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CONFIDENTIAL (FR)

CURRENT ECONOMIC
and
FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

August 9, 1967

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SUMMARY AND OUTLOOK

Outlook for economic activity

Most currently available indicators suggest that the expected upturn in economic activity is now under way. New orders for durable goods, industrial production, nonfarm employment, and the factory workweek have all moved up in varying degrees; retail sales figures for June have been revised upward, and unemployment is apparently drifting down after the moderate uptrend of recent months. In the third quarter, GNP should show a relatively large rise, with real growth expected to reach an annual rate of around 4 per cent. Supported by rising government expenditures, and by a shift from inventory liquidation to some accumulation of stocks, the fourth quarter is likely to show a further rise in the rate of real growth in total GNP, even though our estimates assume the proposed tax increase on individual incomes becomes effective October 1.

A continued uptrend in new orders for durable goods and the July turnaround in the production index suggest that cutbacks in output to adjust excessive inventories may be largely completed. In June, there was a sizable liquidation of business inventories--with stocks reduced in both manufacturing and at distributors--and the over-all stock-sales ratio declined. Further liquidation may take place in the third quarter as producers continue to seek a better balance with sales; by the fourth quarter, however, output and employment are expected to be expanding more rapidly and some inventory rebuilding should be underway.

Recent sharper gains in personal income, reflecting rising employment and earnings, are now providing strong support for consumer expenditures. In coming months, the pace of hiring in manufacturing and other industrial activities is expected to pick up, and large wage increases are likely to become more widespread. Nevertheless, the upward trend in consumption expenditures would be expected to slow markedly in the fourth quarter if withholding taxes are raised on October 1.

The outlook for business fixed investment also seems to be improving. New orders for machinery and equipment have increased steadily in recent months, backlogs have expanded, and in July, output and employment in the machinery industries turned up. These developments appear related in part to the reinstitution of the investment tax credit and are consistent with our expectation of a modest rise in business outlays in the last half of this year.

Outlook for resource use and prices

With industrial production estimated to be up in July and prospects for further gains in coming months, the protracted decline in manufacturing capacity utilization--from a 91 per cent rate last August to 84 per cent in June--may now be about over. At current rates of operation, pressures on capacity persist in only a few lines--notably aircraft and electrical generating equipment. In most industries, moreover, capacity is continuing to expand at a rapid pace despite the decline in utilization rates since last autumn. Thus, there is ample room for expansion in output, and the rise in production now anticipated for the remainder of the year is likely to result in only moderately higher rates of utilization.

For manpower, too, resources appear adequate. Employment is expected to continue to expand substantially along with growth in aggregate demands for civilian and military purposes. But the labor force also is expected to grow rapidly, and the unemployment rate is likely to decline only moderately below the relatively low 4 per cent level.

Excess capacity and labor resources contributed to industrial price stability from February to June, but prices appear to be rising now. A fairly large number of relatively moderate price increases recently has been announced, although through mid-July BLS has estimated only a slight rise in the over-all index of industrial prices. Unit labor costs in manufacturing are up substantially, and although rising output should contribute to increased productivity, the recent pattern of wage settlements suggests continued pressures on costs.

The upward spurt in wholesale prices of farm products in May and June precipitated a sharp rise in retail food prices and an acceleration of the rise in the consumer price index. Retail food prices may continue to rise, even if the increase at wholesale slows. Earlier retail prices of non-food commodities were rising appreciably and prospects are for continuing advances. Altogether, the consumer price index is likely to continue to advance at a faster pace than last winter--when food prices were declining--but not so rapidly as the May-June average.

Capital markets outlook

The psychological atmosphere in capital markets improved only to a minor extent as a result of the President's recent tax message. Doubts about the timing and size of a tax increase prevailed, and it became apparent that the projected budgetary deficit would be very large even with a tax increase. Nevertheless, distribution of recent large corporate offerings was somewhat encouraged by the tax message, and yields on such high-grade bond issues have leveled off somewhat below their late June highs. Yields on new and seasonal municipal bonds have continued to decline from their recent peak.

Offerings of new corporate and municipal issues are expected to remain large in the weeks ahead, especially in the corporate market, although abating somewhat from recent levels. Such offerings may not generate any further upward interest rate pressures--they could even be accompanied by some tendency for long-term rates to edge lower--provided that prospects for a tax increase do not begin to appear more remote.

Perhaps the principal force that might offset a tendency for intermediate- and long-term rates to stabilize or drift down in the period ahead--apart from the appearance of good economic news--would be the Treasury cash financing of about $2.5 billion expected at the end of August. If a coupon issue is offered in the financing, as appears possible, it is likely to have an attractive enough yield to generate some selling of intermediate-term issues for swapping purposes as well as leading to some shifts out of time deposits. Under those conditions, the yield spread favoring corporates over Government bonds may narrow further, as it has been since Government bond yields began rising in mid-July. And a further narrowing of the spread could feed back and exert upward pressure on corporate rates themselves.

Leveling off in corporate bond prices during July and additional large savings inflows to thrift institutions have apparently been reflected in little further recent change in yields on home mortgages. Although the immediate outlook for prices of Federally-underwritten mortgages still seems to hinge closely on the behavior of corporate bond prices, availability of funds to mortgage borrowers at going yields should remain relatively ample.

In the absence of dramatic increases in market rates, or sudden and unexpected shifts in consumer saving, non-bank depositary-type financial institutions should continue to receive sizable inflows in the period ahead. Inflows of savings to non-bank financial intermediaries appear to have continued in near record volume during July and to have been especially impressive within the most interest sensitive areas. In addition, early August inflows to New York City's largest savings banks continue to be larger than a year ago, although these instituions had fully reversed the reduction in savings by that time.

Banking-outlook

Over the remaining weeks of the summer, bank credit growth will continue to be sustained by Treasury financings. Banks are likely to have increased their holdings of Treasury securities, net, in the recent refunding, and to participate actively in the Treasury cash offering expected to be paid for in late August. Banks can also be expected to continue acquiring other securities, although at a rate remaining below the unusually high rates of late winter and spring. The recent drop in acquisition of other securities to a more moderate pace in part may reflect the rising returns available on more marketable short-term assets--especially Treasury securities--and also may reflect preparation for the acceleration of loan demands that many banks believe may occur in the fall.

However, it is not clear how strong a loan demand can be expected in the coming months. On balance, it appears that business loan expansion may be modest, as demands to finance inventories remain small, although tax payments may tend to increase loan demands somewhat in September and October. The possibility of an auto strike poses additional uncertainties for the loan outlook.

Time deposit inflows may be somewhat restrained in coming months by the markets' absorption of the new Treasury securities likely to be issued at the end of this month and over the balance of the year. An issue of new securities by the Treasury in the 3 - 5 year maturity range, given current market rates, could induce the public to shift some of its funds from financial institutions to a relatively liquid market instrument with an attractive coupon. The part of Treasury new cash raised through tax bills is also likely to restrain time deposit inflows by making sales of CD's more difficult. Under the circumstances, banks are likely to raise CD rates and their demands on the Euro-dollar market are likely to be strong, even if domestic loan demands are modest.

The expansion of the money stock in the early fall is unlikely to be as rapid as in recent months. Some rebuilding of cash balances has already occurred. Moreover, Treasury deposits are not expected to decline, and therefore should not contribute to the growth of private balances to the degree observed in late spring and early summer.

Balance of payments

The merchandise trade balance has not improved further since April. Exports have leveled off and imports have not declined as expected. Some renewed improvement in the balance is still hoped for during the second half year. Even with no early European economic upturn in sight, a rise in exports--mainly of agricultural products--to other areas is expected to increase total exports. Meanwhile, imports, which remain larger in relation to GNP than at any time before mid-1966 despite marked easing in pressures on domestic manufacturing capacity, are not expected to advance significantly for several months.

Nevertheless, with near-term trade prospects less encouraging than before, and with no prospect of net improvement in other current transactions or of reductions in net outflows of U.S. capital, there is little reason to expect the liquidity deficit (before special transactions) to be much smaller in the second half year than in the first half, unless specific measures are taken to improve the balance of payments.

Second quarter figures, to be released next week, will show the liquidity deficit about unchanged from the first quarter, seasonally adjusted, bringing the total for the half year to $1.1 billion. Without special official transactions, the deficit would have been twice as large as this during the first half year and would have increased from the first quarter to the second. Weekly indicators for July suggest a continued deficit at about the first half year rate.

On the official reserve transactions basis, which is little affected by special transactions, the second quarter deficit will be published at about $900 million, seasonally adjusted--only half the record first-quarter deficit but still very large. In June and July, however, this volatile balance was apparently small as U.S. banks received funds from the Euro-dollar market through their foreign branches.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest Period	Amount			Per Cent Change	
		Latest Period	Preced'g Period	Year Ago	Year Ago*	2 Yrs. Ago*
Civilian labor force (mil.)	July'67	77.5	77.2	75.8	2.3	3.6
Unemployment (mil.)	"	3.0	3.1	2.9	3.1	- 9.6
Unemployment (per cent)	"	3.9	4.0	3.9	--	--
Nonfarm employment, payroll (mil.)	"	65.9	65.7	64.1	2.8	8.3
Manufacturing	"	19.1	19.2	19.1	0.1	6.0
Other industrial	"	8.1	8.0	8.1	0.4	3.6
Nonindustrial	"	38.6	38.5	36.9	4.8	10.5
Industrial production (57-59=100)	June'67	155.2	155.5	156.5	- 0.8	8.5
Final products	"	155.9	156.3	154.9	0.6	10.3
Materials	"	154.9	155.1	158.0	- 2.0	6.7
Wholesale prices (57-59=100) 1/	"	106.3	105.8	105.7	0.6	3.4
Industrial commodities (FR)	"	105.2	105.2	104.5	0.7	3.0
Sensitive materials (FR)	"	100.1	100.1	106.6	- 6.1	- 2.3
Farm products, foods & feeds	"	106.8	105.0	107.7	- 0.8	3.2
Consumer prices (57-59=100) 1/	"	116.0	115.6	112.9	2.7	5.4
Commodities except food	"	108.9	108.7	106.4	2.3	3.6
Food	"	115.1	113.9	113.9	1.1	4.5
Services	"	127.4	127.0	122.0	4.4	8.3
Hourly earnings, mfg. ($)	July'67	2.82	2.81	2.72	3.7	7.6
Weekly earnings, mfg. ($)	"	113.47	112.91	111.33	1.9	5.8
Personal income ($ bil.) 2/	June'67	621.9	618.2	581.1	7.0	16.2
Corporate profits before tax ($ bil.) 2/	QI'67	79.0	83.9	83.7	- 5.6	6.8
Retail sales, total ($ bil.)	June'67	26.5	25.9	25.4	4.3	13.5
Autos (million units) 2/	"	8.4	7.5	8.3	1.1	- 6.0
GAF ($ bil.)	"	6.4	6.3	6.0	6.8	22.0
Selected leading indicators:						
Housing starts, pvt. (thous.) 2/	"	1,209	1,266	1,185	2.0	n.a.
Factory workweek (hours)	July'67	40.3	40.2	41.0	- 1.7	- 1.7
New orders, dur. goods ($ bil.)	June'67	24.2	23.9	24.6	- 1.6	13.5
New orders, nonel. mach. ($ bil.)	"	3.6	3.5	3.6	- 0.6	12.5
Common stock prices (1941-43=10)	July'67	93.01	91.43	85.84	8.4	9.5
Inventories, book val. ($ bil.)	June'67	137.0	137.4	127.6	7.4	18.3
Gross national product ($ bil.) 2/	QII'67	775.3	766.3	736.7	5.2	14.8
Real GNP ($ bil., 1958 prices) 2/	"	664.6	660.7	649.3	2.4	9.0

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

SELECTED DOMESTIC FINANCIAL DATA

	Week ended August 5	Four-Week Average	Last six months High	Last six months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent)	3.80	3.76	5.20	3.45
U.S. Treas. bills, 3-mo., yield (per cent)	4.15	4.19	4.61	3.41
U.S. Treas. bills, 1-yr., yield (per cent)	4.97	4.92	5.00	3.84
Net free reserves 2/ ($ millions)	206	341	592	-64
Member bank borrowings 2/ ($ millions)	116	73	477	43
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	5.19	5.21	5.30	4.41
20-year U.S. Treas. bonds 1/	5.07	5.02	5.09	4.49
Corporate new bond issues, Aaa 1/	5.82	5.80	5.92	5.11
Corporate seasoned bonds, Aaa 1/	5.59	5.58	5.61	4.99
Municipal seasoned bonds, Aaa 1/	3.75	3.83	3.87	3.25
FHA home mortgages, 30-year 3/	6.51	6.51	6.62	6.29
Common stocks, S&P corporate series 4/				
Prices, closing (1941-43=10)	95.48	93.88	95.83	86.46
Dividend yield (per cent)	3.06	3.12	3.36	3.06

	Latest Month	Amount	3-month average	Change from year earlier Latest Month	Change from year earlier 3-month Average
New Security Issues (N.S.A., $ millions)					
Corporate public offerings	Sept. e	1,750	2,158	368	795
State & local govt. public offerings	"	1,050	975	30	144
Comm. & fin. co. paper (net change in outstandings)	June'67	-917	39	-249	27

	Latest Month	Out-standings Latest month	Change Latest month	Change 3-month average	Annual rate of Change from Preceding month	Annual rate of Change from 3 months ago	Annual rate of Change from 12 months ago
		($ billions)			(per cent)		
Banking (S.A.)							
Total reserves 1/ 5/	July'67	23.83	0.22	0.13	11.3	6.4	4.4
Credit proxy 1/ 5/	"	262.3	3.1	2.1	14.4	9.7	6.7
Bank credit, total 6/	"	334.1	7.4	3.4	27.2	12.3	8.1
Business loans	"	83.8	1.2	0.7	17.4	10.3	8.0
Other loans	"	134.6	2.9	0.8	26.4	7.6	4.5
U.S. Govt. sec.	"	59.1	2.6	0.8	55.2	17.7	8.6
Other securities	"	56.7	0.8	1.0	17.2	22.3	16.9
Total liquid assets 1/ 6/	June'67	623.4	3.7	2.6	7.2	5.1	5.1
Demand dep. & currency 1/ 5/	July'67	177.8	1.6	1.7	10.9	11.8	4.6
Time & sav. dep., comm. banks 1/ 5/	"	174.6	2.2	2.2	15.3	15.5	12.1
Savings, other thrift instit. 6/	June'67	176.4	1.4	1.3	9.6	9.3	6.9
Other 6/ 7/	"	98.4	-1.9	-1.8	-22.7	-21.2	-5.2

N.S.A. -- not seasonally adjusted. S.A. -- seasonally adjusted.
e. Estimated by F.R.B. 1/ Average of daily figures. 2/ Average for statement week ending August 2. 3/ Latest figure is for June. 4/ End of week closing prices.
5/ Revised series, see special article in appendix to this Greenbook. 6/ Month-end data.
7/ U.S savings bonds and U.S. Government securities maturing within 1 year.

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

	1967				1966			1966
	June	May	QIIp	QI	QIV	QIII	QII	Year (billions)
	Seasonally adjusted							
Current account balance				1,078	838	873	1,108	4.1
Trade balance 1/	320	390	1,115	1,001	722	802	956	3.7
Exports 1/	2,550	2,510	7,686	7,690	7,402	7,382	7,181	29.2
Imports 1/	-2,230	-2,120	-6,571	-6,689	-6,680	-6,580	-6,225	-25.5
Services, etc., net				77	116	71	152	0.4
Capital account balance				-1,416	-1,028	-1,315	-1,032	-5.1
Govt. grants & capital 2/				-1,205	-724	-759	-988	-3.4
U.S. private direct investment				-695	-922	-900	-1,006	-3.5
U.S. priv. long-term portfolio				-154	69	-5	-69	-0.3
U.S. priv. short-term				-157	-231	-27	-60	-0.4
Foreign nonliquid				795	780	376	1,091	2.5
Errors and omissions				-206	-229	277	-198	-0.4
Balances, with and without seasonal adjustment (- = deficit)								
Liquidity bal., S.A.			-558	-537	-419	-165	-122	-1.4
Seasonal component			363	301	-47	-530	-27	--
Balance, N.S.A.	314	-169	-195	-236	-466	-695	-149	-1.4
Official settlements bal., S.A.			-884	-1,826	-18	861	-175	0.2
Seasonal component			185	543	-180	-456	-210	--
Balance, N.S.A. 3/	164	-247	-699	-1,283	-198	405	-385	0.2
Memo items:								
Monetary reserves (decrease -)	331	37	419	-1,027	6	-82	-68	-0.6
Gold purchases or sales (-)	-45	-20	-15	-51	-121	-173	-209	-0.6

1/ Balance of payments basis which differs a little from Census basis.
2/ Net of loan repayments.
3/ Differs from liquidity balance by counting as receipts (+) increases in liquid liabilities to commercial banks, private nonbanks, and international institutions (except IMF) and by not counting as receipts (+) increase in certain nonliquid liabilities to foreign official institutions.

THE ECONOMIC PICTURE IN DETAIL

The Nonfinancial Scene

Gross national product. The rate of economic growth is expected to continue to accelerate throughout this year even if higher tax rates go into effect as proposed. Assuming both the 10 per cent surcharge on corporate and personal taxes proposed by the Administration and an increase in Federal civilian and military pay of \$1.5 billion, we would expect GNP in the fourth quarter to increase by \$16.5 billion. This would be \$2.5 billion larger than the third quarter rise and in real terms the economy would be growing at a 4.5 per cent annual rate, compared with an estimated 4 per cent in the present quarter.

The major over-all effect of the assumed tax increase in the fourth quarter is to moderate what would otherwise be an even more expansive situation, with its initial impact operating mainly to restrain consumer expenditures. By next year, the lower profit and disposable income resulting from the tax increase could have a more pervasive impact on private final sales and possibly could slow real growth in GNP. Without a tax rise, a quickened pace of inventory rebuilding, rising government expenditures and sharply rising income due to faster growth in employment and stepped-up wage increases, could result in a GNP increase as high as \$20 billion in the fourth quarter, implying significantly stronger pressures on resource use and prices.

A further tapering off in the inventory drag followed in the fourth quarter by moderate restocking is likely to be a major factor contributing to the strength in GNP. The large June reduction in the book value of business inventories of $5.6 billion, annual rate--with the first decline in manufacturing inventories in three years--probably marks the end of an important phase of the recent adjustment.[1/] Reflecting the large inventory liquidation in June and the sustained increase in new orders, as well as strike settlements, industrial output rose in July. But, with final sales expected to continue strong and output still only rising slowly, further inventory liquidation will likely take place in manufacturing in the present quarter and stock-sales ratios should decline considerably. Also, dealer stocks of autos are likely to be further reduced this quarter, especially if, as we have assumed, a limited strike takes place in the automobile industry in September. Thus, some net liquidation of business inventories in the third quarter is likely and this may exert an additional $2 to $3 billion drag on GNP in the present quarter.

By the final quarter, however, some rebuilding of inventores is projected. Thus, in contrast to the first three quarters

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1/ Because the reduction in inventories in June was larger than had been assumed, the inventory change initially reported by the Commerce Department for the second quarter will probably be revised down by perhaps as much as $2 billion and the revised figures would then show little, if any, accumulation for the second quarter. However, this downward revision is likely to be largely offset in total GNP by upward revisions in final sales, particularly in consumer expenditures for nondurable goods.

when indicated reductions in inventory investment exerted a strong negative influence, additions to inventory should become an expansive force in the economy.

Sharply rising personal income has become an increasingly important expansive force supporting increasing consumer expenditures. In June and July nonfarm employment increased by almost 500,000, and as a result, personal income in June rose $3.7 billion, annual rate, almost three times the rise in the previous two months, and another sizable increase is indicated in July. In part reflecting higher incomes, retail sales in June also rose sharply--retail sales have now been revised upward to show an increase of more than 2 per cent instead of the little change indicated by the "advance" estimate. Unit sales of domestic autos increased to an annual rate of 8.4 million in June and this rate was maintained in July. Nondurable sales also accelerated in June to a new high and apparently increased further in July. In the coming months, employment gains are expected to continue to be relatively large, as manufacturing and other industrial activities pick up momentum. In addition, a Federal pay raise will add to total earnings in the fourth quarter. Thus, without a tax increase in the fourth quarter, consumption expenditures would be expected to show continued large increases.

If the tax increase goes into effect on October 1, higher withholding taxes on personal income would be imposed immediately with a consequent impact on consumer expenditures. Growth in total final sales is projected to decline from an annual rate of $17 billion in the third quarter to $14 billion in the fourth quarter, almost entirely because of a slower rise in consumer outlays. Durable goods expenditures are projected, consequently, to show no change in the last quarter, although an increase in new car prices is likely. The gain in nondurable goods expenditures is expected to be relatively small and only services would continue to expand as rapidly as in the current quarter. Moreover, in order to maintain this projected level of consumer outlays the savings rate would likely decline--the usual pattern of response when personal tax increases are imposed--to 5.8 per cent in the fourth quarter. This would be down sharply from the exceptionally high 7.3 per cent first quarter rate and about at the 1965-1966 average.

We have not assumed any increase in social security benefits for the fourth quarter on the grounds that it is not possible to recalculate and process payments between the time a bill can be passed and the end of the year. However, if the current House bill eventually is passed, over $3 billion would be added to disposable income, probably in the first quarter of 1968. In effect this would offset around half of the increase of over $6 billion in personal tax receipts stemming from the 10 per cent surcharge.

In the other private sectors, imposition of the surcharge largely would be felt in 1968 rather than in the fourth quarter of this year. It seems unlikely that the higher corporate tax would significantly influence plans for plant and equipment spending in the short-run. The effect of the tax on current profits has been partly offset by the reinstitution of the investment credit. Meanwhile, new orders for machinery and equipment have increased by 13 per cent since February, order backlogs rose moderately in May and June, and in July producers expanded output of machinery. In line with these developments and recent anticipation surveys, business fixed investment is projected to show modest gains in both the third and fourth quarters.

