inclusion with the "Other" Federal purchases.

GROSS NATIONAL PRODUCT
(Billions of Dollars; Quarterly Totals Are Seasonally Adjusted Annual Rates)

						1960				1961			
	1960	1961	1962	1963	1964	I	II	III	IV	I	II	III	IV
GROSS NATIONAL PRODUCT	503.8	520.1	560.3	589.2	628.7	503.0	504.7	504.2	503.3	503.6	514.9	524.2	537.7
Personal consumption expenditures	325.2	335.2	355.1	373.8	398.9	321.1	326.3	325.9	327.7	328.4	332.3	336.7	343.1
Durable goods	45.3	44.2	49.5	53.4	58.7	45.9	46.1	45.3	43.8	41.9	43.4	44.8	46.6
Nondurable goods	151.3	155.9	162.6	168.0	177.5	149.4	152.0	151.3	152.5	154.1	154.7	156.1	158.7
Services	128.7	135.1	143.0	152.3	162.6	125.7	128.1	129.3	131.4	132.4	134.2	135.8	137.8
Gross private domestic investment	74.8	71.7	83.0	86.9	92.9	82.5	76.0	73.5	67.6	64.3	70.2	74.2	77.9
Fixed investment	71.3	69.7	77.0	81.2	88.1	72.6	72.1	70.4	70.0	67.7	68.1	70.4	72.5
Nonresidential	48.4	47.0	51.7	54.3	60.5	47.8	49.0	48.4	48.4	46.0	46.0	47.5	48.6
Structures	18.1	18.4	19.2	19.7	21.1	18.2	17.9	17.8	18.6	18.4	18.3	18.4	18.4
Producers' durable equipment	30.3	28.6	34.5	34.6	39.4	29.6	31.2	30.6	29.8	27.6	27.7	29.0	30.3
Residential structures	22.8	22.6	25.3	26.9	27.5	24.7	23.1	22.0	21.6	21.7	22.1	22.9	23.8
Change in business inventories	3.6	2.0	6.0	5.7	4.8	9.9	3.9	3.1	-2.4	-3.5	2.1	3.8	5.5
Nonfarm	3.3	1.7	5.3	4.9	5.4	10.0	3.8	2.7	-2.8	-3.7	1.8	3.4	5.3
Farm	.2	.3	.7	.8	- .6	- .1	.2	.4	.4	.3	.3	.4	.2
Net exports of goods and services	4.1	5.6	5.1	5.9	8.6	2.4	3.5	4.3	6.1	6.6	5.7	4.9	5.4
Exports	27.2	28.6	30.3	32.4	37.0	26.1	27.4	27.5	28.0	28.5	27.8	28.6	29.4
Imports	23.2	22.9	25.1	26.4	28.5	23.7	23.8	23.3	21.9	22.0	22.1	23.6	24.0
Government purchases of goods and services	99.6	107.6	117.1	122.6	128.4	97.0	98.8	100.4	101.9	104.3	106.7	108.4	111.3
Federal	53.5	57.4	63.4	64.4	65.3	52.7	53.0	53.9	54.6	55.4	57.3	57.8	59.2
National defense	44.9	47.8	51.6	50.8	49.9	45.0	44.4	44.6	45.8	46.9	47.7	47.7	48.9
Other	8.6	9.6	11.8	13.6	15.4	7.7	8.6	9.3	8.8	8.4	9.6	10.0	10.3
State and local	46.1	50.2	53.7	58.3	63.1	44.3	45.9	46.6	47.3	49.0	49.4	50.6	52.1
GROSS NATIONAL PRODUCT IN CONSTANT (1958) DOLLARS	487.8	497.3	530.0	550.0	577.6	490.2	489.8	487.4	483.8	482.7	492.9	501.6	511.9

A -- T - 1 (cont)

GROSS NATIONAL PRODUCT
(Billions of Dollars; Quarterly Totals are Seasonally Adjusted Annual Rates)

