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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

February 26, 1969

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SUMMARY AND OUTLOOK

Outlook for economic activity

Evidence is accumulating of a growing disparity between business expectations and the limited expansion in final demands apparently now underway. The impact of fiscal policy in curtailing growth of disposable income was undoubtedly an important factor in reducing growth of consumption, and thereby in overall GNP, in the last quarter. Real growth, which dipped to a 3-1/2 per cent rate in the fourth quarter, is expected to slow further during the first half of this year.

Recent data suggest that the recovery in consumer expenditures from the fourth quarters' reduced level will be modest--more so than we had previously thought. Retail sales in early February appear to be little changed from the January level, although unit sales of autos for the first 20 days were somewhat above the reduced January rate of 8.2 million. We now anticipate that expenditures for durable consumer goods as a whole will probably decline in the first quarter. Since the flow of disposable income is being curtailed by higher social security taxes and the beginning of clean-up payments on 1968 income tax liabilities, it seems unlikely that there will be any substantial resurgence of strength in consumer markets in the near future. Demands for housing continue strong, however, and housing starts surged upward in January.

On the other hand, business still appears to be planning for expansion. Manufacturers' new orders increased in January and the backlog of unfilled orders continued to rise along a wide front. Inventory accumulation was relatively heavy in December and inventory-sales ratios rose further. Production of autos has already been cut back, but auto dealers stocks are apparently still rising, and retailers' inventories generally are quite high relative to sales. Stock building may continue to be rapid in the first quarter, but accumulation seems likely to slow substantially before midyear.

The current restrictive fiscal and monetary stance and the persisting weakness in consumer demands would seem to presage a change in business attitudes, and may be the basis for the recent stock market decline. Under these conditions, it seems likely that residential construction activity and capital investment expenditures should slacken as the year progresses, leading to some general easing in the economic environment.

Outlook for prices and resource use

Following the spurt between mid-December and mid-January, the industrial price rise has slowed, though not as much as appeared likely a month ago. Half the over-all industrial price rise since the turn of the year has come from the largest advance in basic metal prices in some years, and from continuation of the sharp increase in lumber and plywood prices.

The metal price rise has been in response to generally strong industrial demands; given the outlook for generally amply supplies and for some easing of demands from the construction and consumer durable goods industries and of business inventory demands, this price rise appears to be tapering off. The demand-supply balance for lumber is likely to improve this spring and at some point such an extraordinary price run-up in a market characterized by volatile price movements is subject to reversal.

Underlying these special situations, as well as the general industrial price structure, has been the continuing upward pressure of wage, transportation, and other costs. The rate of increase in wages should begin to moderate. The Federal minimum wage increase on February 1 affected many fewer workers than the rise a year ago, and the deferred wage increases effective under old contracts are generally smaller and affect substantially more workers than the new increases negotiated, or to be negotiated, this quarter.

The consumer price rise in January was about as large as the average increase over the preceding year, if allowance is made for the usual post-Christmas decline in prices of apparel, house furnishings, and passenger cars. Decline over coming months in the recent over-exuberant rate of rise in the CPI will depend primarily on a leveling of food prices and further slackening in the rise for other commodities.

Industrial production continues to rise, with business equipment and materials output gaining further. Some slowing in production of consumer products, however, has kept the increase in the total index since the turn of the year at a rate below the relatively rapid pace of late 1968. The current production rise may be lagging the increase in capacity--but not by a significant amount.

Insured unemployment remained low in early February and the over-all jobless rate may remain close to the very low December-January level of 3.3 per cent. Come spring, however, employment demands are expected to ease somewhat and joblessness may rise slightly.

Credit demand ahead

Near-term demands on corporate and municipal bond markets, while above the reduced February pace, are not expected to be unusually large. In the corporate market, there are no signs of a buildup in the calendar, and public utility offerings have again tended to predominate scheduled offerings. With the market in a good technical position--since the light February calendar and good sales of recent attractively priced issues left the corporate underwriters with a low inventory position--it is possible that yields on corporate issues may come under some downward pressure over the next few weeks, although a further rise in the prime loan rate of banks could reverse any such tendency.

Even though very recent light offerings and some price-cutting have reduced dealer inventories of tax-exempt bonds, and despite the high level of postponements of new issues which is reducing the volume of bonds reaching the market, municipal bond yields are expected to continue under upward pressure. Volume is expected to remain near $1 billion a month in a market where the major buyers--commercial banks--have drastically reduced their purchases. Indeed, there are reports that some large banks are near the point of liquidating such securities. The U.S. Government securities market is also beginning to feel the pressure of bank sales of some longer-term Treasury issues.

At banks, loan demands are expected to be on the strong side into early spring, although the firming in banks' lending policies since late 1968 may be affecting some marginal borrowers. While a slackening of business inventory accumulation is anticipated in coming months--accompanied by reduced bank credit demands for such purposes--corporate income tax payments in March and April are above year-ago levels. The tax liabilities appear to be funded to a relatively lesser extent in tax bills and CD's than in the past, and thus may entail considerable temporary financing through bank loans. Demands for mortgage loans at banks are expected to remain large, but consumer loan demand is expected to slacken in line with the anticipated moderation in consumer purchases of durable goods.

Outlook for supply of funds

The constraints that have been cumulating on the supply of funds at banks and thrift institutions have led to higher interest rates in bond and mortgage markets, cutbacks in offerings of municipal securities, and will, with some lag, lead to a reduced rate of mortgage borrowing even though housing demands remain strong. Banks have stiffened mortgage lending terms, though this will influence their rate of mortgage lending with some lag. And net savings inflows to thrift institutions are expected to continue at near the recent reduced pace, assuming market interest rates do not decline significantly. Savings inflows may even be further reduced in the March-April reinvestment period by withdrawals to meet April tax payments.

Under the circumstances, with outstanding mortgage commitments still at very high levels, new mortgage commitment activity should be reduced in the months ahead and borrowings gradually taper off. Thrift institutions are expected to be able to accommodate existing commitments through further reductions in liquidity as well as increased borrowings from Home Loan Banks. FNMA, for its part, is expected to continue its increased support of the Government-underwritten mortgage market.

Some of the same factors influencing prospective net savings flows to thrift institutions--high market interest rates and large spring tax payments--are also acting to keep the net inflow of consumer-type time and savings deposits at banks to a reduced rate. And there is little prospect, given current market interest rates, that banks will be able to roll over all maturing large certificates of deposit. The pace of attrition may moderate some, however, both as amounts maturing diminish and as the component of highly interest-sensitive funds diminishes. In the next few weeks, resumption in growth of private demand deposits is anticipated mainly as a result of declining U.S. Treasury balances. Over-all, total deposits of the banking system are not expected to show any significant expansion, and may well contract further, with continued pressure thereby being exerted on the Euro-dollar market and the Federal Reserve discount window.

Balance of payments outlook

For the next month or two the outlook will remain unusually obscure because of uncertainties about the trade position. The interruption of normal flows by the port strike--which ended in New York on February 15 and should be over soon in the other struck ports--will make the trade statistics for January and February largely meaningless. Moreover, interpretation of the large liquidity deficit registered for the first seven weeks of 1969 is complicated by the strike developments. There were heavy net payments in the week the strike ended; it remains to be seen whether this was an initial effect, associated with early clearances of imports through customs, that may be followed by more favorable effects when dammed-up exports reach their destinations and get paid for.

As the year progresses, some improvements in the trade position is to be expected in consequence of the favorable cyclical conjuncture here and abroad. But net private capital inflows, apart from the flows of funds through banks abroad, are likely to be less favorable than in 1968. U.S. corporations will probably make use of the leeway they gained last year under the direct investment controls and reduce their new borrowings abroad. Maintenance of heavy foreign purchases of U.S. equities cannot be counted on with assurance, if the stock market is less buoyant than last year.

Staff projections of the 1969 payments balance to be covered by liquid funds through banks and official reserve transactions are in the range of $2-1/2 billion to $3-1/2 billion. In January the deficit on this basis was about $1/2 billion. Since the increase in short-term liabilities to U.S. bank branches and other banks abroad was nearly $2 billion, there was an official settlements surplus of about $1-1/2 billion in that month. For the rest of the year there is little likelihood of much net additional inflow of funds through banks abroad, and consequently a sizable official settlements deficit probably lies ahead.

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.)	Jan'69	79.9	79.4	77.9	2.6	3.8
Unemployment (mil.)	"	2.6	2.6	2.8	-5.4	-7.7
Unemployment (per cent)	"	3.3	3.3	3.6	--	--
Nonfarm employment, payroll (mil.)	"	69.5	69.3	67.1	3.7	6.1
Manufacturing	"	20.0	20.0	19.6	1.9	1.8
Other industrial	"	8.4	8.4	8.0	4.2	2.8
Nonindustrial	"	41.2	40.9	39.4	4.5	9.1
Industrial production (57-59=100)	"	169.4	168.9	161.2	5.1	7.0
Final products	"	168.9	168.4	160.8	5.0	6.7
Materials	"	170.1	169.7	161.7	5.2	7.4
Wholesale prices (57-59=100)1/	"	110.7	109.8	107.2	3.3	4.2
Industrial commodities (FR)	"	109.9	109.3	107.1	2.6	4.8
Sensitive materials (FR)	"	112.4	110.1	105.4	6.6	10.5
Farm products, foods & feeds	"	109.8	108.4	105.3	4.3	2.6
Consumer prices (57-59=100)1/	"	124.1	123.7	118.6	4.6	8.2
Commodities except food	"	115.0	115.2	111.2	3.4	7.2
Food	"	122.0	121.2	117.0	4.3	6.4
Services	"	139.0	138.1	130.8	6.3	10.8
Hourly earnings, mfg. ($)	"	3.11	3.08	2.93	6.1	12.3
Weekly earnings, mfg. ($)	"	126.74	125.77	117.95	7.5	11.4
Personal income ($ bil.)2/	"	715.1	713.5	654.9	9.2	16.8
Corporate profits before tax ($ bil.)2/	QIII'68	92.7	91.8	80.8	14.7	6.9
Retail sales, total ($ bil.)	Jan'69	28.7	28.1	26.9	6.4	11.4
Autos (million units)2/	"	8.2	8.5	8.0	2.4	9.9
GAF ($ bil.)	"	7.4	7.4	7.2	4.0	9.1
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	"	1,816	1,492	1,456	24.7	63.5
Factory workweek (hours)	"	40.7	40.7	40.2	1.2	-0.7
New orders, dur. goods ($ bil.)	"	29.7	29.4	26.8	10.5	23.9
New orders, nonel. mach. ($ bil.)	"	5.5	5.2	4.6	18.9	33.8
Common stock prices (1941-43=10)	"	102.04	106.48	95.04	7.4	20.8
Inventories, book val. ($ bil.)	Dec'68	153.6	152.9	143.8	6.9	12.0
Gross national product ($ bil.)2/	QIV'68	887.4	871.0	811.0	9.4	15.5
Real GNP ($ bil., 1958 prices)2/	"	718.4	712.3	681.8	5.4	7.7

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

SELECTED DOMESTIC FINANCIAL DATA

	Week ended February 21	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent) 9/	6.42	6.47	6.85	5.08
U.S. Treas. bills, 3-mo., yield (per cent)	6.09	6.13	6.20	4.96
U.S. Treas. bills, 1-yr., yield (per cent)	6.19	6.16	6.38	5.10
Net free reserves 2/ ($ millions)	-721	-656	- 30	-735
Member bank borrowings 2/ ($ millions)	1,043	870	1,320	337
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	6.35	6.30	6.36	5.45
20-year U.S. Treas. bonds 1/	6.11	6.08	6.13	5.18
Corporate new bond issues, Aaa adj. 8/ 10/	6.90	6.93	6.97	6.24
Corporate seasoned bonds, Aaa 1/ 10/	6.66	6.64	6.66	5.95
Municipal seasoned bonds, Aaa 1/ 10/	4.70	4.69	4.72	4.05
FHA home mortgages, 30-year 3/ 10/	--	7.85 e/	7.85 e/	7.28
Common stocks, S&P composite series 4/ 10/				
Prices, closing (1941-43=10)	99.79	102.49	108.37	99.79
Dividend yield (per cent) 10/	3.15	3.06	3.15	2.86

	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 5/	Mar. e/	1,200	1,394	- 7	244
State & local govt. offerings	Mar. e/	1,000	1,050	-404	-197
Comm. & fin. co. paper (net change in outstandings) 6/	Jan. '69	1,316	325	699	17

	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
Banking (S.A.)		($ billions)			(per cent)		
Total reserves 1/	Jan. '68	27.01	0.03	0.13	1.3	6.0	5.9
Credit proxy 1/	Jan. '68	295.1	-1.6	1.4	-4.9	6.3	7.6
Bank credit, total 6/	Jan. '68	385.3	0.8	1.9	2.5	6.0	10.1
Business loans	"	96.5	1.8	1.3	22.8	16.4	11.4
Other loans	"	157.3	-0.3	1.0	-2.3	8.0	11.6
U.S. Govt. sec.	"	60.4	-1.3	-1.3	-25.3	-23.7	0.7
Other securities	"	71.0	0.5	0.8	8.5	14.6	13.8
Total liquid assets 1/ 6/	Jan. '68	705.1	1.8	3.4	3.1	5.9	7.5
Demand dep. & currency 1/	"	193.6	0.5	1.1	3.1	7.1	6.2
Time & sav. dep., comm. banks 1/	"	202.5	-1.8	1.0	-10.6	6.0	10.0
Savings, other thrift instit. 6/	"	195.7	0.3	0.6	1.8	3.9	6.2
Other 6/ 7/	"	113.3	2.6	0.7	28.2	7.6	7.4

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 Feb. 19. 3/ Latest figure is monthly average for Jan. 4/ End of week closing prices; yields are for Friday. 5/ Corporate security offerings include both bonds and stocks. 6/ Month-end data. 7/ U.S. savings bonds and U.S. Government securities maturing within 1 year. 8/ Adjusted to Aaa basis. 9/ Federal funds data are 7-day averages for week ending Sunday: latest figure is for week ending Feb. 23. 10/ Week ending February 20. 11/ Reflects $400 million reduction in member bank deposits resulting from withdrawal of a large country bank from System membership. Percentage annual rates are adjusted to eliminate this break in series.

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

	1967	1968					1969
	Year	Year p	I	II	III	IV p	Jan. p
			Seasonally adjusted				
Goods and services, net 1/	4,769		326	592	878		
Trade balance 2/	3,477	100	57	5	262	-224	
Exports 2/	30,468	33,332	7,924	8,325	8,840	8,243	
Imports 2/	-26,991	-33,232	-7,867	-8,320	-8,578	-8,467	
Services balance	1,292		269	587	616		
Remittances and pensions	-1,275		-266	-286	-300		
Govt. grants & capital 3/	-4,211		-1,164	-1,072	-953		
U.S. private capital	-5,505		-707	-1,448	-1,768		
Direct investment	-3,021		-374	-1,035	-1,102		
Foreign securities	-1,266	-1,284	-385	-83	-313	-503	
Banking claims	-459	254	303	196	-200	-45	
Other	-759		-251	-526	-153		
Foreign capital, nonliquid	3,186		1,367	2,479	1,740		
Official foreign accounts	1,274		344	927	465		
Long-term deposits	820	551	122	145	153	131	
U.S. Govt. liabilities	454	1,918	222	782	312	602	
International institutions 4/	314	149	-94	-20	51	212	
Other 5/	1,598		1,117	1,572	1,224		
Errors and omissions	-535		-243	-429	444		
Balances, with and without seasonal adjustment (- deficit)							
Liquidity balance, S.A.			-687	-164	80	958	
Seasonal component			428	236	-491	-173	
Balance, N.S.A.	-3,571	187	-259	72	-411	785	-328
Official settlements bal., S.A.			-556	1,528	425	262	
Seasonal component			646	35	-353	-328	
Balance, N.S.A. 6/	-3,405	1,659	90	1,563	72	-66	
			Reserve changes, N.S.A. (decrease -)				
Total monetary reserves	-52	880	-904	137	571	1,076	-256
Gold stock	-1,170	-1,173	-1,362	-22	74	137	-64
Convertible currencies	1,024	1,183	401	-267	474	575	-190
IMF gold tranche	94	870	57	426	23	364	-2

1/ Equals "net exports" in the GNP, except for latest revisions.
2/ Balance of payments basis which differs a little from Census basis.
3/ Net of scheduled and non-scheduled repayments.
4/ Long-term deposits and Agency securities.
5/ Includes some foreign official transactions in securities.
6/ Differs from liquidity balance by counting as receipts (+) increase in liquid liabilities to commercial banks, private nonbanks, and international institutions (except IMF) and by not counting as receipts (+) increases in certain nonliquid liabilities to foreign official institutions.

THE ECONOMIC PICTURE IN DETAIL

The Nonfinancial Scene

Gross national product. Recent data lend support to the view that further easing in economic activity is likely in coming months. Largely reflecting weaker consumer markets, real growth dipped to 3.4 per cent annual rate in the fourth quarter. (The preliminary official estimate had indicated a 3.8 per cent rate of real growth in GNP.) This quarter, consumer demand apparently continues slack, smaller gains are likely in business investment and in residential construction, and Federal purchases are expected to show only a slight rise. With inventory investment continuing at about the relatively high year-end rate and net exports reduced by the dock strike, the increase in current dollar GNP is expected to decline from a rate of $16.4 billion last quarter to $13.5 billion this quarter, and real growth is likely to fall further to about a 2-1/2 per cent rate.

In the second quarter, final demand is likely to moderate in all major sectors, and as spring develops, inventory investment should drop to a much reduced rate. However, an estimated $5 billion will be added to the rise in GNP as the termination of the long dock strike results in a sharp jump in net exports. Despite this one-time stimulus, both current dollar GNP and the rate of real growth are expected to slow somewhat further next quarter.

The recovery of retail sales in January from the reduced December level appears to have been smaller than was suggested by the weekly data--a rise of about 2 per cent--and reports for early February suggest no further gain or even a slight decline. Unit sales of autos in early February apparently are running only a little above the January rate of 8.2 million. Purchases of household durables have been trending down for some months, and nondurables are showing less recovery than we anticipated from their very poor performance last quarter.

In line with recent data, we have reduced our estimate of the increase in consumer expenditures this quarter from around $9 billion to $7 billion. Our estimate of unit automobile sales has been revised down from a rate of 8.75 million to 8.25 million, and total durable goods sales--about half of which are autos--are expected to decline after leveling off in the fourth quarter. Overall, however, we still expect consumption to rise somewhat faster this quarter than last. In the spring quarter, with auto sales stabilizing, total consumption may rise slightly faster.

Even these modest increases in consumer expenditures will entail a substantial decline in the saving rate, probably from the fourth quarter rate of 6.8 per cent to about 6.2 per cent in the spring. Personal income is apparently rising less rapidly; the increase in January was much less than the average increase in the fourth quarter and although most of the slowing was attributable to strikes and to the boost in payroll taxes, the gain in disposable income in the current period will probably be even smaller than last summer when the surtax was imposed. Moreover, with retroactive income tax payments continuing to erode income gains, only a moderately faster rise in disposable income is expected in the second quarter.