Nor should the tax rise, which might be expected to stimulate construction by reducing money market pressures, have much influence on expenditures for residential construction in the fourth quarter. Recent commitments and housing starts, which will largely determine fourth quarter activity, indicate that the recent upward trend in residential activity is likely to be maintained. Expenditures for housing may rise by $1.6 billion and $2.0 billion, respectively, in the third and fourth quarters.

The Government contribution to final sales also is expected to be large in this and the next quarter. Defense costs are increasing (we continue to incorporate an additional $4 billion above the January Budget estimate for defense outlays in our projections--this is also the amount of "add-on" now suggested by the Administration for fiscal 1968); moreover, the civilian and military pay raise is likely to add at least $1.5 billion to Federal outlays in the fourth quarter. As a result, the increases in both defense and nondefense expenditures are expected to be larger in the fourth than in the current quarter. With State and local outlays rising as rapidly as earlier, total Government expenditures are projected to be up $5 billion in this quarter and $6 billion in the fourth quarter, accounting for almost half the rise in final sales in the fourth quarter.

As already indicated, the anticipated inventory turnaround and rising Government expenditures provide important offsets to the moderating influence of the tax increase; real GNP is projected to rise in the fourth quarter, and use of both industrial capacity and manpower resources will increase. The possiblity of passing through higher business costs to prices are also likely to increase. The sizable increases in unit labor costs in the past year have not yet been reflected fully in industrial prices and further upward pressures on costs should result from recent and prospective labor contracts. Prices, as measured by the GNP deflator, are projected to be rising at an annual rate of 3.0 per cent in the final quarter excluding the impact of the Federal pay raise on the deflator, compared with 2.4 per cent in the second quarter.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarterly figures at annual rates)

	1966	1967 Proj.	1966 III	1966 IV	1967 I	1967 IIp	1967 Projected III	1967 Projected IV
Gross National Product	743.3	784.0	748.8	762.1	766.3	775.3	789.0	805.5
Final sales	729.9	781.5	737.4	743.6	759.2	773.2	789.8	804.0
Private	575.6	603.5	579.7	581.9	588.8	598.0	609.7	617.8
Personal consumption expenditures	465.9	492.6	470.1	473.8	480.2	488.9	497.8	503.5
Durable goods	70.3	72.3	70.9	70.6	69.4	72.1	73.8	73.8
Nondurable goods	207.5	218.4	209.5	210.3	214.2	216.6	220.2	222.6
Services	188.1	201.9	189.8	192.9	196.6	200.2	203.8	207.1
Gross Private domestic investment	118.0	108.0	116.4	122.2	110.4	106.1	105.5	110.0
Residential construction	24.4	23.6	23.7	20.9	21.4	22.7	24.3	26.2
Business fixed investment	80.2	81.9	81.2	82.8	81.9	81.3	82.0	82.3
Change in business inventories	13.4	2.5	11.4	18.5	7.1	2.1	-.8	1.5
Nonfarm	13.7	2.5	12.0	19.0	7.3	2.2*	-1.0	1.5
Net Exports	5.1	5.4	4.6	4.3	5.3	5.2	5.6	5.8
Gov't. purchases of goods & services	154.3	178.0	157.7	161.7	170.4	175.2	180.1	186.2
Federal	77.0	91.2	79.5	81.5	87.1	89.5	92.2	95.9
Defense	60.5	74.0	63.0	65.6	70.2	72.6	75.1	77.9
Other	16.5	17.2	16.6	15.9	16.8	16.9	17.1	18.0
State & local	77.2	86.8	78.1	80.2	83.3	85.6	87.9	90.3
Gross National Product in								
Constant (1958) dollars	652.6	668.9	654.8	661.1	660.7	664.6	671.5	679.0
GNP Implicit deflator (1958=100)	113.9	117.2	114.4	115.3	116.0	116.7	117.5	118.6**
Personal income	584.0	625.7	589.3	601.6	612.9	618.9	629.5	641.5
Wage and salaries	394.6	423.5	399.6	407.4	414.7	418.0	426.0	435.1
Disposable income	508.8	542.4	512.4	522.0	532.7	540.2	546.8	550.0
Personal saving	29.8	35.6	29.2	34.6	38.8	37.1	34.8	31.8
Saving rate (per cent)	5.9	6.6	5.7	6.6	7.3	6.9	6.3	5.8
Corporate profits before tax	83.8	79.5	84.0	83.9	79.0	77.0	79.3	82.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	143.2	153.7	145.6	148.6	149.1	146.6	154.4	164.6
Expenditures	142.9	165.4	146.3	151.9	160.9	163.2	166.6	171.0
Surplus or deficit (-)	.3	-11.7	-.7	-3.3	-11.9	-16.6	-12.2	-6.4
Total labor force (millions)	78.9	80.6	79.1	79.8	80.3	80.2	80.7	81.1
Armed forces "	3.1	3.5	3.2	3.3	3.4	3.5	3.5	3.5
Civilian labor force "	75.8	77.1	76.0	76.5	76.9	76.7	77.2	77.6
Unemployment rate (per cent)	3.8	3.8	3.8	3.7	3.7	3.8	3.9	3.8
Nonfarm payroll employment (millions)	63.9	65.9	64.1	64.8	65.5	65.5	66.0	66.6
Manufacturing	19.1	19.3	19.2	19.4	19.4	19.2	19.2	19.5
Industrial production (1957-59=100)	156.3	157.5	157.6	158.8	157.0	155.6	157.5	160.0
Capacity utilization, manufacturing (per cent)	90.5	85.2	90.6	89.8	87.0	84.7	84.5	84.6
Housing starts, private (millions, A.R.)	1.17	1.24	1.08	.92	1.12	1.20	1.29	1.27
Sales new U.S.-made autos (millions, A.R.)	8.38	7.92	8.47	8.13	7.33	7.83	8.25	8.2[illegible]

* Recently available data indicate a downward revision of perhaps as much as $2.0 billion in the published estimate of change in nonfarm business inventories. This downward revision may be offset in part by upward revisions in final sales, particularly in personal consumption expenditures for nondurable goods.

** 118.4 without Federal pay increase.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Quarterly changes are at annual rates)

	1966	1967 Proj.	1966 III	1966 IV	1967 I	1967 IIp	1967 Projected III	1967 Projected IV
	In Billions of Dollars							
Gross National Product	59.4	40.7	12.1	13.3	4.2	9.0	13.7	16.5
Final sales	55.4	51.6	14.7	6.2	15.6	14.0	16.6	14.2
Private	37.5	27.9	8.2	2.2	6.9	9.2	11.7	8.1
GNP in constant (1958) dollars	35.9	16.3	5.5	6.3	-.4	3.9	6.9	7.5
Final sales	32.1	27.0	8.3	-0.3	10.1	8.9	9.8	5.3
Private	21.9	11.2	4.4	-2.8	3.7	5.6	6.5	2.6
	In Per Cent Per Year							
Gross National Product	8.7	5.5	6.6	7.1	2.2	4.7	7.1	8.4
Final sales	8.2	7.1	8.1	3.4	8.4	7.4	8.6	7.2
Private	7.0	4.8	5.7	1.5	4.7	6.2	7.8	5.3
Personal consumption expenditures	7.6	5.7	7.4	3.1	5.4	7.2	7.3	4.6
Durable goods	6.5	2.8	15.8	-1.7	-6.8	15.6	9.4	0.0
Nondurable goods	8.5	5.3	4.6	1.5	7.4	4.5	6.6	4.4
Services	6.9	7.3	7.5	6.5	7.7	7.3	7.2	6.5
Gross private domestic investment	9.9	-8.5	-7.1	19.9	-38.6	-15.6	-2.3	17.1
Residential construction	-9.6	-3.3	-32.6	-47.3	9.6	24.3	28.2	31.3
Business fixed investment	12.8	2.1	12.7	7.9	-4.3	-2.9	3.4	1.5
Gov't purchases of goods & services	13.1	15.4	17.2	10.1	21.5	11.3	11.2	13.5
Federal	15.3	18.4	24.6	10.1	27.5	11.0	12.1	16.1
Defense	20.8	22.3	31.5	16.5	28.0	13.7	13.8	14.9
Other	-1.2	4.2	0.0	-16.9	22.6	2.4	4.7	21.1
State & local	10.9	12.4	10.0	10.8	15.5	11.0	10.7	10.9
GNP in constant (1958) dollars	5.8	2.5	3.4	3.8	-.2	2.4	4.2	4.5
Final sales	5.3	4.2	5.2	-0.2	6.3	5.4	5.9	3.2
Private	4.4	2.2	3.4	-2.2	2.9	4.3	5.0	2.0
GNP Implicit deflator	2.7	2.9	3.2	3.1	2.4	2.4	2.7	3.7*
Personal income	8.6	7.1	8.3	8.3	7.5	3.9	6.8	7.6
Wage and salaries	9.9	7.3	9.6	7.8	7.2	3.2	7.7	8.5
Disposable income	7.8	6.6	7.2	7.5	8.2	5.6	4.9	2.3
Corporate profits before tax	9.5	-5.1	1.9	-.5	-23.4	-10.1	11.9	16.1
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.7	7.3	11.3	8.2	1.3	-6.7	21.3	26.4
Expenditures	15.8	15.7	22.8	15.3	23.7	5.7	8.3	10.6
Nonfarm payroll employment	5.1	3.1	3.3	4.0	4.3	0.0	3.1	3.6
Manufacturing	5.8	1.0	3.5	4.0	0.0	-4.1	0.0	6.2
Industrial production	9.0	0.8	6.2	3.0	-4.5	-3.6	4.9	6.3
Housing starts, private	-20.4	6.0	-62.5	-59.3	87.0	28.6	30.0	24.8
Sales new U.S.-made autos	-4.4	-5.5	33.6	-15.8	-39.6	27.3	21.5	0.0

* 3.0 per cent without Federal pay increase.

Industrial production. Industrial production is tentatively estimated to have increased one-half point or more in July from the preliminary June level of 155.2 per cent. At an estimated 155.8, the total index would be one per cent below a year earlier and two per cent below the December peak.

The July rise is primarily due to settlements of strikes in the electrical machinery and rubber industries and a 6 per cent increase in crude oil production in response to the mid-East situation. Other output changes in July appear to be about offsetting with likely declines in furniture, construction materials, paper, some chemical products, and copper (because of a strike) about balanced by increased output of autos, nonelectrical machinery, commercial aircraft, defense equipment, and petroleum refining. Production in most other industries, including steel, apparently changed little.

Estimating output changes in July are more hazardous than in most other months because of the sharp seasonal curtailment in output; the seasonal factors allow for a 6 per cent decline in the total index from June to July. Moreover, the year the shift forward of the auto model changeover, the timing of strikes and strike settlements, and the effects on production of the riots further complicate the problem of estimating production changes.

If a strike in the auto industry can be avoided and if the copper strike can be settled before shortages affect output of consumer goods and business equipment, the testing period for the strength of expansion in industrial production will be between now and October, when over-all production usually reaches its seasonal high for the year 8 per cent above the summer seasonal low.

Retail sales. June retail sales are now shown to have been more than 2 per cent above May, rather than just slightly higher, and 4 per cent above a year earlier. The new estimates indicate higher June sales volume for nearly all types of stores, durable and nondurable, than the advance estimates. Sales at durable goods stores in June were up nearly 4 per cent. While sales at furniture and appliance stores are still shown to be down from May, the decline now indicated is substantially less than reported previously. Sales of nondurable goods in June are now shown to be up nearly 1.5 per cent from May with the declines indicated earlier for food and apparel stores reversed. The figures now show a 3 per cent rise for apparel stores.

With the revised June figures, retail sales in the second quarter were up 1.8 per cent from the first quarter. Unit sales of new U.S.-made autos were up considerably.from the first quarter, while sales at other durable goods stores declined slightly. At nondurable goods stores, second quarter sales were up 1.7 per cent from the first quarter, with relatively large increases at stores other than food.

In July, according to weekly sales figures, sales continued at the high June rate, both at durable goods and nondurable goods stores.

<u>Auto markets</u>. Despite some weakening of domestic new car sales in the last 10 days of July, the seasonally adjusted annual rate for the month as a whole was 8.4 million units, unchanged from the preceding month and up slightly from the 8.3 million rate a year earlier. Trade reports indicate that supply limitations in some popular models were beginning to affect sales, as is usual at this season of the year; consumer demand is expected by the trade to remain strong through the introduction of new models in September.

The stock of new cars was sharply reduced in July and at month end, at 1.18 million units, was 16 per cent below the end of June and about one-fourth below the level a year earlier, reflecting the sustained high level of sales and early termination of the 1967 model-year output. At the July selling rate, stocks at the end of the month represented 47 days' supply--a relatively normal level at this stage of the model year.

Prices of used cars (seasonally adjusted) reported in the Consumer Price Index declined slightly in June for the first time in five months.

<u>Consumer credit</u>. Consumers incurred instalment debt in June at a more rapid rate than in any other month since the slowdown in instalment credit began early last year. The June spurt resulted from a combination of factors. A few finance companies promoted travel and vacation loans in competition with bank credit cards, and with unprecedented success. Automobile sales picked up sharply in June giving rise

to the largest auto credit volume since last November. Some durable goods such as air conditioners, which normally have peak sales in the warm months, were offered early in the year on a delayed-payment basis, and these contracts were carried on the books for the first time in June. In fact, demands for all major types of instalment credit were larger than in earlier months this year.

Although repayments increased somewhat to record levels in June, they rose less than extensions. Nevertheless, expansion in instalment credit continues far below 1966.

CONSUMER INSTALMENT CREDIT
(Billions of dollars, seasonally adjusted annual rates)

Period	Extensions	Repayments	Net increase in Outstandings
1966 - June	80.1	73.5	6.6
July	80.8	74.0	6.8
August	80.3	73.0	7.2
September	78.9	73.2	5.7
October	78.3	73.7	4.6
November	79.9	74.6	5.3
December	77.2	73.3	3.9
1967 - January	78.0	74.7	3.4
February	78.0	75.4	2.6
March	78.1	75.0	3.2
April	79.3	76.7	2.6
May	78.6	76.3	2.3
June	81.9	78.4	3.5

The instalment debt burden of consumers, measured by the ratio of outstandings to disposable income, amounted to 13.8 per cent the first and second quarters of 1967, about the same proportion as in the first quarter of last year and somewhat lower than in the remainder of the year. While both extensions and repayments have moved up slightly relative to disposable income, both are below the ratios of a year earlier.

New and unfilled orders. New orders received by manufacturers edged up 0.6 per cent in June, with the rise concentrated in the durable goods sector which was up 1.4 per cent. Orders for nondurables were unchanged. The June increases brought orders for manufactured goods to a level less than 1 per cent below the peak of last September. Orders for durables have recovered about two-thirds of their earlier decline and are now only 4 per cent below the September peak.

Among durable goods industries, increases were concentrated in machinery and aircraft which were up 5 per cent and 11 per cent, respectively. New orders for steel, fabricated metals, motor vehicles, and all other durables were down slightly. The special machinery and equipment grouping showed a 4 per cent increase and the defense products category--which includes commercial aircraft--was up 7 per cent from May and 30 per cent from the average for the first four months of the year.

Unfilled orders for manufactured goods rose 1.5 per cent further in June. Three-fourths of this rise was accounted for by an increase in backlogs for aircraft. Backlogs at steel mills were up 5 per cent. Changes in unfilled orders in other industries were minor.

Shipments. The value of manufacturers' shipments edged down 0.2 per cent in June from the level of the previous month. There was considerable stability throughout the list of industries. Sales of durables were up very slightly while nondurables showed a small decline. Shipments from steel mills were off 2 per cent, while non-ferrous metals were up 4 per cent and machinery was up 1.5 per cent.

Construction and real estate. The value of new construction put in place increased further in July for the third consecutive month, based on confidential July projections available from the Census Bureau and on slightly revised data for all earlier months of this year. Construction outlays in July, although 4 per cent below the peak in early 1966, were again above their declining level a year earlier. While private nonresidential activity apparently changed little further from its reduced level, public construction edged upward and private residential expenditures were higher for the seventh straight month.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FR)

	July 1967 ($ billions) 1/	Per cent change from	
		June 1967	July 1966
Total	75.6	+1	+ 3
Private	48.9	+1	- 3
Residential	23.1	+1	- 4
Nonresidential	25.8	--	- 2
Public	26.8	+1	+18

1/ Seasonally adjusted annual rates; preliminary. Data for the most recent month (July) are available under a confidential arrangement with the Census Bureau. Under no circumstances should any public reference be made to them.

Seasonally adjusted private housing starts, which rose sharply in May above the plateau reached in the previous three months, were down somewhat in June to 1,209,000 units, but once again exceeded their reduced year-ago level. During the second quarter, starts averaged 7 per cent above the first quarter rate and 31 per cent above the 1966 fourth quarter low, according to newly-revised Census Bureau data. One of the most marked improvements during the first half came in the West, where starts had been in a downtrend for several years prior to 1967.

In June, residential building permits--now one of the major NBER leading indicators--increased somewhat further, with 1-family structures again the dominant factor. Regionally, permits rose in the Northeast and West; elsewhere, they changed little.

PRIVATE HOUSING STARTS AND PERMITS

	June 1967 (Thousands of units) 1/	Per cent change from	
		May 1967	June 1966
Starts	1,209	- 4	+ 2
Permits	1,074	+ 4	+13
1-family	641	+ 7	+12
2-or-more family	433	--	+14
Northeast	198	+11	- 2
North Central	253	--	+ 7
South	382	- 3	+16
West	241	+15	+30

1/ Seasonally adjusted annual rates; preliminary.

Note: Starts data reflect one-time Census Bureau revisions, going back to 1963 and incorporating improved estimation and adjustment procedures which have reduced previously-published starts levels in 1966 and 1967 by about 4 per cent. Newly-revised seasonal indexes have tended to lower former seasonally adjusted starts levels slightly during the first half of the year and to raise them slightly during the second half.

With housing output developing enough momentum to more than exceed the normal spring rise (three-fifths) and with permits higher, the prospect for an additional advance in starts was further enhanced by a second quarter decline in vacancies. Vacancy rates for both rental and home-owner units were down, reflecting the sharply reduced volume of new completions, with rental vacancies at the lowest quarterly levels since 1959. The greatest year-over-year reduction in rental vacancies was in the West, as shown in the table. In line with the recent decline in vacancies since 1965, the rent component of the consumer price index has been edging up at a somewhat faster rate.

RENTAL VACANCY RATES
(Per cent)

	Average for second quarter of				
	1967	1966	1965	1964	1961
All regions	6.3	6.8	7.5	7.4	8.1
Northeast	4.2	4.6	4.8	4.4	4.5
North Central	5.4	5.9	6.6	6.9	8.8
South	7.5	7.5	7.7	8.5	9.6
West	8.6	9.9	12.0	10.7	10.7

<u>Business inventories</u>. A sharp downward adjustment in the rate of inventory accumulation by manufacturers turned between January and May into sizable liquidation in June, and, with the liquidation at distributors that began in February continuing, the book value of total business inventories declined over $450 million, according to preliminary figures.

The substantive June decline exceeded the combined April-May increase (when accumulation by manufacturers more than offset liquidation by distributors), and the book value of nonfarm business inventories now shows a slight decrease for the quarter as a whole. The table shows in some detail the massive inventory adjustment that took place between the fourth quarter 1966 and the second quarter of this year.

CHANGES IN BOOK VALUE OF BUSINESS INVENTORIES
(Billions of dollars, at seasonally adjusted annual rates)

	1966 IV Q	1967 I Q	1967 II Q 1/
Total	18.8	6.1	-0.5
Manufacturing, total	12.0	7.2	2.8
Durable goods	9.9	4.7	2.3
Bus. & defense equip.	5.2	3.6	2.3
Consumer durables	1.2	0.4	-1.0
All other	3.4	0.7	1.0
Nondurable goods	2.2	2.5	0.5
Trade (distributors), total	6.8	-1.1	-3.3
Durable goods	3.9	-1.6	-2.8
Wholesale	2.7	0	-0.9
Retail	1.2	-1.6	-1.9
Autos	1.5	-2.4	-1.4
Other	- .3	0.8	-0.5
Nondurable goods	2.9	0.5	-0.5

1/ Preliminary

The June shift to inventory liquidation at manufacturers (totaling $160 million) reflected primarily a large reduction in stocks (mainly finished goods) in nondurable goods industries. Shipments of nondurable goods in June were slightly below the record May level, but for the second quarter as a whole they were up 2 per cent from the first quarter, equaling producers' anticipations as reported in the May Commerce survey. Owing mainly to the June drop, inventories held by nondurable goods manufacturers showed only a fractional net increase for the quarter--much less than anticipated--and the stock-sales ratio held at a level only moderately above a year earlier.

Among durable goods manufacturing industries, inventories continued to run off in the auto industry. From February through June stocks declined $300 million, or 8 per cent, as shipments spurted sharply. Some liquidation also was reported by other consumer durable industries and in construction materials. Inventory declines in these lines were offset by continued accumulation, mainly of work-in-process stocks, in the business and defense equipment sector, and all durable goods industries combined showed a slight net accumulation. For the second quarter as a whole, sales by durable goods producers were down from the first quarter (and from the fourth quarter peak) and well below anticipations; however, in marked contrast to the late 1965 and 1966 experience, inventory accumulation also fell short of anticipations. The durable goods stock-sales ratio in June was down moderately from the April peak but still well above a year earlier.

Distributors' stocks declined about $300 million further in June. Total liquidation since January amounted to nearly $1.2 billion, of which $1.1 billion was in durable goods lines, bringing the stock-sales ratio generally down to a viable level. In June, as in earlier months, a substantial part of the liquidation was at auto dealers. Other durable goods retailers also reported a sizable further stock decline in June, and the reduction in inventories at durable goods wholesalers was again large.

Labor market. The tone of the labor market improved further in July. Nonfarm employment rose by 200,000 following a substantial (upward revised) pick-up in June, bringing the level close to a half million above its recent low in May.

The over-all unemployment rate edged downward to 3.9 per cent in July. Despite the entry of some 3 million teenage workers between May and July, their unemployment rate has remained relatively unchanged in the past two months as most successfully obtained jobs. Significantly, the decline in unemployment this past month was mainly among adult men; their rate of unemployment fell to 2.4 per cent.

