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CONFIDENTIAL (FR)

CURRENT ECONOMIC
and
FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

August 6, 1969

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SUMMARY AND OUTLOOK

Outlook for economic activity

There continues to be considerable current strength in the economy, with industrial production rising at a rapid pace and price pressures widespread. Nevertheless, evidence of growing imbalances between output and consumption is increasing. The unemployment rate has moved up from its year-end lows, new orders for durable goods have declined further, and retail sales have remained sluggish with real consumer takings continuing below year-ago levels. Informal surveys of anticipated capital outlays, including preliminary findings from the Federal Reserve Banks, also suggest that in the current environment of slower economic growth and restricted funds availability, businessmen's expectations are apparently undergoing change and plans for future spending are more tentative than earlier this year.

These recent developments seem consistent with expectations of further slackening of real growth in the second half of the year. However, prospects are that the over-all gain in current dollar GNP this quarter may be nearly as large as in the second quarter, mainly because of the temporary impetus expected from the Federal pay increase. But retail sales in July appear to have changed little from June, while unit auto sales fell off.

Slowing of expansive forces should become more evident as plant and equipment expenditures begin to moderate, as suggested by the earlier Commerce-SEC survey. Also the increasing impact of credit restraint and high interest rates portends a continued downward trend in residential construction outlays later this year and early 1970. With new orders for defense goods down recently, defense outlays probably will also continue to decline. Little further increase is expected in Federal non-defense spending, and financial stringencies seem likely to slow somewhat the uptrend in State-local outlays.

By the fourth quarter most sectors should be contributing to slower economic growth. If the rise in final sales slows as much as projected, it seems unlikely that businessmen will continue to accumulate large stocks of goods for any significant length of time and some downward adjustment in stock-building could be underway at or before year-end. Without the underpinning provided by continued large inventory accumulation, real growth probably will turn negative in the first half of next year, and the rise in prices and costs should moderate.

Outlook for resource use and prices

Industrial production in July again increased considerably, about matching estimated growth in capacity--as has been the case so far this year. In July, the upward thrust came mainly from business equipment and autos, and from the supporting materials industries including steel. Auto producers are now in their model change-over period, which has been allowed for in the index. This means that even if advanced production schedules are met through September, no further lift to the index may be expected from this industry. However, the backlog of unfilled orders in the machinery and equipment industry is still large, suggesting further output increases in this sector. Altogether, it appears that industrial production this quarter will show a sizable advance, but not as large as the 6 per cent annual rate of the second quarter. Later in the year and in the first half of 1970, as both final sales of goods and inventory accumulation slow markedly, industrial production is likely to level out and then decline, and the capacity utilization rate by mid-1970 is expected to be well below its present level.

The labor market continues tight, even though the unemployment rate has moved up from 3.3 per cent in the first quarter to 3.6 per cent in July. Some portents of future easing include the recent increases in initial unemployment claims and the related rise in July in the unemployment rate for adult men. Increases in nonfarm employment have not been as rapid as earlier this year, but the July increase at an annual rate of about 2 million was still large. The projected slowing of real GNP growth over the next year will likely be accompanied by much more slowing in employment increases and a significant rise in the unemployment rate.

Settlements in recent contract negotiations have been very large, particularly in construction, but these negotiations have involved relatively few workers and the over-all rise in average hourly earnings has slowed. At the same time, manufacturing profits before taxes, and profit margins, apparently declined in the second quarter; the current projections of GNP and industrial output suggest that profits in manufacturing and elsewhere are likely to come under substantial downward pressure over the year ahead.

The current price situation is not reassuring, although wholesale prices of livestock declined after mid-July following a sharp run-up. Industrial prices increased moderately from mid-June to mid-July despite further declines in lumber. Since then there have been sizable increases in prices of steel and copper. Consumer prices advanced sharply in June, but foods are unlikely to continue to provide as much of an upward push to the total index as they did in that month. Over the next year we have projected a moderate slowing of the pace of price increase, as measured by the GNP deflator. This slowing is predicated on the prospective weakening of over-all demands and the easing in resource use. But rising labor costs--reflecting slowing of productivity gains, and already built-in pressures for higher wages--will be exerting pressure on sellers.