The over-all rise in business inventories in the fourth quarter was relatively large, at a rate of $10.6 billion. Stock-sales ratios rose generally, and were as high in December as at the end of 1966. However, in view of the rising volume of unfilled orders, some build-up of manufacturers' stocks last quarter appears warranted.

On the other hand, retailers' stocks are probably top-heavy, especially for durables. Inventory sales-ratios in December rose to exceptionally high levels, and despite cuts in production, auto stocks increased further in January and February.

Nevertheless, the momentum of business expansion and the strength of inflationary expectations are such that it is likely that inventory accumulation is still proceding at an undiminished rate, and the rate of accumulation this quarter is expected to be about $10 billion. If consumer demands show as little strength as now seems likely, a large part of this build-up will be excessive. Accordingly, we are projecting a drop in the rate of accumulation in the April-June quarter to $5.5 billion.

Outlays for residential construction this quarter will probably be slightly higher than anticipated last month. The sharp jump in housing starts in January to a rate of over 1.8 million from the upward revised 1.6 million rate in the fourth quarter was to some extent expected, and probably in part reflected builders' stepped-up activity in anticipation of an increasing scarcity of mortgage funds, and in part unusually mild weather in some areas. For the first quarter as a whole, starts are now projected at a rate of 1.67 million units.

However, the current surge may represent some borrowing from later this year, particularly the second quarter, and both new starts and residential construction volume will in all probability tend downward before midyear.

A recent private survey indicated that business is planning a rise of almost 14 per cent in fixed capital investment this year. It still appears probable to us, however, that in view of the excess capacity available and the increasingly restricted funds available for construction, the 10 per cent indicated by the special and confidential Commerce-SEC survey (see Greenbook for January 29, 1969) is likely to turn out closer to actual. As incorporated in our projection, this implies a sharply decreasing rate of increase over this year.

The longshoremen's strike at Atlantic and Gulf ports reduced net exports to an abnormally low rate of $1 billion in the fourth quarter and they are expected to remain at this level in the current period. Merchandise exports have been hit more heavily than expected, with uncertain effects on manufacturers' inventories, production and also on domestic sales of imported items. The strike has now been largely settled and a very sharp jump in exports is anticipated in the second quarter.

There is little reason to change our view with respect to the slow pace of economic expansion in the last half of this year, assuming the continuation of the tax surcharge and present monetary policy. Completion of retroactive tax payments and the large Federal pay raise in July will result in a somewhat faster rise in consumers' disposable income in the third quarter than in the second. Nevertheless, consumer spending is not likely to be much more ebullient especially if, as we assume, the saving rate rises somewhat. Federal spending is not expected to rise much in calendar 1969, residential construction activity will continue to decline if mortgage credit remains tight, and a marked tapering off in the increase in the volume of business fixed investment seems probable. As a result, growth of GNP is expected to average only about $12 billion a quarter in the second half--averaging about a 2 per cent rate of real growth. In this economic atmosphere, price increases are expected to moderate significantly, with the increase in the GNP deflator decreasing from the 4.1 per cent rate of the fourth quarter of 1968 to a rate of about 3 per cent by the end of this year.

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February 26, 1969

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)

	1967	1968	1969 Proj.	1968 III	1968 IV	1969 - Projected I	II	III	IV
Gross National Product	789.7	860.6	919.2	871.0	887.4	900.9	912.7	925.3	937.7
Final sales	783.6	852.9	913.3	863.5	876.8	890.8	907.2	921.3	933.7
Private	605.2	655.7	701.4	663.9	673.8	684.6	698.7	706.6	715.7
Personal consumption expenditures	492.2	533.8	567.3	541.1	546.8	553.8	562.5	572.0	580.7
Durable goods	72.6	82.5	84.7	85.1	85.1	84.0	84.6	84.8	85.5
Nondurable goods	215.8	230.3	243.8	232.7	233.7	237.4	241.2	246.3	250.0
Services	203.8	221.0	238.8	223.4	228.0	232.4	236.7	240.9	245.2
Gross private domestic investment	114.3	127.7	135.9	127.1	136.6	139.9	135.7	133.9	134.0
Residential construction	24.6	29.9	31.0	29.5	31.6	32.5	31.7	30.4	29.5
Business fixed investment	83.6	90.0	99.0	90.1	94.3	97.3	98.5	99.5	100.5
Change in business inventories	6.1	7.7	5.9	7.5	10.6	10.1	5.5	4.0	4.0
Nonfarm	5.6	7.3	5.8	7.3	9.7	9.7	5.5	4.0	4.0
Net Exports	4.8	2.0	4.2	3.3	1.0	1.0	6.0	4.7	5.0
Gov't. purchases of goods & services	178.4	197.2	211.9	199.6	203.0	206.2	208.5	214.7	218.0
Federal	90.6	100.0	103.6	101.2	101.7	102.2	101.7	105.0	105.3
Defense	72.4	78.9	81.1	79.6	80.0	80.0	80.0	82.2	82.2
Other	18.2	21.1	22.5	21.5	21.7	22.2	21.7	22.8	23.1
State & local	87.8	97.2	108.3	98.4	101.2	104.0	106.8	109.7	112.7
Gross national product in constant (1958) dollars	673.1	706.7	727.3	712.3	718.4	722.6	725.9	728.0	732.5
GNP implicit deflator (1958=100)	117.3	121.8	126.4	122.3	123.5	124.7	125.7	127.1	128.0
Personal income	628.8	685.8	735.1	694.3	708.2	718.5	729.1	741.3	751.5
Wages and salaries	423.4	463.5	499.6	469.0	479.0	488.0	495.4	504.1	511.0
Disposable income	546.3	589.0	622.3	592.7	602.4	607.9	615.7	628.7	636.8
Personal saving	40.2	40.7	39.7	37.1	40.9	39.1	38.0	41.3	40.5
Saving rate (per cent)	7.4	6.9	6.4	6.3	6.8	6.4	6.2	6.6	6.4
Corporate profits before tax	81.6	92.3	91.0	92.7	95.8*	92.8	91.8	89.8	89.5
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	151.2	176.9	195.1	182.1	187.1*	193.9	196.2	194.3	196.1
Expenditures	163.6	182.2	192.4	184.9	186.9	188.7	189.3	194.6	196.9
Surplus or deficit (-)	-12.4	-5.3	2.8	-2.8	.2	5.2	6.9	-.3	-.8
Total labor force (million)	80.8	82.3	83.8	82.4	82.6	83.4	83.6	83.9	84.1
Armed forces "	3.4	3.5	3.5	3.6	3.5	3.5	3.5	3.5	3.5
Civilian labor force "	77.3	78.7	80.3	78.8	79.1	79.9	80.1	80.4	80.6
Unemployment rate (per cent)	3.8	3.6	3.9	3.6	3.4	3.5	3.8	4.0	4.2
Nonfarm payroll employment (millions)	66.0	68.1	69.9	68.3	69.0	69.6	69.7	69.9	70.2
Manufacturing	19.4	19.7	19.8	19.8	19.9	20.0	19.8	19.7	19.7
Industrial production (1957-59=100)	158.1	164.7	170.9	165.2	167.4	170.0	170.8	170.8	172.0
Capacity utilization, manufacturing (per cent)	85.3	84.5	83.0	84.0	84.2	84.0	83.5	82.5	82.0
Housing starts, private (millions A.R.)	1.29	1.50	1.50	1.55	1.60	1.67	1.53	1.35	1.35
Sales new domestic autos (millions, A.R.)	7.57	8.62	8.54	9.01	8.82	8.25	8.25	8.50	8.75

* Projected.

CONFIDENTIAL - FR

February 26, 1969

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967	1968	1969 Proj.	1968 III	1968 IV	1969 - Projected I	II	III	IV
	------------------In Billions of Dollars---------------								
Gross National Product	42.1	70.9	58.6	18.1	16.4	13.5	11.8	12.6	12.4
Inventory change	-8.6	1.6	-1.8	-3.3	3.1	-0.5	-4.6	-1.5	0.0
Final sales	50.8	69.3	60.4	21.4	13.3	14.0	16.4	14.1	12.4
Private	28.6	50.5	45.7	17.5	9.9	10.8	14.1	7.9	9.1
Government	22.2	18.8	14.7	3.9	3.4	3.2	2.3	6.2	3.3
GNP in constant (1958) dollars	16.0	33.6	20.6	8.9	6.1	4.2	3.3	2.1	4.5
Final sales	24.0	32.4	22.3	12.0	3.2	4.7	7.4	3.7	4.4
Private	9.8	23.9	18.2	11.1	2.1	3.7	7.1	2.5	3.2
	------------------In Per Cent Per Year-----------------								
Gross National Product	5.6	9.0	6.8	8.5	7.5	6.1	5.2	5.5	5.4
Final sales	6.9	8.8	7.1	10.2	6.2	6.4	7.4	6.2	5.4
Private	5.0	8.3	7.0	10.8	6.0	6.4	8.2	4.5	5.1
Personal consumption expenditures	5.7	8.5	6.3	10.0	4.2	5.1	6.3	6.8	6.1
Durable goods	3.0	13.6	2.7	20.2	0.0	-5.2	2.9	0.9	3.3
Nondurable goods	4.4	6.7	5.9	7.9	1.7	6.3	6.4	8.5	6.0
Services	8.2	8.4	8.1	8.6	8.2	7.7	7.4	7.1	7.1
Gross private domestic investment	-5.4	11.7	6.4	-0.6	29.9	9.7	-12.0	-5.3	0.3
Residential construction	-0.8	21.5	3.7	0.0	28.5	11.4	-9.8	-16.4	-11.8
Business fixed investment	2.8	7.7	10.0	14.3	18.6	12.7	4.9	4.1	4.0
Gov't. purchases of goods & services	14.2	10.5	7.5	8.0	6.8	6.3	4.5	11.9	6.1
Federal	17.1	10.4	3.6	4.8	2.0	2.0	-2.0	13.0	1.1
Defense	19.5	9.0	2.8	3.0	2.0	0.0	0.0	11.0	0.0
Other	8.3	15.9	6.6	9.5	3.7	9.2	-9.0	20.3	5.3
State & local	11.4	10.7	11.4	11.7	11.4	11.1	10.8	10.9	10.9
GNP in constant (1958) dollars	2.4	5.0	2.9	5.0	3.4	2.4	1.8	1.2	2.4
Final sales	3.7	4.9	3.2	6.9	1.8	2.7	4.1	2.1	2.4
Private	1.9	4.5	3.3	8.2	1.5	2.7	5.1	1.8	2.2
GNP implicit deflator	3.1	3.8	3.8	3.4 1/	4.1	3.7	3.4	4.3 2/	2.9
Personal income	7.2	9.1	7.2	9.6	8.0	5.8	5.9	6.7	5.5
Wage and salaries	7.3	9.5	7.8	10.0	8.5	7.5	6.1	7.0	5.5
Disposable income	6.8	7.8	5.7	4.4	6.5	3.7	5.1	8.4	5.2
Corporate profits before tax	-4.7	13.1	-1.4	1.7	13.4	-12.5	-4.3	-8.7	-1.3
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	5.7	17.0	10.3	23.5	11.0	14.5	4.7	-3.9	3.7
Expenditures	14.9	11.4	5.6	6.6	4.3	3.9	1.3	11.2	4.7
Nonfarm payroll employment	3.1	3.2	2.6	2.9	4.1	3.5	0.6	1.1	1.7
Manufacturing	1.0	1.5	0.5	2.0	2.0	2.0	-4.0	-2.0	0.0
Industrial production	1.2	4.2	3.8	2.4	5.3	6.2	1.9	0.0	2.8
Housing starts, private	10.9	16.3	0.0	29.7	12.9	17.5	-33.5	-47.1	0.0
Sales new domestic autos	-9.7	13.9	-0.9	27.3	-8.4	-25.8	0.0	12.1	11.8

1/ Excluding Federal pay increase, 2.8 per cent per year.
2/ Excluding Federal pay increase, 3.1 per cent per year.

Industrial production. Industrial production is tentatively estimated to have increased further in February--probably somewhat more than the rise in January but less than the 1 per cent rise in December. Output gains in February are expected to be mainly in business equipment, materials, and a partial recovery in defense equipment from the strike-reduced January level. On the other hand, production of most of the cyclical consumer products--autos, home goods, and apparel--is estimated to have changed little or declined slightly.

Output of raw steel rose further in February. In the week ending February 22, raw steel production (not adjusted for seasonal variation) was 3 per cent below a year earlier, when steel inventories were being built-up in anticipation of a strike, but was very sharply above the post-contract settlement low at the end of September. Among other materials, output of paperboard has continued strong in February and runs of crude oil to refining stills have made the usual seasonal increase, although 25,000 workers have been out on strike since January 4. Output of industrial chemicals and most paper products has apparently advanced further.

Production of business equipment rose to a new high in January and is expected to have increased further in February. Output of trucks, reflecting heavy demands, advanced again in February.

The immediate outlook for sales and output of most consumer goods is not buoyant. Unit sales of new domestic autos declined 10 per cent from mid-1968 to January 1969 and, over the same period, dealers' inventories rose 15 per cent. Reflecting these disparate trends, auto assemblies were reduced from an annual rate of 9.2 million units in November to 8.7 million units in January. Production schedules for February were originally set at a rate of 8.6 million units, but so far output has averaged 8.4 million units, the same as the improved level of sales in the first 20 days of February.

Demands for appliances, furniture, and apparel also have been slipping since last August and by January retail sales of these products were down 6 per cent even though prices continued to rise. Output of household appliances which changed little between September and November 1968 rose in December and January to a new high. Production of television sets declined 8 per cent from October to January and in early February continued at this reduced level. Output of furniture and rugs increased sharply in the fourth quarter of 1968 and extended the gain into January, but the rate of increase was too fast to be sustainable. If sales of these consumer durable goods continue to weaken, the rise in output is likely to moderate considerably or perhaps turn into a decline.

Capacity utilization. The January rate of manufacturing capacity utilization is estimated at 84.4 per cent, little changed from the 84.5 per cent of December. Since the middle of 1967 the operating rate has remained within a very narrow range around this figure. The February figure is expected to remain at about the January level.

Operating rates are above normal in the rubber and nonferrous metals industries, and moderately high in the production of aircraft, motor vehicles, petroleum, textile, and paper products. Appreciable amounts of unused capacity remain for the production of most other manufacturing products.

UTILIZATION RATES
(Per cent)

Industry	1967	1968						1969
	QIV	QI	QII	QIII	QIV	Nov.	Dec.	Jan.
Manufacturing	84.8	84.9	84.8	84.0	84.2	84.1	84.5	84.4
Primary processing industries	85.6	85.5	86.5	84.6	85.3	85.0	86.3	86.2
Advanced processing industries	84.3	84.4	83.6	83.5	83.4	83.5	83.2	83.0

Retail sales. It is now apparent that retail sales have been edging downward since late summer. Monthly sales, smoothed by a 2-month moving average, show a persistent drop over this period. In real terms, the downward course of sales is much sharper, with the level in December-January off by 3.3 per cent from July-August.

Although retail sales in January recovered from the reduced December level with a gain of 2.1 per cent, sales remain well below August. If the automotive group is excluded--which in January rose in contrast to a decline in the unit auto sales series--the increase in January was limited to 1.7 per cent. So far the weekly sales figures for February suggest that this month will be no higher than January.

RETAIL SALES, SEASONALLY ADJUSTED
TWO-MONTH MOVING AVERAGE
(In millions of dollars)

	Total	Total, excluding auto	Durable	Nondurable	Total, real*
July-Aug.	28,920	23,253	9,485	19,435	25,017
Aug.-Sept.	28,950	23,129	9,633	19,317	24,957
Sept.-Oct.	28,770	23,020	9,536	19,234	24,716
Oct.-Nov.	28,728	23,183	9,322	19,406	24,596
Nov.-Dec.	28,431	23,049	9,173	19,258	24,279
Dec.-Jan.	28,378	23,008	9,235	19,143	24,193

* Deflated by the CPI, all commodities.

Most of the strength in January was in sales of the automotive group and the diverse lumber, building material, and hardware store group. Sales of furniture and appliance stores declined for the fifth successive month. The weekly figures for February, however, suggest that furniture and appliance sales may finally be recovering somewhat.

Nondurable goods sales in January were up 1.4 per cent from December, with significant increases occurring in sales of apparel and food stores. The important general merchandising group, however, was virtually unchanged from December.

Over the year, sales of all retail stores were up 6.4 per cent, with sales of durable goods stores rising 10.5 per cent and the nondurable goods stores increasing 4.6 per cent.

Unit auto sales and stocks. Sales of new domestic autos rose in the second 10 days of February and for the first 20 days were at a seasonally adjusted annual rate of about 8.4 million units, up 6 per cent from the same period last month and, also, a year earlier. Dealers' stocks increased about seasonally over the first ten days of February and, on February 10, were 26 per cent above a year ago when supplies were curtailed by work stoppages.

Consumer credit. Judging from early reports, the rate of growth in instalment credit outstanding slowed in January, for the third month in a row. The slower rise was not unanticipated: Retail sales have been slack this winter, new car sales have been declining, and personal income gains have diminished. Consumers are apparently becoming more cautious in adding to debt, after sharply reducing their rate of saving in the summer of 1968.

On balance, the January rise in instalment credit outstanding is not likely to exceed $8-1/2 billion, at a seasonally adjusted annual rate. This compares with a $10 billion rate in each of the final two quarters of 1968, and is about equal to the rise in the second quarter of last year. Demand for personal loans remained quite strong last month, but further weakness was evident in the automobile and other consumer goods components of the total.

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

	Extensions	Repayments	Net Change
1968			
October	102.4	91.0	11.4
November	99.5	89.5	10.0
December	99.3	90.0	9.3
Quarter IV	100.4	90.2	10.2
1969			
January	98.4 e/	90.0 e/	8.4 e/

e/ - estimated.

Revised figures (not yet released) indicate that instalment credit extended for new car purchases declined markedly from October to December at commercial banks, sales finance companies, and other lending institutions. The reduction reflects a substantial drop in the number of autos financed, partly offset by a modest rise in the size of the average loan.

In December, instalment credit extended for new cars totaled $19.3 billion (seasonally adjusted annual rate), down $1-3/4 billion from two months earlier and the lowest figure since June. The bulk of the decline in loan volume occurred at commercial banks, and may reflect some reorientation of loan portfolios away from the consumer sector to business customers. Commercial banks, which generally account for three-fifths of the dollar volume of consumer new car financing through direct loans and purchased paper, experienced a contraction of $1.4 billion in extensions.

New car loans at sales finance companies and other lenders eased slightly. The relatively better showing of the non-bank lenders is mainly attributable to larger-than-average increases in the size of loans extended.

There is evidence that the reduction in new car lending extended into January. Sales of domestic autos declined moderately, and sales of imported models were retarded because the dockworkers' strike limited deliveries. Since the proportion of credit sales to total sales of new cars generally changes little from December to January, extensions are likely to reflect the decline in unit volume.