Although most of the employment growth in July occurred in State and local government and services, moderate gains were also evident in construction, transportation and trade. Manufacturing employment edged downward somewhat, but this was largely the result of technical factors. With continued strong growth in public and private services, evidence of recovery in construction employment, and adjustments in manufacturing employment and weekly hours apparently largely completed, nonfarm employment should continue vigorous growth later this year as over-all demand accelerates.

With demand for labor again expanding, the labor force appears now to have regained its momentum after several months of relatively slow growth. In July the civilian labor force increased by 250,000, and was 1.7 million (the total labor force was up over 2 million) above a year earlier. This rate of growth is well above the "normal" trend for the labor force, based upon growth in the population of working age and the long-term increase in participation of women.

Nonfarm employment. The 200,000 increase in nonfarm employment in July raised the year-to-year gain to 1-3/4 million. Indications of firming in labor markets were fairly widespread. In manufacturing, a 40,000 drop in employment was largely the result of special circumstances. A decline of 20,000 in durable goods employment reflected mainly a sharp seasonal cut in auto employment as a result of the early model changeover. The BLS makes no special adjustment for changes in the timing of model changeovers; such an adjustment is made in the production index, however. Among other durable goods industries, machinery showed some strength, responding to a pick-up in new orders, but fabricated metals, lumber and furniture were off somewhat. The 25,000 increase in electrical equipment represented a return from strike.

In nondurable goods industries, a drop of 20,000 jobs reflected a cutback of that magnitude in apparel, probably a seasonal drop not adequately eliminated by the seasonal adjustment procedure. Other nondurable goods industries showed only small and offsetting employment changes.

Producers in manufacturing, in some cases still wrestling with an overhang of inventories, were apparently not yet ready in July to increase their payrolls significantly. Nevertheless, the relative employment stability in July, following a pick-up of 60,000 jobs in June and a modest rise in accessions and reduction in separations, suggest that manufacturing is ready for a resumption of employment growth in the coming months. The beginning of production of the new auto models, and the return to work of some 50,000 or more rubber workers who were on strike in mid-July should alone provide the basis for an employment increase in August.

At the same time, employers still seem to be concerned with the need to restrain rising labor costs, and are doing so by limiting overtime. Average weekly hours in manufacturing, at 40.3 in July, were little changed from June--the total was up one-tenth of an hour over the month, while overtime was down one-tenth. The average workweek in July was seven-tenths of an hour below the level of January, and of July a year ago.

Outside of manufacturing, employment demand continued particularly strong in the private services and in government. These sectors provided three quarters of the employment increase in the past month, and two-thirds of the additional jobs in the nonfarm economy over the past year. In the period of relative job slack from January to May, they provided all of the employment growth. In the past month, however, construction and trade were up by about 30,000 each. The evidence of improvement in the construction picture was also supported by a rise of three-tenths in that industry's workweek. Average hours in construction are now only three-tenths of an hour below July a year ago.

Collective bargaining. Settlements of several major wage negotiations in the past few weeks, following strikes, have set an example for wage and fringe benefit increases which is likely to be followed in the second half of 1967. Several recent wage settlements have been in the 5 per cent range, higher than the 4-1/2 per cent average for 1966. The rubber agreements, which settled strikes affecting four producers, provided wage increases of over 5 per cent for most rubber workers, and somewhat over 4 per cent for tire workers. The RCA settlement with the Electrical Workers in early July--ending a one month strike--involved a wage increase of about 4 per cent.

In addition to wage rate increases, unions in most cases are demanding new or enhanced fringe benefits which are adding substantially to the total cost of packages. Along with liberalized health, welfare, pensions and other fringes, there have been several recent demands for variants of guaranteed annual income programs; the rubber workers had their supplemental unemployment (SUB) benefits raised from 65 to 80 per cent of wages. The cost of these fringes has been substantial; the total packages in rubber and electrical equipment are estimated to involve increases in total compensation of over 6 per cent.

In major industry negotiations still under way, the Steel Workers, who represent most of the 37,000 striking copper mining and smelting workers, are asking for a 5 to 6 per cent wage increase, the Railroad Shopcraft Unions are asking for about 6-1/2 per cent, and the auto wage demands appear to be in the same range.

Large wage adjustments have by no means been limited to the unionized sectors, and many nonunion settlements in fact have been at the higher end of the range. Increases of at least 5 per cent have been widespread. For example, pay raises of up to 6.5 per cent were granted in early August in the largely nonunion southern textile mills.

The recent uptrend in consumer prices has also led to demands by both copper and electrical unions for cost-of-living escalator clauses; this demand was not granted in the contract signed by RCA, and the copper contract is still being negotiated. But, demands for a renewal of the cost-of-living clause in the auto and agricultural equipment contracts can certainly be expected. In a period of rising prices, these clauses can add substantially to the total wage bill. In autos, during 1966, cost-of-living benefits totaled 11 cents, adding about 3 per cent (in addition to other negotiated benefits) to the basic wage rate in the industry.

Unit labor costs. The July revisions in national income data have resulted in a sharp upward adjustment of earlier estimates of unit labor costs in manufacturing. The Census index, at 106.2 per cent of the 1957-59 average in the second quarter of 1967, was at the highest level in the post-World War II period. These costs are now running 5-1/2 per cent higher than a year ago; as compared with an increase of about 4-1/2 per cent shown prior to the revision.

UNIT LABOR COSTS, HOURLY COMPENSATION
AND PRODUCTIVITY IN MANUFACTURING
(All employees, percentage increases from a year earlier)

	Unit Labor Cost 1/	Average Hourly Compensation		Output Per Manhour 3/
		Wages & salaries 2/	Supplements	
1960-65, annual average	-0.3	3.2	6.7	3.9
1966 - IQ	0.9	3.3	9.9	3.0
IIQ	2.1	4.2	10.6	2.8
IIIQ	2.5	4.7	11.7	2.7
IVQ	3.1	5.1	13.5	2.8
1967 - IQ	5.6	6.0	10.5	0.8
IIQ	5.5	5.8	11.3	1.0

1/ Wages, salaries and supplements per unit of output.
2/ Wages and salaries per manhour.
3/ Manufacturing output (FRB) per manhour.

The sharp spurt in unit labor costs is a function of both the continued growth in compensation per manhour and the reduced rate of productivity increase that has accompanied the dip in output in the past half year. Output per manhour in manufacturing in the first two quarters of 1967 averaged only one per cent above the year-earlier levels. With productivity in manufacturing growing at so slow a rate, virtually all the over-the-year increases in wages and supplements have been translated into increased unit labor costs. Wages and supplements are continuing to expand at a brisk rate, and little easing in pressure on unit labor costs can thus be anticipated until a substantial recovery develops in manufacturing productivity--which should accompany the anticipated pick-up in production later this year.

Prices. After rising 0.5 per cent a month in May and June, the comprehensive wholesale price index rose only 0.2 per cent further in July--to 106.5 per cent of the 1957-59 average--according to the BLS preliminary estimate. Prices of farm products and processed foods and feeds, which had been responsible for the abrupt and sharp upturn in May and June, rose only moderately further in July, but average industrial prices increased 0.1 per cent following 4 months of stability. The spurt in wholesale prices--particularly for meats and fresh fruits and vegetables--brought the earlier decline in retail food prices to an end in May and led to a sharp rise in June. With retail prices of non-food commodities continuing to rise--although at a slower pace than earlier in the year--and services going on up, the June rise in the consumer price index was stepped up; for May and June the increase was at an average annual rate of 3.5 per cent as compared with less than 1 per cent in the first quarter, when food prices were declining.

Wholesale prices of farm products, which had increased 5 per cent from April to June--recovering half the large decline from last September--leveled off in July; and processed foods and feeds increased 0.5 per cent as compared with a 2-1/2 per cent gain from April to June. (If allowance is made for the usual seasonal change, prices of farm products and foods and feeds declined in July.) Following the unexpectedly sharp drop from late April to the end of May, hog marketings and pork production have shown substantial recovery and prices have eased. Beef production in June and July was relatively stable, below the highs reached earlier in the year and prices continued to edge up. Prices of fresh produce in July reportedly reversed part of the sharp run-up in May and June, as summer crops improved supplies that had been curtailed by poor late-spring weather. However, prices of processed fruits and vegetables apparently continued upward. With record crops in prospect which will more than meet anticipated domestic and foreign needs, prices of wheat declined further in July and at mid-month were a fifth below a year earlier; corn prices also showed a decrease.

Price declines for sensitive industrial materials, which slowed the rise in the index for industrial commodities from mid-1966 to early 1967 despite continuing advances for other materials and for finished products, persisted in the first half of this year. Moreover, under the generally slack economic conditions the earlier upward movement in prices of other materials and of consumer and producer goods slowed appreciably, with the result that the BLS wholesale industrial composite was stable from February through June. At 106 per cent of the 1957-59 average, this index in June was 1 per cent above a year earlier--with sensitive materials down nearly 7 per cent; from June 1965 to June 1966 the over-all index had increased almost 2.5 per cent.

From mid-June to mid-July, the BLS estimates a slight upturn in the industrial commodity index and in recent weeks additional price increases have been announced. While prices for some industrial materials remain weak--e.g., hides and some textiles--prices of copper scrap (and of primary copper sold in dealers' market) have strengthened as a result of growing concern about the duration of the current labor dispute; with the pick-up in building activity proceeding, lumber prices have risen further and higher prices have been announced for aluminum siding and gypsum products (the latter to be effective in mid-September); moderate price increases for crude petroleum have spread throughout the industry as domestic crude oil production moved up to a record volume to make up for a diminished flow from the Mid-East; and moderate price increases have been announced--effective in early September--for tin-coated steel (tinplate) and uncoated steel (black plate) used in the manufacture of cans. Among finished products, prices of various types of machinery and some types of furniture and appliances were apparently higher in mid-July than in June; and since mid-July tire and tube prices have been increased, the sharp spurt in silver prices has resulted in higher prices for silverware and some photographic film, and some producers have announced substantially higher price schedules for 1968-model trucks.

Farm incomes. Realized net incomes of farm operators have been declining gradually since late 1966 from the $16.5 billion annual rate maintained throughout the first three quarters of 1966. Lower farm prices until April were a factor in the downtrend, but not the only one. A larger volume of marketings and near record government payments have moderated the effect of price declines on cash receipts but rising prices of items used in production and higher interest and wage rates have steadily trimmed net earnings.

First half of 1967. Net realized income in the first half of 1967 averaged 11 per cent below a year earlier. Cash receipts were only 2 per cent less and with imputed value of home grown food and house rent and government payments included, gross realized incomes were even closer to the year-earlier level. But production expens s were 5 per cent larger than a year earlier.

GROSS AND NET FARM INCOME
Calendar 1966 and first half of 1967
(Seasonally adjusted at annual rates, billions of dollars)

	Year 1966	First half 1967	Per cent change from year earlier 1966	1967 (1st half)
Cash receipts from marketings	43.2	42.5	10.5	-1.6
Plus: Nonmoney income and Government payments	6.5	6.7	14.0	6.3
Equals: Realized gross income	49.7	49.2	10.9	- .6
Minus: Production expenses	33.3	34.4	7.8	4.9
Equals: Realized net income	16.4	14.8	18.0	-10.8
Plus: Net change in inventories	- .2	- .1		
Equals: Total net income	16.2	14.6	8.7	-13.1

These national averages concealed widely disparate returns to producers of specific commodities. For hog producers and poultrymen, cash receipts were down 11 and 9 per cent respectively, with a substantially increased volume of marketings sold for sharply lower prices. Dairy receipts were up 11 per cent entirely because of higher prices. Crop receipts were about the same as a year earlier except for cotton, corn, and oranges. Receipts from corn were 12 per cent above last year with both marketings and prices higher but cotton sales receipts were down 58 per cent reflecting sharply reduced production and lower prices provided by the 1965 acreage diversion program. Reduced cotton receipts were compensated by direct payments to producers. Orange marketings were 42 per cent larger than the year before, but cash returns were down 15 per cent because of lower prices.

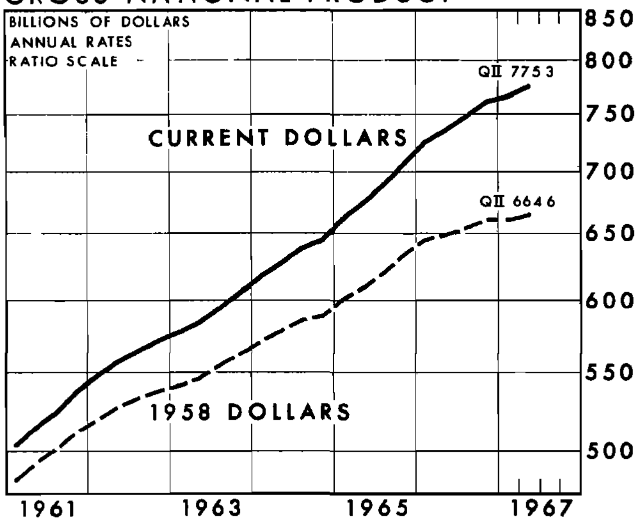
Increases in production expenses resulted mainly from higher prices paid for productive inputs and larger outlays for taxes and interest. Prices of feed, machinery, and building materials were up substantially from a year earlier. Fertilizer prices were unchanged but more was purchased because of larger acreages planted this year. Prices of feeder and replacement livestock were down and the volume of purchases was less than a year earlier.

1966 income. Last year's net realized income, the most favorable in twenty years, resulted from strong demands for livestock supplies, still limited by earlier retrenchments in production, and crop stocks deliberately drawn down from surplus. Strong demand and somewhat limited supplies pushed farm prices to the highest levels since the Korean War bulge. Livestock prices were sustained at high levels until toward the end of the year when expanding production pushed prices down. Crop prices bulged in the middle of the year because of sharply expanded demands for stocks associated with the world food shortage scare but declined by harvest time.

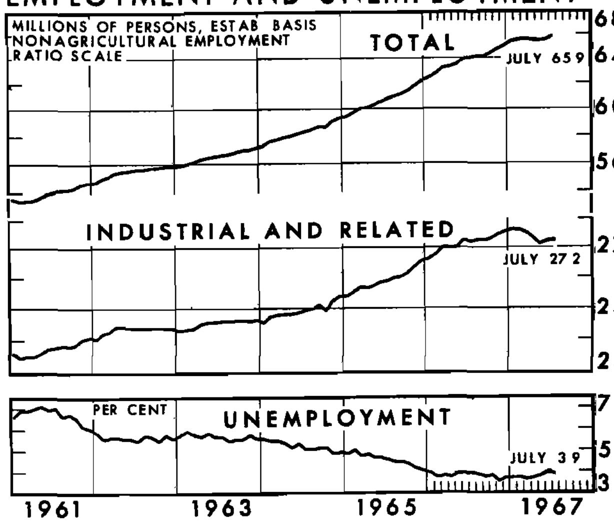
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

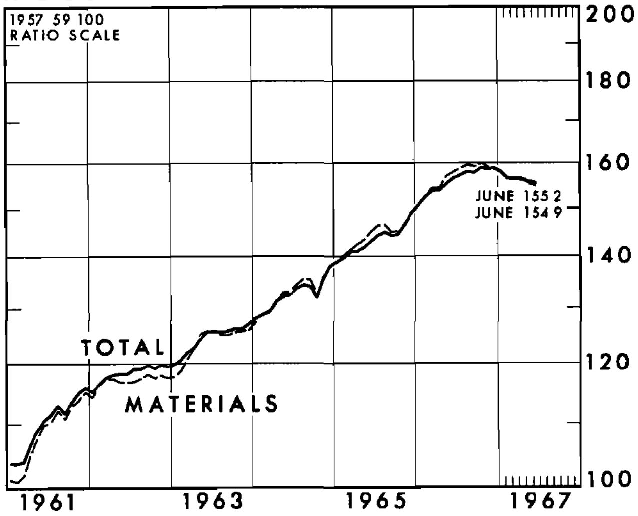
GROSS NATIONAL PRODUCT



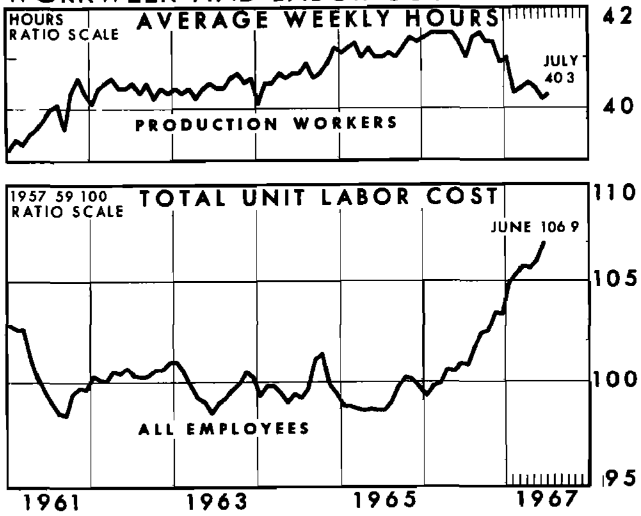
EMPLOYMENT AND UNEMPLOYMENT



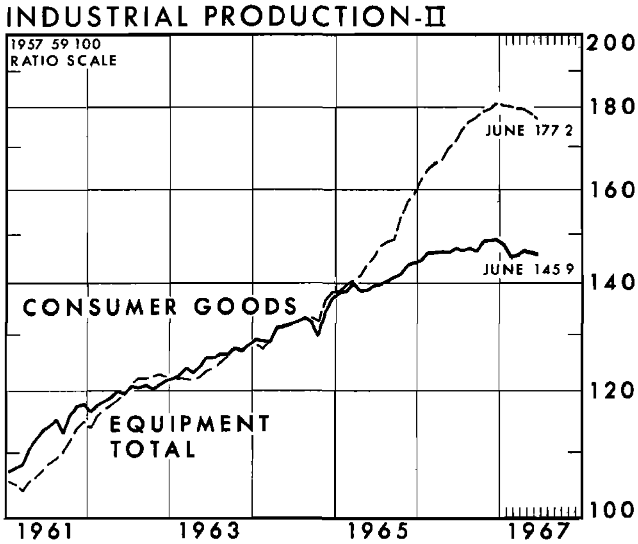
INDUSTRIAL PRODUCTION-I



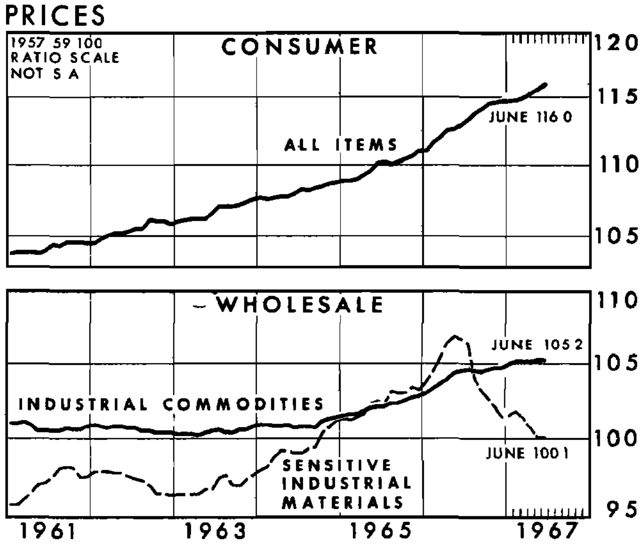
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



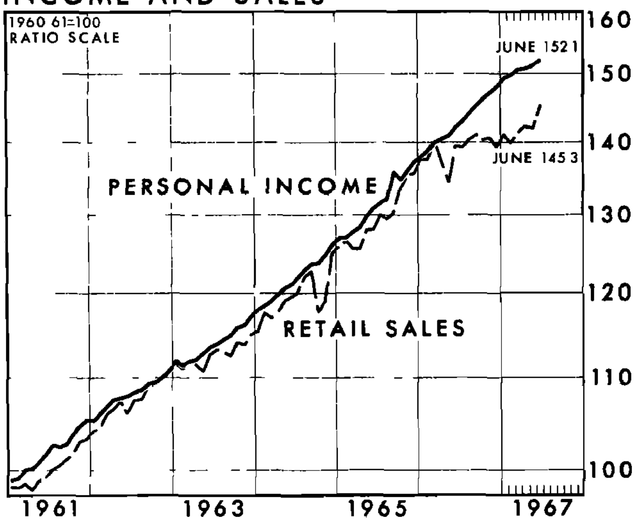
PRICES



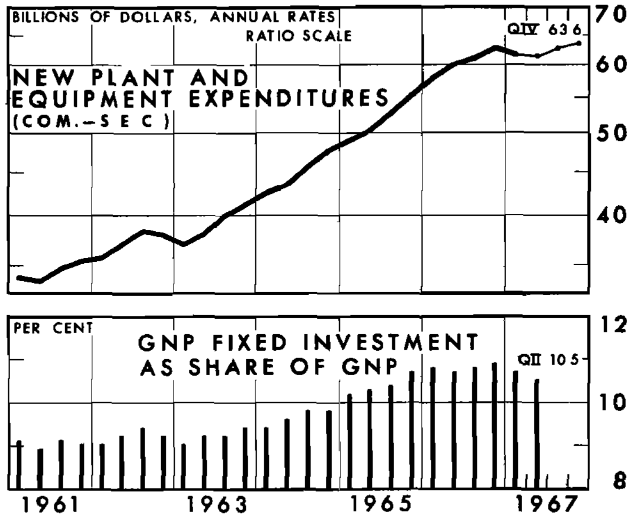
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