<u>Outlook for credit demands</u>

Corporate demands on capital markets are expected to decline during August and September from their relatively active July pace. The upsurge in large industrial bond offerings evident in July has subsided, and although the forward calendar of utility bonds promises to remain sizable, underwriters expect a smaller volume of industrials to persist through the rest of the summer. Some of this reduction in volume undoubtedly reflects temporary deferrals of long-term financing in anticipation of yield declines ahead. But some softening of total business demands also appears to be developing--in short-term markets as well as long--perhaps partly in reflection of the expected topping out in business investment.

Business loan growth at banks has continued quite moderate in recent weeks even when allowance is made for outright sales of bank loan assets, and recent declines of commercial paper rates suggest some lessening of pressures in that market as well, despite the sizable continuing expansion of bank sponsored paper. While moderation in business loan growth and easing of commercial paper rates may, of course, simply reflect shifts in the supply of funds from banks to the money and securities markets, both developments are also consistent with a moderation of business credit demands.

Security financing by State and local governments is also projected to decline in August and September as interest rate ceilings and high borrowing costs continue to force cancellations and postponements of new issues. If, as the debate on tax reform proceeds, the ultimate treatment of interest on municipal bonds promises to be less drastic than that proposed by the Ways and Means Committee, municipal yields would decline further from recent sharply higher levels. In these circumstances, some expansion in the volume of new municipal bond offerings beyond staff estimates could be expected.

The Board staff estimates that the U. S. Treasury may have to raise around $2.0 billion of new money for payment in late August, assuming no temporary borrowing at the Federal Reserve during early September when the cash balance will be seasonably low. Around mid-September the Treasury is expected to announce plans for refunding the $6.4 billion of marketable Federal debt maturing on October 1 ($5.7 billion of which is publicly-held). Large net cash demands by housing agencies will be an additional factor in the market during this period; to provide support for the mortgage market over the rest of the third quarter, combined net cash borrowing by the Federal Home Loan Banks and the FNMA is projected at more than $1.5 billion.

Outlook for credit supply and interest rates

Bank deposits are likely to remain under downward pressure in the period ahead, given existing Regulation Q ceilings and assuming no large general decline in market rates. The percentage rate of attrition on time CD's will probably continue at close to the recent advanced pace but the dollar size of such run-off should be smaller since the volume of CD maturities in August and September appears to be substantially less than in earlier months. For time deposits other than CD's, only modest net recovery is likely following the large run-off in July. And in current market circumstances, demand deposits are not likely to be a significant source of additional bank funds either. As deposit flows continue constrained, banks will undoubtedly make further reductions in the volume of new real estate loans and take further steps to reduce holdings of municipal securities. In addition, they are likely to continue to seek funds from non-deposit sources and to keep a tight rein on business loans.

At non-bank thrift institutions, the outlook is for seasonal moderation of the severe pressures on savings flows evident in July. With relatively high market yields persisting, however, net growth of savings accounts should remain at a substantially reduced rate on a seasonally adjusted basis, suggesting further cut-backs of commitments on new mortgage loans.

Continuing small savings flows to depositary-type financial intermediaries will, of course, have their counterpart in the maintenance of sizable flows of funds from individuals and businesses directly into high yielding market securities--chiefly short-term. At the same time, with market expectations of near-term rate declines recently showing signs of revival, institutional lenders that made temporary investments in short-term securities during the earlier summar period of rising interest rates, may begin shifting to longer-term markets. Given changing market expectations and the prospect for some net moderation of credit demands, some further decline of interest rates from their recent highs could develop over the next few weeks, particularly in long-term markets.

Balance of payments outlook. The published early estimate of net exports of goods and services in the second quarter is $2 billion (annual rate), but it now appears that the true figure may be only half of that. June merchandise exports were unexpectedly low. They were still well above a "normal" range, but not enough to make up, to the extent that had been expected, for first-quarter losses due to the long dock strike. Net exports of goods and services in the second half of 1969 should be somewhat higher than in the first half, but the improvement may be quite small unless the post-strike catch-up in merchandise trade proves to have been less complete by midyear for exports than it probably was for imports.

External demand factors continue to suggest that U.S. merchandise exports, which rose 9.5 per cent from 1967 to 1968, ought to be advancing rapidly this year again. Pressures on resources in several continental European countries are now comparable in intensity to those experienced in the last two boom periods, 1964-65 and 1960-61. The rate of increase in U.S. exports actually recorded for the first half of 1969 in comparison with the first half of 1968 was only 5 per cent, but allowance for estimated permanent losses because of the dock strike raises this figure to 8 per cent. The present projection for the full year is for a 7 per cent rise over 1968, unadjusted for this year's strike losses, or 8-1/2 per cent adjusted.