In addition, loan demand may have been moderated by increases in commercial bank auto rates that were announced in such key cities as New York, Chicago, Dallas, and San Francisco.

Personal income. Personal income rose only $1.6 billion in January to $715 billion (seasonally adjusted annual rates). This was the smallest increase in more than a year. The major factor limiting the January gain was the increase in social security tax rates, which reduced the over-all rise in income by $1.8 billion. At the same time, the petroleum and longshoremen's strikes and bad weather helped hold back the increase in wage and salary disbursements to $2.4 billion in January, down sharply from $4.4 billion in both November and December.

Aside from these special factors, the wage and salary payments picture remained strong. The rise in durable goods industry payrolls accelerated--reflecting increased employment and higher hourly wage rates--although the petroleum strike held the over-all manufacturing advance down to $0.8 billion. Trade and service payrolls rose sharply, with the advance in trade particularly strong. Transportation payrolls declined slightly because of the dock strike.

MONTHLY INCREASES IN PERSONAL INCOME
(Billions of dollars, seasonally adjusted annual rates)

	1968		1969
	November	December	January
Personal income	5.5	5.5	1.6
Wage and salary disbursements	4.4	4.4	2.4
Other income flows	1.1	1.1	1.0
Less: Personal contributions for social insurance	0	0	1.8

Census consumer buying intentions. According to their January survey, the Census indexes of anticipated expenditures on new cars and houses declined again and were down considerably from their July 1968 peaks. The index of expected expenditures on used cars remained at the low October level. Plans to purchase household durables, however, increased significantly--attaining a new high for the series.

The Census Bureau suggests that the January level of the index of new car expenditures implies unit purchases by households at about the same rate as in the first half of 1968, which was considerably below the rate in the last half of the year.

This quarterly survey is based on a probability format which requires respondents to rank their buying intentions on a scale from 0 to 100. This new form of the survey has been taken on a full sample basis only 9 times, and the lack of predictive value of the previous 8 surveys led to a reweighting of the basic data and to large revisions in the indexes (except for housing) just prior to the latest survey. As a result, the January survey is the first one incorporating the new weighting system on a current basis. It might be noted that the anticipated level of new car purchases is particularly suspect in view of the poor forecasts--even after the reweighting--in the second half of 1968.

INDEX OF CONSUMER PLANS FOR NEW AND USED CAR PURCHASES
AND FOR EXPENDITURES ON HOUSES AND HOUSEHOLD DURABLES:
QUARTERLY SURVEYS, JANUARY 1968 - JANUARY 1969
(Average of January 1967 and April 1967 = 100.0)

Date of survey	New cars (Revised)	Used cars (Revised)	Houses*	Household durables (Revised)
1968				
January	100.9	99.7	105.7	98.1
April	103.6	103.6	114.7	101.6
July	106.0	103.3	117.9	103.9
October	103.9	98.3	106.4	102.7
1969				
January	101.7	98.3	106.3	104.6

* The index for housing was not revised because the methodology adopted for the revised series was already used for the housing index.

Durable goods new orders. The value of new orders for durable manufactures increased slightly in January, according to the advance report, and was at a level equal to the strong fourth quarter average and exceeded only by last October when ordering showed an unusual 7 per cent increase. Orders for iron and steel and motor vehicles increased. Orders for fabricated metals dropped to a level lower than any month of 1968, reflecting a sharp drop in orders for the building materials group. Defense ordering dropped back from a high December level, and orders for machinery and equipment were unchanged.

NEW ORDERS FOR DURABLE GOODS
Seasonally adjusted, billions of dollars

	1968					1969
	QIII avg.	QIV avg.	Oct.	Nov.	Dec.	Jan.
Total durable manufacturers	27.5	29.7	30.3	29.3	29.4	29.7
Iron and steel	1.6	2.0	2.0	2.1	1.9	2.2
Motor vehicles and parts	4.1	4.2	4.1	4.3	4.1	4.3
Consumer durables (excl. autos)	2.0	2.0	2.0	2.0	2.1	2.1
Machinery and equipment	5.9	6.3	6.6	6.1	6.2	6.2
Defense products industries (old series)	3.7	4.2	4.4	3.9	4.2	4.0
All other durable manufacturers	10.2	11.0	11.2	10.9	10.9	10.9
Defense products (new series)	2.1	2.2	2.4	2.0	2.3	1.9

Durable goods shipments rebounded in January to a new high, increasing in every major industry except aircraft, but the backlog of unfilled orders continued to rise in most industries.

Trade and manufacturing inventories. Book value of trade and manufacturing inventories rose $700 million, seasonally adjusted, in December, less than the October-November average rise. Sales were relatively weak in December and stock-sales ratios generally increased, but there appeared to be less imbalance in manufacturing than in trade.

SELECTED RATIOS, MANUFACTURING AND TRADE
(Seasonally adjusted)

	1964 annual average	1966 Dec.	1967 Nov.	1967 Dec.	1968 Nov.	1968 Dec.
Inventories to sales:						
Manufacturing & trade, total	1.47	1.56	1.57	1.56	1.53	1.56
Durable	1.80	1.95	1.98	1.94	1.91	1.97
Nondurable	1.21	1.23	1.22	1.23	1.19	1.21
Manufacturing, total	1.64	1.72	1.75	1.73	1.67	1.72
Durable	1.88	2.00	2.09	2.01	1.98	2.06
Nondurable	1.38	1.37	1.36	1.37	1.30	1.31
Wholesale & retail trade, total	1.30	1.39	1.37	1.39	1.37	1.39
Wholesale trade	1.14	1.22	1.21	1.23	1.20	1.19
Retail trade	1.40	1.51	1.48	1.49	1.48	1.52
Durable	1.87	2.11	2.06	2.07	2.09	2.14
Automotive	1.42	1.68	1.53	1.57	1.66	1.69
Other durable	2.48	2.73	2.78	2.71	2.71	2.77
Nondurable	1.19	1.22	1.22	1.22	1.19	1.23
Total manufacturing: materials held and ordered to --						
Sales	1.79	2.08	2.02	1.96	1.79	1.85
Unfilled orders for end products	1.11	1.07	1.05	1.03	.99	.97
Durable manufacturing:						
Unfilled orders/sales	2.65	3.13	3.10	3.03	2.87	3.03
Inventories/unfilled orders	.71	.64	.67	.66	.69	.68

More than half of the $500 million December increase in manufacturers' inventories was in durable goods in process, as production responded to high levels of new and unfilled orders. In fact, durable goods inventories declined relative to unfilled orders; this ratio is actually below its 1964 (pre-Vietnam) level, although higher than it was in late 1966 before 1967's sharp drop in accumulation. Moreover, nondurable goods inventory-sales ratios are still low in manufacturing. In spite of recent increases in materials ordering, occasioned by rising production and by hedging against price hikes around the turn of the year, the level of materials held and on order at domestic manufacturers does not seem excessive in relation to the levels of sales and unfilled orders for manufacturers' "end products" (products other than the intermediate materials for manufacturing which are covered in the concept of "materials held and ordered").

Trade inventories in December rose about $200 million, as a $250 million increase at retail was partly offset by a decrease at wholesale. Although the retail increase was less than in previous months, the retail data, unlike the manufacturing data, do suggest growing imbalance between stocks and sales. Durable goods retail stock-sales ratios are high and rising, both at automotive dealers, where a further increase in January and February is likely, and at other durable goods retailers. The December increase in the nondurable retail stock-sales ratio was large, but this ratio was only slightly above the year-ago level.

Leading indicators. The Census Bureau's index of 12 leading indicators rose slightly further in January. The October peak has been revised downward so that the series now shows continued small increases since then. The coincident and lagging indicators continued strong.

COMPOSITE CYCLICAL INDICATORS
1963 = 100

	12 leading indicators	5 coincident indicators	6 lagging indicators
1968			
September	140.8	159.0	168.2
October	143.6	160.2	169.3
November	143.7	162.1	171.8
December	144.5	163.2	173.4
1969			
January	145.1p	164.7p	176.2p

Five new leading indicator indexes are now available, each covering a separate "economic process." They are more irregular than the 12-indicator composite but have longer leads on downturns. Like the 12-indicator composite, they have remained at high levels in recent months.

Construction and real estate. Seasonally adjusted expenditures for all new construction--which were revised upward by 1 per cent for November and December--remained near the record December rate in January, according to preliminary estimates of the Cenus Bureau. Outlays for nonfarm residential construction at an annual rate of $30.6 billion were indicated to be substantially above the improved year earlier level. Nonresidential construction continued to edge off from the recent peak reached last October, apparently owing mainly to a moderate downward adjustment in outlays for commercial buildings. Public construction, which had accelerated in December, moved even higher in January. However, with over-all construction costs up about 6 per cent on a year-to-year basis, residential construction activity was the only major category above a year earlier in real terms.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	January 1969 ($ billions) 1/	Per cent change from	
		December 1968	January 1968
Total	87.6	-1	+ 6
Private	58.8	-2	+ 6
Residential	30.6	-2	+13
Nonresidential	28.2	-1	--
Public	28.8	+1	+ 4

1/ Seasonally adjusted annual rates; preliminary. Data for the most recent month (January) are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Private housing starts, which had dropped sharply in December, surged above the recent November peak in January and, at a seasonally adjusted annual rate of 1.82 million, were the highest since February of 1964. The January spurt reflected in large part an expected initial acceleration of schedules by builders in response to the tightening in money markets which began toward the end of last year. Both single-family and multifamily structures shared in the upturn, although the volatile multifamily group showed by far the largest advance. Among individual regions, the month-to-month rise exceeded 50 per cent in the

Northeast and North Central states. Only in the West, where unusually heavy rains were a clearly limiting factor, did starts decline.

PRIVATE HOUSING STARTS AND PERMITS

	January 1969 (Thousands of units)1/	Per cent change from	
		December 1968	January 1968
Starts	1,816	+22	+25
1-family	1,028	+12	+13
2-or-more-family	575	+37	+45
Northeast	294	+52	+18
North Central	537	+58	+31
South	751	+15	+42
West	234	-24	-13
Permits	1,352	- 8	+18
1-family	644	-12	- 3
2-or-more-family	708	- 3	+47

1/ Seasonally adjusted annual rates; preliminary.

Unlike starts, building permits dropped in January, and with outstanding mortgage commitments built up during last year's second half now under increased downward pressure, an appreciable drop from the exceptional January rate of starts is indicated for the period ahead. Builders will probably continue to attempt to keep schedules as high as winter conditions permit, however, given the uncertainties in financial markets, expectations of further lumber and other cost increases and the sustained high levels of demands for shelter. Consequently, in line with earlier projections, housing starts in the first quarter as a whole will most likely hold above the advanced 1.60 million rate reached in last year's fourth quarter.

Underscoring the strength of demand pressures on builders in recent months, rental vacancy rates dropped further in the fourth quarter of last year to an average of 4.9 per cent of rental units available and fit for use. This was the lowest rate in more than a decade and the lowest for any fourth quarter since the inception of the quarterly series in 1956. Homeowner vacancy rates averaged 1.1 per cent compared with 1.2 per cent a year earlier and a fourth quarter high of 1.4 per cent in 1964 and 1965. Also, while stocks of new homes for sale by speculative builders were somewhat higher in December, the level of stocks of completed structures (as compared with those under construction) was still exceptionally low and sales were advancing appreciably. Moreover, in the market for existing homes, unit-sales in December were running a fifth above a year earlier at prices averaging nearly a tenth more on a year-to-year basis, according to the National Association of Real Estate Boards.

RENTAL VACANCY RATES
(Per cent)

	Average for fourth quarter of:					
	1956	1964	1965	1966	1967	1968
All regions	5.3	7.5	7.7	7.0	5.6	4.9
Northeast	2.8	5.0	5.1	4.9	3.9	3.1
North Central	5.1	6.8	6.6	5.8	5.1	4.7
South	7.3	7.9	8.4	7.6	6.4	6.2
West	6.9	11.2	11.7	10.9	7.4	6.1

Labor market. The labor market continued very tight in January; the unemployment rate held at 3.3 per cent -- a 15-year low -- and nonfarm employment posted another substantial gain. However, there have been slight indications of easing demand. The factory workweek -- a leading employment indicator -- declined between October and January. Over the same period, initial claims for unemployment insurance -- also a leading indicator -- edged up slowly. Thus far in February, the increase appears to have slowed, but in the most recent week, such claims were slightly above the year-earlier level.

Nonfarm employment rose by 260,000 in January (350,000, after allowance for a net increase of about 90,000 in workers off payrolls because of strikes). A significant part of the job gain reflected a very sharp rise in trade employment (165,000) following an unusual decline in December. The other public and private service sectors exhibited their usual pattern of growth. Employment in construction declined slightly from the previous month's peak.

Manufacturing employment continued to move up briskly in January, with the largest increases in the metal-producing and metal-using industries. The total gain (after allowance for increased strike activity) was about in line with the average monthly increase since October, thus continuing the very sharp advance in manufacturing employment. However, the average workweek was reduced from 41.0 hours in September and October to 40.7 hours in December and January, with shorter average hours in both durable and nondurable goods industries. Reductions in hours of work were fairly widespread during this period;

in primary metals, machinery and transportation equipment, however, the workweek continued at high October levels. In transportation equipment, the workweek is likely to decline somewhat in February, reflecting the production-inventory adjustment in the auto industry which didn't get underway until late January.

The pattern of continued strength in January -- which is normally a slack period for output and employment -- actually reflected the fact that many workers were being retained on payrolls during a month when they would normally be temporarily laid off. This may be a sign of greater-than-usual demands, but may also reflect the fear of losing workers in an extremely tight labor market. The retention of workers now could slow the rate of increase in output per manhour in the first quarter and cut into the normal seasonal employment pick-up beginning in March.

CHANGES IN NONFARM PAYROLL EMPLOYMENT*
(Seasonally adjusted, in thousands)

	Average Monthly Increase*		
	January to May	May to September	September to January
Total	204	125	307
Manufacturing	26	15	66

* Adjusted for major strikes.

The civilian labor force moved up sharply in January -- resuming a more normal growth path after lagging in the last half of 1968 -- but the gain in employment was equally large and the unemployment rate remained at a very low 3.3 per cent for the second successive month.

The jobless rate for adult men edged up slightly to 2.0 per cent from the low point reached in December. The rate for adult women remained unchanged, while for teenagers it declined. The tightness in the labor market this year has been reflected in a sustained decline in unemployment of 15 weeks or more. With the continued surge of employment growth in January, there was a slight further decline in long-duration unemployment, which reached a post-World War II low of 316,000.

With the labor market very tight, wages continued to rise at about the same pace as in the past few months. Factory workers hourly earning rose to $3.12 in January, and the average hourly earnings of production and nonsupervisory workers on private payrolls reached $2.95. Over the year, manufacturing hourly earnings were up by 6.1 per cent and the private nonfarm figure was up by 6.9 per cent.

Unit labor costs -- total private economy. Despite accelerating increases in compensation, unit labor costs for the private economy maintained a fairly steady pace of increase throughout 1968, with most quarters showing about a 4 per cent rise from a year earlier.

Although growth in output in the fourth quarter from a year earlier was significantly smaller than preceding gains, manhours were off slightly and output per manhour was up by 3.8 per cent over the year, the largest such advance since early 1966. For the year as a whole, the rise in productivity of 3.3 per cent -- close to the post-war average -- was double that in 1967 and while unit labor costs were still increasing rapidly, the rise of 4.0 per cent for 1968 as a whole was less than the 4.4 per cent rise in 1967.

PRODUCTIVITY, HOURLY COMPENSATION
AND UNIT LABOR COSTS FOR THE TOTAL PRIVATE ECONOMY
(Per cent change from a year earlier)

	Average hourly compensation	Output per manhour	Unit labor costs
1968 - I	7.4	3.3	3.9
II	7.0	2.8	4.1
III	7.3	3.2	4.0
IV	8.1	3.8	4.2
Annual average	7.5	3.3	4.0

Wholesale prices. The BLS industrial commodity index in January was 110.9 per cent of the 1957-59 average, as originally estimated, but the December index was revised down a tenth of a point (to 110.2) and the increase from mid-December to mid-January is now 0.6 per cent. This is the largest rise in wholesale prices of industrial commodities since the big steel wage settlement and price rise in August 1956. Between mid-January and mid-February, however, the rise moderated somewhat, with the BLS estimating an increase of about 0.4 per cent (to 111.3). The number of industrial product classes showing increases reached a new 1968-69 high in mid-January, slightly exceeding the level reached a year ago. Since mid-January the number of reported increases has declined though in mid-February the number was still sizable.

The combined January and February increase in the industrial price average represented a substantial speed-up from the 3.6 per cent annual rate of increase over the last 4 months of 1968; the speed-up to a rate of 6 per cent reflected, in the main, the sharp spurt early this year in prices of nonferrous metals and steel mill products and even larger increases, on average, in lumber and plywood prices. The increases in basic metals prices occurred mainly in early January but they continued -- at a slower pace -- in late January and early February. Since mid-February they have subsided further. As for lumber and plywood, the widespread publicity and special government attention now being directed to the extraordinary price (and profits) rise over the past 2 years -- and its accelerating pace of recent months -- together with the prospect for leveling off in housing starts, may cause the lumber price rise to taper off. Average wholesale prices of lumber and plywood in mid-February were up 37 per cent from a year ago and 50 per cent from two years ago. For all industrial commodities, the price rise over these two periods totaled 2.8 per cent and 5 per cent, respectively.

Price increases for steel, nonferrous metals, and lumber and plywood accounted for about half the price rise for industrial commodities in January and February. In January there were also sizable increases for paper, nonmetallic minerals (mainly construction materials), and producers' equipment.

The concentration of the recent industrial price rise among materials -- particularly those classified as sensitive (which include nonferrous metals, lumber, and plywood) -- and, to a lesser extent, in producers' equipment is indicated in the table below. Average prices of consumer nonfood products have shown only a slight upward drift following the spurt last autumn which largely reflected the auto price rise.

WHOLESALE PRICES OF INDUSTRIAL COMMODITIES
(FR groupings of BLS data; 1957-59=100)

	1968			1969	
	Aug.	Oct.	Dec.	Jan.	Feb.[e]
All commodities	108.1	108.8	109.3	109.9	110.3
Materials	106.6	107.2	107.9	108.8	n.a.
Sensitive	106.6	107.9	110.1	112.4	114.0
Other	106.8	107.3	107.5	108.0	n.a.
Products	110.0	110.8	111.1	111.4	n.a.
Consumer nonfoods	107.5	108.2	108.3	108.4	n.a.
Producers' equipment	115.4	116.4	117.1	117.6	n.a.

e -- estimated.

Consumer prices. The consumer price index increased 0.3 per cent in January, to 124.1 per cent of the 1957-59 average. The rise equaled that of January a year ago and, after allowance for usual seasonal declines in commodity prices, was close to the average annual rate of over 4.5 per cent prevailing over the year 1968.