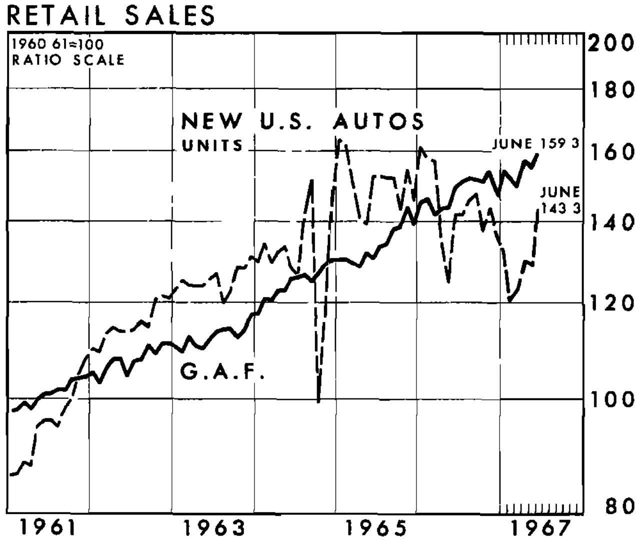
INCOME AND SALES



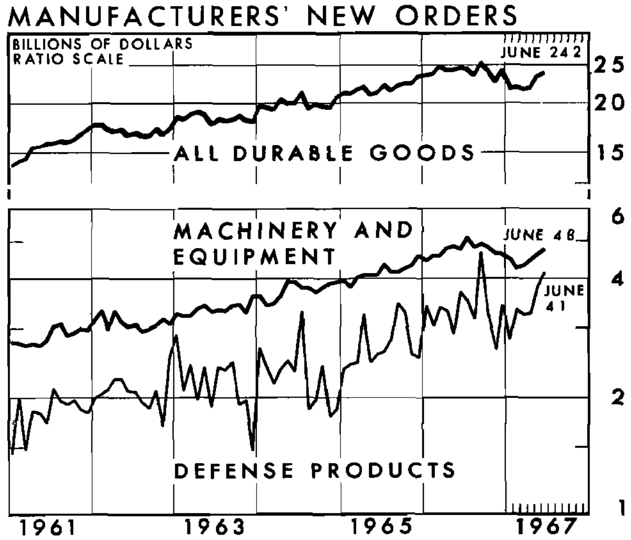
BUSINESS INVESTMENT



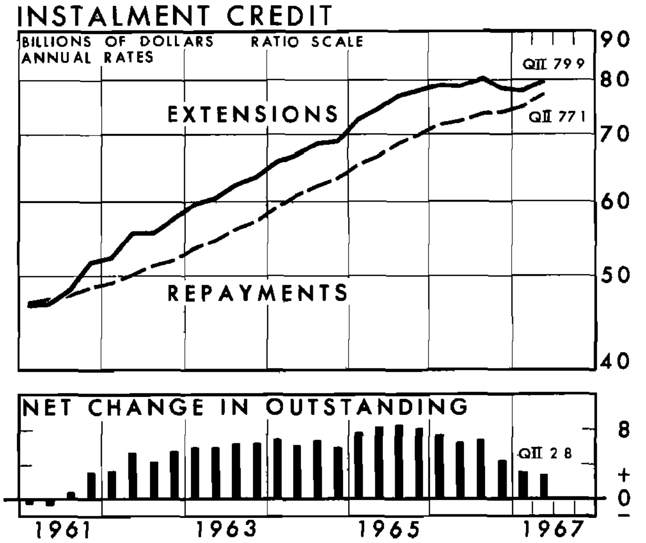
RETAIL SALES



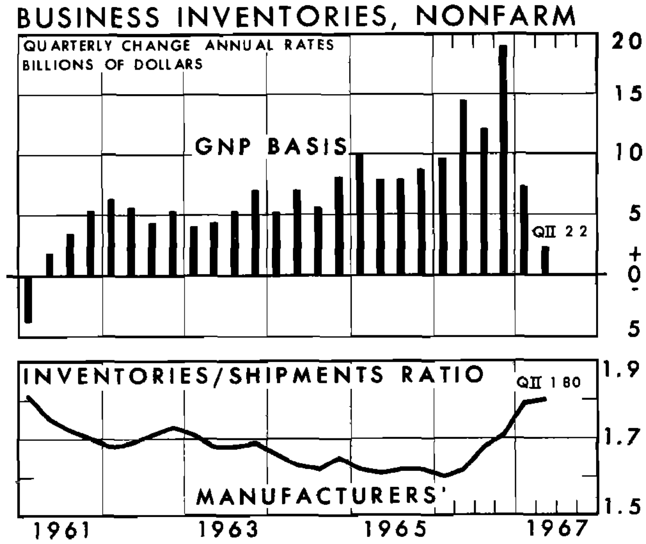
MANUFACTURERS' NEW ORDERS



INSTALMENT CREDIT



BUSINESS INVENTORIES, NONFARM



DOMESTIC FINANCIAL SITUATION

Bank credit. All of the aggregate measures indicate a sharp acceleration in the growth of bank credit during July. To some extent, however, the expansion indicated in the table may be exaggerated. The inability of seasonal adjustment techniques to correct for rapidly shifting patterns of tax payments and Treasury financings have contributed to sharp month-to-month fluctuations in the bank credit series which make it extremely difficult to judge underlying trends. Thus, the unusually rapid expansion of bank credit indicated for July may be in part illusory, but it also may reflect some strengthening of loan demands, at least in the short run.

COMMERCIAL BANK CREDIT
Seasonally adjusted annual rates of change
(per cent)

	1967			
	July	June	June-July	1st H.
All commercial banks--end-of-month 1/	27.2	1.1	14.2	10.6
Adjusted credit proxy--daily average 2/	15.5	10.1	11.9	11.1

1/ All commercial banks, last Wednesday of month series.

2/ Total member bank deposits plus change in liabilities to overseas branches calculated on daily average basis.

NOTE: See Appendix A for a description of the revised seasonals of the credit proxy.

After declining late in June, Government security holdings of banks expanded sharply in July, with acquisitions of the new tax anticipation bills--payable with full tax and loan credit--widespread among banks. The increase in holdings of Treasury issues accounted for about one-third of the total increase in bank earning assets and about one-half of the acceleration in bank credit from June to July. However, for the second consecutive month, the pace of acquisition of other securities moderated from the unusually high rate over the first 5 months of the year. While some banks are apparently still interested in the attractively priced participation certificates and longer-term municipals, the combination of current and prospective loan demands and the ability to obtain relatively high yielding--and more liquid--other short-term financial assets, particularly Treasury issues, has contributed to a lessened general interest in tax-exempt securities.

COMPONENTS OF COMMERCIAL BANK CREDIT
Seasonally adjusted annual rates of change
End-of-month series
(per cent)

	1967			
	July	June	June-July	1st H.
Total loans and investments	27.2	1.1	14.2	10.6
U.S. Gov't. securities	55.2	-22.9	15.2	8.1
Other securities	17.2	17.4	17.4	29.6
Total loans	23.0	2.8	12.9	6.9
Business loans	17.4	17.7	17.7	11.5

The statistics indicate an unusually rapid rate of growth in total bank loans in July, following quite modest expansion in May and June, but shifting seasonal factors mentioned above, and the difficulty of estimating window-dressing at midyear may have resulted in an overstatement in the indicated growth of total loans.

Business loans were particularly affected by seasonal adjustment problems. With withholding tax payments shifted forward, the previously normal repayment of June tax borrowing in July failed to appear. Discussions with individual bankers on balance suggest that the "seasonally adjusted" rates of growth shown by the statistics for business loans in June and July do not fully conform with bankers' own views of their current loan demands. Indeed, some business loan repayments began to develop in late July and early August, although some of the early August decline in business loans reflected the use of proceeds from a debenture issue by a major oil company. Despite the increasing cost of capital market financing, there is no evidence of a step-up in term loans.

Among the other major loan categories, security financing rose in July, reflecting not only financing requirements of Government security dealers whose inventories rose over the month, but also increased financing demands of other dealers. Finance companies repaid their modest June borrowing and continued to reduce their bank loans in July as the cost of market financing remained below the prime rate. Expansion in real estate loans remained modest, with some further step-up at weekly reporting banks.

Bank deposits. All forms of bank deposits expanded sharply in July. Total time and savings deposits increased at a seasonally adjusted annual rate of 14.5 per cent, a little below the average of the first half. As indicated in the last line of the table, weekly reporting banks were able to maintain the combined inflow of passbook savings and time deposits other than large denomination negotiable CD's. Indeed, bank inflows in July were unusually strong relative to

TIME AND SAVINGS DEPOSIT INFLOWS, WEEKLY REPORTING BANKS
(Millions of dollars, not seasonally adjusted)

	July 1/			
	1967	1966	1965	1964
Total time and savings deposit	+1,332	+ 752	+ 942	+ 809
Negotiable CD's	+ 543	- 9	+ 502	+ 498
Other time 2/	+ 711	+1,730	+ 140	+ 196
Savings	+ 78	- 969	+ 300	+ 115
MEMO: Other time 2/ plus savings	+ 789	+ 761	+ 440	+ 311

1/ Four weeks ended July 26, 1967; July 27, 1966; July 28, 1965; July 29, 1964.

2/ Other than large negotiable CD's

1966 when consideration is given to the large transfers of funds from nonbank institutions to banks in July of last year. There was no apparent large shift from bank deposits to other financial assets after the interest crediting period this year.

After essentially no growth in outstanding CD's over the second quarter, weekly reporting banks added over $500 million of CD's in July and New York and Chicago banks further increased outstandings by almost $300 million in early August. Preliminary reports for July suggest that weekly reporting banks were able to increase somewhat the average maturity of CD sales--particularly among banks outside of New York and Chicago. The average maturity of outstandings, however, remained below the April level.

The sharp increase in outstanding CD's since the June tax date reflects both increased bank aggressiveness and a more receptive corporate market. With the expectation of both expanded future credit demands and rising short-term yields, banks have increased their efforts to tap the CD market. Offering rates continued to rise somewhat in July so that despite increases in yields on competing money market instruments, the relative attractiveness of CD's remained high by historical standards. Corporations since the mid-June tax date have been in a better position to take advantage of these rates. Inflows from capital market financing have remained large, and, depsite the increased withholding tax payments, the end of the much larger acceleration in corporate income tax payments has permitted businesses to allocate a greater proportion of their cash inflows to money market assets. In the second quarter, large tax payments limited corporate acquisitions of such assets, and their holdings of CD's declined on balance during that period.

Bank efforts to obtain additional funds and the greater relative rate attractiveness of continental money markets have also contributed to increased Euro-dollar borrowing in recent weeks. After declining by about $1.6 billion from late 1966 till mid-May, borrowing through foreign branches increased about $400 million to the end of June and then $500 million further in July. Since mid-July, Euro-dollar rates have become particularly favorable for domestic banks.

The money stock, on a daily average basis, expanded at almost an 11 per cent annual rate in July, a little below the revised average rate of growth of the money stock at an 11.6 per cent annual rate in May and June. (It should be noted that Appendix A describes the revisions in the money supply series which will not be made public until late August.) However, since mid-July the money stock has declined slightly with the gradual liquidation of Treasury bills by commercial banks and the increased cash receipts of the Treasury. The unusually high rate of growth of the money stock, at an annual rate of over 15 per cent from early May to mid-July, was greatly influenced by the very sharp decline in Treasury balances, although continued rebuilding of private cash balances after the developments in 1966 also contributed to the growth. With the unusually large growth of the money stock since late spring, money balances in July are now 4.6 per cent above the reduced level one year ago.

U.S. Government securities market. Yields on U.S. Government securities have fluctuated over a relatively wide range in recent weeks since mid-July, on balance, they have risen appreciably except in the shorter bill area. Currently, yields on most Treasury obligations due in 1-year or more are at about their highs for the year.

YIELDS ON U. S. GOVERNMENT SECURITIES

(Closing bids)	1967			
	Lows	Highs	July 17	August 8
Bills				
3-months	3.33 (6/23)	4.85 (1/10)	4.17	4.20
6-months	3.71 (5/22)	5.04 (7/24)	4.70	4.81
1-year	3.80 (4/24)	5.22 (7/24)	4.84	5.11
Coupon issues				
3-years	4.27 (4/10)	5.17 (8/7)	5.00	5.15
5-years	4.38 (4/10)	5.36 (7/3)	5.16	5.28
10-years	4.45 (3/20)	5.30 (8/7)	5.09	5.28
20-years	4.44 (1/16)	5.12 (8/7)	4.94	5.10

The recent advance in yields on intermediate and long-term Treasury obligations was interrupted, but only temporarily, by the modest scope of the Treasury's August refunding which was limited to a single 15-month note and did not include an intermediate-term option as had been widely anticipated. The market's response to the refunding did not prove to be very enthusiastic, however, and a relatively high allotment ratio of 35 per cent was set on subscriptions from the public (with subscriptions up to $100,000 allotted in full). The Treasury raised about $265 million of new money in the refunding.

The President's tax message to Congress in early August occasioned a sharp but short-lived rally in bond prices, as market participants appeared to focus on the possibilities that Congressional response to the new tax proposals might be delayed and the tax scaled down. Moreover, the official forecast of a large budget deficit for fiscal 1968 (see below), even with passage of the President's tax recommendations, appeared to exert a cautionary influence on the market. Another factor contributnng to an underlying note of caution in the Treasury market has been the continuing heavy calendar of current and prospective corporate bond flotations.

Against this background, there occurred some investor selling of Treasury notes and bonds, partly on switches into new corporate bond issues and into the new 15-month note of the August refunding. But most of the selling pressure in recent trading sessions has come from a few dealers making efforts to reduce their positions. On balance, the dealers have been sizable net sellers of coupon issues recently, especially of the new 15-month note in which their holdings fell from some $410 million on August 3 to about $240 million on August 7.

Treasury bill rates moved sharply after mid-July under the influence of dealer selling pressure but subsequently receded from their peaks as demand expanded at the higher yield levels. On balance, bill rates have risen most in the 9- to 12-month maturity area and thus the yield spread between short-dated and longer-term bill maturities has widened further. This widening has occurred despite continued $100 million additions to the weekly 3-month bill auctions, as the market has focused on large new supplies of Treasury bills foreseen in the months ahead.

Yields on most short-term market instruments other than Treasury bills have continued to edge higher in recent weeks, as the table shows.

SELECTED SHORT-TERM INTEREST RATES

	1967		
	Low	July 17	August 8
Commercial paper 4-6 months	4.63 (6/26)	4.88	5.00
Finance company paper 30-89 days	4.25 (5/24)	4.75	4.75
Bankers' Acceptances 90 days	4.25 (6/6)	4.50	4.88
Certificates of deposit (prime NYC)			
Most often quoted new issue:			
3-months	4.13 (5/5)	4.75	4.75
6-months	4.13 (4/28)	5.00	5.12
1-year	4.13 (4/14)	5.12	5.20
Secondary market:			
3-months	4.35 (4/28)	5.00	5.05
6-months	4.36 (4/14)	5.20	5.35
Federal Agencies (secondary market)			
3-months	3.82 (5/26)	4.40	4.55*
6-months	4.11 (5/19)	4.85	5.20*
1-year	4.18 (4/7)	5.12	5.20*
Prime 1-year Municipals	2.40 (4/14)	3.25	2.95*

N.B. Latest dates on which low rates occurred are shown in parentheses.

* Rates on August 4.

<u>Treasury finance</u>. Shortly following the August refunding, the Treasury will need to return to the market to raise perhaps $2 to $2-1/2 billion of net new cash. The payment date for this financing will be in late August. Treasury officials have left open the type of issue or issues which might be offered and have not ruled out a new note in the 5 to 7 year maturity range, if market conditions are favorable. Recent legislation redefining Treasury notes to include maturities up to 7 years

would make possible such an issue which would not be subject to the 4-1/4 per cent interest rate ceiling.

The Treasury also indicated that its gross new money needs to be met through issue of direct debt in the second half of this year would total around $15 billion. This compares with $10 billion raised in the second half of last year. Of the $15 billion total, the Treasury has already financed $4 billion through the auction of tax bills in July and currently is raising $100 million each week through additions to the 3-month bill auctions. Another $1/4 billion is being raised in the August refunding.

The $15 billion gross cash borrowing figure for the second half does not include some $2 billion of participation certificates which the Treasury hopes can be marketed, if necessary enabling legislation is secured. Failure to issue any portion of these participation certificates would imply a corresponding increase in other Treasury financing through direct debt. No participation certificates were brought to market in the second half of last year.

The President's Tax Message

A detailed appraisal of President Johnson's tax message will have to await the upcoming Joint Economic Committee Hearings, since the figures the President gave in his August 3 statement were only range estimates concerning the Administrative Budget. Even these range estimates contained a great amount of uncertainty. Depending on whether the tax proposal is passed and whether spending is at the high or low end of its projected range, it appears that the fiscal 1968 Administrative deficit could fall anywhere between $14 and $29 billion.

In the January Budget Document, estimates for the fiscal 1968 Administrative Budget included expenditures of $135 billion and revenues of $127 billion to make a deficit of $8 billion; the revenue estimates included receipts from the original 6 per cent surtax proposal. According to the August 3 message, an estimated $8.5 billion might be added to the expenditures that had been estimated in January. This addition can be attributed to the increased Vietnam commitment ($4 billion), increased nondefense expenditures ($2.5 billion), and the fact that enabling legislation for additional participation certificate sales has not been passed ($2 billion).

An estimated $7.0 billion should be subtracted from the earlier revenue number to reflect the January overestimate. The overestimate is caused by earlier-than-planned restoration of the investment credit ($.8 billion), lower than expected GNP ($1.6 billion), decreased sales of government assets ($.6 billion), a later effective date for the surtax ($.8 billion), and an item of $3.2 billion which appears to be attributed to the fact that an error was made in estimating taxes.

The net effect of these new estimates is to raise the earlier deficit of $8 billion to $23.5 billion. Since this deficit already assumes passage of the original 6 per cent surtax recommendation (worth $5 billion in fiscal 1968), the President's latest 10 per cent surtax proposal (worth $7.5 billion in fiscal 1968) would only reduce the estimated deficit by $2.5 billion to $21 billion. The August message suggests that this deficit could be whittled down further to as low as $14 billion by passing enabling legislation for participation certificates ($2 billion), eliminating part of the expected rise in nondefense spending ($1 billion), and maximizing other expenditure savings ($4 billion).

But just as it is possible to whittle down the expected $21 billion deficit by various devices, it does not take extreme assumptions to go the other way. It has already been noted that the Administrative deficit would be estimated at $23.5 billion if the original surtax bill had been passed, and this deficit would be as high as $29 billion if there were no tax increase at all. Assuming that spending related to Vietnam does not turn out to be lower than now foreseen, the lowest Administrative deficit that might be expected without a tax increase would be in the neighborhood of $22 billion.

The accompanying Table shows FRB estimates of the cash and NIA budgets. In making these estimates, we have assumed the conditions which would give rise to the median Administrative deficit of $21 billion--that is, a 10 per cent tax increase but no savings in expenditures. This appears to be a good median estimate and would also be roughly consistent with a lesser tax increase and some further expenditure savings.

Both the cash and NIA deficits for fiscal 1968 are now estimated at well above the figures projected in January for the current fiscal year. They are also well above the fiscal 1967 figures, with the increase for the cash deficit much the larger. As a result,

VARIOUS FEDERAL BUDGETS
(In billions of dollars)

	1966		1967				Fiscal Year		
							1967	1968	
	III	IV	I	II	III[e]	IV[e]	Actual	Jan.Bud.Doc.	Rev.8-3-67[e]
Quarterly data, unadjusted									
Cash surplus/deficit (-)	- 6.7	- 7.7	1.4	11.3	- 6.0	-12.7	- 1.8	- 4.3	-17.5
Cash receipts	34.6	31.1	38.0	49.8	36.4	31.9	153.5	168.1	163.5
Cash payments	41.3	38.8	36.7	38.6	42.4	44.6	155.3	172.4	181.0
Change in total cash balance	- 4.1	- 2.5	.7	1.2	2.2	- 3.2	- 4.7	--	--
Net cash borrowing (+)	2.4	5.1	- .9	-10.3	8.2	9.5	- 3.8	3.8	17.5
(Pool sales to public) 1/	- .5	--	1.1	1.8	.5	.5	2.9	5.0	3.0
Seasonally adjusted annual rate									
Federal surplus/deficit (-) in national income accounts	- .7	- 3.3	-11.9	-16.6	-12.2	- 6.4	- 7.5	- 2.1	-12.6
Receipts	145.6	148.6	149.1	146.6	154.4	164.6	147.7	167.1	163.1
Expenditures	146.3	151.9	160.9	163.2	166.6	171.0	155.2	169.2	175.7
High employment surplus/ deficit (-) 2/	- .2	- .6	- 8.3	-15.0	-11.4	- 7.0	- 6.0		

e - Staff projections based on President's statement to Congress on August 3, 1967.

1/ Not included in net cash borrowing.
2/ Uses 1966 IVQ as a high employment base.

projected net cash borrowing rises to a quite high level of $17.5 billion for the current fiscal year in contrast with a modest net cash repayment of debt in fiscal 1967.

As was true in the January budget document, the cash deficit is fiscal 1968 is lower than the Administrative because of the exclusion of surplus-prone social insurance trust funds in the Administrative Budget. The NIA budget shows an .even lower deficit primarily because it does not consider the large payments under governmental credit programs as expenditures.

Corporate and municipal bond markets. Yields on new corporate bonds appear to have levelled off somewhat below the highs reached late in June, while municipal yields have continued to decline. The Administration's tax proposal came after the pricing of last week's major issues and is not reflected in the latest yield series, but its impact on yields was small except for a short-lived initial announcement effect. This did stimulate investor interest in the triple A-rated $250 million American Telephone and Telegraph issue, which had been moving quite slowly at its reoffering yield yield of 5.95 per cent; and by weekend the offering was nearly sold out. Similarly, several new municipal issues were accorded increased investor attention, while at the same time dealers removed some bonds from the market for price mark-ups.

BOND YIELDS

(Weekly averages, per cent per annum)

	Corporate Aaa		State and local Government	
	New	Seasoned		
	With call protection		Moody's Aaa	Bond Buyer's (mixed qualities)
1965				
End of July 1/	4.58	4.48	3.16	3.25
Early December 2/	4.79	4.60	3.37	3.50
1966				
Late summer high	5.98*	5.44	4.04	4.24
Weeks ending:				
February 3 3/	--	5.02	3.25	3.40
June 30	5.92*	5.57	3.85	4.06
July 14	5.74*	5.59	3.87	4.05
July 28	5.88	5.59	3.85	3.98
August 4	5.82*	5.59	3.75	3.91

1/ Week prior to President's announcement of increased U.S. involvement in Vietnam.