While for cyclical reasons exports are fairly strong this year, as they were in 1960, the international competitive position of the United States has been deteriorating in recent years--as it had also in the later 1950's. Nevertheless, in the next twelve months the balance of forces seems to favor some net improvement in the U.S. current account. The expected easing of U.S. domestic demand pressures later this year and especially in 1970 should help the U.S. balance of payments by holding down imports--though we foresee no such sharp reduction in imports as occurred in 1960-61.

The short-run outlook for long-term capital flows remains discouraging. Foreign purchases on the U.S. stock market and foreign demand for new security issues by U.S. corporations have both shrunk sharply in recent months. Should the conditions responsible for these developments continue in the months ahead--especially a relatively weak U.S. stock market and high interest rates in the Euro-dollar market--it is likely that worsening of the long-term capital account would outweigh any early gain in the current account.

In the realm of short-term capital movements, the biggest questions for the future now relate, and will continue to relate, to the course of Euro-dollar borrowing by U.S. banks and to the relative shares of U.S.-nonbank and foreign supplies to the Euro-dollar market. We may assume that, as suggested in the discussion of the domestic credit outlook, U.S. banks will still be seeking to increase their outstanding Euro-dollar borrowings in coming months, even if the proposed reserve requirements under Regulation M add to their costs. But Euro-dollar interest rates have eased off from their peaks, and rates in European national markets have been rising. Supplies of foreign bank and nonbank funds to the Euro-dollar market may therefore tend to diminish. For these reasons the expected change in the over-all official settlements balance from large surplus to or toward deficit--which would be the consequence of any sharp drop in the hitherto very large flow of foreign funds through the Euro-dollar market to the United States--may be not far ahead.

Meanwhile further large deficits on the liquidity basis are to be expected. As in the second quarter--when substantial amounts of U.S.-owned funds moved into German marks in May and, it seems, into Euro-dollars in June--the liquidity deficit could continue to run a good deal larger than underlying trends in the current and long-term capital accounts would make it. An important factor will be the reaction of U.S. corporations to the increased difficulty of borrowing abroad. If they draw down their liquid Euro-dollar holdings to finance direct investments, the liquidity deficit would to that extent be improved. However, they may instead use domestic funds to the full extent allowed by the ample leeway available to many of them under the OFDI regulations.

SELECTED DOMESTIC NONFINANCIAL DATA August 5, 1969

(Seasonally adjusted)

	Latest Period	Amount: Latest Period	Amount: Preced'g Period	Amount: Year Ago	Per Cent Change: Year Ago*	Per Cent Change: 2 Yrs. Ago*
Civilian labor force (mil.)	Jul'69	80.8	80.4	78.9	2.3	4.2
Unemployment (mil.)	"	2.9	2.8	2.9	-0.5	-3.6
Unemployment (per cent)	"	3.6	3.4	3.7	-	-
Nonfarm employment, payroll (mil.)	"	70.5	70.3	67.9	3.7	7.1
Manufacturing	"	20.3	20.2	19.8	2.5	5.1
Other industrial	"	8.6	8.5	8.2	4.4	5.6
Nonindustrial	"	41.6	41.5	39.9	4.2	8.4
Industrial production (57-59=100)	Jun'69	173.9	172.7	165.8	4.9	11.7
Final products	"	172.3	171.0	165.2	4.3	9.9
Materials	"	175.1	174.2	166.7	5.0	12.8
Wholesale prices (57-59=100) 1/	"	113.2	112.8	108.7	4.1	6.5
Industrial commodities (FR)	"	111.2	111.2	107.9	3.1	5.7
Sensitive materials (FR)	"	112.3	114.0	105.9	6.0	12.2
Farm products, foods & feeds	"	115.5	114.1	108.0	6.9	8.1
Consumer prices (57-59=100) 1/	"	127.6	126.8	120.9	5.5	10.0
Commodities except food	"	118.0	117.5	113.0	4.4	8.4
Food	"	125.5	123.7	119.1	5.4	9.0
Services	"	143.3	142.7	133.9	7.0	12.5
Hourly earnings, mfg. ($)	Jul'69	3.19	3.17	3.01	6.0	12.7
Weekly earnings, mfg. ($)	"	129.96	129.00	123.15	5.5	13.4
Personal income ($ bil.) 2/	Jun'69	746.2	740.3	685.9	8.8	19.2
Corporate profits before tax ($ bil.) 2/	Q I'69	95.5	94.5	87.9	8.6	21.8
Retail sales, total ($ bil.)	Jun'69	29.3	29.4	28.3	3.6	10.8
Autos (million units) 2/	"	8.9	8.5	8.8	1.8	5.9
GAF ($ bil.)	"	8.0	7.9	7.5	7.1	14.5
Selected leading indicators:						
Housing starts, pvt. (thous.) 2/	Jun'69	1,446	1,505	1,365	5.9	17.3
Factory workweek (hours)	Jul'69	40.7	40.7	40.9	-0.5	0.5
New orders, dur. goods ($ bil.)	Jun'69	28.9	30.0	26.7	8.4	12.3
New orders, nonel. mach. ($ bil.)	"	5.6	5.6	4.8	16.0	29.4
Common stock prices (1941-43=10)	Jul'69	94.71	99.14	100.30	-5.6	1.8
Manufacturers' inventories, book val. ($ bil.)	Jun'69	92.1	92.1	85.6	7.7	13.6
Gross national product ($ bil.) 2/	QII'69	925.1	908.7	858.7	7.7	18.1
Real GNP ($ bil., 1958 prices) 2/	QII'69	727.3	723.1	705.8	3.0	8.5