The rise from December to January is typically held down by sizable seasonal declines in prices of new and used cars and apparel. This year these declines were less than seasonal and average prices of nonfood commodities, which declined 0.2 per cent on an unadjusted basis, rose 0.2 per cent after allowance for usual seasonal changes. This rise was about the same as in the 2 preceding months and well below the average rate earlier in 1968.

Food prices showed a pronounced rise in January, with meat prices up more than seasonally and egg prices showing a sharp, contra-seasonal increase as supplies were temporarily reduced. After allowance for usual seasonal changes, food prices rose 0.5 per cent, to a level 2.3 per cent above the 1968 average. A rise of about this magnitude from the 1968 average was recently forecast by USDA experts for 1969 as a whole; thus prospects are that retail food prices may not, on average, increase much more over the balance of this year.

Costs of services showed a very large spurt in January: the rise equaled the record 0.7 per cent per month of last June and July. At that time sharp boosts in mortgage interest charges were a primary influence. In January, these charges were moving up again but only moderately. The main upward thrust came last month from other home-ownership costs -- particularly taxes, insurance, and repair costs; from sharply higher automobile insurance premiums (particularly in New York); and from the largest increase in costs of medical care since last March.

<u>Outlook for agriculture in 1969</u>. A relatively good year for agriculture and for agribusiness firms was forecast by analysts participating in the 1969 outlook conference at the U.S. Department of Agriculture on February 17-19. This outlook was cast in a framework of a general economy less ebullient than that of 1968 but one which would support some further increase in domestic use of farm products in 1969. Foreign demands for farm products were expected to be down a little from 1968, partly because of increased grain crops abroad.

Larger domestic supplies of major farm products, especially foods, were felt to be virtually assured, barring severe production problems. Retail food prices at grocery stores were expected to average only 1 to 2 per cent above 1968 as compared with the average increase of 3.2 per cent from 1967 to 1968; restaurant meals, however, were expected to continue to rise at the 5 per cent annual rate of the past 3 years. Total consumer expenditures for food were expected to increase 4-1/2 per cent to 5 per cent with possibly 2 per cent of the increase in the real volume of sales and the remainder in prices. Expenditures of food, under these assumptions, were expected to amount to about 17 per cent of projected disposable personal income, a little under even the record low of 1968.

Spreads between retail prices of foods and prices received by farmers for equivalent farm products were expected to average between 2 and 3 per cent wider in 1969 than in 1968.

For the farmers of the nation, the outlook was for somewhat larger aggregate gross returns than in 1968, but with production expenses expected to be up, net realized income was likely to be a little short of the $14.9 billion earned in 1968.

1969 OUTLOOK PROJECTIONS

	GNP (Current dollars)	GNP (1958 dollars)	Farm Income (Current $) Gross	Farm Income (Current $) Net realized	Net per farm	Farm Prices 1957-59=100
	(Billions of dollars)					
1967	790	673	49.1	14.2	4,526	132
1968	861	707	50.8	14.9	4,836	137
1969 projected	919e	729e	51.9e	14.8e	4,900e	137e
Per cent changes:						
1968/1967	9.0	5.1	3.5	4.9	6.8	3.8
1969e/1968	6.7	3.1	2.2	-0.7	1.3	0

It was assumed that both the net migration of people from farms and the trend toward consolidation of farms into larger and more efficient units would continue in 1969. With fewer farms, it was expected that net income realized per farm would about match that of 1968.

Cash receipts from crops were expected to be larger in 1969, reflecting substantially larger volume marketings from 1968 crop stocks and 1969 current production at prices averaging a little below a year earlier. It was expected that price support loan rates would continue to dominate prices of foods and feed grains, cotton, and oilseeds. Government programs for 1969 were designed to reduce production of wheat and feed grains and to increase the production of cotton.

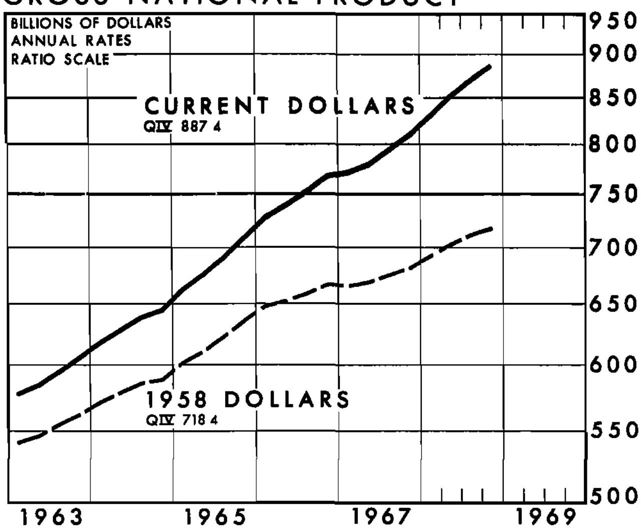
Cash receipts from livestock sales in 1969 were expected to be up a little because of larger marketings. Marketings of beef, pork, broilers, and turkeys were expected to be larger than last year and marketings of eggs, milk, veal, and lamb, smaller. Producer prices were expected to average about the same as in 1968.

For agribusiness firms in the product marketing and farm supply sectors, further gains in sales in 1969 were deemed likely, but their costs were expected to rise, although by a lesser rate than in 1968. The outlook for machinery demand was judged to be favorable, especially for heavy units and for harvesting machinery for fruits, nuts, vegetables and tobacco. Demands for petroleum products, fertilizers, pesticides, and commercial feeds, which tend to parallel the scale of production plans, were expected to continue strong.

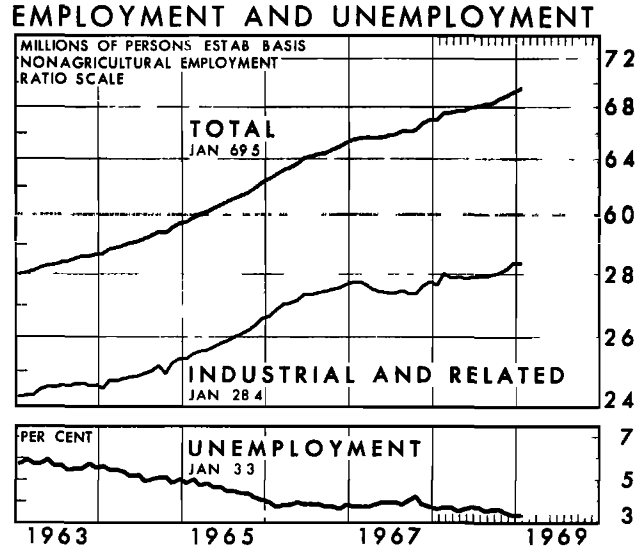
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

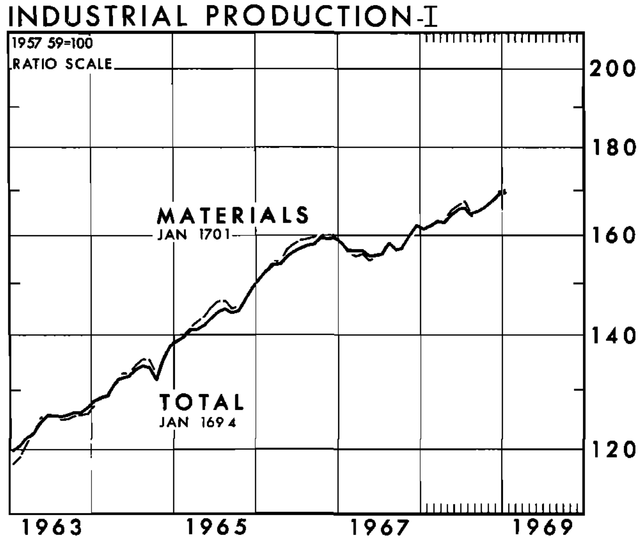
GROSS NATIONAL PRODUCT



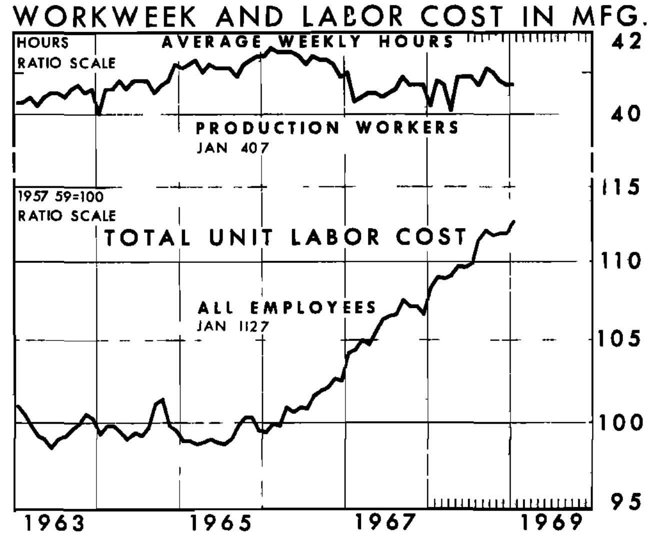
EMPLOYMENT AND UNEMPLOYMENT



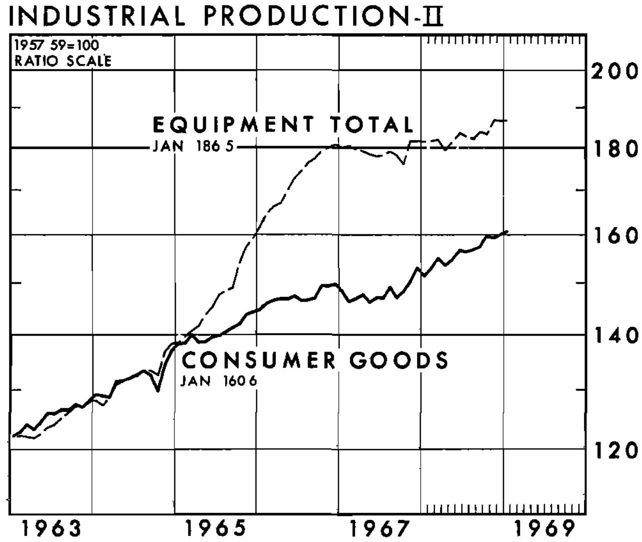
INDUSTRIAL PRODUCTION-I



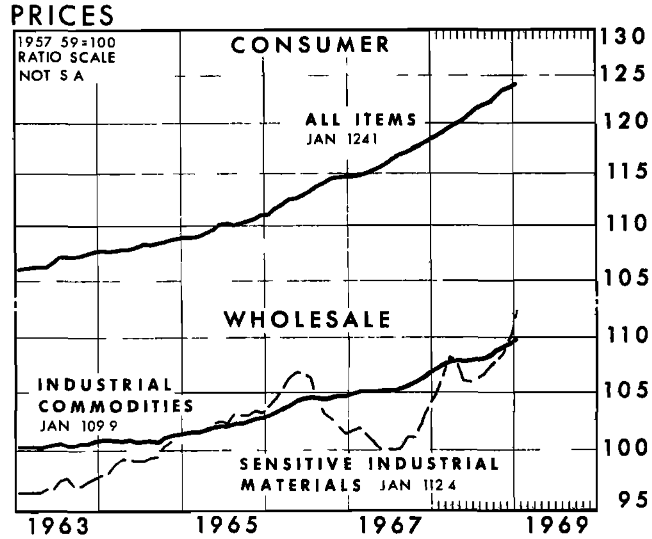
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



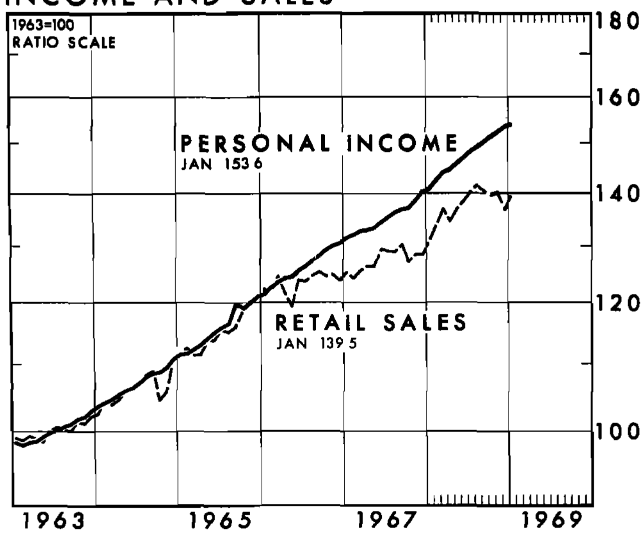
PRICES



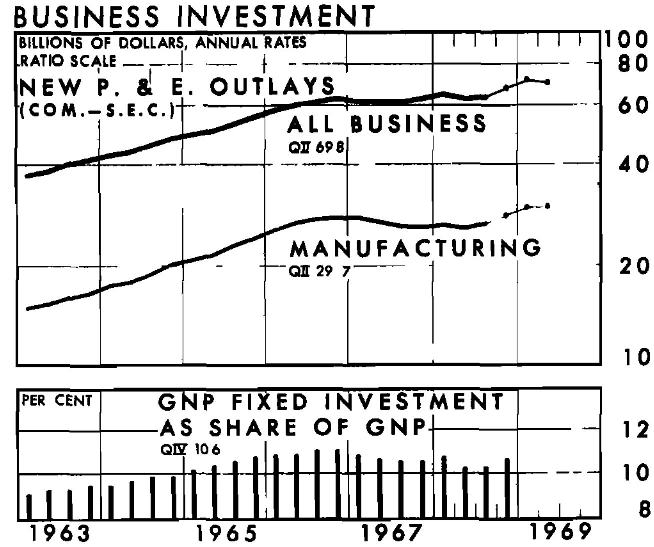
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