	1962				1963				1964				1965	
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
GROSS NATIONAL PRODUCT	547.8	557.2	564.4	572.0	577.0	583.1	593.1	603.6	614.0	624.2	634.8	641.1	656.4	665.9
Personal consumption expenditures	348.3	351.7	357.2	363.0	368.0	371.1	376.6	379.5	389.1	396.0	404.6	405.9	416.9	424.4
Durable goods	48.5	48.5	50.1	51.1	52.2	52.6	54.1	54.9	57.4	59.1	60.5	57.9	63.9	63.7
Nondurable goods	160.2	161.6	163.2	165.3	166.6	167.4	169.2	168.9	173.7	175.7	179.8	180.9	183.0	187.6
Services	139.6	141.6	144.0	146.7	149.2	151.1	153.3	155.7	158.0	161.2	164.3	167.1	170.0	173.1
Gross private domestic investment	80.6	82.8	84.3	84.7	82.6	84.8	87.9	92.4	89.7	90.9	92.6	97.7	102.4	101.1
Fixed investment	73.9	76.7	79.2	78.3	78.1	80.1	82.1	84.3	86.5	86.8	88.8	90.2	93.7	94.4
Nonresidential	49.5	51.3	53.1	52.7	52.1	53.4	55.1	56.5	58.1	58.9	61.6	63.5	66.0	66.4
Structures	18.5	19.2	19.7	19.5	19.0	19.2	20.0	20.5	20.7	21.1	21.1	21.5	21.8	22.7
Producers' durable equipment	31.0	32.1	33.5	33.2	33.1	34.2	35.1	36.0	37.5	37.9	40.5	42.0	44.2	43.7
Residential structures	24.4	25.4	26.0	25.6	26.0	26.7	26.9	27.9	28.4	27.9	27.2	26.7	27.7	28.0
Change in business inventories	6.7	6.1	5.2	6.4	4.5	4.7	5.8	8.1	3.3	4.1	3.8	7.5	8.7	6.7
Nonfarm	6.3	5.6	4.3	5.3	3.8	4.2	5.2	6.9	3.6	5.1	4.6	7.8	9.3	7.1
Farm	.4	.5	.8	1.1	.7	.6	.7	1.2	-.4	-1.0	-.8	-.3	-.5	-.4
Net exports of goods and services	4.5	5.7	5.4	4.9	4.5	6.2	5.7	7.3	8.8	7.7	8.8	8.9	6.2	7.5
Exports	29.1	30.9	30.6	30.5	30.0	32.4	32.6	34.4	36.3	36.0	37.3	38.4	34.8	39.8
Imports	24.6	25.2	25.2	25.5	25.6	26.2	26.9	27.1	27.5	28.2	28.5	29.5	28.6	32.3
Government purchases of goods and services	114.4	117.0	117.4	119.3	121.9	120.9	123.0	124.3	126.3	129.7	128.7	128.6	130.9	132.9
Federal	61.9	64.0	63.3	64.4	65.4	63.6	64.2	64.4	65.0	67.0	64.9	64.3	64.9	65.9
National defense	51.1	53.0	51.3	50.9	51.5	50.5	51.0	50.3	49.8	51.7	49.5	48.8	48.9	49.4
Other	10.8	10.9	12.0	13.5	13.9	13.1	13.2	14.1	15.2	15.3	15.4	15.5	16.0	16.5
State and local	52.5	53.1	54.1	55.0	56.5	57.4	58.8	59.9	61.3	62.7	63.8	64.3	66.0	67.0
GROSS NATIONAL PRODUCT IN CONSTANT (1958) DOLLARS	519.7	527.9	533.6	538.5	541.2	544.9	553.7	560.0	567.1	575.9	582.6	584.7	597.5	601.4

NATIONAL INCOME, PERSONAL INCOME, and PERSONAL SAVING
(Billions of Dollars; Quarterly Totals are Seasonally Adjusted Annual Rates)

						1960				1961			
	1960	1961	1962	1963	1964	I	II	III	IV	I	II	III	IV
NATIONAL INCOME	414.5	427.3	457.7	481.1	514.4	414.2	417.1	415.2	411.7	412.2	422.6	430.7	443.4
Compensation of employees	294.2	302.6	323.6	341.0	365.3	291.8	295.0	295.9	294.2	294.8	299.5	304.7	311.5
Wages and salaries	270.8	278.1	296.1	311.2	333.5	268.8	271.6	272.4	270.5	270.9	275.2	279.9	286.3
Supplements to wages and salaries	23.4	24.6	27.5	29.8	31.8	23.0	23.3	23.5	23.7	23.9	24.3	24.8	25.2
Proprietors' income	46.2	48.4	50.1	50.8	51.1	45.4	46.6	46.3	46.5	47.4	48.1	48.6	49.6
Business and professional	34.2	35.6	37.1	37.8	39.1	34.7	34.5	33.9	33.8	34.6	35.4	35.9	36.4
Farm	12.0	12.8	13.0	13.0	12.0	10.7	12.1	12.4	12.7	12.8	12.7	12.7	13.2
Rental income of persons	15.8	16.0	16.7	17.6	18.2	15.8	15.8	15.9	15.9	15.9	15.9	16.0	16.1
Corporate profits and inventory valuation adjustment	49.9	50.3	55.7	58.1	64.5	53.3	51.6	48.6	46.1	45.0	49.3	51.1	55.4
Profits before tax	49.7	50.3	55.4	58.6	64.8	53.9	51.8	47.5	45.7	45.0	48.8	51.4	55.7
Profits tax liability	23.0	23.1	24.2	26.0	27.6	25.0	24.0	22.0	21.2	20.7	22.4	23.6	25.6
Profits after tax	26.7	27.2	31.2	32.6	37.2	28.9	27.8	25.5	24.5	24.4	26.4	27.8	30.1
Inventory valuation adjustment	.2	-.1	.3	-.4	-.3	-.6	-.2	1.2	.5	-.1	.5	-.3	-.3
Net interest	8.4	10.0	11.6	13.6	15.2	7.9	8.0	8.5	9.0	9.2	9.7	10.2	10.8
PERSONAL INCOME	401.0	416.8	442.6	464.8	495.0	396.6	401.3	403.3	403.3	406.6	412.5	419.4	428.0
Less: Personal tax and nontax payments	50.9	52.4	57.4	60.9	59.2	50.0	50.8	51.2	51.6	51.8	52.0	52.5	53.3
Equals: Disposable personal income	350.0	364.4	385.3	403.8	435.8	346.6	350.4	352.1	351.7	354.8	360.6	366.9	374.7
Less: Personal outlays 1/	333.0	343.2	363.7	383.4	409.5	328.5	334.0	333.8	335.7	336.4	340.4	344.8	351.3
Equals: Personal saving	17.0	21.2	21.6	20.5	26.3	18.1	16.5	18.3	16.0	18.4	20.2	22.1	23.3
Ratio of saving to disposable personal income	4.9	5.8	5.6	5.1	6.0	5.2	4.7	5.2	4.5	5.2	5.6	6.0	6.2