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

SELECTED DOMESTIC FINANCIAL DATA

	Week ended August 2, 1969	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent) 9/	8.48	8.69	9.45	6.48
U.S. Treas. bills, 3-mo., yield (per cent)	7.08	7.03	7.10	5.93
U.S. Treas. bills, 1-yr., yield (per cent)	7.16	7.11	7.33	5.95
Net free reserves 2/ ($ millions)	-1,194	-1,052	-509	-1,242
Member bank borrowings 2/ ($ millions)	1,273	1,232	1,634	734
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	7.03	7.01	7.06	6.25
20-year U.S. Treas. bonds 1/	6.26	6.27	6.41	5.93
Corporate new bond issues, Aaa adj. 8/	7.75	7.63	7.75	6.90
Corporate seasoned bonds, Aaa 1/	7.05	7.08	7.10	6.63
Municipal seasoned bonds, Aaa 1/	5.78	5.61	5.78	4.70
FHA home mortgages, 30-year 3/	--	8.35	8.35	7.99
Common stocks, S&P composite series 4/				
Prices, closing (1941-43=10)	93.47	94.04	105.94	89.48
Dividend yield (per cent)	3.38	3.36	3.44	2.99

	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	Aug. '69e	1,400	1,723	367	366
State & local govt. public offerings	"	700	820	-999	-701
Comm. & fin. co. paper (net change in outstandings) 6/	June '69	+659	+761	+278	+657

	Latest month	Out-standings Latest month	Change: Latest month	Change: 3-month average	Annual rate of change from: Pre-ceding 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/	July '69p	26.92	-0.69	-0.19	-29.9	- 8.4	1.3
Credit proxy 1/ 10/	"	284.5	-5.2	-3.0	-21.5	-12.4	1.4
Bank credit, total 6/	June '69	390.4	-0.4	1.2	- 1.2	3.7	9.1
Business loans	"	102.6	--	0.9	--	11.2	14.5
Other loans	"	160.5	-0.2	0.9	- 1.5	7.1	11.5
U.S. Govt. sec.	"	55.9	-0.1	-0.5	- 2.1	-10.5	-7.5
Other securities	"	71.4	-0.1	-0.2	- 1.7	- 2.8	11.7
Total liquid assets 1/ 6/ 11/	June '69	711.4	-4.1	-0.8	- 6.9	- 1.3	5.6
Demand dep. & currency 1/	July '69p	195.8	0.5	--	3.1	0.2	3.4
Time & sav. dep., comm. banks 1/	"	195.9	-3.3	-1.6	-19.9	- 9.8	2.9
Savings, other thrift instit. 6/	June '69	200.0	0.3	0.4	1.8	2.2	5.6
Other 6/ 7/ 11/	"	116.9	-3.6	-1.0	-35.9	-10.0	7.7

N.S.A. -- Not seasonally adjusted. S.A. -- Seasonally adjusted. e - Estimated.
1/ Average of daily figures. 2/ Average for statement week ending July 30. 3/ Latest figure is monthly average for June. 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 August 3. 10/ Reflects $400 million reduction in member bank deposits resulting from withdrawal of a large country bank from System membership in January 1969. Percentage annual rates are adjusted to eliminate this break in series. 11/ Reflects $1.7 billion increase beginning January 1969 in U.S. Government securities maturing within 1 year to conform to the new Budget concept. Percentage annual rates are adjusted where necessary.
p - Preliminary.