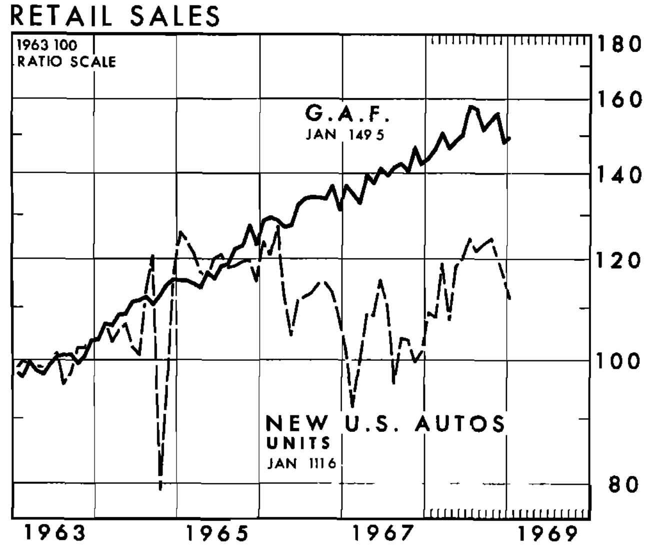
INCOME AND SALES



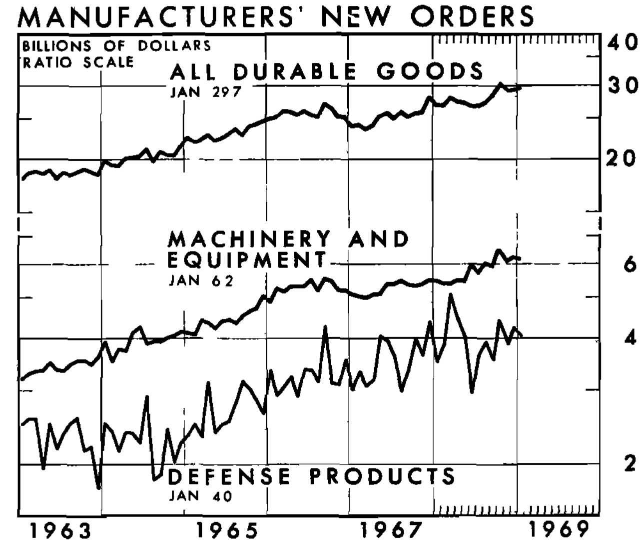
BUSINESS INVESTMENT



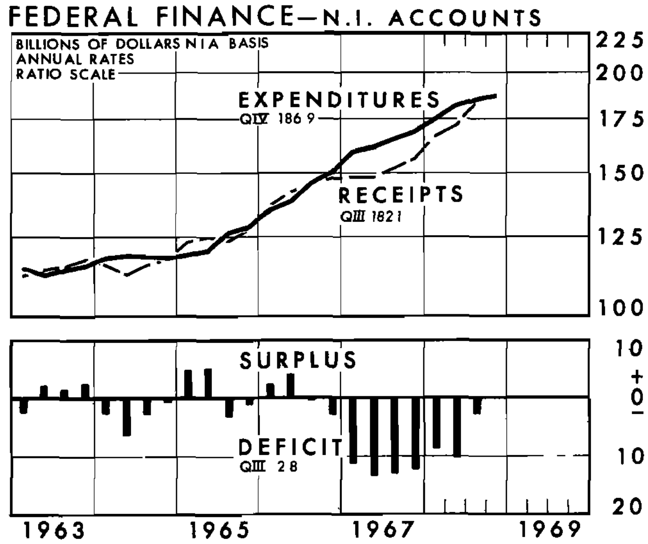
RETAIL SALES



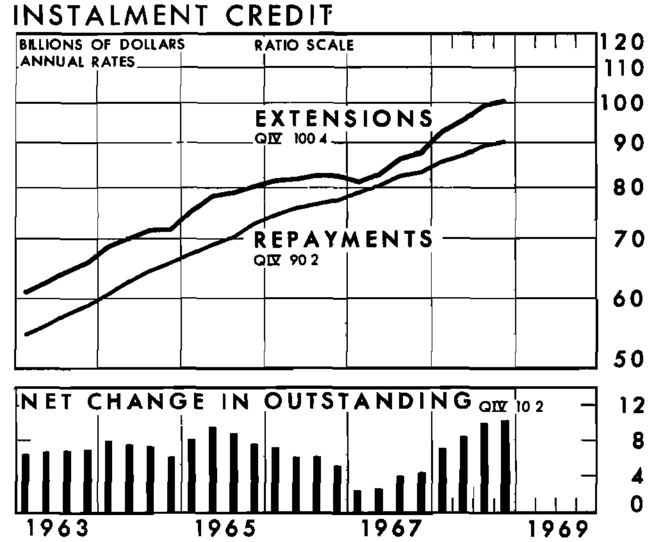
MANUFACTURERS' NEW ORDERS



FEDERAL FINANCE—N.I. ACCOUNTS



INSTALMENT CREDIT

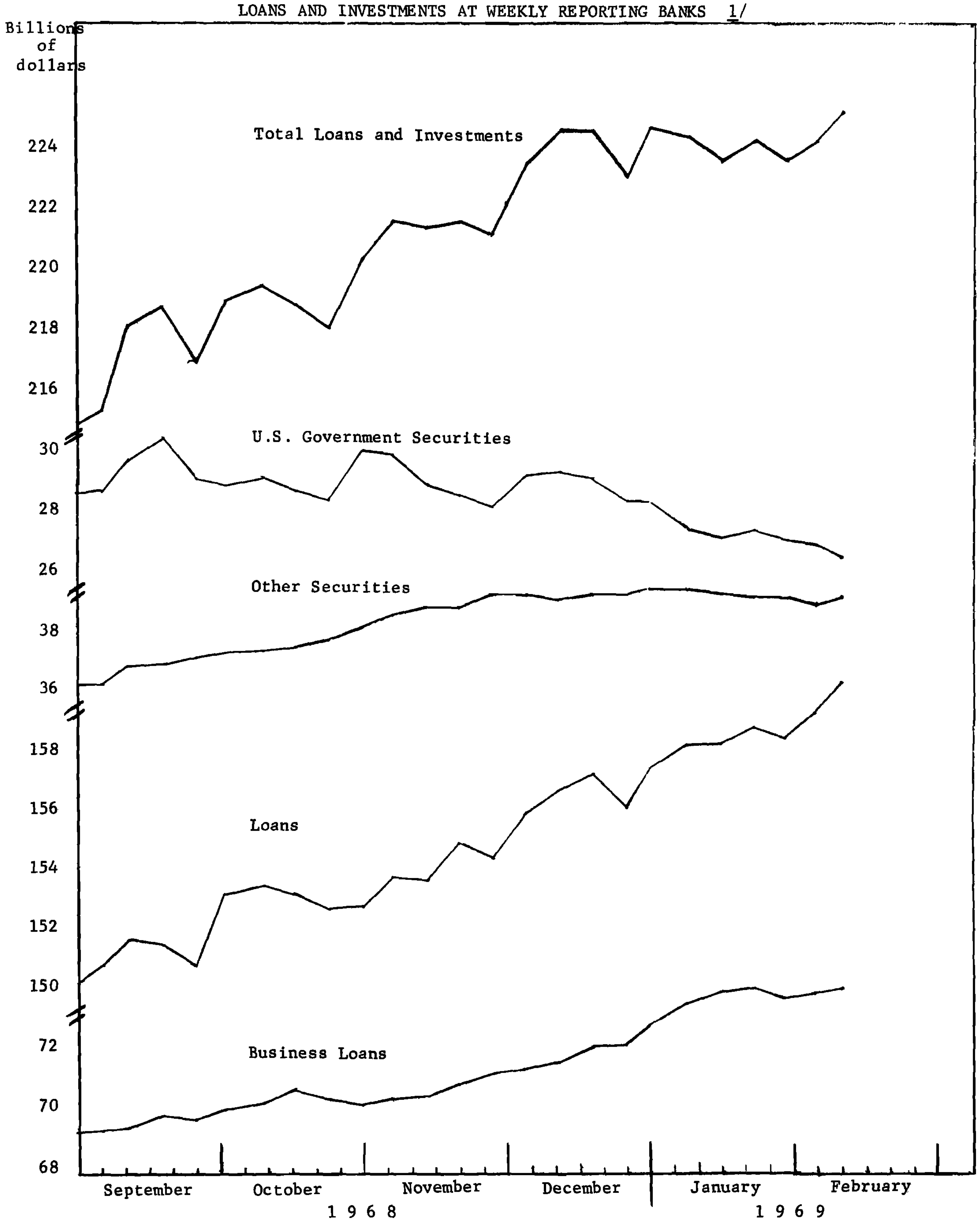


DOMESTIC FINANCIAL SITUATION

Bank credit. As measured by the daily average credit proxy, adjusted to include Euro-dollar borrowings, member bank credit is projected to show little change in February, following a decline at a -2.0 per cent annual rate in January. In the first two weeks of February, as indicated by the chart on the following page, there was a surge in loans at weekly reporting banks. However, this loan expansion took place primarily at New York banks and represented in large part apparently temporary increases in loans to finance companies and to brokers and dealers, since these loans dropped back sharply at New York banks in the week ending February 19.

Other major loan categories also increased further in early February. Business loan expansion resumed, after a pause in late January, but at somewhat less than the January pace. The recent increase was concentrated in loans to the retail trade industry, which again began to borrow heavily following repayment in late December and January of much of the large fourth quarter rise in their business loans. But continued borrowing by services and construction industries, and a contraseasonal rise in loans to commodity dealers also added to the early-February rise in business loans. The borrowing by retail trade and commodity dealers may be associated in part with shipment delays resulting from the dock strike. To some extent, however, the recent growth in business

LOANS AND INVESTMENTS AT WEEKLY REPORTING BANKS 1/



1/ Seasonally adjusted levels; experimental series based on preliminary seasonal factors.

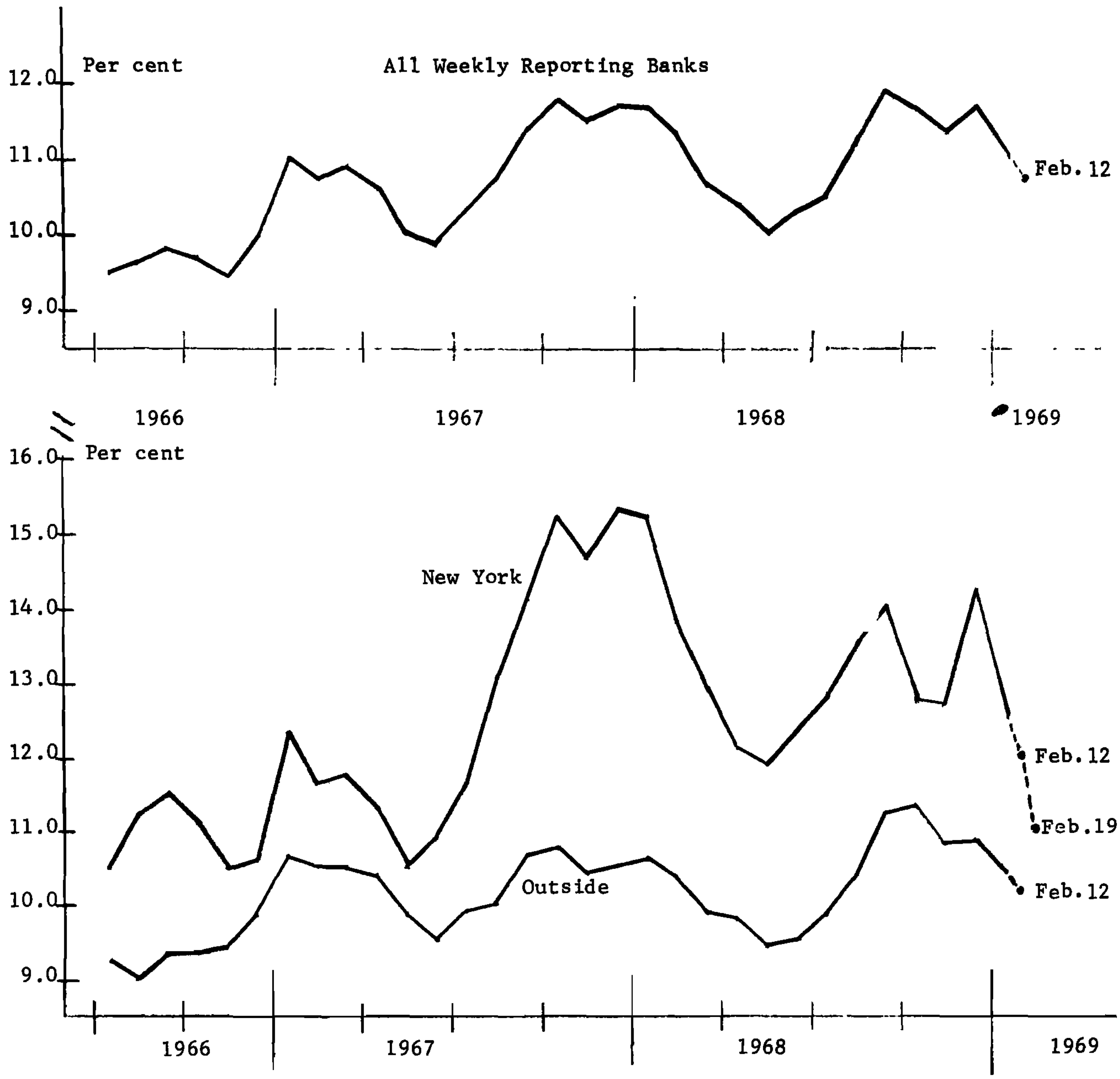
loans is overstated, since holdings of bankers' acceptances included in business loans remained almost unchanged in early February as compared to large declines in comparable periods of most other recent years. Growth in both consumer and real estate loans continued at near the advanced pace of recent months.

With continued CD attrition and with the increased cost of Euro-dollar funds, large banks reduced their security holdings further in early February in order to accommodate these loan demands. Most of this liquidation was in holdings of Treasury bills, which fell by nearly $800 million in the first two weeks in February, bringing the total decline since mid-December to about $2.3 billion. New York City banks reduced their bill holdings by an additional $483 million in the week ending February 19, leaving total bill holdings of New York banks at only slightly more than $500 million.

Weekly reporting banks also have cut their holdings of other securities since late December--reflecting principally liquidation of both long- and short-term municipals. However, since banks--particularly in New York and San Francisco--took large amounts of long-term municipals into portfolio in the week ending February 12, total holdings of other securities have remained relatively unchanged in early February, although New York banks reduced their holdings of longer-term municipals substantially in the week ending February 19.

As indicated by the chart on the following page, bank accommodation of loan demands during the current CD run-off has entailed

LIQUID ASSETS/TOTAL LIABILITIES LESS CAPITAL ACCOUNTS 1/



1/ Monthly averages of weekly figures, except for latest plot, which is a Wednesday figure. Liquid assets include Treasury bills, certificates, and notes and bonds maturing in one year, tax warrants and short-term municipals, bankers acceptances, balances with domestic banks, loans to domestic banks, and broker-dealer loans. Data not seasonally adjusted.

a significant reduction in liquidity positions built up in the summer of 1968. And although liquidity at large banks--as measured by the ratio given here for the week ending February 12--still remains above the low point in late 1966, the amount of unused loan commitments at banks probably is much higher now than in 1966. In that case, it would also seem likely that present liquidity needs are greater, and that therefore this ratio may overstate current bank liquidity as compared to that in 1966.

Bank deposits. Total time and savings deposits at large banks continued to decline contraseasonally in late January and in the first half of February. This reduction represented further outflows of CD's, and much less than usual growth in consumer-type time and savings deposits.

NET CHANGE IN TIME AND SAVINGS DEPOSITS
Weekly Reporting Banks
(Millions of dollars, not seasonally adjusted)

	1966 Jan. 19- Feb. 16	1967 Jan. 18- Feb. 15	1968 Jan. 17- Feb. 14	1969 Jan. 15- Feb. 12
Total time & savings deposits	434	2,098	697	-1,212
Consumer-type time & savings	n.a.	614	459	281
Savings	- 95	- 50	- 37	- 216
IPC time (excluding CD's)	n.a.	664	496	497
CD's	280	1,457	114	-1,303
All other time deposits 1/	n.a.	27	124	- 190
MEMO:				
Euro-dollar borrowings 2/	n.a.	n.a.	- 23	847

1/ Consists primarily of time deposits held by State and local governments and by foreign institutions.
2/ Liabilities of major U.S. banks to their foreign branches, weekly averages of daily figures. These banks reduced their Euro-dollar borrowings by $215 million in the week ending February 19.
n.a. - Not available.

From early December to mid-February, large banks lost nearly $4.0 billion in CD funds, with New York banks accounting for almost 60 per cent of these losses. Through the first week in February, this decline proceeded at about an average rate of $420 million per week at all weekly reporting banks, and at a $240 million weekly rate at New York banks. However, with the volume of maturing issues in February well below those in December and January, outstanding CD's at all large banks fell only by about $120 million in the week ending February 12, and New York banks lost another $212 million in the week ending February 19. But while the dollar volume of recent declines is somewhat reduced, it appears that New York banks are now losing a higher percentage of maturing issues than in December and January. Although banks with foreign branches borrowed heavily in the Euro-dollar market during January as a partial offset to these CD declines, bank liabilities to foreign branches have shown little change, on balance, during the first three weeks of February, as Euro-dollar rates rose to over 8 per cent on all maturities by mid-month.

Flows of consumer-type time and savings deposits at large banks since the end-of-December interest-crediting period were similar to those after the March 1968 interest-crediting period, when market rates also were quite high relative to Regulation Q ceilings. Early in January, consumer-type time and savings deposits declined sharply, as large outflows of savings deposits exceeded the inflows of time certificates and open accounts. In the latter part of January and in early February, the outflow of savings deposits fell off sharply while time certificates and open accounts continued to expand at about the December pace. However, growth in total consumer-type time and savings deposits remained substantially below that in comparable periods of other recent years. Savings deposits outflows of country banks in recent weeks have also slowed from the large declines in early January, thus permitting resumption of moderate, but again much less than usual, growth in total time and savings deposits at these banks.

Following a sharply reduced rate of growth in January, the money stock, measured on a daily average basis, is projected to show little further change in February. U.S. Government deposits, however--which rose in January after 3 successive months of declines--are projected to increase again in February.

Nonbank depositary institutions. The slowdown in inflows to thrift institutions which began late last year continued during January. Technical difficulties with seasonal adjustment may have exaggerated the January slowdown shown in the table, but the December-January growth taken together nevertheless indicates a rate of increase equivalent only to about the average rate of interest credited.

Moderation of inflows apparently continued through early February. New York City savings banks reported inflows as low as in the same period of 1966, and San Francisco district savings and loans received inflows at about the reduced pace of the year earlier. Daily interest accounts, which pay less than 5 per cent, have helped to sustain inflows to the New York savings banks.

GROWTH IN SAVINGS
NONBANK DEPOSITARY INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)

	Mutual Savings Banks	Savings & Loan Associations	Both
1968 - I	7.2	5.6	6.1
II	6.6	5.6	5.9
III	6.3	6.0	6.1
IV (p)	7.0	6.0	6.3
1968 - Oct.	6.9	7.4	7.2
Nov.	7.5	5.4	6.1
Dec. (p)	6.4	5.1	5.5
1969 - Jan. (p)	3.7	4.7	4.4

p/ Preliminary.

During January, savings and loans made only seasonal changes in cash and Governments which resulted in slightly decreased liquidity ratios. A small increase in FHLBB advances was nearly offset by a net reduction in other borrowing. The backlog of mortgage commitments and loans in process once again exceeded recent cash flow; an increase in this ratio is normal during January, but its level indicated a rather tight position.

Mortgage market. As flows to the thrift institutions apparently continued to moderate and loan demands remained strong for the time of year, mortgage yields increased further during February. By February 24, the average yield on FNMA 6-month forward purchase commitments of Government-underwritten home loans had reached 98 basis points above the end-of-September low, according to the secondary market "auction" results.

FNMA WEEKLY AUCTIONS
(6-month forward commitments)

	Accepted bids ($ millions)	Implicit private market yield (per cent)
1968 High, June 10	44.8	7.71
January 21	39.1	7.72
27	38.6	7.86
Feburary 3	36.0	7.99
10	46.2	8.05
17	38.4	8.09
24	48.7	8.14

Note: Average secondary market yield after allowance for commitment fee and required purchase and holding of FNMA stock, assuming prepayment period of 15 years for 30-year Government-underwritten mortgages. Yields shown are gross, before deduction of 50 basis point fee paid by investors to servicers. The first auction date was May 6, 1968.

The additional increase in home mortgage yields during February followed a further rise during January in both the primary and secondary markets. Yields on FHA mortgages registered the second largest rise of the postwar period, during a month when the regulatory ceiling rate was raised to 7-1/2 per cent from 6-3/4 per cent. As a result, the spread between FHA loans and new issues of high-grade corporate bonds widened in January to the most favorable margin since last September, although still somewhat below the average prior to 1965. On conventional mortgages, however, the still depressed yield spread improved only slightly.

AVERAGE RATES AND YIELDS ON SELECTED NEW-HOME MORTGAGES

	Primary Market: Conventional loans		Secondary Market: FHA-insured loans		
	Level (per cent)	Yield spread (basis points	Level (per cent)	Yield spread (basis points)	Discount (points)
1968					
January	6.75	53	6.81	59	6.8
February	6.75	50	6.78	53	6.6
March	6.80	23	6.83	26	7.0
April	6.90	40	6.94	44	7.9
May	7.15	51	7.50e	86e	6.1e
June	7.25	60	7.52	87	6.3
July	7.30	79	7.42	91	5.5
August	7.30	115	7.35	120	5.0
September	7.30	103	7.28	101	4.4
October	7.25	78	7.29	82	4.5
November	7.30	69	7.36	75	5.1
December	7.40	61	7.50	71	6.2
1969					
January	7.55	63	7.85e	93e	2.8e

Note: FNA series: Interest rates on conventional first mortgages (excluding additional fees and charges) are rounded to the nearest 5 basis points. Secondary market yields and discounts are for certain 6 per cent, FHA-insured Sec. 203 loans through April 1968. Data for May 1968 estimated by Federal Reserve based on 6-3/4 per cent regulatory interest rate in effect through December 1968. Data for January 1969 estimated by Federal Reserve based on 7-1/2 per cent regulatory interest rate, on which a change of 1.0 points in discount is associated with a change of 12 to 14 basis points in yield. Gross yield spread is average mortgage return, before deducting servicing fees, minus average yield on new issues of high grade corporate bonds with 5-year call protection.

Despite record costs, demands for home mortgage credit during January appear to have remained stronger than usual for the slack time of year. Sufficient funds continued to be available in most areas to accommodate these demands, according to FNMA and FHA field reports, although savings inflows to the thrift institutions were reduced.

In addition to the availability of high-cost credit from private institutional lenders, FNMA forward purchase commitments and loan purchases under the "auction" system have been providing substantial support for the home mortgage market. Weekly bidding for FNMA forward purchase commitments has been sharply higher since the ceiling on FHA and VA mortgages was increased in late January. Most of the increase has reflected builder needs for longer-term commitments at a time when private lenders have apparently become more reluctant to supply them in view of uncertainties about prospective cash flows. Also, trade sources indicate that more bidders have been anxious to secure FNMA commitments in ample time for delivery of the completed mortgages to FNMA before next October 1, when the HUD Secretary's temporary authority to set the ceiling on Government-underwritten mortgages above 6 per cent will expire unless existing legislation is amended.

In response to the recent upsurge in bidding under the "auction" system, FNMA throughout February has maintained the volume of its purchase commitments considerably above the weekly average during recent months, even though its backlog of commitments was already high. By mid-February, FNMA's commitment backlog accordingly reached a record \$1.3 billion--equivalent to loans on about 87,000 new and existing homes. Of this total, a third is scheduled to mature within the next 3 months and additional amounts could be delivered to FNMA prior to maturity, depending partly on interim trends in yields on new mortgage commitments. If there should be further substantial increases in FNMA's costs of borrowing funds needed to take down older commitments made when mortgage yields were lower, FNMA could come under pressure to reduce its new commitment volume somewhat over the period ahead.