2/ Week preceding Federal Reserve discount rate increase.

3/ 1967 lows.

* Some issues included carry 10-year call protection.

The dominant factor in the corporate bond market is still the unusually large volume of new issues. Flotations of public bond offerings in July set a new record of approximately $1.86 billion, more than four times the volume a year ago. The volume would have been larger were it not for more than $100 million of issues postponed or cut back in size during July. Total bond and stock offerings, despite postponements and reduced private placements, aggregated more than $2.5 billion, about the same as in June.

Although public bond offerings in August are expected to fall short of the July record, they will rank with the other outsized months this year. Bonds currently scheduled for August total nearly $1.6 billion and offerings may ultimately reach $1.7 billion, about $500 million more than the August record a year earlier. In addition, the World Bank plans to offer $150 million in bonds late in August. Private placements are estimated to continue at the reduced July level, but will be about the same as the takedowns recorded last year.

Looking further ahead, public offerings of corporate bonds in September are likely to total at least $1 billion, below recent months but historically high. Private placements during September are expected to show a more than seasonal increase from current levels, as takedowns increase from the rising volume of forward investment commitments at life insurance companies. In addition, there will be a bunching in September of corporate bonds sold earlier on a delayed delivery basis.

CORPORATE SECURITY OFFERINGS 1/
(Millions of dollars)

	Bonds					
	Public Offerings2/		Private Placements		Total bonds and Stocks	
	1967	1966	1967	1966	1967	1966
1st Quarter	3,263	1,774	1,811	2,586	5,464	5,094
2nd Quarter	4,080p	1,941	1,340p	2,083	6,120p	5,115
3rd Quarter	4,510e	2,256	1,550e	1,627	6,510e	4,197
July	1,860e	440	450e	535	2,510e	1,085
August	1,650e	1,140	450e	435	2,250e	1,712
September	1,000e	676	650e	657	1,750	1,400

1/ Data are gross proceeds.

2/ Includes refundings.

State and local government security offerings in July aggregated about $925 million, the first month this year in which offerings fell below $1 billion. Postponements of more than $225 million in July accounted for the drop in volume from earlier estimates. The volume of offerings in August is estimated at $950 million, but this total may be enlarged if any decline in yields results in postponed issues coming back into the market, or reduced if the Kentucky Turnpike's $120 million issue or other issues are delayed. Municipal issues in September are expected to move back to the $1 billion mark, however, partly for seasonal reasons and also because several large industrial revenue issues are now scheduled for that month.

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

	1967	1966
1st Quarter	4,112	2,964
2nd Quarter	3,687	3,256
June	1,416	1,143
July	925e	702
August	950e	775
September	1,050e	1,032

1/ Data are for principal amounts of new issues.

Mortgage markets. Following two months of delcine, average secondary market prices for FHA and VA home mortgages apparently edged down only a little in July. Near stability in prices is suggested by FNMA and VA field reports showing mixed regional trends, and also by a levelling off between mid-June and late July in weekly offerings of Federally-underwritten home mortgages to FNMA for purchase under its secondary market operations, in contrast with a marked increase over the preceding four weeks. These developments imply that the sensitive official secondary-market yield series for FHA home mortgages may show no more than a minimal increase when the July results are released. In May, this series rose by a 15 basis points, and in June by 7 points; in the preceding five months, it had declined 52 basis points.

The tempo of institutional mortgage activity accelerated in June. Loan closings by thrift institutions, particularly savings and loan associations, increased more than usual. Mortgage commitments outstanding of reporting life insurance companies, savings banks, and savings and loan associations rose further on a seasonally adjusted basis, reaching a combined level more than a fifth above last December's low although still below the record high two years ago.

Sparked by the improved performance in June, total mortgage debt outstanding again expanded more than seasonally during the second quarter, to reach a level exceeding $356 billion. The quarterly increase was highlighted by an upsurge in lending by savings and loan associations, which returned to a dominant position in the residential mortgage market as measured by their share of total growth in outstanding debt.

PERCENTAGE DISTRIBUTION OF INCREASES IN
OUTSTANDING RESIDENTIAL MORTGAGE DEBT

	1966				1967	
	I	II	III	IV	I	II
Total	100	100	100	100	100	100
S & L Assns.	41	37	12	5	21	47
All Other	59	63	88	95	79	53

While net portfolio additions during the second quarter by commercial banks and life insurance companies remained below their unusually high levels a year earlier, acquisitions by mutual savings banks continued upward. Net takings by the Federal National Mortgage Association, which had reached a record high at this time last year, dipped again.

The further increases in total mortgage debt expansion during the second quarter reflected a sharp rise in net additions to home mortgages, stemming from the continued recovery of savings and loan association activity. Altogether, net lending on home mortgages reached the highest seasonally adjusted annual rate since early last year. Multifamily and commercial mortgage debt held at about the improved first quarter rate, and farm debt was unchanged.

INCREASES IN MORTGAGE DEBT OUTSTANDING
(Seasonally adjusted annual rates in billions of dollars)

	Total	1-4 Family	Multifamily & Commercial 1/	Farm 1/
1965 I	25.4	15.8	7.5	2.1
II	25.8	15.6	8.1	2.1
III	26.3	16.4	7.7	2.2
IV	27.0	16.9	7.5	2.6
1966 I p.	27.2	15.4	9.5	2.3
II p.	23.5	13.2	8.2	2.1
III p.	18.3	9.1	6.9	2.2
IV p.	15.4	8.0	5.5	1.9
1967 I p.	16.4	9.0	6.0	1.4
II p.	20.7	13.4	6.0	1.4

1/ Includes estimates for holdings of individuals and others which are excluded in the flow of funds series.

Stock market. Common stock prices advanced to an all-time high early in August, but most recently have dropped back slightly. On August 4, Standard and Poor's index of 500 stocks closed at the record level of 95.83, about 1.3 per cent above the previous peak reached in early May 1966 and more than 8 per cent above the June 5 low. Stocks listed on the American Stock Exchange reached new highs on August 7, with the Administration's tax message temporarily interrupting the almost continuous price rise since July.

Trading activity has continued at an unprecendented pace. The volume of New York Stock Exchange trading averaged 10.8 million shares a day in July. And in the week ending August 4, volume averaged more than 12.1 million shares a day. During that week, the fourth and fifth most active share days in the history of the NYSE were recorded; 5 of the 10 most active share days on record have now occurred in 1967.

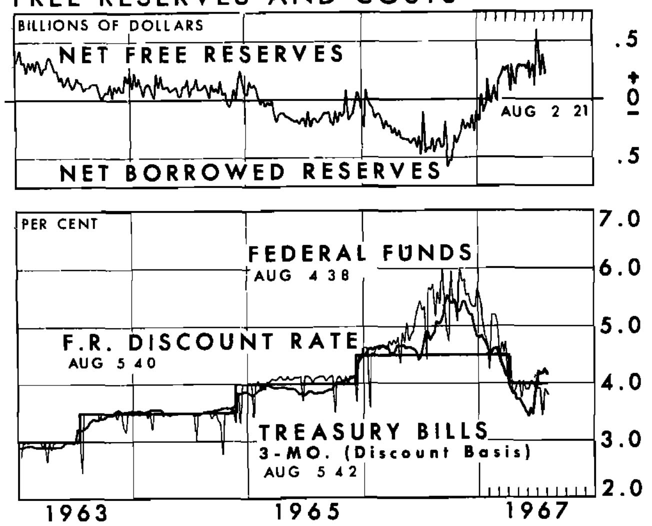
Trading on the American Stock Exchange also continued in record volume, and as a proportion of NYSE volume, remained near that registered at the April 1966 speculative peak.

Speculative activity, noted in the last Greenbook, does not appear to have abated. Low-priced common stocks appear to be the center of this activity, as indicated by the marked volatility of these issues and their frequent appearance on the most actively traded list. In order to curb unwarranted activity in various stocks, the American Stock Exchange has currently imposed 100 per cent initial margin requirements on 28 issues--with 5 of the group places on the restriced list August 3.

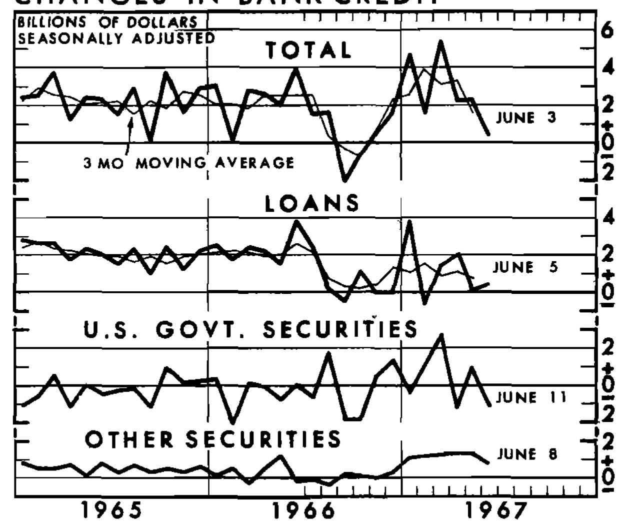
Margin panel data for June indicate margin customers were quite active. Customers' margin debt during June advanced $190 million to a new peak of $5,330 million. Most of the increase in margin debt, however, was incurred by customers with relatively strong equity positions. Since the end of last year, customers' margin debt has risen $420 million, or 8.6 per cent.

FINANCIAL DEVELOPMENTS - UNITED STATES

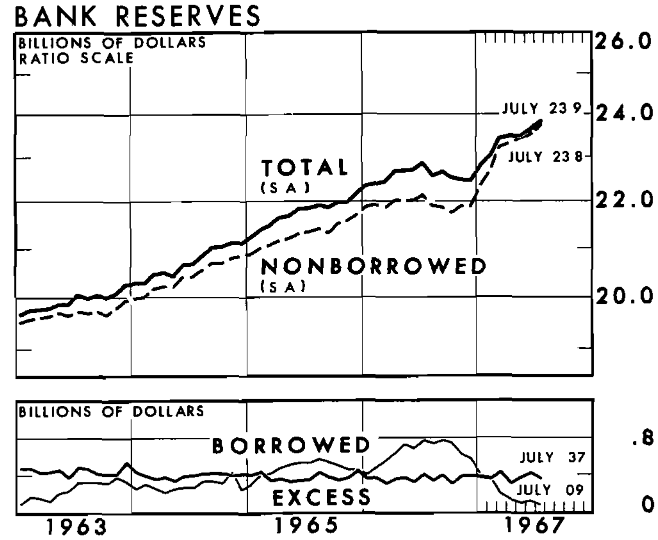
FREE RESERVES AND COSTS



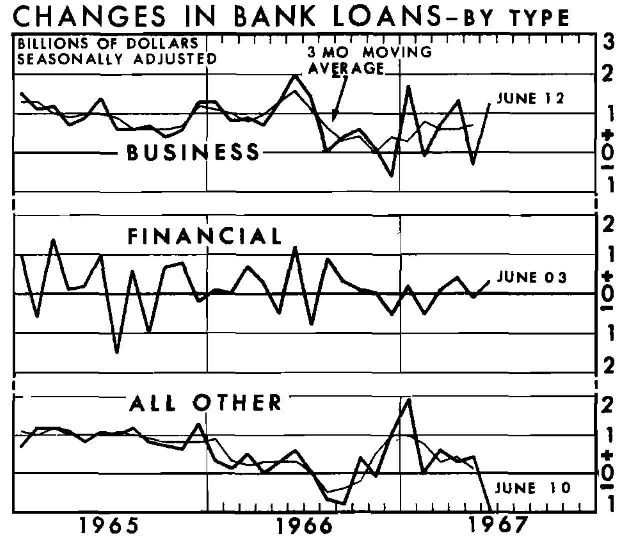
CHANGES IN BANK CREDIT



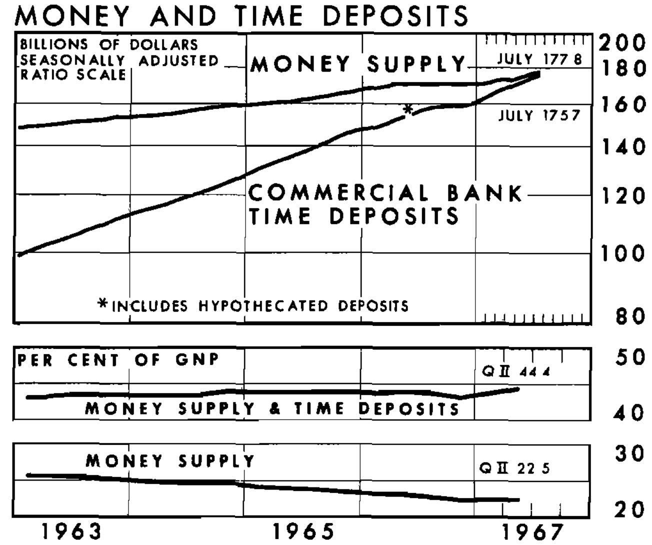
BANK RESERVES



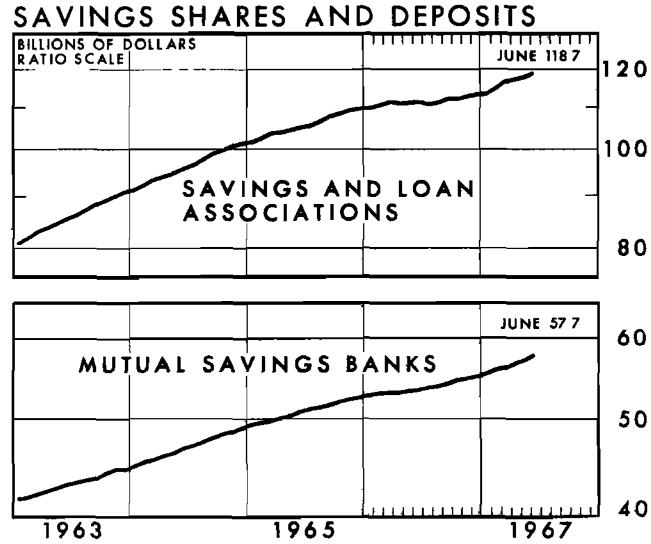
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

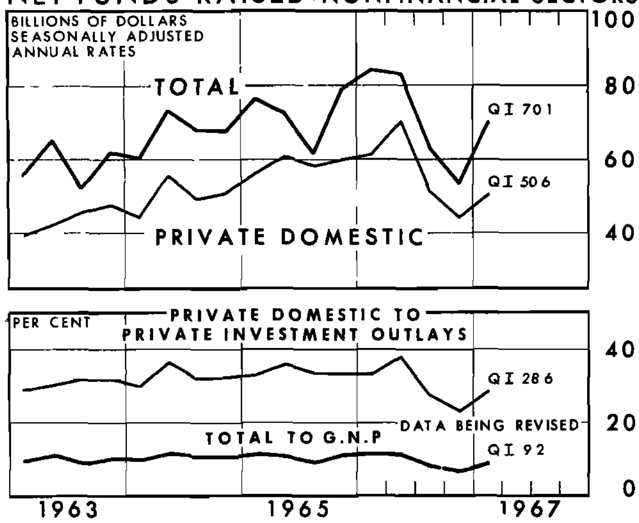


SAVINGS SHARES AND DEPOSITS

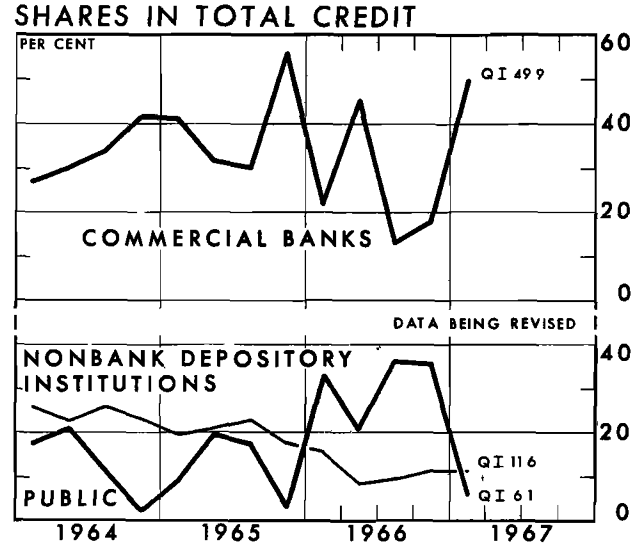


FINANCIAL DEVELOPMENTS - UNITED STATES

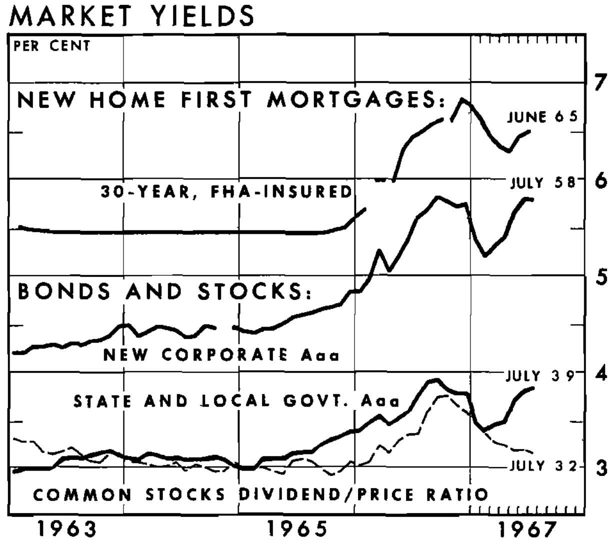
NET FUNDS RAISED-NONFINANCIAL SECTORS



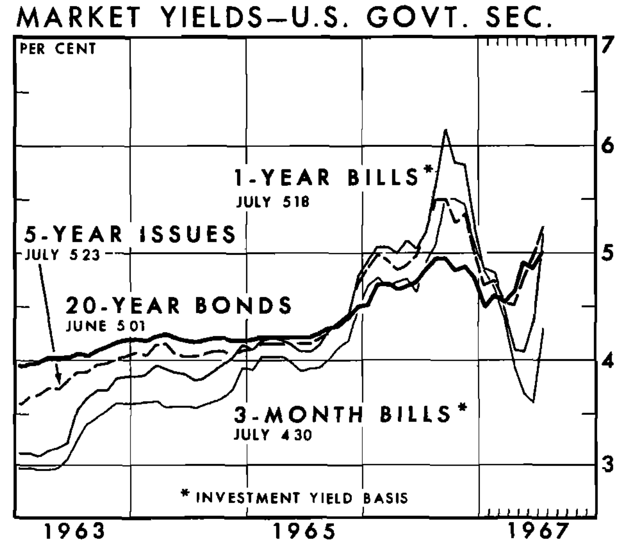
SHARES IN TOTAL CREDIT



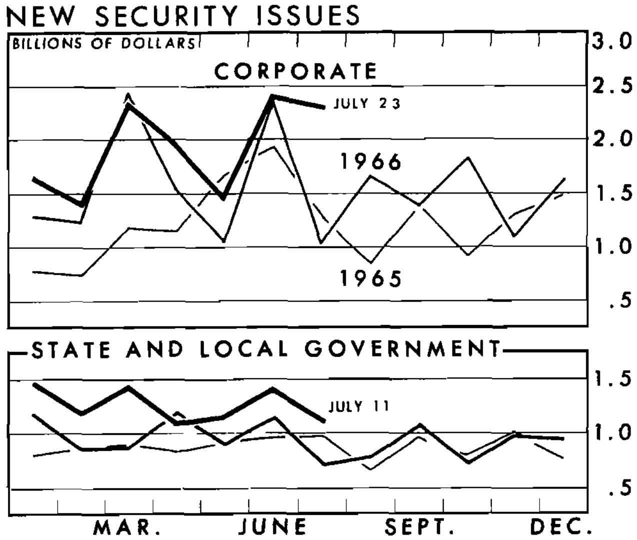
MARKET YIELDS



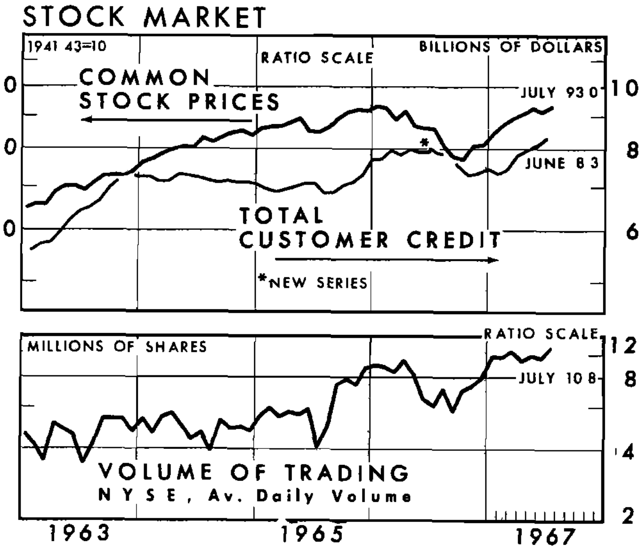
MARKET YIELDS—U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. The second quarter deficit on the liquidity basis was $560 million, somewhat above earlier estimates as a result of a revised seasonal adjustment. The deficit was held down to the level of the first quarter by exceptionally heavy receipts on special transactions. These transactions, which totaled about $300 million in the first quarter, amounted to about $700 million in the second. At present there is no indication of which items were responsible for the deterioration in other transactions in the second quarter: known transactions show a modest improvement between the first and second quarters in the balance on merchandise trade and on securities transactions, but these were about offset by a shift from a net inflow to an outflow of bank credit.

Merchandise trade. The merchandise surplus in June declined from May as the increase in imports exceeded that for exports. The surplus for the second quarter, however, was at an annual rate of $4.5 billion (balance of payments basis) compared with $4.0 billion in the first quarter. Exports in the second quarter, at an annual rate of $30.7 billion (balance of payments basis), were about the same as in the first quarter, while second-quarter imports declined to an annual rate of $26.3 billion.

The drop in imports was less than might have been expected as a result of the sluggishness of the domestic economy. The ratio of imports to GNP is still relatively high, about 3.4 per cent in the second quarter. This high ratio reflects in considerable part accelerated imports of automobiles, especially from Canada, although other imports have also remained high relative to domestic output.