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

	1968r					1969		
	Year	I	II	III	IV	Ip	IIp	Junep
				Seasonally adjusted				
Goods and services, net 1/	2,516	471	841	909	301	365		
Trade balance 2/	626	124	264	313	-75	-103	25	38
Exports 2/	33,598	7,941	8,395	8,879	8,383	7,474	9,644	3,218
Imports 2/	-32,972	-7,817	-8,131	-8,566	-8,458	-7,577	-9,619	-3,180
Service balance	1,890	347	577	596	376	468		
Remittances and pensions	-1,159	-276	-274	-325	-285	-283		
Govt. grants & capital, net	-3,955	-1,097	-1,055	-968	-835	-783		
U.S. private capital	-5,157	-806	-1,537	-1,868	-947	-1,201		
Direct investment	-3,025	-472	-1,009	-1,262	-283	-776		
Foreign securities	-1,266	-311	-164	-337	-455	-325		
Banking claims	269	236	243	-90	-120	71	-460	*-157
Other	-1,134	-259	-607	-179	-89	-171		
Foreign Capital	9,352	1,215	2,705	2,538	2,894	3,351		
Official foreign, nonliquid	2,407	328	937	433	709	-37		
Official foreign, liquid	-3,100	-880	-2,186	-55	21	-1,138		
Int'l and reg., liq. & nonliq. 3/	243	-19	-97	78	281	95		
Foreign private non-bank, liq.	374	4	102	45	223	-23		
Foreign commercial banks, liq.	3,450	457	2,358	724	-89	3,001		
New direct invest. issues 4/	2,129	580	585	586	378	401		
Other	3,849	745	1,006	727	1,371	1,052		
Errors and omissions	-717	-410	-540	286	-52	-1,398		
			Balances, with and without seasonal adjustment (deficit -)					
Official settlements balance, S.A.		-379	1,553	97	368	1,151	1,214	
Seasonal component		470	-3	-25	-442	560	0	
Balance, N.S.A. 5/	1,639	91	1,550	72	-74	1,711	1,214	2,497
Liquidity balance, S.A.		-564	-51	-162	870	-1,704	-3,834	
Seasonal component		297	96	-269	-124	388	100	
Balance, N.S.A.	93	-267	45	-431	746	-1,316	-3,734	-1,283
Adjusted over-all balance, S.A. 6/		-844	-812	-635	480	-1,858	-3,527	
Seasonal component		297	96	-269	-124	388	100	
Balance, N.S.A.	-1,811	-547	-716	-904	356	-1,470	-3,427	-1,043
Financed by: Liab. to comm. banks abroad, N.S.A. (decrease -)	3,450	638	2,266	976	-430	3,181	4,641	3,540
Official settlements, N.S.A. 7/	-1,639	-91	-1,550	-72	74	-1,711	-1,214	-2,497
			Reserve changes, N.S.A. (decrease -)					
Total monetary reserves	880	-904	137	571	1,076	48	299	-13
Gold stock	-1,173	-1,362	-22	74	137	-56	317	--
Convertible currencies	1,183	401	-267	474	575	73	-246	-119
IMF gold tranche	870	57	426	23	364	31	228	106

1/ Equals "net exports" in the GNP, except for latest revisions.
2/ Balance of payments basis which differs a little from Census basis.
3/ Long-term deposits and Agency securities
4/ New issues sold abroad by U.S. direct investors.
5/ 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.
6/ Represents the net result of all international transactions of the U.S. other than changes in reserve assets, in all liabilities to foreign monetary authorities and in liabilities to commercial banks abroad (including U.S. bank branches) reported by banks in the U.S.
7/ Minus sign indicates decrease in net liabilities.

* Not seasonally adjusted.

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. Despite continued strength in employment and income, there are increasing signs that the expansion is losing momentum. GNP in the third quarter is now expected to rise by about $15.5 billion, only modestly less than the $16.4 billion increase now officially estimated for the second quarter.1/ But, as in the past quarter, higher prices are expected to account for much of the increase in total expenditures, and the rate of growth of real GNP is likely to edge down to under 2 per cent.