The availability of home and other mortgage credit for non-corporate borrowers has continued to be restricted in some States by usury ceilings applicable principally to conventional home loans. Rate limits of 7-1/2 per cent or less--already below the national average--now prevail in 12 States, which altogether accounted for about a fourth of the total number of single and multifamily building permits issued last year. These States include New York, where the regulatory ceiling was increased, effective February 16, to 7-1/2 per cent--the statutory limit. In addition, 16 States and the District of Columbia, accounting for another fourth of total residential building permits, have 8 per cent usury ceilings.

Corporate and municipal bond markets. Yields on new corporate and municipal bonds advanced to new highs early in February. With investor demand lagging, a sizeable volume of bonds was released from syndicate price restrictions; in free market trading these bonds advanced 4 to 10 basis points in yield. More recently, however, new bond yields have edged down slightly as underwriters have priced issues aggressively--particularly in the corporate market. Investor response to these lower yielding bonds has been mixed, with good receptions generally accorded issues carrying attractive characteristics such as 10-year call protection.

BOND YIELDS
(Weekly averages, per cent per annum)

	Corporate Aaa		State and Local Government	
	New With call Protection	Seasoned	S&P High Grade	Bond Buyers (mixed qualities)
1968				
Low	6.13(8/30)	5.95(9/13)	4.15(8/9)	4.07(8/9)
High	6.92(12/13)	6.53(12/27)	4.93(12/27)	4.85(12/27)
1969				
Low	6.90(1/10)	6.55(1/3)	4.93(1/24)	4.82(1/24)
High	6.97(2/7)	6.66(2/14)	5.07(2/7)	4.96(2/7)
Week ending:				
January 24	6.92	6.59	4.93	4.82
31	6.92	6.59	5.01	4.91
February 7	6.97	6.63	5.07	4.96
14	6.91*	6.66	5.07	4.96
21	6.90	6.66	5.07	4.95

* Includes some issues with 10-year call protection.

The aggressive corporate underwriter bidding behavior appears to indicate a fairly optimistic appraisal of near-term yield developments. In large measure this optimism seems to stem from the technical position of the market, namely a low level of inventories and a relatively light calendar of new issues. The estimated volume of corporate public bond issues in February has been revised down $75 million to $725 million, or one-third below a month earlier. While part of the lower volume reflects a rescheduling of some convertible bond issues which had been expected to be issued late in February, the bulk of the reduction stems from a failure of the calendar to build up significantly as the month progressed. Total corporate security issues in February, including private placements and stock offerings, are estimated at $1.6 billion, well below the pace of recent months.

CORPORATE SECURITY OFFERINGS 1/
(Millions of dollars)

	Bonds					
	Public Offerings 2/		Private Placements		Total bonds and stocks	
	1967	1968	1967	1968	1967	1968
YEAR - Monthly avg.	1,249	894	580	554	2,066	1,831
	1968	1969	1968	1969	1968	1969
Q I - Monthly avg.	821	828e	574	533e	1,726	1,754e
January	903	960e	546	500e	1,771	1,860e
February	796	725e	585	500e	1,607	1,625e
March	766	800e	593	600e	1,799	1,800e

e/ Estimated.
1/ Data are gross proceeds.
2/ Includes refundings.

Public corporate bond offerings already scheduled for March aggregate about $600 million and further additions to the calendar are likely to boost the ultimate volume to $800 million. Although this would be up from February, the volume would still be nearly $100 million below the 1968 monthly average. Underwriters report relatively few issues in the pipeline for near-term offering and especially note a lack of large industrial borrowers. As now constituted, the calendar continues to reflect a heavy volume of public utility issues and convertible bonds. These offerings, however, are not of sufficient size to push the calendar to uncomfortably large proportions.

In the municipal market, the recent stability of yields appears to reflect mainly a temporary respite from a heavy volume of financing. The February volume of municipal offerings is estimated at $950 million, $250 million below January. About two-thirds of the month-to-month drop in volume is attributable to postponements and cancellations due to the level of tax exempt yields. This lull in new issues was useful to underwriters in their attempts to cut back on inventories. With commercial bank purchases of new issues apparently minimal, several of the large dealers are reported to be actively seeking funds from individuals. Underwriters will likely have to continue these efforts in the future, as the volume of new issues in March is expected to rise to at least $1.0 billion.

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

	1967	1968
YEAR - Monthly average	1,230	1,381
	1968	1969
Q I - Monthly average	1,245	1,050e
January	1,178	1,200e
February	1,155	950e
March	1,404	1,000e

e/ Estimated.

1/ Data are for principal amounts of new issues.

Stock market. The sharp break in stock prices that began in mid-February continued over the balance of the month, pulling the major stock price indices from 9 to 10 per cent below their record highs of last December.[1/] This recent decline more than offset the mid-January to mid-February rise that had followed the sharp price drop of late December and early January. The mid-February break in prices coincided with press reports and statements of Administration officials that public policies must continue restrictive in view of inflationary pressures. In addition, the Mid-East war scare and fear of an escalation of hostilities in Vietnam may have also tended to weaken the market.

STOCK PRICE INDICES

	Dow-Jones Industrials	New York Stock Exchange Index	American Stock Exchange Index
All time high	995.15(2/9/66)	61.14(12/2/68)	33.25(12/20/68)
1968			
December High	985.21(12/3)	61.14(12/2)	33.25(12/20)
1969			
January Low	923.11(1/13)	56.77(1/13)	31.13(1/13)
February High	952.70(2/13)	58.70(2/13)	32.69(2/4)
February 25	899.80	55.19	30.10
Per cent change:			
December High to January Low	-6.3	-7.1	-6.4
January Low to February High	3.2	3.4	5.0
February High to February 25	-5.6	-6.0	-7.9
December High to February 25	-8.7	-9.7	-9.5

1/ Actually the Dow-Jones Industrial Index in December had almost reached its early 1966 record high. Generally, the blue chip stocks had not shared fully in the 1967-68 bull market.

Trading volume, which so far in 1969 has tended to recede from the seasonal highs of last December, was noticeably lighter during the period of declining stock prices in February. The adoption of a shorter trading day--in conjunction with the return to a 5-day trading week--after the first of the year makes comparisons difficult with daily trading volume in 1968. However, on a weekly basis statistics are more comparable since the new trading week has only 2 fewer hours than that which had been in existence since mid-June (20 vs. 22 hours): the new trading week is much shorter than the previous traditional one that had existed prior to mid-1968 (20 vs. 27-1/2 hours). Shorter trading periods, of course, had been adopted in order to ease back-office problems. The new trading hours, it is hoped, will ease the problem further by reducing the hours of daily trading (from 5-1/2 to 4 hours). It is, as yet, too early to determine whether this problem will be reduced, although "fails to deliver" for member firms of the New York Stock Exchange dropped back in January, after the sharp increase in December associated with the spurt in trading that month.

TRADING VOLUME
(Millions of shares)

	NEW YORK STOCK EXCHANGE			AMERICAN STOCK EXCHANGE	
	Average daily Trading Volume	Average weekly Trading volume	Memo: Fails To deliver (Billions of Dollars)	Average daily Trading volume	Average weekly Trading volume
1968					
July	14.3	54.6	$ 3.7	6.6	25.8
August	10.8	42.5	3.1	4.8	20.0
September	13.4	53.7	3.1	6.5	25.9
OOctober	15.1	61.5	3.4	6.4	26.4
November	14.8	58.7	3.3	6.4	26.4
December	14.9	60.6	4.1	8.1	32.7
1969					
January	12.1	58.4	3.3	6.8	32.8
Week ending:					
February 7	12.8	64.2	--	6.7	33.4
14	11.8	47.3	--	5.9	23.4
21	11.1p/	44.6p/	--	5.9p/	23.1p/

N.B. - From July through December of 1968, both exchanges were closed on Wednesday and open 5-1/2 hours per day on other days for a total trading time of 22 hours per week. Beginning January 2, both exchanges returned to a 5 day week and adopted a 4 hour trading day for a total trading time of 20 hours per week.

Press reports in early February of the public risk associated with the back office problem had no noticeable effect on the markets and industry officials are reported to feel that the problem is now beginning to come under control. More stringent regulations adopted in recent weeks[1/] by exchanges, by the NASD, and the SEC, as well as the shortened trading day, should tend to reduce the "fails" problem. However, record-keeping difficulties still exist and another surge of trading volume would, no doubt, lead to another rise in "fails". Both exchanges have recently commissioned research efforts to ease transfer and record-keeping problems, but these are expected to have pay-off only in the early 1970's.

Margin credit extended by broker/dealers, which has declined each month since mid-1968, is now estimated to have remained unchanged in December and in January it is estimated, on a preliminary basis, to have declined almost $300 million--the sharpest single monthly decline in the three-year history of the series. At the end of January, margin credit extended by brokers was more than 11 per cent below the record level of $6.7 billion reached at mid-1968. Securities credit extended by banks rose $40 million in January, carrying the increase in such credit to $340 million since mid-1968; this increase--which includes credit extended to buy OTC stocks and bonds--offset only about one-fourth of the reduction in credit extended by brokers over this period.

1/ These include increased limitations on trading for own account by AMEX member firms; suspensions and other discipline of certain broker-dealers by the SEC and the exchanges; mandatory "buy-ins" to cover "fails to deliver" after a certain period of time; and a new SEC rule--effective March 6--that required broker/dealers to deduct a certain percentage of their "fails" from net assets after a certain amount of time.

Government securities market. In the two weeks immediately following the last meeting of the Committee, yields on Government securities declined generally. Since then, those on longer-term Treasury bills and coupon issues have advanced again, in many cases to levels around the peaks reached at the beginning of the month, while books were open on the February Treasury refunding. Yields on short-term bills have been an exception, however; while they have fluctuated rather widely since mid-February, they have remained at relatively low levels on balance, with the 3-month issue dropping to a low of 6 per cent and most recently quoted at 6.09 per cent.

MARKET YIELDS ON U.S. GOVERNMENT SECURITIES
(Per cent)

			1969		
	Lows	Highs	Feb. 3	Feb. 14	Feb. 24
Bills					
1-month	4.55(1/2)	6.35(12/23)	5.99	5.88	5.68
3-month	4.82(1/29)	6.29(12/24)	6.19	6.05	6.00
6-month	4.98(1/29)	6.41(12/24)	6.33	6.24	6.22
1-year	5.05(8/1)	6.47(12/24)	6.22	6.13	6.27
Coupons					
3-year	5.34(8/19)	6.52(12/23)	6.27	6.24	6.41
5-year	5.42(1/12)	6.34(12/24)	6.32	6.29	6.34
10-year	5.37(8/8)	6.27(12/24)	6.22	6.11	6.22
20-year	5.14(8/2)	6.12(12/24)	6.18	6.02	6.14

N.B. - Latest dates of high or low rates in parentheses.

In the Treasury's February refunding, the public chose to exchange only $3.5 billion, or 64 per cent, of its $5.5 billion holdings of the maturing issues; $2.6 billion of the public exchange was into the 15-month 6-3/8 per cent note and only $885 million into the longer-term 6-1/4 per cent 7-year note. The limited amount of debt extension resulting from the financing, along with the unexpectedly large cash redemptions and the limited volume of exchanges taken by dealers, all strengthened the market technically and contributed to the post-refunding decline in yields.

Yield increases since then have reflected growing recognition of the cumulative impact of monetary restraint, fortified by Administration statements stressing the need to maintain the fight against inflation. In addition, yields on longer-term coupon issues have been affected by indications that the Administration will seek an increase in the 4-1/4 per cent interest ceiling on Government bonds. Against this background, and under the pressure of continued CD attrition just prior to an expected seasonal rise in loan demand, banks have extended their security liquidation to include deep-discount Government bonds, thereby adding to the general upward pressure on yields.

The failure of yields on short-dated Treasury bills to show a sustained rise along with those on other maturities has reflected the development of sizable investor demands at a time when dealers have been reluctant to position bills aggressively. Demands have been partly seasonal--coming in particular from public funds. But buying from other types of investors seeking temporary liquidity--including some who generally hold stocks--also has developed in sufficient volume to keep dealer inventories at a low level. In fact, on some recent days dealers reported sizable net short positions in bills due in less than 92 days. The reluctance of dealers to position bills more aggressively has reflected both the high current costs of financing and uncertainties about possible near-term changes in the discount rate and the prime rate.

DEALER POSITIONS IN GOVERNMENT SECURITIES[1/]
(Millions of dollars)

	February 3	February 17	February 24
Total	3,004	1,839	1,904
Treasury bills	2,424	1,446	1,598
Due within			
92 days	219	-188	-242
Over 92 days	2,205	1,634	1,840
Coupon issues	580	393	306
Due within 1 year	614	175	141
1-5 years	-143	44	51
Over 5 years	110	174	114

1/ Monday figures.

SHORT-TERM INTEREST RATES

	1968		1969			
	Lows	Highs	Feb. 3	Feb. 14	Feb. 20	Feb. 24
1-month						
CD's (prime NYC)						
Highest quoted new issue	4.88 (2/8)	5.50 (12/31)	5.50	5.50	5.50	5.50
Secondary market	4.90 (1/31)	6.45 (12/26)	6.50	6.48	6.40	6.40 (2/20)
3-month						
Bankers' acceptances	5.25 (3/7)	6.50 (12/31)	6.38	6.38	6.50	6.62
Federal agencies	5.00 (2/9)	6.38 (12/26)	6.41	6.40	6.51	6.51
Finance paper	5.13 (3/7)	6.25 (12/31)	6.25	6.38	6.38	6.38
CD's (prime NYC)						
Highest quoted new issue	5.25 (2/8)	6.00 (12/31)	6.00	6.00	6.00	6.00
Secondary market	5.20 (1/3)	6.50 (12/26)	6.40	6.45	6.50	6.50 (2/20)
6-month						
Bankers' acceptances	5.38 (3/7)	6.62 (12/31)	6.50	6.50	6.62	6.75
Commercial paper	5.50 (3/7)	6.25 (12/31)	6.50	6.50	6.75	6.75
Federal agencies	5.25 (2/9)	6.62 (12/26)	6.54	6.51	6.57	6.57 (2/20)
CD's (prime NYC)						
Highest quoted new issue	5.50 (3/7)	6.25 (12/31)	6.25	6.25	6.25	6.25
Secondary market	5.45 (1/31)	6.75 (12/26)	6.50	6.60	6.65	6.65 (2/20)
1-year						
Prime municipals	2.75 (8/8)	3.80 (12/26)	4.10	4.10	4.20	4.20 (2/20)

N.B. - Latest dates on which rates occurred are indicated in parentheses.

This week's Treasury offering of a $1 billion "strip" of month end bills--consisting of additons of $200 million each to issues maturing in April through August--may provide some relief from the recent technical shortage of supply in the bill market. However, market participants had generally anticipated this financing and the fact that the "strip" was smaller and less concentrated in short maturities than some had expected lessened its impact on the shorter bill sector.

Treasury finance. In testimony before the Joint Economic Committee, the Budget Director recently expressed some uncertainty about the viability of the $2.4 billion surplus projected in the Budget document for the current fiscal year. But latest Board staff estimates indicate that a surplus of about $2.0 billion is still a reasonable possibility. While our fiscal 1969 projection of outlays is about $1.5 billion higher than forecast in the Budget Document, this change has been partly offset by an upward revision in our estimate of receipts -- prompted by the unexpectedly large January tax payments. A downward revision in our estimate of the extent to which banks can be encouraged to hold CCC nonrecourse loans accounts for a large part of the increase in our spending forecast. If a surplus of as much as $2 billion does develop, it will enhance the possibility that the Treasury may be able to skin through the fiscal year without a major debt ceiling problem, although the debt outstanding is pressing so close to the ceiling that problems could develop quite suddenly.

According to the latest figures available, the gross public debt is within $2 billion of the $365 billion temporary debt ceiling. Consequently, movements in the trust fund surpluses, which the Treasury feels obliged to invest daily in new special issues, are a threat to the ceiling. Staff projections indicate that the debt outstanding will probably grow to within $3/4 of a billion of the ceiling on February 27, but then decline again at month-end as special issues are drawn down to meet trust fund benefit payments. There should be more leeway under the ceiling for further growth of special issues during March, since $2 billion of tax bills will be redeemed after mid-month.

Given the continuing uncertainty about the level of debt subject to ceiling, the Treasury will probably be more willing than usual to economize on its cash balance over the next two months. Even so, our projections indicate a further temporary cash need of as much as $1.5 billion during the first half of April. This would be in addition to the $1.0 billion bill-strip already scheduled for payment in early March.

To relieve debt ceiling problems after March, the Administration has asked for a conceptual change in the debt ceiling legislation. Under this proposal debt held by trust funds would be excluded from the ceiling limitation, but Federal agency debt, now exempt from the ceilings, would be included. The net result would be to remove $75 billion of presently outstanding debt from the ceiling limitation and to lower the permanent statutory limit from its present level of $358 billion to $300 billion, thereby allowing the Treasury more leeway.

NEW BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	Fiscal years				1968		1969	
	Actual		Jan. budget	F.R. Bd				
	1967	1968	1969	1969	III	IV	I e/	II e/
Quarterly data, unadjusted								
New budget:								
Surplus/deficit	- 8.8	-25.2	2.4	1.9	- 3.2	- 7.1	- .7	12.9
Receipts	149.6	153.7	186.1	187.1	43.6	39.3	44.2	60.0
Total expenditures and net lending	158.4	178.9	183.7	185.2	46.9	46.3	44.9	47.1
Means of financing:								
Total borrowing from the public	2.9	23.1	- 3.1	2.8	7.7	3.4	- .9	- 7.4
Decrease in cash operating balance	5.2	.4	n.a.	- 4.6	- 3.3	3.9	1.0	- 6.2
Other 1/	.7	1.7	n.a.	--	- 1.1	- .2	.6	.7
Cash operating balance, end of period	5.7	5.3	n.a.	9.9	8.6	4.7	3.7	9.9
Seasonally adjusted annual rate								
Federal surplus/deficit in national income accounts	- 6.7	-11.3	2.7	2.4	- 2.8	.2	5.2	6.9
Receipts 2/	147.7	161.1	190.0	189.8	182.1	187.1	193.9	196.2
Expenditures	154.4	172.4	187.3	187.5	184.9	186.9	188.7	189.3

e--Projected.
1/ Includes various accrual items, such as deposit fund accounts and clearing accounts.
2/ Corporate tax accruals in first two quarters of 1969 assume extension of surtax through calendar 1969.