The trade patterns for the entire second quarter differ little from those in April-May, discussed in the last Green Book.

Exports of agricultural products increased only slightly from the low level of the first quarter, while non-agricultural exports were steady. New export orders for machinery, which showed little movement in the first five months of this year, turned up sharply in June (perhaps in part seasonally), and unfilled orders rose, after having drifted downward earlier this year.

The area distribution of exports changed in the second quarter as exports to Western Europe and Japan expanded to offset sizeable declines in shipments to Latin America and Asia. Much of the increased shipments to Western Europe consisted of aircraft and machinery. The continued growth in deliveries of automobiles to Canada under the U.S.-Canadian automotive trade agreement has maintained total exports to that country at the first quarter rate.

In general, rising imports of automobiles have been a major factor in sustaining total imports at relatively high levels. As indicated by the following table, imports of automobiles and parts from Canada have accelerated, and our export balance in such trade has decreased sharply since inception of the Automobile Agreement in the fourth quarter of 1965. Our balance of trade in automobiles and parts with other countries has also deteriorated over the past two years, as non-Canadian imports have risen sharply.

U.S. FOREIGN TRADE IN AUTOMOTIVE VEHICLES AND PARTS
(millions of dollars, not seasonally adjusted)

	Exports			Imports			Balance of Trade		
	Total	to Canada	to all other	Total	from Canada	from all other	Total	with Canada	with all other
1965									
1st half	907	370	537	414	76	338	493	294	199
2nd half	960	429	531	503	163	340	458	266	191
1966									
1st half	1,065	551	514	865	367	498	201	183	16
2nd half	1,192	683	509	1,031	548	483	161	136	26
1967									
1st half	1,344	836	508	1,294	774	520	50	62	-12
(QI)	(646)	(394)	(252)	(644)	(355)	(289)	(2)	(39)	(-37)
(QII)	(698)	(442)	(256)	(650)	(419)	(231)	(48)	(23)	(25)

Note: The U.S.-Canadian automotive agreement became effective in the fourth quarter of 1965.
Figures may not add due to rounding.

These imports in the first half of 1967 were up 4 per cent from year-ago levels, and more than 50 per cent from the first half of 1965. Consequently net U.S. exports of nearly $400 million in calendar 1965 have been transformed into a small net import balance in the first half of 1967.

Imports of all major commodity categories except autos and steel declined in the second quarter (see table below). Imports of industrial materials, particularly nonferrous metals, continued the downturn that began in the fourth quarter of last year. The 10 per cent drop in the price of imported copper from the first to the second quarter also contributed to this decline. Iron and steel imports, however, recovered from the first quarter low to about the high level of the second half of 1966.

Purchases of imported capital equipment fell as the pace of domestic investment outlays slowed. The long-term growth in imports of nonfood consumer goods (excluding passenger cars) was also arrested in the second quarter.

U.S. MERCHANDISE IMPORTS BY PRINCIPAL COMMODITY CATEGORIES
(millions of dollars, seasonally adjusted)

	1966				1967	
	QI	QII	QIII	QIV	QI	QII 1/
Total 2/	6,020	6,307	6,618	6,685	6,684	6,571
Foods, feeds, and beverages	1,123	1,131	1,135	1,129	1,189	1,110
Industrial supplies and materials	2,880	3,029	3,128	3,070	3,028	2,888
Iron and steel products	264	325	372	364	313	365
Other metals and metal ores	662	700	743	798	774	683
Other	1,954	2,004	2,013	1,908	1,941	1,840
Capital goods	458	506	578	623	602	572
Machinery	412	454	518	569	566	542
Civilian aircraft	32	39	45	37	17	30
Automotive vehicles and parts	400	415	517	578	577	638
Consumer goods	942	965	994	1,005	1,055	1,041
All other	217	261	266	280	233	322

1/ Preliminary and subject to revision.
2/ Merchandise imports, Census basis.

<u>Bank credit</u>. The shift from a modest drop (adjusted) in bank-reported claims in the first quarter to an increase of more than $100 million in the second reflected very heavy use by Japan of U.S. acceptance credits. For the quarter, net extensions of short-term bank loans and acceptance credits to Japan amounted to $230 million (unadj.), a rate matched in the past only during peak periods of Japanese borrowing. In addition, there were moderate net outflows of such credits to LDC's in Asia and Latin America, but net outflows to other developed countries were negligible.

Partly offsetting these extensions of short-term credits were further net repayments of outstanding term loans by industrial countries. (Recent data on new long-term loan commitments by U.S. banks suggests that repayments and amortizations may continue to exceed gross disbursements on new long-term credits in coming months.) In June, outstanding term loans in portfolios of U.S. banks were reduced by $140 million as a result of sales to foreign affiliates, in part under repurchase agreements.

Securities transactions. Foreign transactions in U.S. corporate stocks resulted in an unusually large inflow of $140 million in the second quarter, nearly half of which came in June. This reflected a drop in net liquidations of U.K. holdings, and net purchases of nearly $150 million by other countries (including nearly $90 million from Canada) compared to about $50 million in the first quarter.

The net outflow on new foreign bond issues rose in the second quarter, reflecting a continued high rate of borrowing by Canada, and increases in offerings by the IBRD and Israel. For the first half, sales of new foreign bonds in the U.S. market amounted to more than $700 million, compared to $1.2 billion per year in 1965 and 1966.

New issues by Canada, Israel and international organizations have accounted for almost all U.S. outflow on new security issues this year. Some countries which in previous years concentrated their borrowings in the U.S. market, including Mexico whose borrowings are not subject to the IET, appear to have shifted much or all of their borrowing to the Euro-bond market. About $1 billion of new issues was offered in the Euro-bond market in the first half of 1967, up about 50 per cent from the first half of last year. The sharpest growth was in issues by European borrowers (including $80 million of issues by France), which accounted for more than half of the total; affiliates of U.S. companies borrowed somewhat less than in the first half of 1966, while other non-European issues rose substantially.

Despite the large volume of Euro-bond issues this year, borrowing costs appear to have risen less than rates in the United States, and for at least some foreign borrowers costs of issues abroad are probably closely competitive with what would have to be paid in this country (excluding the IET.)

Official reserve transactions. On the basis of official reserve transactions, the payments position was in deficit by $880 million (seasonally adjusted) in the second quarter, following a deficit of $1.8 billion in the first. After April the geographical counterparts to the U.S. deficit shifted as the heavy inflows into sterling halted and the pound came under pressure. Reflecting shifts by foreigners out of sterling and D-marks into Euro-dollar investments, the (unadjusted) U.S. balance on official settlements improved rapidly after April, and in June it was in surplus. The appearance of a sizable counterpart to our second quarter deficit in the reserve gains of Western Europe after April reflected in part seasonal flows into some countries as well as shifts of private funds from sterling and purchases of foreign currencies by the U.K. for use in repaying part of its IMF drawing. In the second quarter, the U.S. deficit continued to have a substantial counterpart in reserve gains by Latin America and Asia. Additional details on reserve changes appear in the following section.

CONFIDENTIAL

U.S. OFFICIAL RESERVE TRANSACTIONS1/
(Millions of dollars, not seasonally adjusted)

	1966	1967		Memorandum: reported changes in foreign reserves 2/ 1967	
		Q-1	Q-2	Q-1	Q-2
U.K.	-1,165	+1,020	-490	+159	-425
Other W. Europe	+190a/	+20a/	+774a/	-700b/	+300b/
Canada	-570	-60	-68	-8	-51
Latin America	-200	+90	+253	+30	+290
Asia	+670	+140	+196	+160	+250
Other countries	+130	+70	+16	+160	-180
IMF and unallocated	+720	--	+18		
	-225	+1,280	+700	-200	+180
U.S. payments balance	+225	-1,280	-700		

1/ Increases in U.S. liabilities to foreign official accounts (not including foreign holdings of U.S. securities other than Treasury securities), less U.S. acquisitions of gold and other reserve assets.
2/ From IMF International Finance Statistics; for 1967 Q-2 still incomplete.
a/ Includes B.I.S.
b/ Excludes B.I.S.

Note: Reported changes in foreign countries' gross reserves may differ from data on U.S. net liabilities because of short-term assistance (United Kingdom), gold transactions not involving the United States, and changes in other reserve assets that are not liabilities of the United States (sterling, Euro-dollars, etc.).

Payments balances of other countries

Outside the United States, the main balance of payments developments in recent months have been the renewed deterioration in the position of the United Kingdom; continuation of Continental European surpluses, concentrated mainly in Germany; and some worsening in the payments position of Japan. Large short-term dollar placements abroad by German commercial banks have prevented the emergence of official German reserve gains. Similarly, heavy foreign borrowing by Japanese banks has prevented Japanese reserves from declining much. There has been a marked leveling off in world trade, with uneven effects among individual countries.

In the United Kingdom, there was a sharp reversal from large official reserve gains (adjusted for repayment of short-term assistance) in the first quarter to losses (similarly adjusted) in the second quarter. A further reserve loss of $42 million was announced for July, and the market assumes that there would have been a much larger loss if Britain had not received assistance from foreign central banks.

A large part of the shift from earlier reserve gains to recent losses has reflected changes in short-term capital flows which have resulted both from changing interest-rate differentials and from changing market attitudes towards sterling prospects. But in addition, the basic balance on current and long-term capital account has deteriorated. This balance had been in surplus during the fourth quarter of 1966 and the first quarter of 1967 but is thought to have reverted to deficit since then. The merchandise trade deficit, seasonally adjusted, increased from $53 million in the first quarter to over $280 million in the second, as imports increased unexpectedly--despite an absence of recovery in domestic activity--while exports declined, reflecting reduced demand from Continental Europe and the United States. The high level of imports has raised new questions about the competitiveness of British goods at present exchange rates. In June, the Middle Eastern crisis and the closing of the Suez Canal created additional difficulties for the United Kingdom by increasing the cost of oil imports and shipping, hampering exports, and stimulating shifts of funds out of sterling. Most analysts now assume that Britain can not achieve a significant basic payments surplus this year as had earlier been hoped.

Continental European countries as a group continued to run a substantial payments surplus during the first half of 1967, and also in July. It will be seen from the table that the combined surpluses of Common Market (EEC) countries, as measured by changes in net official reserves plus net external assets of commercial banks, increased substantially from less than $400 million in the second half of 1966 to around $1 billion in the first half of 1967. (Seasonal adjustments would change the pattern for Italy and France, but would not greatly change the totals.)

Changes in Reserves, Half-Yearly, 1966-67
(In millions of U.S. dollars)

Country or area	Net official reserves (including IMF accounts) 1967 1st half	1966 2nd half	1966 1st half	Net official reserves plus commercial bank net external assets 1967 1st half	1966 2nd half	1966 1st half
Belgium	+96	+30	+6	+154a/	-82	-28
France	+15	-61	+447	+163a/	-205	+548
Germany	-115	+478	-127	+954	+229	+219
Italy	+50	+140	+30	-127a/	+301	+257
Netherlands	+35	+117	-75	-98a/	+142	-179
Total EEC	+81	+704	+281	+1,046a/	+385	+817
Sweden	-17	-17	+73	+57	+62	+33
Switzerland	-163	+317	-332	n.a.	n.a.	n.a.
Canada	-91	-42	-238	-390a/	+256	-109
Japan	-3	-46	-17	-474a/	+285	+37
Total nine countries	-193	+916	-233	n.a.	n.a.	n.a.
(excl. Switzerland)	(-30)	(+599)	(+99)	(+239)	(+988)	(+778)
Other developed countries (excl. U.S. and U.K.)	-493b/	+190	+39			
Austral.,S.Afr.,N.Z.	-160	-138	+373			
Austria	+53	+62	-40			
Spain	-216	+13	-217			
Other Europe	-170b/	+253	-77			
Less developed countries	+890b/	+18	+531			
Latin America	+353b/	+11	-71			
Middle East	+151b/	+79	+98			
Asia	+281b/	-1	+332			
Africa	+99b/	-82	+138			

n.a. Not available.

a/ Excludes changes during June 1967 in commercial bank positions of Belgium, France, Italy, Netherlands, Canada, and Japan.

b/ Partly estimated.

Source: Confidential B.I.S. tables for first nine countries; I.M.F. publications for others.

The surplus has been concentrated in Germany. This concentration reflects the German recession, which has greatly depressed German imports and consequently its partner countries' exports. Recently, the decline in German imports has leveled off, but meanwhile the effects of the earlier decline on other countries has come full circle to produce a leveling off also in German exports. Hence, the trade balance remained at a record $4-1/2 billion annual rate in the second quarter.

The German payments surplus has not been reflected in any substantial addition to official reserves. Instead, a large volume of funds has been placed abroad by German commercial banks (and German businesses have repaid earlier foreign borrowings) as German short-term interest rates have been below those in foreign centers. In July, the Bundesbank attempted to limit such outflows by increasing the exchange risk, so that more of the effect of domestic credit easing could be felt at home; the exchange rate was allowed to decline and the spread between the Bank's buying and selling rate was substantially widened.

The payments positions of France and Italy no longer show the substantial surpluses of a year ago. But after seasonal adjustment, both are probably still somewhat in surplus, despite the dampening effect of the German recession. French policy has deliberately sought to avoid a deficit, by maintaining interest rates high relative to other European countries despite a domestic slowdown, and by substantial borrowing in the Euro-dollar bond market on the part of French nationalized industries. French reserves increased by $41 million in July. In Italy, unlike France, domestic activity has continued to expand vigorously, but the payments balance has been sustained by a surprisingly strong and continuing advance in total exports.

For both Belgium and the Netherlands, the payments position is stronger than a year ago. Recession in other countries has hurt exports, but imports have leveled off in the Netherlands and declined in Belgium as domestic demand has softened.

Swiss official reserves declined much less than seasonally during the first half of 1967; massive inflows of funds occurred during late May and early June as war clouds gathered and broke in the Middle East. On July 10, the Swiss National Bank reduced its discount rate from 3-1/2 to 3 per cent, partly in an effort to reduce the attractiveness to foreigners of investment in Switzerland. While the inflows subsided after early June, there has so far been no indication of any significant outflow, and perhaps none should be expected while uncertainties about sterling and about the Middle East persist.

Elsewhere in Europe, Spain has continued to lose reserves rapidly, and some other countries have had moderate deficits.

Outside Europe, the payments position of Japan has weakened as exports have leveled off while imports have continued to advance in line with the domestic expansion. Substantial reserve losses have so far been avoided. Instead, the commercial banks, which were repaying foreign debt last year, have this year been borrowing substantial sums, mainly in the United States. The growing danger of a further payments deterioration and of the emergence of excessive domestic demand pressures is beginning to tilt monetary policy in the direction of restraint.

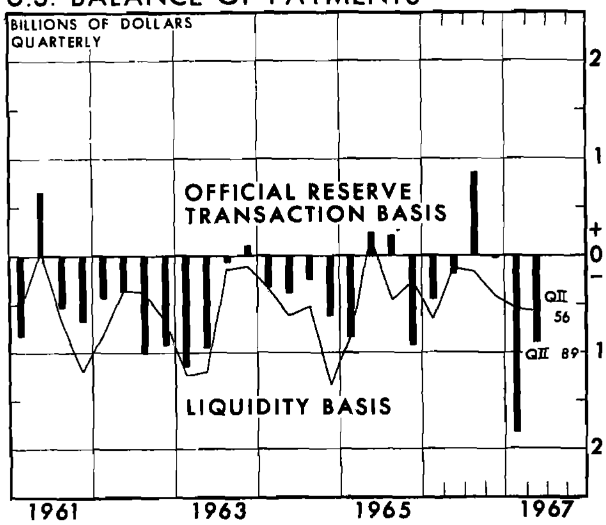
Canadian reserves have declined further this year, but this has been partly the result of deliberate Canadian policy, in line with the agreement with the United States to avoid reserve increases. Inflows of long-term capital have continued large, though not as large as in early 1966 when there was a surge of new Canadian issues in New York that had been held over from 1965.

The reserves of less developed countries as a group continued to increase rapidly during the first half of 1967. Most of the increase for Latin America accrued to Argentina in the wake of its March devaluation and as a result of borrowing from U.S. and foreign banks. Oil producing countries in the Middle East and Africa continued to gain reserves through mid-year, and so did a number of countries in Asia.

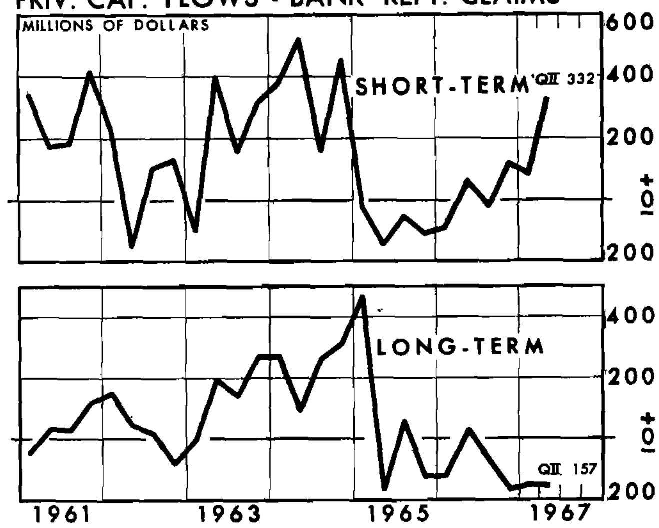
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

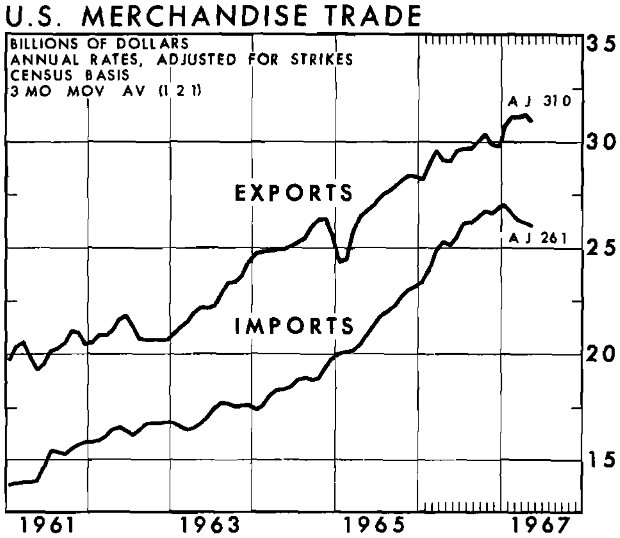
U.S. BALANCE OF PAYMENTS



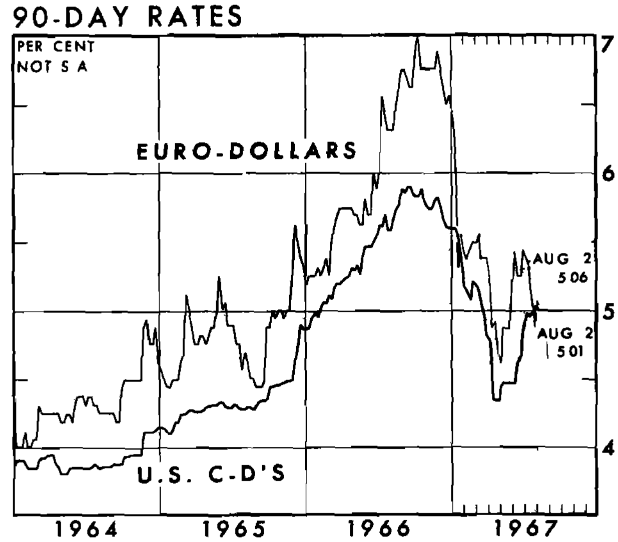
PRIV. CAP. FLOWS - BANK REPT. CLAIMS



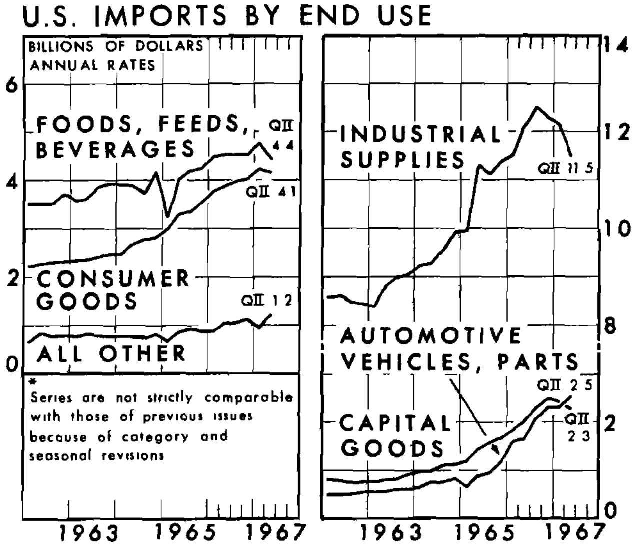
U.S. MERCHANDISE TRADE



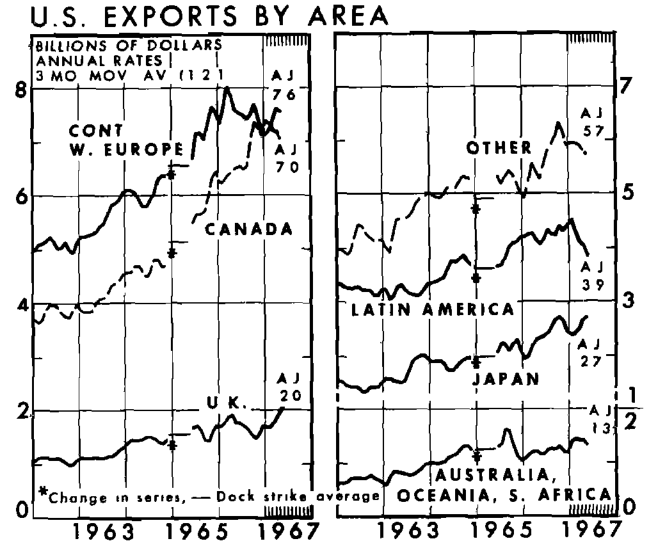
90-DAY RATES



U.S. IMPORTS BY END USE



U.S. EXPORTS BY AREA



APPENDIX A: REVISIONS IN THE MONEY SUPPLY, TIME DEPOSIT, MEMBER BANK RESERVE AND CREDIT PROXY SERIES*

The daily average money supply and all commercial bank time deposits series (both weekly and monthly) have been revised to reflect call report benchmark adjustments and changes in seasonal factors. These revisions will be released in the August Bulletin. Seasonal factors for member bank reserves and deposits also have been adjusted to reflect the availability of one year of additional data since the last review. Also, the reserve aggregates series (total, required and nonborrowed reserves) have been revised back to 1947 so as to make the level of the series consistant with the reduction of required reserves against savings deposits, and other time deposits under $5 million, effective last March. 1/ Other than the reserve aggregate series, the revisions do not go back before 1964 although some minor adjustments were made in a few seasonal factors back to 1960. The former and new seasonal factors for 1966 and 1967 for credit proxy, money supply and nonborrowed reserves are shown in Table I. Seasonally adjusted and not seasonally adjusted data on a revised basis for the various series are shown in the attached tables.