By the fourth quarter, plant and equipment spending--the major factor sustaining growth this year--is expected to begin to flatten out. With construction activity and expenditures edging off and Federal spending resuming its downward movement, expansion in GNP is likely to slow markedly. A further substantial slowing of GNP growth is expected in the first half of 1970.

These projections assume extension of the tax surcharge at the 10 per cent rate through year-end and at 5 per cent through mid-1970; the elimination of the investment tax credit; the continued restriction of Federal budget outlays for fiscal 1970 to the $192.9 billion level; and the continuation of a generally restrictive monetary policy for some

1/ The tables following this section incorporate the recently revised Commerce GNP figures and an attachment presents the revised figures back to 1966.

months ahead. If the surcharge is dropped entirely on January 1, it is estimated that disposable income in the first quarter would rise by an additional $4.5 billion, and consumption by about $3.5 billion. Corporate retained earnings would also be boosted significantly, though the effects on business spending are problematical.

GNP growth this quarter will likely be supported by a somewhat larger rise in consumption expenditures. Retail sales so far this year have shown a decided lack of buoyancy. But, a more rapid growth in disposable income--the result of the Federal pay raise, which is estimated to add $2.8 billion to wages and salaries, and also of the completion of payments on 1968 income tax obligations--should boost expenditures somewhat, despite some increase in the saving rate. The impact is expected largely in nondurables, which should rebound after an unusually small second quarter increase. Service expenditures are expected to continue up at an almost undimished pace, but purchases of durable goods are expected to edge off, with domestic auto sales declining to an 8.35 million rate.

Other than the anticipated pick-up in consumer expenditures, most major demand sectors are likely to be showing less ebullience in the current quarter. Inventory investment, which was a major factor in raising GNP growth in the second quarter, is expected to continue at about the same relatively high rate as in the current period.

Our projection of business fixed investment expenditures shows a distinctly slower rate of growth beginning in the third quarter, and an actual reduction after year-end. The projections for the balance of this year are still based upon the April-May Commerce-SEC survey, but later information, including the results of the special survey conducted by the Reserve Banks, newspaper reports and early and incomplete returns from other surveys, suggests that a change in business expectations may be underway which could result in a slower growth in business investment in the last half of this year than had been anticipated earlier.

Residential construction outlays, according to revised figures, declined by almost $1 billion last quarter, and these expenditures are now expected to continue down a little faster than previously estimated because of the increasing difficulty of obtaining construction funds and high costs of mortgage money. In the fourth quarter of this year, starts are expected to be down to an annual rate of 1.35 million and expenditures almost $3 billion below the level in the first quarter.

Federal purchases, apart from the pay raise, are also expected to continue to edge down this quarter. The impact of curtailed Federal spending, particularly for defense, has already been evident in a dip in new orders for durable goods in both May and June. No increase at all is expected in Federal non-defense expenditures. Moreover, the advance in State and local spending is expected to moderate, reflecting the increasing difficulty of obtaining financing.

With the decline in Federal purchases likely to resume in the fourth quarter and with most other major demand sectors showing less ebullience, final demands are expected to ease significantly. In such a situation, incentives for business inventory accumulation are likely to weaken, but this may be offset to some extent temporarily by involuntary accumulation. As a result, GNP growth in the fourth quarter is expected to dip to about $11 billion, and real GNP may increase by no more than about one per cent.

A further substantial cut in GNP growth is anticipated in the first half of 1970. Final demands are expected to slow further as expenditures for business fixed investment begin to decline under the pressure of reduced sales and profits. With employment and wage and salary growth dampened by reduced activity, only a modest increase in consumer spending is anticipated despite the assumed reduction in the surcharge to 5 per cent. With final sales of goods weakening, businessmen are likely to cut their rates of inventory accumulation, reducing GNP growth to a projected $8 billion in the first quarter and $6 billion in the second; in real terms, GNP growth would come to a halt or turn slightly negative. A significant easing in demands for labor, industrial capacity and materials should be evident by early next year, and prices as reflected in the GNP deflator are projected to moderate to about a three per cent rate of increase in the second quarter.