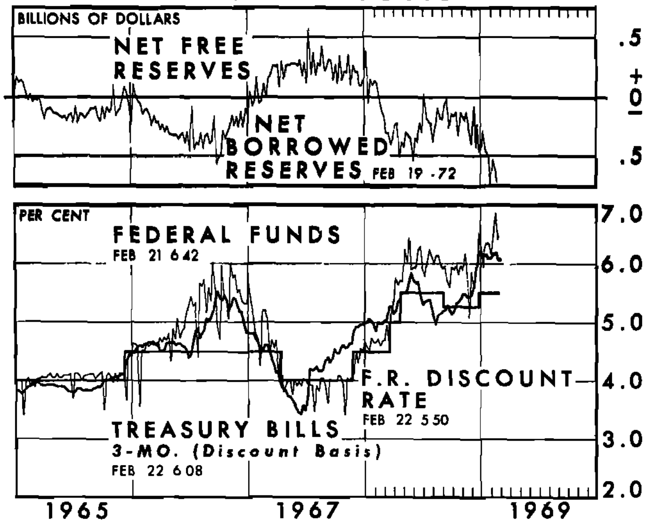
PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Jan.[a/]	Feb.	Mar.	Apr.
Borrowing operations				
New cash raised				
Regular bills			1.0	] 1.5
Tax bills	1.7			
Coupon issues				
Other(debt repayment, agency, etc.)	.1	-1.7	-2.0	-2.5
Total net borrowing from public	1.8	-1.7	-1.0	-1.0
Plus: Other net financial sources[b/]	.3	- .6	.9	.7
Plus: Budget surplus or deficit (-)	.4	.3	-1.4	6.5
Equals: Change in cash balance	2.5	-2.0	-1.5	6.2
Memorandum: Level of cash balance end of period	7.2	5.2	3.7	9.9

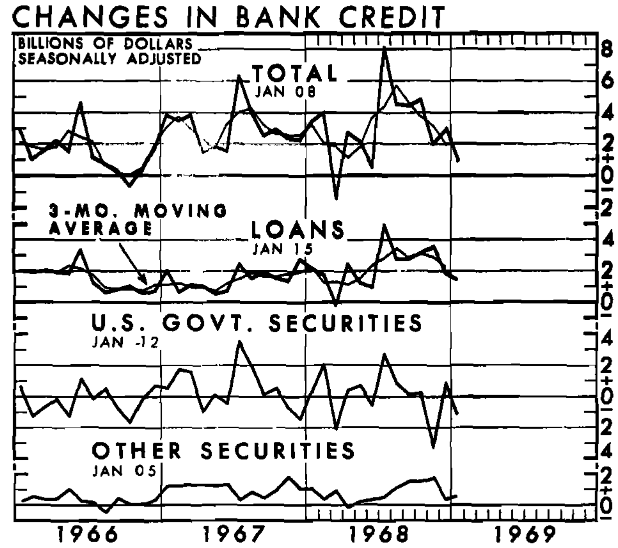
a/ Actual and estimated data.
b/ Checks issued less checks paid and other accrual items.

FINANCIAL DEVELOPMENTS - UNITED STATES

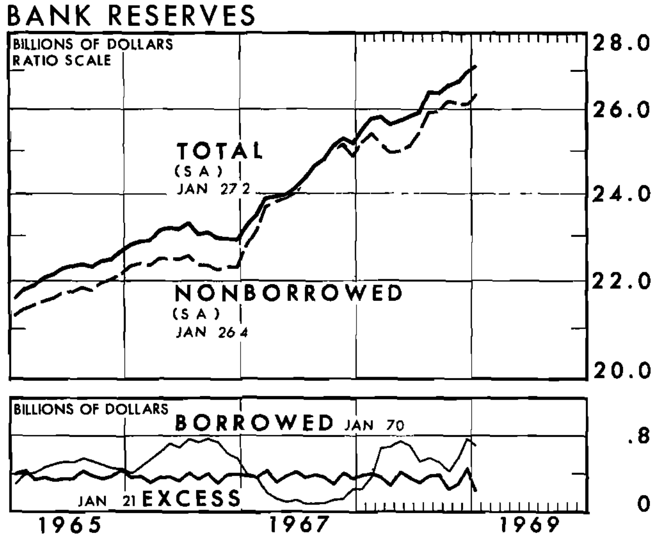
FREE RESERVES AND COSTS



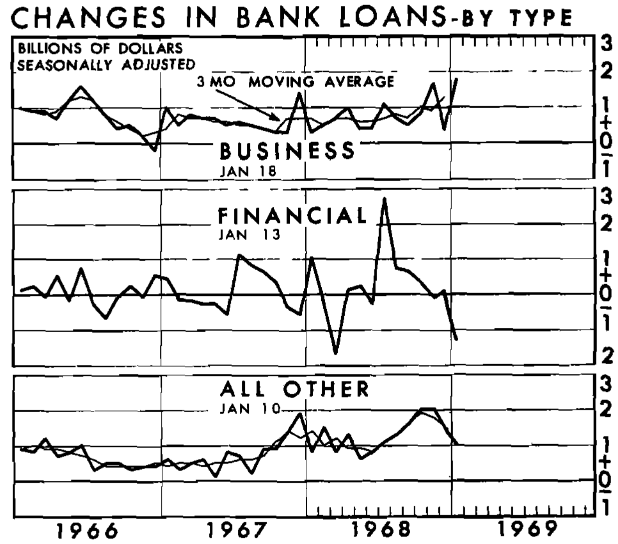
CHANGES IN BANK CREDIT



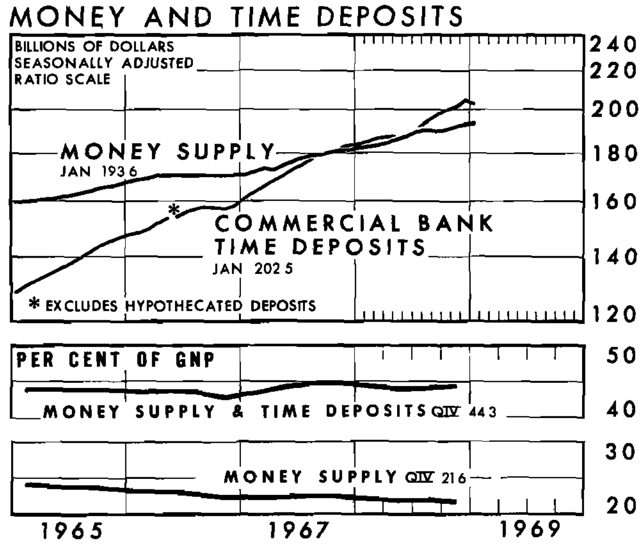
BANK RESERVES



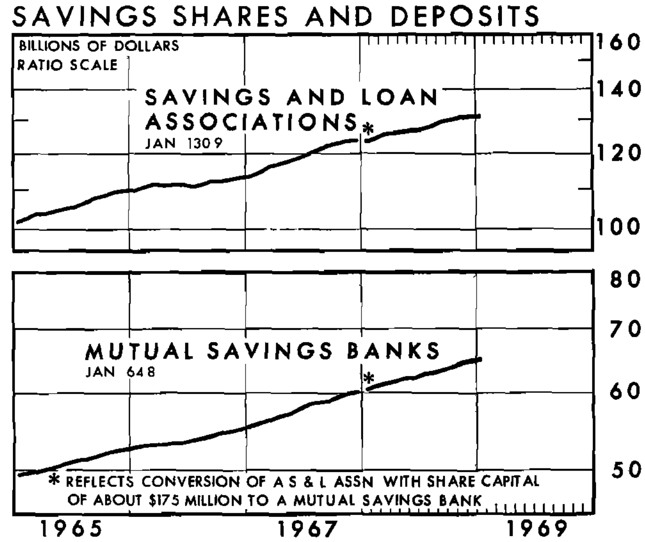
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

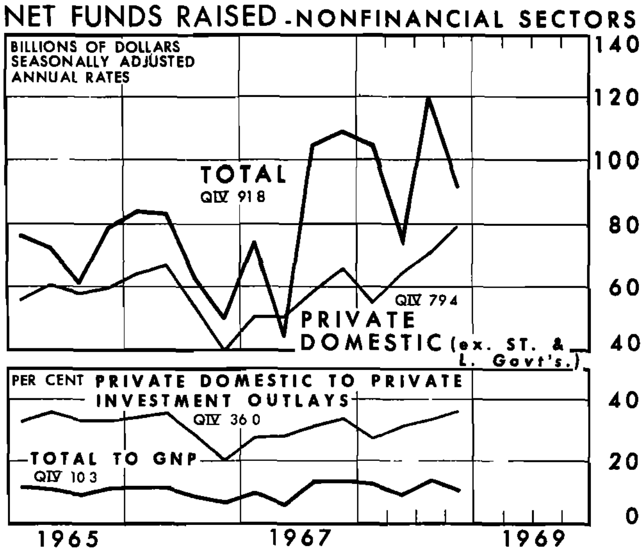


SAVINGS SHARES AND DEPOSITS

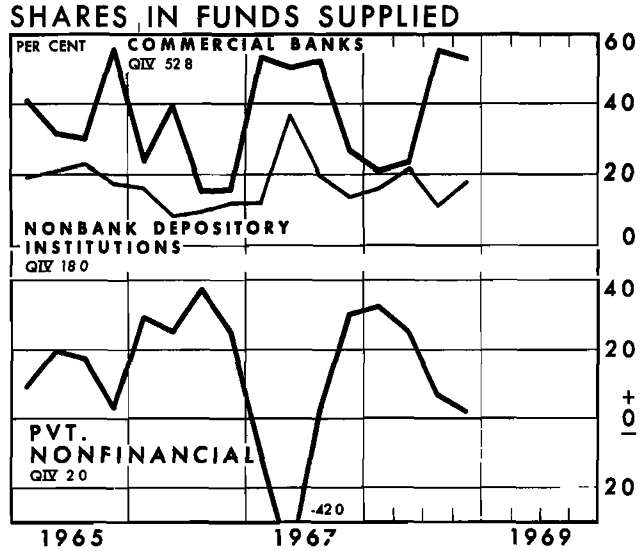


FINANCIAL DEVELOPMENTS - UNITED STATES

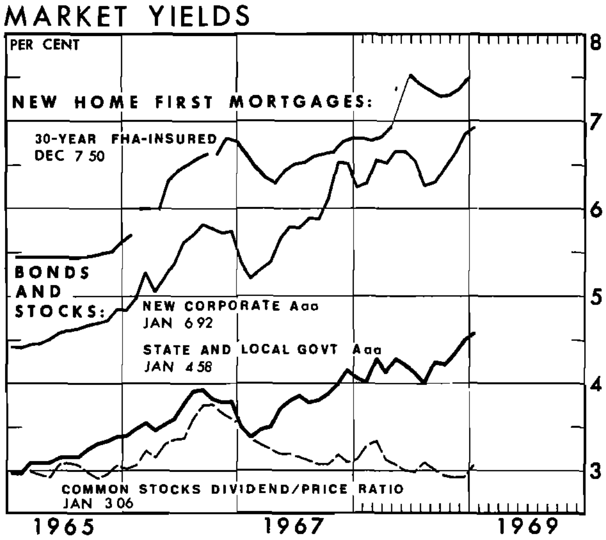
NET FUNDS RAISED-NONFINANCIAL SECTORS



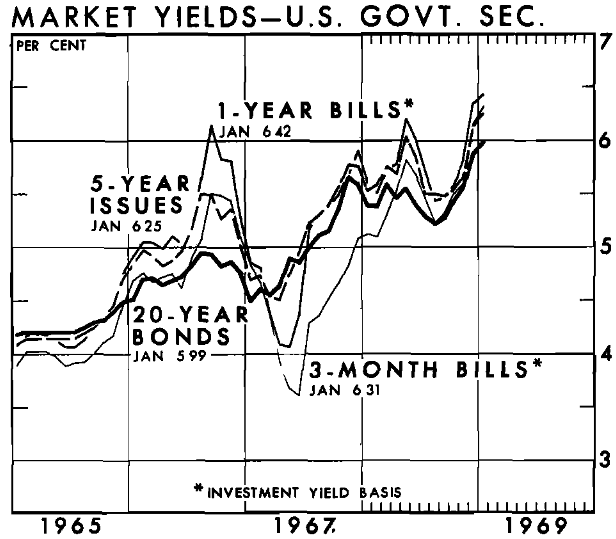
SHARES IN FUNDS SUPPLIED



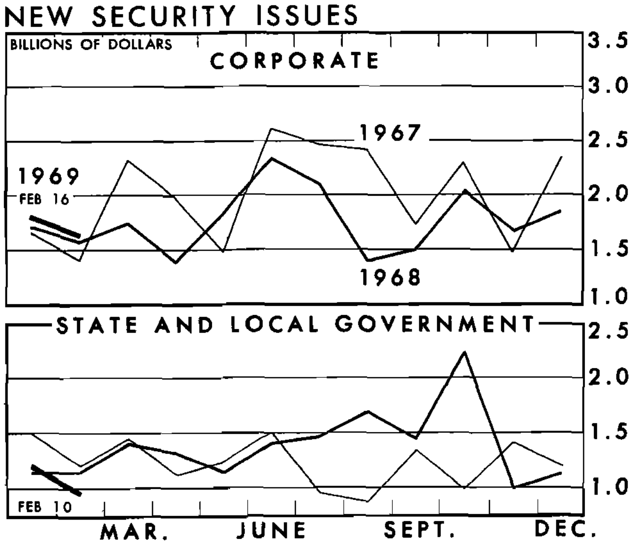
MARKET YIELDS



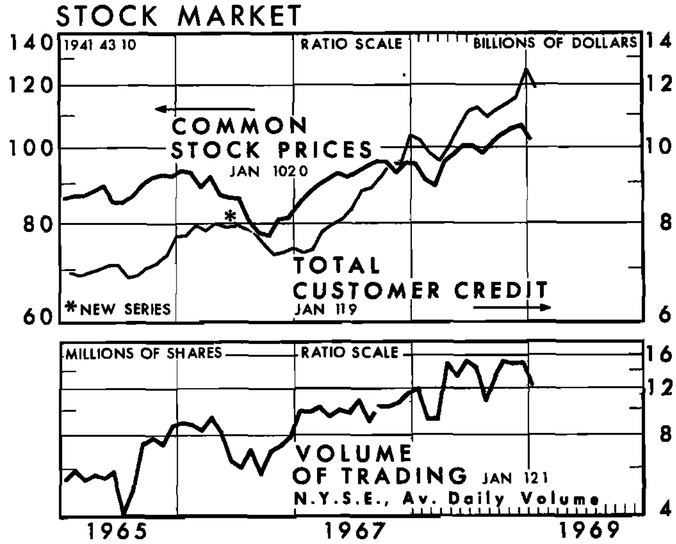
MARKET YIELDS—U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

Contents

The Euro-dollar market. Euro-dollar interest rates advanced steadily during the first three weeks of February and are presently over 8 per cent per annum for maturities of one month and more. The largest advances were for call and one-month Euro-dollar deposits, the rates on which increased a full percentage point between the end of January and the third week of February. Rates for longer-dated maturities advanced by about 70 basis points.

These unprecedentedly high rates appear to reflect continued pressure from U.S. banks' bidding for funds in the face of a shrinkage in the (net) flow of funds to the Euro-dollar market out of the major European currencies.

American bank Euro-dollar borrowings from their foreign branches have shown little change since the very large increase in these borrowings that occurred between the year-end and the third week of January. The outstanding amount of such borrowings is presently about $8.5 billion and has remained within about $200 million of that level since the latter part of January.

SELECTED U.S. MONEY MARKET RATES
AND EURO-DOLLAR RATES
(weekly average of daily figures)

Average for week ending	(1) Call Euro-$ Deposit	(2) Federal Funds	(3) = (1)-(2) Differ-ential	(4) 3-month Euro-$ Deposit	(5) 3-month Treasury Bill	(6) = (4)-(5) Differ-ential
Jan. 8	7.67	6.43	1.24	7.45	6.18	1.27
15	7.65	6.30	1.35	7.64	6.14	1.50
22	6.88	6.46	0.42	7.31	6.07	1.24
29	6.83	6.27	0.56	7.38	6.15	1.23
Feb. 5	7.30	6.32	0.98	7.56	6.19	1.37
12	7.72	6.35	1.37	7.74	6.14	1.60
19	7.93	6.75	1.18	8.09	6.10	1.99
26	7.80	6.58	1.22	8.24	6.05	2.19

Foreign exchange market developments. Exchange market conditions have been reflecting the state of the Euro-dollar market. Spot exchange rates for all the major currencies, excepting sterling, have declined during February and forward quotations for the major continental currencies have reflected the increased attractiveness of Euro-dollar placements.

Any adverse effects that high Euro-dollar rates might have had on sterling were apparently overshadowed by the news on February 13 of a considerably improved British trade balance for January. Thus far this month the Bank of England has purchased about $270 million, most of which was added to reserves after the January trade figures were made public at mid-month.

The Bank of Italy has sold nearly $200 million so far this month to moderate a rather sharp decline in lira quotations.

The Italian authorities indicated that most of the pressure on the lira spot market probably reflected increasing Euro-dollar rates, though there may have been some pressure arising from seasonal weakness in the Italian current account. In order to discourage Italian commercial banks from making covered Euro-dollar placements through swaps with the Bank of Italy, that bank recently raised the premium on forward lire at which it offers such swaps to 4 per cent per annum, compared to a 2 per cent per annum rate offered in early February.

The Swiss franc spot rate moved off fairly steadily through the third week of February and the BNS sold about $50 million shortly after mid-month. The franc market has turned around in recent days, however, apparently reflecting the advent of tighter Swiss money market conditions as the month-end approaches.

The Bundesbank has sold $850 million in the spot market so far this month (about the same as the volume of spot sales for all of January). New swaps entered into by the Bundesbank this month, however, have totaled only about $200 million, compared to more than $800 million in January. German bank demand for swaps with the Bundesbank was less this month, despite higher Euro-dollar rates, because the Bundesbank chose to discourage such swaps by making their terms less attractive. At present the Bundesbank is offering swaps at a 4-1/8 per cent per annum premium on marks. Offsetting these gross deliveries of dollars to the exchange markets it is estimated that the Bundesbank will have roughly \$1-1/4 billion in receipts during all of February from the maturing of forward contracts. Published German gold and foreign exchange reserves increased by about \$70 million between January 31 and February 21, suggesting that Bundesbank sales of dollars in spot transactions and through new swaps were indeed fully offset by maturing forwards.

Exchange markets for the other major currencies have been rather quiet. Gold markets have been very quiet this month. Prices on the London and Zurich markets have drifted up slowly from about \$42.55 at the end of January to their present level of about \$42.70.

U.S. balance of payments. A sizable deficit on the liquidity basis seems to be shaping up, according to the preliminary indicators, for the first two months of the year, but the period is so much affected by unusual influences that it is probably premature to draw conslusions. Some of the deficit in the early weeks is likely to have reflected an outflow of some of the funds that had been brought to the United States just before the end of the year. The large deficit in mid-February may be connected with the strike at East Coast and Gulf ports that interrupted loading and shipping activity until February 15--and with the resumption of import payments as goods in port began to clear customs. However, January data are not available for trade or many other types of major transactions.

For January the earliest preliminary figure for the liquidity deficit is $328 million (not seasonally adjusted), but there are indications it may be revised downward as the coverage improves; for February through the 19th the deficit, also unadjusted, amounted to about $600 million. The seasonal adjustment would raise the deficit for the first seven weeks of the year to over $1 billion. Some scattered information is available on capital transaction taking place in the period. Short-term claims on foreigners reported by U.S. banks were reduced, according to early reports, by about $200 million in January, which would be greater than the usual seasonal inflow. Long-term claims changed very little. Weekly condition statement figures for February indicate little change in bank credit to foreigners through the 19th.