Table II which shows annual rates of change for both the former and revised series provides a comparison of the effects of the revision.

Credit Proxy

As shown in Table II the revision of the credit proxy monthly seasonal factors had no effect on the annual and semiannual growth rates, but the quarterly pattern in the last half of 1966 was revised slightly. On the new basis the credit proxy shows a faster rate of growth in the third quarter of 1966 than the old series.

The former and revised seasonally adjusted weekly credit proxy series are shown in Chart I. The changes shown are associated mainly with new patterns of financial flows as corporations adjust to accelerated corporate tax payments and withholdings of employee taxes. As the chart shows, the month most affected by the revision was April. The seasonally adjusted level of the credit proxy was reduced by about $700 million in April 1966 and $800 million in 1967. July also showed decreases but they were smaller, about $300 million. Offsetting these reductions were revisions in the seasonal factors which raised the level of the credit proxy by about $300 million in each of the months of February, August, September, and November.

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* Prepared by Edward R. Fry and Darwin L. Beck, Banking Section, Division of Research and Statistics.

1/ See Federal Reserve Bulletin, March 1967, p.388, for detailed statement on this reserve requirement change.

TABLE I
FORMER AND REVISED SEASONAL FACTORS FOR CREDIT PROXY, MONEY SUPPLY DEMAND DEPOSITS AND NONBORROWED RESERVES

	Credit Proxy		Money Supply: Demand Deposit Component		Nonborrowed Reserves	
	Former	Revised	Former	Revised	Former	Revised
1966--Jan.	101.3	101.3	103.9	103.9	102.3	102.3
Feb.	99.8	99.7	100.0	99.8	99.3	99.3
Mar.	99.7	99.7	99.2	99.2	99.1	99.1
Apr.	99.8	100.1	100.8	101.0	99.6	99.6
May	99.7	99.7	97.7	97.6	99.0	99.0
June	99.9	99.9	98.3	98.6	99.6	99.6
July	100.2	100.3	98.6	98.4	100.0	100.0
Aug.	99.2	99.1	97.9	97.6	98.6	98.6
Sept.	99.7	99.6	99.2	99.4	99.7	99.7
Oct.	100.0	100.0	100.3	100.2	100.3	100.3
Nov.	99.8	99.6	101.0	100.7	100.0	100.0
Dec.	101.1	101.1	103.1	103.5	102.7	102.7
1967--Jan.	101.3	101.3	103.9	103.8	102.3	102.3
Feb.	99.8	99.7	100.0	99.6	99.3	99.3
Mar.	99.7	99.7	99.2	99.4	99.1	99.1
Apr.	99.8	100.1	101.0	101.0	99.6	99.6
May	99.7	99.7	97.6	97.7	99.0	99.0
June	99.9	99.9	98.5	98.7	99.6	99.6
July	100.2	100.3	98.5	98.4	100.0	100.0

Table II
COMPARISON OF FORMER AND REVISED SERIES
(Seasonally adjusted, annual rates of change, in per cent)

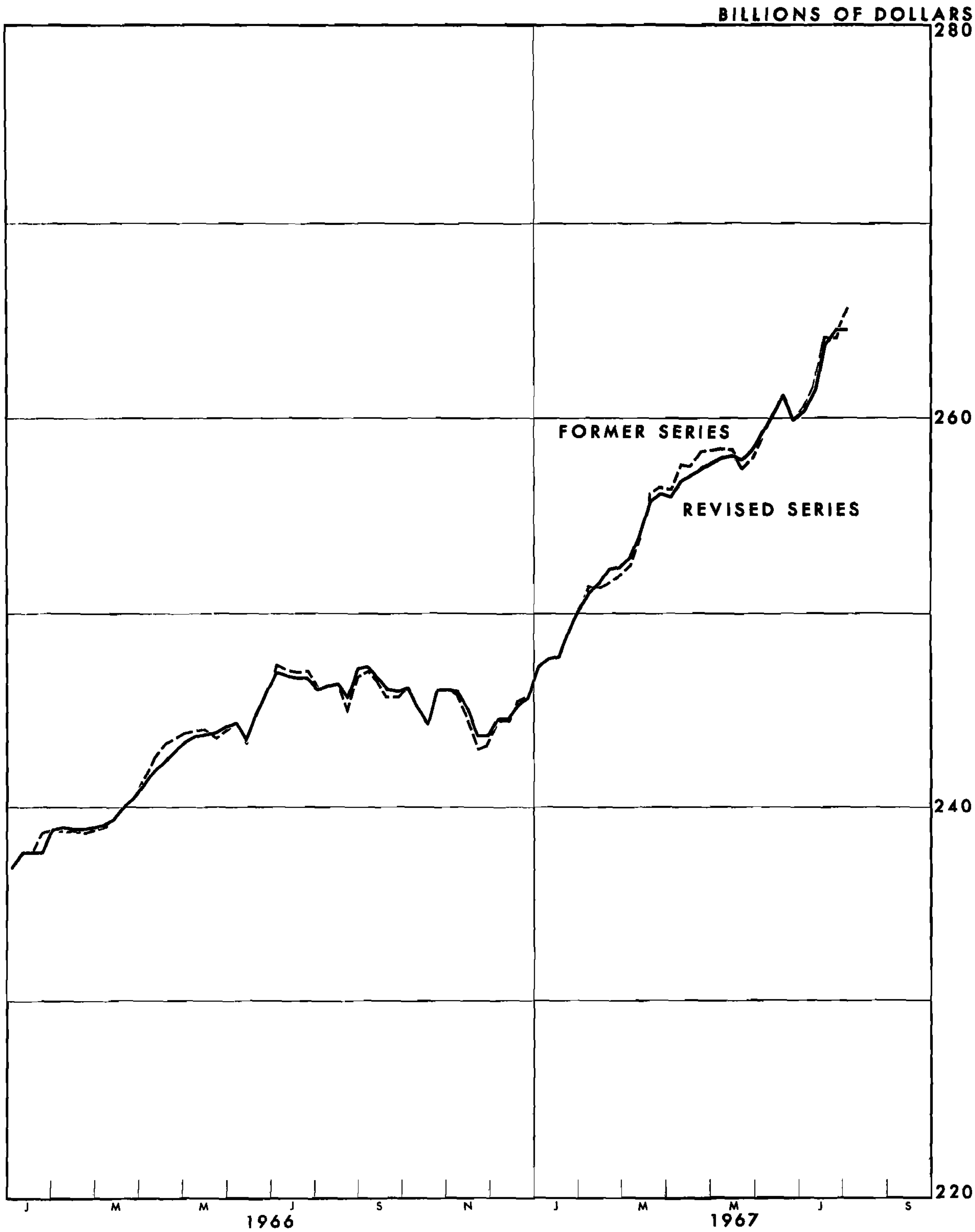
Period	Credit Proxy		Money Supply		Time Deposits		Nonborrowed Reserves	
	Former series	Revised series	Former series	Revised series	Former series	Revised series	Former series	Revised series
Semiannual								
1965 1st Half	10.2	10.2	2.5	3.0	15.2	15.2	4.6	4.5
2nd Half	7.6	7.6	6.8	6.3	15.7	15.7	4.0	3.9
1966 1st Half	7.1	7.1	4.7	4.6	10.3	10.8	3.0	2.8
2nd Half	0.3	0.3	-0.9	-0.2	6.1	6.5	-1.5	-1.3
1967 1st Half	12.2	12.2	6.7	6.8	17.1	17.3	14.8	15.0
Quarterly								
1966 I	5.8	5.8	5.0	5.8	7.1	7.9	2.6	2.8
II	8.3	8.3	4.3	3.3	13.4	13.4	3.4	2.0
III	2.1	2.6	-1.4	-0.2	9.6	9.8	-2.8	-3.0
IV	-1.5	-1.9	-0.5	-0.2	2.5	3.0	-0.1	0.4
1967 I	15.7	15.7	5.9	6.3	18.1	18.5	24.5	24.8
II	8.3	8.3	7.4	7.2	15.4	15.3	4.7	4.9

Chart I

8/8/67

MEMBER BANK DEPOSITS (Credit Proxy)

SEASONALLY ADJUSTED WEEKLY AVERAGES OF DAILY FIGURES



Money Supply

The principal effects of revision of the money supply series are to smooth the monthly and weekly fluctuations in the seasonally adjusted data somewhat and after 1965, to increase the average level. The effects of changes in seasonal factors are most noticeable in the weekly money supply series during the past year, as may be seen from Chart II. In general, the seasonally adjusted money supply has been lowered in the months when corporate income tax payments are due and the level has been raised in months surrounding these tax payments. Benchmark adjustments reduced the estimated level of nonmember bank demand deposits in the first half of 1966 and 1967. However, these reductions were more than offset by the increase in nonmember deposits in the last half of 1966.

Net, the effects of the benchmark and seasonal revisions increased the overall money supply growth rate in 1966, with little change in the first half and a smaller decline shown in the last half. The first half of 1967 shows about the same rate of growth as on the old basis.

Also shown in Chart II are the weekly seasonally adjusted demand deposit component of the money supply and U.S. Government demand deposits of member banks on the former and revised basis. As has been noted before, there is a strong inverse relationship between U.S. Government demand deposits and private demand deposits. The revision of seasonal factors tended to reduce some of the irregularity of both series. Thus, the new seasonal factors have attempted to catch some of the changing seasonal pattern which are associated with the changing tax payment patterns. Some of these tax payments are now shifted completely to the new schedule, while others will c ntinue to change for at least another year. However, the seasonal estimated from actual changes in the series during the period of acceleration of corporate tax payments may not be representative of the seasonal patterns that will apply when the acceleration phase is passed.

Time Deposits

Benchmark data for time deposits reveal that nonmember time deposits have been growing at a somewhat faster rate than estimated earlier. The difference between nonmember time deposits based on the new benchmark data was about $700 million in June 1967. Thus, the June 1967 level of all commercial time deposits was raised by this amount and comparable revisions, estimated by interpolation, were made for each month back to December 1965.

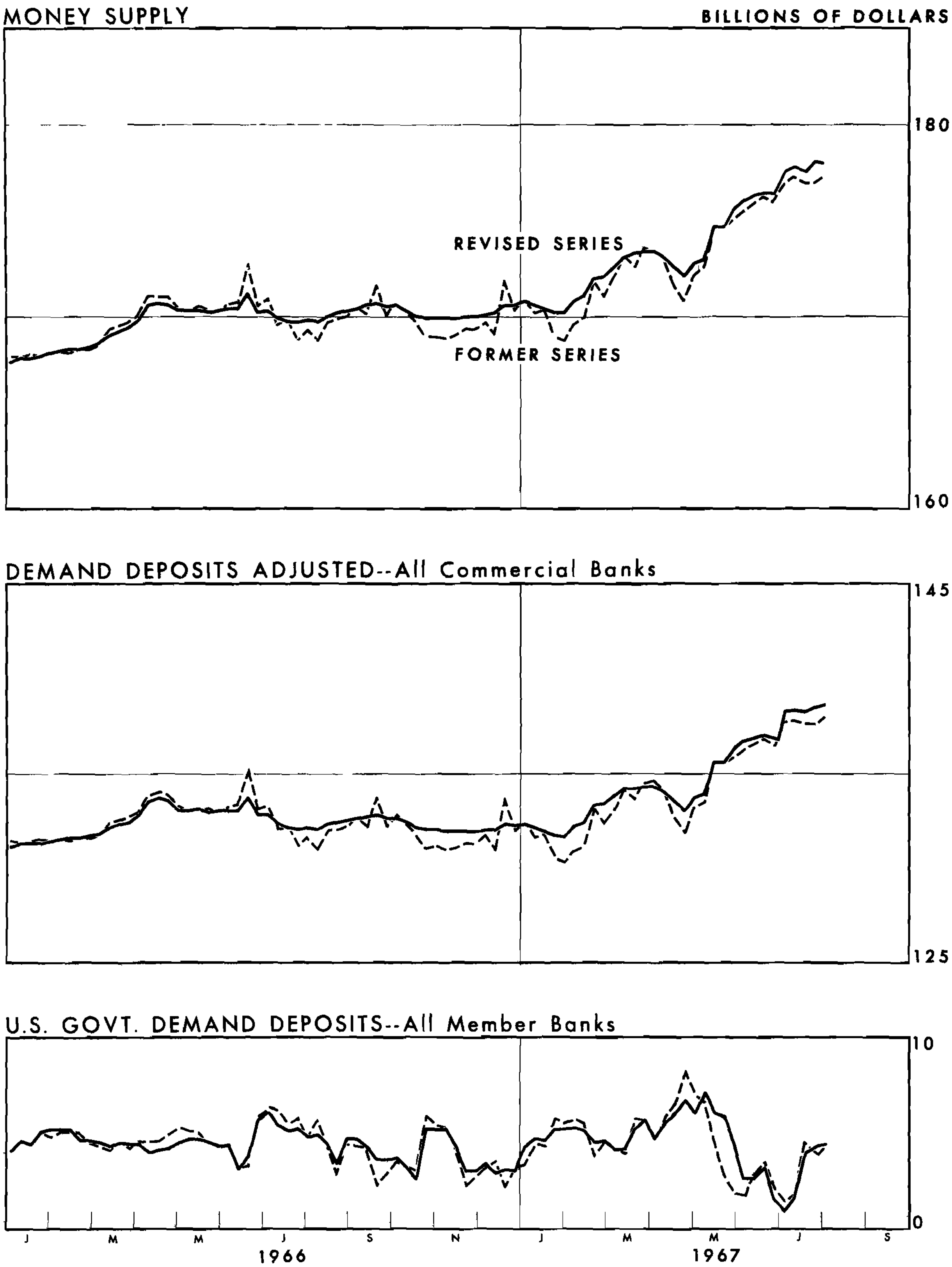
A—6

Chart II

8/8/67

MONEY SUPPLY AND BANK DEPOSITS

SEASONALLY ADJUSTED WEEKLY AVERAGES OF DAILY FIGURES



While some of the monthly seasonal factors were changed, the effects of these were minor. The seasonal factors for March, April, May, and October were reduced slightly while January, February, August, and September factors were raised. The net effect of the revisions was to raise the annual rate of growth of time deposits in 1966 from 8.4 per cent to 8.8 per cent, with about equal increases in the first and second half of the year. For the first half of 1967, the rate of growth was a little more than 17 per cent, about the same as estimated earlier.

Reserve Aggregates

Data on total reserves, required reserves, and nonborrowed reserves have been revised to reflect the change in required reserves held against time deposits announced by the Board in March of this year. Thus, the new reserve aggregates series reflect percentage reserve requirements effective since March 1967. The effect of this adjustment was to reduce the seasonally unadjusted level of each series by about $850 million in March 1967. Data for months prior to March also have been adjusted to reflect these new requirements in order to eliminate the effects of changes in percentage requirements from the series.

Nonborrowed reserves are shown in Table II, as an example of the effects of the revisions of seasonal factors on the reserve aggregate series. As the table shows, the revisions in nonborrowed reserve seasonal factors were minor and had little effect on annual rates of change. In general, the other reserve aggregate series show the same patterns as nonborrowed reserves.

August 8, 1967.

TABLE III

TOTAL, NONBORROWED AND REQUIRED RESERVES

(Dollar amounts in millions, based on monthly averages of daily figures)

Period	Total reserves 2/		Nonborrowed reserves 2/		Required reserves 2/	
	S.A.	N.S.A.	S.A.	N.S.A.	S.A.	N.S.A.
1965--Jan.	21,243	21.668	20,889	21,369	20,846	21,263
Feb.	21.404	21,276	21,018	20,871	20,961	20,835
Mar.	21.495	21,280	21,075	20,864	21,108	20,939
Apr.	21,659	21,551	21,165	21,080	21,249	21,185
May	21,686	21,513	21,220	21,008	21,316	21,188
June	21,836	21,749	21,306	21,221	21,467	21,403
July	21,857	21,901	21,356	21,377	21,488	21,552
Aug.	21,923	21,660	21,417	21,096	21,533	21,232
Sept.	21,869	21,782	21,318	21,254	21,494	21,409
Oct.	21,986	22,008	21,533	21,598	21,645	21,667
Nov.	21,976	21,998	21,589	21,546	21,671	21,628
Dec.	22,186	22,763	21,722	22,309	21,861	22,320
1966--Jan.	22,358	22,805	21,899	22,403	22,007	22,447
Feb.	22.401	22,267	21,943	21,789	22,028	21,896
Mar.	22,452	22,205	21,873	21,654	22,077	21,900
Apr.	22,679	22,588	22,027	21,961	22,252	22,230
May	22,703	22,544	22.020	21,822	22,308	22,174
June	22.707	22,592	22,030	21,918	22,339	22,270
July	22,861	22,895	22,140	22,129	22,431	22,487
Aug.	22 571	22,244	21,900	21,516	22,274	21,906
Sept.	22,655	22.531	21,864	21,765	22,256	22,133
Oct.	22,524	22,490	21,748	21,757	22,200	22,188
Nov.	22,465	22,431	21,898	21,820	22,142	22,042
Dec.	22,449	22,998	21,885	22,441	22,175	22,606
1967--Jan.	22,808	23,229	22,360	22,840	22,442	22,856
Feb.	23,026	22,854	22,685	22,492	22,666	22,496
Mar.	23,441	23,173	23,240	22,974	22,955	22,738
Apr.	23,490	23,362	23,332	23,228	23,110	23,053
May	23,482	23,284	23,428	23,183	23,086	22,914
June	23 646	23,518	23,523	23,395	23,178	23,098
July	23 868	23,096	23,829	23,819	23,478	23,538

2/ Seasonally adjusted reserves have been adjusted for redefinition of time deposits effective June 9, 1966.

TABLE IV

DEPOSITS SUPPORTED BY REQUIRED RESERVES AT ALL MEMBER BANKS

(Dollar amounts in billions. based on monthly averages of daily figures)

Monthly	Total Member bank deposits (credit proxy) 2/		Time deposits 2/		Private demand deposits		U.S. Govt. demand deposits	
	S.A.	N.S.A.	S.A.	N.S.A.	S.A.	N.S.A.	S.A.	N.S.A.
1965--Jan.	218.4	221.3	105.9	105.7	107.3	111.8	5.2	3.8
Feb.	220.7	220.0	107.6	107.8	107.5	107.0	5.6	5.2
Mar.	222.5	221.8	108.8	109.3	107.7	106.6	6.0	5.9
Apr.	224.2	224.2	109.9	110.4	108.0	108.7	6.3	5.0
May	225.8	225.2	111.0	111.7	107.7	104.8	7.1	8.7
Jun	227.7	227.4	112.3	112.7	108.4	106.4	7.0	8.3
Jul.	229.1	229.5	113.6	114.1	108.6	107.2	6.8	8.2
Aug.	230.4	228.5	115.4	115.7	108.8	106.2	6.3	6.6
Sept	231.4	230.4	116.9	116.7	109.6	108.9	4.9	4.9
Oct.	233.5	233.5	119.0	118.4	110.1	110.6	4.4	4.5
Nov.	234.8	234.1	120.2	119.1	110.5	111.5	4.1	3.5
Dec.	236.4	239.0	121.2	119.8	111.0	115.2	4.2	4.0
1966--Jan.	238.0	241.1	121.7	121.4	111.7	116.4	4.7	3.3
Feb.	239.0	238.3	122.0	122.4	112.0	111.5	5.0	4.5
Mar.	239.8	239.1	123.0	123.7	112.6	111.5	4.2	4.0
Apr.	242.2	242.4	124.8	125.4	113.3	114.4	4.1	2.7
May	243.9	243.1	126.1	126.8	113.0	109.8	4.8	6.5
Jun.	244.8	243.9	127.5	127.0	113.3	111.5	4.0	5.5
Jul.	246.7	246.6	128.7	128.4	112.6	111.0	5.3	7.2
Aug.	246.5	243.4	129.7	129.2	112.4	109.7	4.4	4.5
Sept.	246.4	244.6	130.1	129.0	112.4	111.8	3.9	3.8
Oct.	245.5	244.6	129.9	128.4	111.6	112.0	4.0	4.3
Nov.	244.8	243.0	129.3	127.3	111.6	112.5	4.0	3.2
Dec.	245.2	247.1	130.3	127.9	111.7	116.1	3.2	3.0
1967--Jan.	248.5	250.9	132.2	131.1	111.4	116.1	4.9	3.7
Feb.	251.8	250.2	134.4	134.0	112.4	111.8	5.0	4.5
Mar.	254.8	253.2	136.5	136.3	113.6	112.6	4.8	4.3
Apr	256.9	256.3	138.0	137.9	113.1	114.2	5.8	4.3
May	258.1	256.5	139.4	139.4	114.5	111.2	4.1	5.8
Jun	260.0	259.0	141.7	141.3	116.1	114.2	2.2	3.4
Jul	263.2	263.1	143.3	143.0	116.7	115.0	3.2	5.1

2/ Seasonally adjusted deposits have been adjusted for redefinition of time deposits effective June 9, 1967.