1/ Personal outlays consist of personal consumption expenditures, interest paid by consumers, and personal transfer payments to foreigners.

NATIONAL INCOME, PERSONAL INCOME, and PERSONAL SAVING
(Billions of Dollars; Quarterly Totals are Seasonally Adjusted Annual Rate)

	1962				1963				1964				1965	
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
NATIONAL INCOME	448.8	456.0	460.4	465.6	470.4	476.7	484.6	492.6	501.6	510.5	519.5	526.3	541.4	1/ 550.4
Compensation of employees	317.1	322.9	325.7	328.8	333.6	338.0	343.0	349.5	355.1	361.9	369.0	375.4	383.1	388.7
Wages and salaries	290.3	295.6	297.9	300.6	304.5	308.4	312.9	318.8	324.2	330.4	336.8	342.6	349.8	355.0
Supplements to wages and salaries	26.8	27.4	27.8	28.2	29.0	29.6	30.1	30.7	30.8	31.5	32.2	32.7	33.4	33.8
Proprietors' income	50.3	50.4	49.9	49.8	50.7	50.5	50.9	51.9	50.4	51.0	51.4	51.8	51.9	54.6
Business and professional	36.7	37.1	37.2	37.3	37.5	37.6	37.9	38.0	38.5	39.0	39.4	39.6	39.9	40.1
Farm	13.5	13.3	12.7	12.6	13.2	12.9	13.0	13.0	11.9	12.0	12.0	12.2	12.0	14.5
Rental income of persons	16.3	16.5	16.8	17.2	17.1	17.4	17.7	18.0	17.9	18.1	18.3	18.5	18.5	18.6
Corporate profits and inventory valuation adjustment	54.3	54.9	56.1	57.4	56.3	57.6	59.1	59.6	63.6	64.5	65.5	64.9	71.7	1/ 72.1
Profits before tax	54.4	54.8	56.0	56.5	56.1	58.5	58.9	60.8	64.0	64.5	65.3	65.9	73.1	73.8
Profits tax liability	23.7	23.9	24.4	24.7	24.9	26.0	26.1	27.0	27.3	27.5	27.8	28.1	29.1	29.4
Profits after tax	30.7	30.9	31.5	31.8	31.2	32.6	32.8	33.8	36.7	37.0	37.5	37.8	44.0	44.4
Inventory valuation adjustment	-.1	.0	.1	.9	.2	-.9	.2	-1.2	-.4	.0	.2	-1.0	-1.4	-1.7
Net interest	10.8	11.3	11.8	12.4	12.7	13.2	13.9	14.5	14.5	15.0	15.4	15.7	16.1	16.4
PERSONAL INCOME	433.9	440.8	445.0	450.3	456.1	460.1	467.1	475.6	483.0	490.6	499.1	507.1	516.6	524.9
Less: Personal tax and nontax payments	55.0	56.8	58.1	59.5	60.4	60.6	61.0	61.6	60.4	56.9	58.8	60.7	64.8	66.0
Equals: Disposable personal income	378.9	384.0	386.9	390.8	395.7	399.4	406.1	414.0	422.6	433.6	440.3	446.4	451.9	458.9
Less: Personal outlays 2/	356.6	360.2	365.9	371.9	377.1	380.5	386.3	389.5	399.3	406.3	415.3	416.9	428.1	436.0
Equals: Personal saving	22.3	23.9	20.9	18.9	18.5	18.9	19.8	24.4	23.3	27.3	25.0	29.5	23.8	23.0
Ratio of saving to disposable personal income	5.9	6.2	5.4	4.8	4.7	4.7	4.9	5.9	5.5	6.3	5.7	6.6	5.3	5.0

1/ Second-quarter 1965 national income total and the corporate profits share are based on preliminary estimates and are subject to revision in September.

2/ Personal outlays consist of personal consumption expenditures, interest paid by consumers, and personal transfer payments to foreigners.

PRIVATE DOMESTIC INVESTMENT

SEASONALLY ADJUSTED ANNUAL RATES
BILLIONS OF 1958 DOLLARS