Sales of new securities by U.S. companies in the European market have been well sustained, exceeding $300 million in January and February. Since these were primarily convertible issues, and were generally well received, it seems that the foreign demand for U.S. equities was still very strong. It now appears that foreign purchases of U.S. equity securities in January may have approached $300 million, which would be a record amount.

U.S. purchases of new foreign bond issues were relatively heavy in January, totalling over $250 million, and another $200 million was purchased in February. About $165 million of the January total was for Canadian borrowers and $88 million for the IBRD. Most of the latter amount was reinvested in U.S. agency securities.

Inflows from foreign governments included primarily the quarterly German purchase of $125 million of DM notes under the military offset agreement.

Inflows of foreign funds to U.S. banks through their foreign branches amounted to $1.9 billion in January, but tended to level off in February. Some of the rise in liabilities to branches in January was offset by reductions in liabilities to other foreign banks. As discussed in the preceding section, record interest rate levels in the Euro-dollar market -- reflecting both the tightening of U.S. money markets and some constriction of supply abroad -- are likely to deter further large net inflows from this source. As a result of this large inflow of private foreign funds in January, the official settlements balance for that month probably registered a surplus on the order of $1-1/2 billion. In February, through the 19th, this measure of the balance registered substantial deficits as inflows of private foreign funds subsided.

U.S. foreign trade. Data on U.S. foreign trade in January are not yet available, but the value of both exports and imports in that month was probably down sharply as a result of the longshoremen's strike. About 50 per cent of the total value of both exports and imports normally move by vessel through the strike-affected ports. The strike began on December 20, and lasted until February 15 in New York, a total of 55 days. Most of the other struck ports are expected to reopen by the end of February.

The longshoremen's strike will affect trade values not only in January and February but for several months thereafter as cargo movements are accelerated to compensate for shipments lost during the strike. In 1965, at the time of the last major port strike when the port of New York was closed for a shorter period, about 30 days, the value of exports and imports were distorted through May.

While the primary effect of the longshoremen's strike is to distort the timing of cargo movements, i.e., reducing them in January and February and raising them in the succeeding months, there may be some permanent effects. Foreign buyers of some items, particularly agricultural products, may have switched to other sources to obtain commodities for which they could not wait.

Encouragement regarding prospects for expanding U.S. exports may be drawn from the more than 15 per cent increase in foreign orders for U.S. machinery from the fourth quarter of 1967 to the fourth quarter of 1968. Shipments of machinery for export rose by 10 per cent over the same interval, and the backlog of unfilled orders rose by nearly 5 per cent.

Foreign trade of industrial countries. The foreign trade of the other members of OECD was substantially larger in 1968 than in 1967, their exports being 16 per cent greater while imports were up 10 per cent. Toward the end of the year their imports were rising a little more rapidly than their exports.

The sizable expansion in these countries' exports reflected continuation of the cyclical recovery which began in Europe in mid-1967 and the resumption in late 1967 of vigorous economic expansion in the United States. Other factors were also at work. These included the Kennedy Round tariff cuts at the beginning and in the middle of 1968, the failure of the sterling devaluation to curb British import growth (which increased by 9 per cent in real terms in 1968), and the surge in domestic demand in France in the latter half of 1968.

IMPORTS OF OECD COUNTRIES[a/]
(per cent per annum change from preceding year or quarter)

			1968			
	1967	1968	Q-1	Q-2	Q-3	Q-4
OECD ex United States	6	10[b/]	8	--	30	15[b/]
OECD Europe	3	10[b/]	6	1	34	12[b/]
United Kingdom	6	7	22	- 1	17	2
EEC	2	13	2	0	45	14
France	4	13	7	-33	110	3
W. Germany	- 4	16	14	6	33	10
Italy	13	6	-47	56	18	11
Japan	22	11	-10	2	27	18
Canada	8	14	50	- 7	--	43
United States	5	23	40	27	8	2

a/ Seasonally adjusted and measured by change in dollar values of imports.
b/ Excludes Austria, Greece, Portugal, Turkey and Yugoslavia.
Source: OECD.

Trade movements were erratic from quarter to quarter, but the underlying pattern is clear. Imports of Western European countries and of Japan grew rather slowly in the first half of 1968 and much more rapidly in the latter half of the year, as consumption and investment demands expanded. Their exports, on the other hand, advanced very rapidly early in the year, when U.S. imports were increasing most rapidly. Exports of European countries fell in absolute terms in the second quarter as a result of the civil disturbances in France and also in anticipation of the mid-year tariff cuts. There was a rebound in intra-European trade in the third quarter. In the fourth quarter, total exports of Western Europe, Japan and Canada rose at an annual rate of 14 per cent--slightly less rapidly than their imports--as European exports to the United States and other countries outside Europe leveled off.

EXPORTS OF OECD COUNTRIES[a/]
(per cent per annum change from preceding year or quarter)

			1968			
	1967	1968	Q-1	Q-2	Q-3	Q-4
OECD ex United States	6	16[b/]	27	- 1	34	14[b/]
OECD Europe	5	12[b/]	23	- 7	44	11[b/]
United Kingdom	- 2	7	84[c/]	- 7[c/]	35	8
EEC	7	14	15	-10	50	16
France	4	11	24	-33	139	-17
W. Germany	8	14	8	1	47	6
Italy	8	17	18	20	6	33
Japan	7	24	43	43	12	21
Canada	11	19	55	3	-11	33
United States	4	9	10	16	34	-19

a/ Seasonally adjusted and measured by change in dollar values of exports.
b/ Excludes Austria, Greece, Portugal, Turkey and Yugoslavia.
c/ Reflects catching up Q-1 after dock strike in 1967 Q-4.
Source: OECD.

The outlook in 1969 is for some slowdown in the growth of world trade, primarily because of slackening in the rate of expansion of U.S. demand. However, total imports of the other industrial countries are expected to continue rising strongly, and to provide favorable marketing opportunities for U.S. exports. The average level in 1969 of Western European, Japanese, and Canadian imports combined is expected to be more than 10 per cent higher than in 1968. This estimate assumes strong German, Italian and Japanese import demand, combined with rising imports by other Western European countries. British and French imports together may be little changed from the level of the fourth quarter of 1968. Canadian imports are expected to rise only moderately further.

Merchandise trade in the United Kingdom in 1968 was marked by a sharp increase over 1967 in both exports and imports. The year-to-year rise in the volume of exports was 14 per cent, that in imports, 9 per cent. The gain in exports, reflecting both the vigorous expansion in world trade and the advantages conferred by devaluation, was greater than had been anticipated early last year. However, the British balance of trade--in dollar as well as sterling values--deteriorated in 1968 compared to 1967. The gain in the volume of exports was partly offset by a change in the terms of trade against Britain after devaluation, as the dollar prices of British exports were significantly reduced. However, the prime factor holding back the improvement in the trade balance that had been expected was failure of devaluation to damp the volume of imports.

In the course of the year the trade deficit on a balance of payments basis narrowed, from an annual rate of $2 billion in the first half to about $1.4 billion in the second half. The decrease stemmed from an upward trend in exports accompanied by a leveling off in imports during the latter half of 1968.

Recent trade returns are encouraging. The average monthly deficit in November-January was $62 million, considerably below the average of any preceding three-month period in 1968.

The trade balance is likely to improve this year. Exports should continue to gain, as they reap further benefits from devaluation, but the rate of advance may be slowed if the rate of increase in world trade decelerates this year. The effect of the restrictive measures imposed in November--tighter installment buying regulations, a more stringent limit on bank lending, higher indirect taxes, and the import deposit scheme--coupled with what is likely to be an even more restrictive budget this year than last makes it probable that imports in 1969 will rise only moderately if at all over 1968.

German exports and imports both grew rapidly in 1968, the former increasing by 14 per cent, the latter by 16 per cent over 1967. The trade surplus in 1968 rose to $4.6 billion, 10 per cent higher than the already unprecedentedly large 1967 surplus. The increase in the trade surplus developed in the second half and was due in great part to large increases in German exports, mainly to other European countries. Speculative demand stimulated exports in the fourth quarter. Strong import demand from the United States also contributed to German export growth last year, the increase in shipments to the United States accounting for about a quarter of the total rise in German exports from 1967 to 1968.

The rise in imports last year represented a continuation of the advance which began with the recovery in 1967. Imports of semi-finished and finished manufactures followed a sharply rising trend through 1968, while raw materials imports remained at high levels. The principal beneficiaries of Germany's strong import demand last year--in terms of dollar value of increases--were Canada, the United Kingdom, Belgium, the Netherlands and Italy.

Slackening demand from Germany's customers coupled with rising domestic demand and cost pressures may cut the increase in Germany's export growth this year to 7 to 8 per cent. Vigorous internal demand which may push the economy to virtually full capacity operation is expected to maintain rapid import growth this year. With inventories at the end of 1968 estimated as being only at their mid-1966 levels, further rebuilding of stocks is likely to take place this year, and this should provide an additional stimulus to imports. A continuation of last year's substantial advance in imports and a deceleration of the rate of growth of exports--reflecting to some extent the effects of the temporary border tax adjustment--may reduce the trade surplus in 1969 by about $1 billion.

French exports and imports increased at about equal rates from 1967 to 1968--by 12.7 and 12.4 per cent, respectively. The civil disturbances in the second quarter caused a sharp drop in exports followed by a compensating rise in the third. Imports were similarly affected, but fell less and then rose more, especially toward the end of the year, despite temporary import quotas. As a result, the trade deficit deteriorated substantially in the second half.

The outlook for French trade in 1969 is uncertain. In spite of the large wage increases granted last spring, French exports apparently remained competitive as the government offset higher wage costs with various export subsidies and other measures such as preferential rates of interest on export loans. The subsidies granted last year have now expired, but their impact on exports may be partly made up for by the institution in November of higher rebatable value-added taxes in place of the wage tax.

The increase in imports is expected to be slowed by increases in French taxes, rises in German export prices and restrictions on domestic demand in France. The sharp rise in imports in the latter part of 1968 was attributable in large measure to the expansion in domestic demand resulting from the wage increases of last spring. Contributing factors were the Kennedy Round reduction in tariffs and the elimination of the high French tariffs on intra-EEC trade. If the wage increases this spring are absorbed without excessive price rises, the French current account may be close to balance in 1969.

An acceleration in the rise of exports and a marked slowdown during the first half in the expansion of imports produced a very substantial improvement in <u>Italy's</u> trade balance in 1968. Imports for all of 1968 were only 6 per cent higher than the level of 1967. By contrast, exports increased by 17 per cent. Domestic demand was sluggish in the first half of last year, but a renewed rise in Italian industrial production in the second half brought a strong economic recovery and rise in demand for imports.

Italian exports have been moving up rapidly and quite steadily since the summer of 1967. Exports to the United States and Canada boomed in late 1967 and early 1968. They then leveled off from January to August and fell by 15 per cent from August to October. But exports to other areas moved up strongly throughout the year.

Italy's unusual trade surplus is likely to decrease slightly in 1969. Internal expansion is expected to be more rapid this year than last, and as a result the recent acceleration in imports will continue. However, exports are also expected to continue growing strongly.

Dutch foreign trade increased markedly in 1968, as strong domestic demand stimulated imports while a high level of economic activity among the Netherlands' trading partners--most notably Germany--gave a boost to exports. The rise in imports in 1968 over 1967 was 11 per cent. The corresponding increase for exports was 14 per cent.

Exports this year are expected to increase by only about 8 per cent. Domestic restrictive measures are being counted on to reduce the rate of increase in imports to about 7 per cent.

Both imports and exports of Belgium-Luxembourg have been expanding fairly rapidly since the beginning of the general European cyclical upturn in the third quarter of 1967. The advances in both imports and exports paused in the second quarter, but resumed after mid-year. Increased demand by France, Italy and the Netherlands contributed to the second half export acceleration.

In Sweden, a sharp rise in imports occurred after mid-year--reflecting a resumption of inventory accumulation after a prolonged period of destocking. The increase in imports from 1967 to 1968 was 9 per cent, compared to a 1966-67 rise of only 3 per cent. Swedish exports also advanced by about 9 per cent last year, as against 6 per cent in 1967.

Canada's trade surplus of $1.1 billion in 1968 was the largest since World War II. In trade with the United States, the balance swung from a $600 million deficit in 1967 to a $100 million surplus in 1968. While imports from the United States rose 14 per cent, exports increased 25 per cent. Two-fifths of this huge gain was the result of exports of autos and auto parts stimulated by the U.S.-Canadian Automotive Agreement. The trade surplus peaked in the second quarter of 1968 and was lowest in the fourth quarter when imports surged in connection with the second half boom in the Canadian economy.

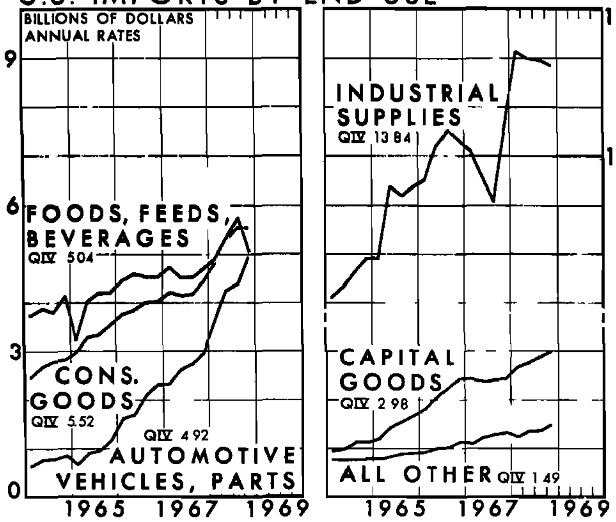
Reduced growth in demand from the United States will sharply slow the increase in Canadian exports this year to no more than 10 per cent over 1968, about half the rate of increase from 1967 to 1968. Imports are expected to rise moderately further beyond recent levels, so that the 1968-to-1969 increase may be about as large as last year's.

A 24 per cent increase in exports, accompanied by only an 11 per cent rise in imports, virtually eliminated Japan's trade deficit last year. In 1967, the Japanese trade deficit had been about $1.2 billion. The rate of advance of exports slowed somewhat in the second half of 1968. Imports dipped in the first quarter as a result of the brief pause in the Japanese economy's expansion at that time. The rise in imports resumed in the second half of the year, and the 1969 outlook is for a further advance (beyond the fourth-quarter level) at a rate in the range of 15 to 20 per cent.

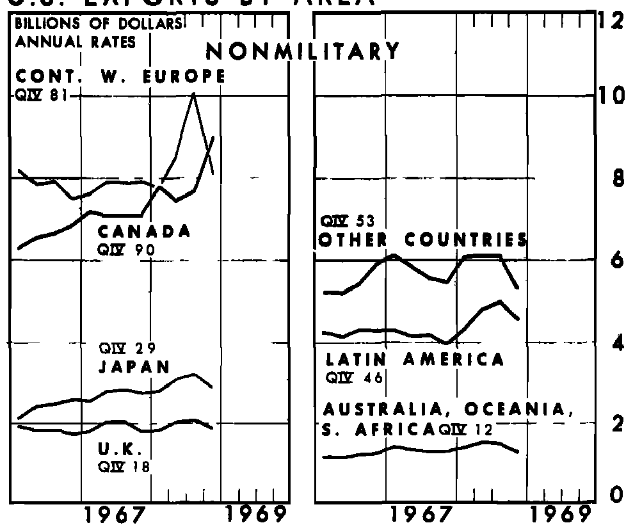
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

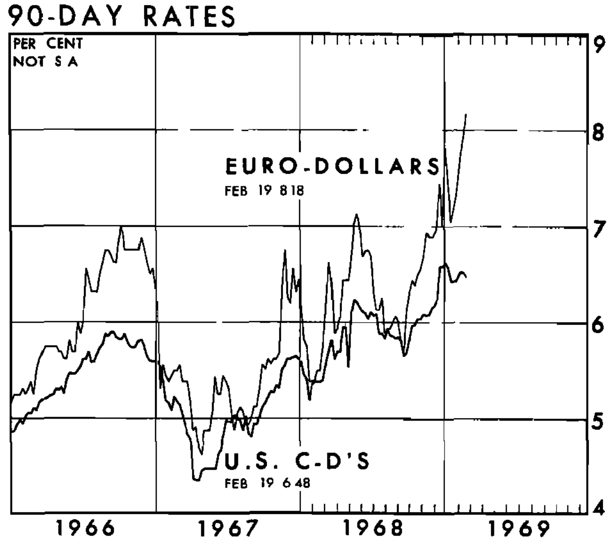
U.S. IMPORTS BY END USE



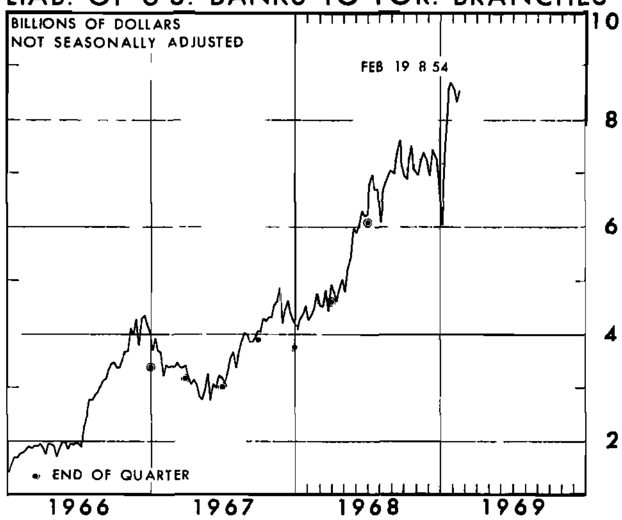
U.S. EXPORTS BY AREA



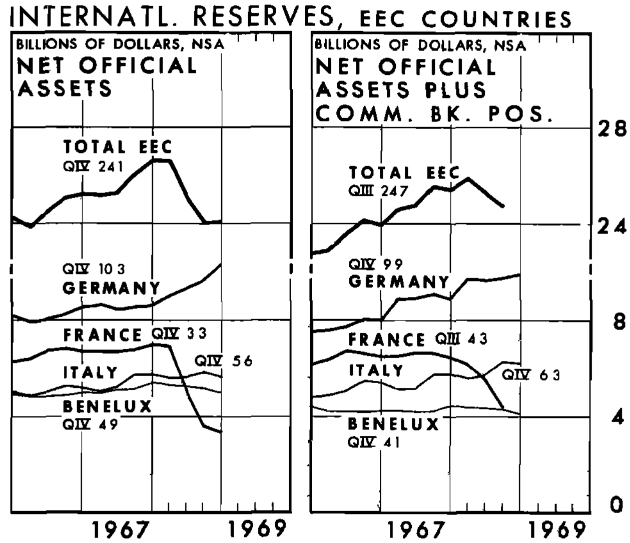
90-DAY RATES



LIAB. OF U.S. BANKS TO FOR. BRANCHES



INTERNATL. RESERVES, EEC COUNTRIES



INTERNATL. RESERVES, OTHER COUNTRIES