TABLE V

DEPOSITS SUPPORTED BY REQUIRED RESERVES AT ALL MEMBER BANKS

(Dollar amounts in billions, based on weekly averages of daily figures)

Weekly		Total Member bank deposits (credit proxy) 2/		Time deposits 2/		Private demand deposits		U.S. Govt. demand deposits	
		S.A.	N.S.A.	S.A.	N.S.A.	S.A.	N.S.A.	S.A.	N.S.A
1966									
Jan.	5	236.9	244.1	121.5	120.7	111.3	118.6	4.1	4.7
	12	237.7	241.8	121.5	120.9	111.6	117.6	4.6	3.4
	19	237.7	240.3	121.6	121.4	111.7	116.8	4.4	2.1
	26	238.7	239.8	121.7	121.9	111.9	114.7	5.1	3.3
Feb.	2	238.9	240.1	121.8	122.0	111.9	114.4	5.2	3.7
	9	239.0	238.9	121.7	122.1	112.0	112.9	5.2	3.9
	16	238.9	238.0	122.0	122.4	111.7	111.6	5.2	4.0
	23	238.9	237.3	122.3	122.6	111.9	109.3	4.6	5.5
Mar.	2	239.0	238.2	122.4	122.8	111.9	110.6	4.6	4.9
	9	239.1	237.7	122.7	123.3	112.0	110.9	4.5	3.6
	16	239.4	238.4	122.9	123.5	112.2	112.7	4.3	2.2
	23	240.0	240.2	123.1	123.6	112.4	111.7	4.5	4.9
	30	240.5	239.7	123.5	124.3	112.6	110.4	4.4	5.0
Apr.	6	241.2	240.9	124.1	124.8	112.7	112.0	4.4	4.2
	13	241.9	241.5	124.5	125.2	113.4	114.2	4.0	2.1
	20	242.4	253.0	124.8	125.3	113.5	116.6	4.1	1.1
	27	242.9	243.2	125.2	125.8	113.5	114.7	4.2	2.6
May	4	243.4	244.6	125.6	126.1	113.2	113.1	4.5	5.4
	11	243.7	243.8	125.8	126.5	113.1	111.5	4.7	5.9
	18	243.8	243.4	126.1	126.8	113.1	109.7	4.7	7.0
	25	243.9	242.1	126.2	127.1	113.2	108.1	4.5	6.9
June	1	244.2	242.3	126.7	127.4	113.2	108.5	4.3	6.4
	8	244.4	242.9	126.9	127.6	113.1	110.3	4.4	5.1
	15	243.5	241.6	127.2	126.8	113.2	112.1	3.1	2.7
	22	244.9	245.0	127.2	126.5	113.9	113.9	3.8	4.6
	29	246.0	245.7	127.6	127.1	112.8	109.8	5.7	8.8
July	6	247.0	248.4	128.0	127.7	112.8	111.0	6.1	9.7
	13	246.8	247.1	128.7	128.2	112.6	110.9	5.4	8.0
	20	246.7	246.4	128.9	128.5	112.7	111.8	5.1	6.1
	27	246.7	245.4	129.0	128.8	112.6	110.4	5.2	6.3
Aug.	3	246.1	245.1	129.0	128.8	112.4	111.2	4.8	5.2
	10	246.3	243.9	129.3	128.9	112.1	109.7	4.9	5.3
	17	246.4	243.5	129.7	129.3	112.2	110.1	4.4	4.2
	24	245.7	242.0	130.0	129.4	112.3	108.8	3.4	3.8
	31	247.2	243.2	130.1	129.5	112.4	109.2	4.7	4.6

TABLE V cont'd

Weekly	Total Member bank deposits (credit proxy) 2/ S.A.	N.S.A.	Time deposits 2/ S.A.	N.S.A.	Private demand deposits S.A.	N.S.A.	U.S. Govt. demand deposits S.A.	N.S.A.
1966								
Sept. 7	247.3	243.5	130.1	129.3	112.4	110.2	4.7	4.1
14	246.7	243.8	130.1	129.2	112.4	111.9	4.3	2.7
21	246.1	245.7	130.0	128.6	112.5	114.4	3.6	2.6
28	246.0	245.1	130.2	128.8	112.3	110.7	3.6	5.6
Oct. 5	246.2	246.4	130.0	128.7	112.4	111.7	3.7	6.0
12	245.2	244.4	130.0	128.6	112.0	111.8	3.2	4.0
19	244.3	243.5	130.0	128.5	111.6	112.3	2.6	2.7
26	246.1	244.9	129.6	128.0	111.3	111.9	5.2	5.0
Nov. 2	246.1	244.7	129.5	127.8	111.4	112.7	5.2	4.2
9	246.0	244.0	129.3	127.6	111.5	112.3	5.2	4.1
16	245.1	242.8	129.3	127.3	111.5	112.8	4.3	2.7
23	243.7	242.1	129.1	127.0	111.5	112.3	3.0	2.8
30	243.7	242.2	129.2	127.0	111.5	112.0	3.0	3.1
Dec. 7	244.6	243.9	129.6	127.3	111.6	113.5	3.4	3.1
14	244.6	244.2	129.9	127.5	111.8	114.8	2.9	1.8
21	245.3	248.5	130.3	127.6	112.0	118.9	3.1	1.9
28	245.7	249.3	131.0	128.5	111.6	116.1	3.0	4.7
1967								
Jan. 4	247.3	253.4	131.2	129.4	111.9	119.5	4.3	4.5
11	247.7	251.5	131.5	130.0	111.6	117.5	4.7	3.9
18	247.8	249.8	131.8	130.9	111.4	116.5	4.6	2.4
25	249.1	249.9	132.8	132.0	111.1	114.0	5.2	4.0
Feb. 1	250.2	250.9	133.5	132.8	111.4	114.0	5.2	4.0
8	251.1	251.2	133.8	133.4	112.0	113.1	5.3	4.7
15	251.6	250.0	134.4	133.9	112.2	111.9	5.1	4.1
22	252.3	249.6	134.9	134.3	112.9	110.9	4.5	4.4
Mar. 1	252.4	250.0	134.9	134.6	113.0	110.8	4.6	4.6
8	252.9	250.3	135.6	135.4	113.2	111.3	4.1	3.7
15	254.1	251.5	136.4	136.2	113.5	112.7	4.2	2.6
22	255.8	255.7	136.8	136.5	113.8	114.5	5.2	4.8
29	256.2	254.9	137.0	137.0	113.4	111.9	5.7	6.1
Apr. 5	256.0	255.2	137.5	137.5	113.9	113.5	4.7	4.2
12	256.8	255.6	137.9	137.9	113.5	114.4	5.5	3.4
19	257.1	256.7	138.1	137.8	112.9	115.7	6.0	3.1
26	257.4	256.9	138.3	138.0	112.4	113.5	6.7	5.5
May 3	257.7	257.5	138.5	138.3	113.1	113.1	6.1	6.0
10	258.0	257.2	138.8	138.8	113.3	111.3	5.9	7.1
17	258.1	256.9	139.3	139.3	114.9	111.6	3.9	6.0
24	257.9	255.7	139.8	139.8	114.9	110.1	3.2	5.8
31	258.4	255.5	140.3	140.3	115.4	110.9	2.7	4.3

TABLE V cont'd.

Weekly	Total Member bank deposits (credit proxy) 2/ S.A.	Total Member bank deposits (credit proxy) 2/ N.S.A.	Time deposits 2/ S.A.	Time deposits 2/ N.S.A.	Private demand deposits S.A.	Private demand deposits N.S.A.	U.S. Govt. demand deposits S.A.	U.S. Govt. demand deposits N.S.A.
1967								
June 7	259.3	256.9	140.9	140.7	115.9	113.3	2.6	2.8
14	260.2	257.5	141.6	141.3	116.1	114.3	2.5	1.9
21	261.2	261.6	141.8	141.2	116.2	116.1	3.2	4.2
28	259.9	259.3	142.1	141.5	116.2	113.1	1.6	4.6
July 5	260.4	261.6	142.5	142.2	116.9	114.9	1.0	4.5
12	261.5	261.7	142.8	142.2	117.0	115.3	1.6	4.2
19	263.8	263.8	143.3	143.1	116.5	115.3	3.9	5.4
26	264 6	263.8	143.6	143.5	116.7	114.3	4.3	6.0
Aug 2	265.6	264.4	144.3	144.1	116.8	115.4	4.4	5.0

2/ Seasonally adjusted deposits have been adjusted for redefinition of time deposits effective June 9, 1967.

TABLE VI

MONEY SUPPLY AND TIME DEPOSITS AT ALL COMMERCIAL BANKS

(Dollar amounts in billions, based on monthly averages of daily figures)

Monthly	Money Supply S.A.	Money Supply N.S.A.	Currency S.A.	Currency N.S.A.	Private Demand Deposits S.A.	Private Demand Deposits N.S.A.	Time Deposits Adjusted 2/ S.A.	Time Deposits Adjusted 2/ N.S.A.
1965--Jan.	159.6	164.4	34.4	34.4	125.2	130.0	128.6	128.3
Feb.	160.0	159.5	34.6	34.2	125.4	125.2	130.5	130.8
Mar.	160.3	158.9	34.7	34.4	125.6	124.6	132.0	132.7
Apr.	160.8	161.5	34.8	34.5	126.1	127.1	133.4	134.0
May	160.8	157.5	34.9	34.6	125.9	122.9	134.7	135.4
June	161.7	159.5	35.0	34.9	126.7	124.5	136.2	136.6
Jul.	162.4	160.8	35.3	35.4	127.2	125.4	137.9	138.3
Aug.	163.2	160.3	35.5	35.5	127.8	124.8	139.8	140.2
Sept.	164.0	163.1	35.7	35.7	128.4	127.5	141.6	141.4
Oct.	165.2	165.7	36.0	36.0	129.3	129.7	143.8	143.5
Nov.	165.7	167.3	36.1	36.5	129.6	130.8	145.5	144.3
Dec.	166.8	172.0	36.3	37.1	130.5	134.9	146.9	145.2
1966--Jan.	167.9	173.0	36.6	36.5	131.4	136.5	147.5	147.4
Feb.	168.3	167.7	36.7	36.4	131.6	131.3	148.3	148.7
Mar.	169.2	167.8	36.9	36.5	132.3	131.2	149.8	150.4
Apr.	170.5	171.5	37.1	36.8	133.4	134.7	151.8	152.4
May	170.2	166.7	37.3	37.0	132.9	129.7	153.4	154.2
June	170.6	168.6	37.4	37.3	133.2	131.4	154.8	154.4
Jul.	169.9	168.0	37.7	37.8	132.3	130.1	156.9	156.2
Aug.	170.1	167.0	37.8	37.8	132.4	129.2	158.1	157.4
Sept.	170.5	169.7	37.9	37.9	132.6	131.8	158.6	157.4
Oct.	170.1	170.5	38.0	38.1	132.1	132.4	158.8	157.1
Nov.	170.1	171.5	38.1	38.5	132.0	133.0	158.5	156.1
Dec.	170.4	175.8	38.3	39.1	132.1	136.7	159.8	156.9
1967--Jan.	170.3	175.3	38.5	38.5	131.8	136.8	162.0	160.7
Feb.	171.5	170.6	38.7	38.3	132.8	132.3	164.6	164.0
Mar.	173.1	171.9	38.9	38.5	134.2	133.4	167.2	166.7
Apr.	172.8	173.7	39.1	38.7	133.7	135.0	169.2	168.8
May	174.4	171.1	39.2	38.9	135.3	132.1	171.1	170.8
June	176.2	174.3	39.3	39.3	136.8	135.1	173.6	173.0
Jul.	177.8	175.7	39.5	39.6	138.3	136.1	175.7	175.1

2/ Seasonally adjusted deposits have been adjusted for redefinition of time deposits effective June 9, 1967.

TABLE VII

MONEY SUPPLY AND TIME DEPOSITS AT ALL COMMERCIAL BANKS

(Dollar amounts in billions, based on weekly averages of daily figures)

Weekly	Money Supply		Currency		Private Demand Deposits		Time Deposits Adjusted 2/	
	S.A.	N.S.A	S.A.	N.S.A.	S.A.	N.S.A.	S.A.	N.S.A.
1966								
Jan. 5	167.6	175.6	36.5	36.9	131.1	138.7	147.4	146.5
12	167.8	174.3	36.5	36.9	131.3	137.4	147.4	146.8
19	167.8	173.3	36.5	36.5	131.3	136.8	147.4	147.4
26	167.9	171.0	36.6	36.2	131.3	134.8	147.6	147.9
Feb. 2	168.1	171.0	36.6	36.1	131.4	134.9	147.7	148.2
9	168.2	170.0	36.7	36.6	131.5	133.4	147.9	148.3
16	168.3	168.4	36.7	36.4	131.6	132.0	148.3	148.7
23	168.3	164.8	36.7	36.3	131.6	128.5	148.5	149.0
Mar. 2	168.4	166.3	36.7	36.2	131.7	130.2	148.9	149.3
9	168.6	167.3	36.8	36.8	131.8	130.5	149.3	149.9
16	169.0	169.4	36.9	36.6	132.1	132.7	149.6	150.2
23	169.2	167.8	37.0	36.6	132.3	131.2	150.0	150.4
30	169.4	166.5	37.0	36.4	132.4	130.1	150.4	151.1
Apr. 6	169.8	168.9	37.1	36.8	132.8	132.0	150.8	151.7
13	170.6	171.8	37.1	37.2	133.5	134.7	151.4	152.2
20	170.7	173.8	37.1	36.7	133.7	137.0	151.9	152.3
27	170.6	171.7	37.1	36.5	133.5	135.1	152.3	152.9
May 4	170.3	170.1	37.2	36.7	133.0	133.4	152.9	153.3
11	170.3	168.7	37.3	37.2	133.0	131.5	153.1	153.7
18	170.3	166.7	37.3	37.0	133.1	129.6	153.4	154.1
25	170.2	164.5	37.3	36.9	132.9	127.6	153.6	154.5
Jun. 1	170.3	165.4	37.3	37.0	133.0	128.4	154.0	154.9
8	170.4	167.7	37.3	37.5	133.0	130.3	154.3	155.1
15	170.4	169.7	37.4	37.4	133.0	132.3	154.6	154.1
22	171.2	170.9	37.4	37.4	133.7	133.5	154.7	153.9
29	170.2	166.6	37.4	37.1	132.8	129.5	155.4	154.5
Jul. 6	170.3	168.6	37.5	37.9	132.8	130.7	156.0	155.3
13	169.9	167.9	37.6	38.0	132.3	129.9	156.9	155.9
20	169.7	168.4	37.6	37.8	132.1	130.6	157.1	156.4
27	169.7	166.7	37.7	37.6	132.0	129.2	157.3	156.7
Aug. 3	169.8	168.7	37.7	37.6	132.1	131.0	157.4	156.8
10	169.7	167.3	37.7	38.1	132.0	129.2	157.7	157.0
17	170.0	167.4	37.8	38.0	132.3	129.4	158.1	157.5
24	170.2	165.7	37.8	37.8	132.4	127.9	158.3	157.7
31	170.3	166.8	37.8	37.5	132.5	129.3	158.5	157.8

TABLE VII cont'd.

Weekly	Money Supply S.A.	Money Supply N.S.A	Currency S.A.	Currency N.S.A.	Private Demand Deposits S.A.	Private Demand Deposits N.S.A.	Time Deposits Adjusted 2/ S.A.	Time Deposits Adjusted 2/ N.S.A.
Sep. 7	170.4	168.6	37.9	38.2	132.6	130.4	158.4	157.6
14	170.6	170.1	37.9	38.1	132.7	132.1	158.6	157.6
21	170.7	172.3	37.9	37.9	132.8	134.4	158.4	157.1
28	170.5	167.9	37.9	37.6	132.6	130.4	158.6	157.3
Oct. 5	170.6	170.1	37.9	37.9	132.6	132.2	158.5	157.4
12	170.3	170.4	38.0	38.3	132.4	132.1	158.7	157.4
19	170.0	170.7	38.0	38.1	132.1	132.6	158.9	157.3
26	169.9	169.9	37.9	37.9	132.0	132.1	158.6	156.8
Nov. 2	169.9	171.5	37.9	37.8	132.0	133.7	158.5	156.7
9	169.9	171.5	38.0	38.5	131.9	132.9	158.4	156.5
16	169.9	171.9	38.1	38.6	131.9	133.3	158.4	156.2
23	170.0	170.9	38.1	38.6	131.9	132.3	158.6	155.9
30	170.0	171.2	38.1	38.6	131.9	132.6	158.7	155.9
Dec. 7	170.1	173.3	38.1	39.0	132.0	134.3	159.1	156.2
14	170.2	174.6	38.2	39.1	132.0	135.5	159.4	156.5
21	170.6	178.8	38.3	39.1	132.3	139.7	159.7	156.6
28	170.6	175.8	38.4	39.4	132.2	136.4	160.5	157.6
1967								
Jan. 4	170.8	178.7	38.5	38.9	132.3	139.8	160.8	158.7
11	170.6	177.1	38.5	38.9	132.1	138.2	161.2	159.4
18	170.4	176.4	38.5	38.5	131.9	137.9	161.7	160.4
25	170.2	173.2	38.5	38.1	131.7	135.0	162.4	161.6
Feb. 1	170.2	172.5	38.5	37.9	131.6	134.6	163.3	162.5
8	170.8	172.3	38.6	38.5	132.2	133.8	163.8	163.2
15	171.1	171.0	38.7	38.5	132.4	132.5	164.5	163.9
22	172.0	169.4	38.7	38.3	133.3	131.1	165.2	164.4
Mar. 1	172.1	169.3	38.8	38.1	133.4	131.2	165.4	164.8
8	172.6	170.6	38.9	38.7	133.8	131.9	166.1	165.7
15	173.1	172.3	38.9	38.6	134.2	133.6	167.1	166.6
22	173.3	173.6	39.0	38.7	134.2	134.9	167.6	167.0
29	173.4	171.3	39.1	38.4	134.3	132.8	167.9	167.6
Apr. 5	173.4	173.0	39.1	38.5	134.3	134.5	168.3	168.2
12	173.1	174.0	39.1	38.9	134.0	135.0	169.0	168.7
19	172.6	175.3	39.1	38.7	133.5	136.6	169.5	168.7
26	172.1	172.7	39.1	38.4	133.0	134.3	169.6	169.0

TABLE VII cont'd.

Weekly		Money Supply		Currency		Private Demand Deposits		Time Deposits Adjusted 2/	
		S.A.	N.S.A	S.A.	N.S.A.	S.A.	N.S.A.	S.A.	N.S.A.
May	3	172.8	172.7	39.1	38.6	133.7	134.1	169.9	169.5
	10	173.0	171.4	39.1	39.1	133.9	132.2	170.4	170.1
	17	174.7	171.7	39.1	38.9	135.6	132.7	171.0	170.7
	24	174.8	169.3	39.2	38.8	135.6	130.5	171.5	171.2
	31	175.6	170.9	39.3	38.8	136.3	132.1	172.2	171.9
Jun.	7	176.0	173.2	39.3	39.3	136.7	133.9	172.6	172.3
	14	176.3	174.9	39.4	39.4	136.9	135.3	173.6	173.0
	21	176.4	176.4	39.4	39.3	137.0	137.0	173.7	172.9
	28	176.4	172.8	39.4	39.1	136.9	133.7	173.9	173.3
Jul.	5	177.6	175.7	39.4	39.6	138.2	136.1	174.6	173.5
	12	177.8	175.7	39.5	39.9	138.3	135.7	175.2	174.1
	19	177.6	176.2	39.4	39.5	138.2	136.6	175.8	174.6
	26	178.1	175.1	39.7	39.6	138.5	135.4	176.0	174.9
Aug.	2	178.0	176.5	39.4	39.3	138.6	137.2	176.8	176.4

2/ Seasonally adjusted deposits have been adjusted for redefinition of time deposits effective June 9. 1967

APPENDIX B

Balance of Payments Accounts
Arranged to show alternative measures of balance
(millions of dollars, seasonally adjusted)

	1966 I	1966 II	1966 III	1966 IV	1967 I
1. Exports of goods and services	10,511	10,618	10,913	10,997	11,317
2. Merchandise	7,203	7,181	7,382	7,402	7,690
3. Investment income	1,469	1,535	1,587	1,654	1,582
4. Other current receipts	1,839	1,902	1,944	1,941	2,045
5. Imports of goods and services	8,997	9,265	9,762	9,913	9,981
6. Merchandise	6,025	6,225	6,580	6,680	6,689
7. Military expenditures	861	911	953	969	1,041
8. Other current payments	2,111	2,129	2,229	2,264	2,251
9. Balance on goods and services	1,514	1,353	1,151	1,084	1,336
10. Pensions and private remittances	-241	-245	-278	-246	-258
11. U.S. private capital	-981	-1,135	-932	-1,084	-1,006
12. U.S. Govt. credits and grants	-1,185	-1,194	-1,177	-1,124	-1,419
13. Scheduled repayments on credits	207	199	192	208	214
14. Foreign private capital, except liquid (net inflow, +) 1/	218	490	165	338	336
15. Nonliquid Govt. liabilities to nonmonetary foreign agencies	-57	42	69	-1	67
16. Errors and omissions (net	-233	-198	277	-229	-206
17. Balance of lines 1 to 16	-758	-688	-533	-1,054	-936
18. Nonscheduled repayments on U.S. Govt. credits	3	7	226	192	--
19. Balance of lines 17 and 18	-755	-681	-307	-862	-936
Plus:					
20. Int'l. Organ.: long-term deposits and Agency securities	87	303	39	17	65
21. Foreign official accounts: long-term deposits	43	284	88	373	306
22. Nonliquid Govt. liabilities to foreign monetary authorities	-26	-28	15	53	21
23. Balance on liquidity basis	-651	-122	-165	-419	-544
24. Balance of lines 17 and 18	-755	-681	-307	-862	-936
Plus:					
U.S. liquid liabilities to:					
25. Foreign nonbank private	109	66	91	-54	86
26. Commercial banks	154	492	1,062	989	-1,001
27. U.S. liquid and nonliquid liab. to International organizations	49	-52	15	-91	29
28. Balance on official reserve transaction basis	-443	-175	861	-18	-1,822

1/ Includes borrowing by U.S. corporations to finance direct investments. Also includes U.K. official transactions in U.S. securities other than Treasury issues.