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.	1969 I	1969 IIp	1969 Projected III	1969 Projected IV	1970 Projected I	1970 Projected II
Gross National Product	793.5	865.7	931.6	908.7	925.1	940.6	952.1	959.9	966.2
Final sales	786.2	858.4	923.3	902.1	915.6	931.6	943.8	954 9	963.2
Private excluding net exports	600.9	655.6	706.1	690.6	701.1	711.6	721.2	728.8	735.3
Personal consumption expenditures	492.3	536.6	576.1	562.0	570.7	581.0	590.8	600.0	607.6
Durable goods	73.0	83.3	89.6	88.4	90.4	89.8	89.8	89.3	88.5
Nondurable goods	215.1	230.6	244.4	238.6	240.6	246.6	251.7	256.7	260.5
Services	204.2	222.8	242.2	235.0	239.8	244.6	249.3	254.0	258.6
Gross private domestic investment	116.0	126.3	138.4	135.2	139.9	139.6	138.7	133.8	130.7
Residential construction	25.0	30.2	31.8	33.2	32.4	31.1	30.4	29.8	30.7
Business fixed investment	83.7	88.8	98.2	95.3	98.0	99.5	100.0	99.0	97.0
Change in business inventories	7.4	7.3	8.4	6.6	9.5	9.0	8.3	5.0	3.0
Nonfarm	6.8	7.4	8.3	6.6	9.3	9.0	8.3	5.0	3.0
Net exports of goods and services	5.2	2.5	2.0	1.5	2.0	2.0	2.5	4.0	4.5
Gov't. purchases of goods & services	180.1	200.3	215.2	210.0	212.5	218.0	220.1	222.1	223.4
Federal	90.7	99.5	101.9	101.6	100.6	103.1	102.4	101.7	100.4
Defense	72.4	78.0	79.6	79.0	78.7	80.7	80.0	79.3	78.0
Other	18.4	21.5	22.3	22.6	21.9	22.4	22.4	22.4	22.4
State & local	89.3	100.7	113.3	108.5	111.9	114.9	117.7	120.4	123.0
Gross national product in constant (1958) dollars	674.6	707.6	728.2	723.1	727.3	730.1	732.2	731.8	730.8
GNP implicit deflator (1958=100)	117.6	122.3	127.9	125.7	127.2	128.8	130.0	131.2	132.2
Personal income	629.4	687.9	746.5	724.4	740.7	754.8	764.9	775.3	783.9
Wages and salaries	423.5	465.0	509.1	493.3	504.1	515.5	523.4	529.5	535.1
Disposable income	546.5	590.0	628.7	610.7	623.0	636.8	644.3	656.4	662.8
Personal saving	40.4	38.4	36.4	33.0	36.4	39.4	36.9	39.5	38.0
Saving rate (per cent)	7.4	6.5	5.8	5.4	5.8	6.2	5.7	6.0	5.7
Corporate profits before tax	80.3	91.1	93.0	95.5	94.5	92.5	89.5	85.0	81.0
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	151.1	176.3	200.5	198.1	201.3	200.7	202.0	196.4	196.7
Expenditures	163.8	181.5	192.0	189.0	190.5	194.0	194.3	195.4	196.6
Surplus or deficit (-)	-12.7	-5.2	8.5	9.1	10.8	6.7	7.7	1.0	0.1
Total labor force (millions)	80.8	82.3	84.2	83.7	83.8	84.4	84.7	85.0	85.2
Armed forces "	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Civilian labor force "	77.2	78.7	80.7	80.2	80.3	80.9	81.2	81.5	81.7
Unemployment rate (per cent)	3.8	3.6	3.6	3.3	3.5	3.7	3.9	4.1	4.5
Nonfarm payroll employment (millions)	65.9	67.9	70.3	69.5	70.0	70.6	70.9	71.0	70.8
Manufacturing	19.4	19.8	20.2	20.1	20.1	20.3	20.2	20.1	19.9
Industrial production (1957-59=100)	158.1	165.4	174.1	170.2	172.8	174.2	175.0	174.0	173.0
Capacity utilization, manufacturing (per cent)	85.3	84.5	82.2	84.5	84.6	84.0	83.3	81.7	80.0
Housing starts, private (millions A.R.)	1.29	1.51	1.49	1.72	1.51	1.41	1.35	1.40	1.45
Sales new domestic autos (millions, A.R.)	7.57	8.62	8.38	8.37	8.54	8.35	8.25	8.00	8.00

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967	1968	1969 Proj.	1969 I	1969 IIp	1969 Projected III	1969 Projected IV	1970 Projected I	1970 Projected II
	In Billions of Dollars								
Gross National Product	43.6	72.2	65.9	16.2	16.4	15.5	11.5	7.8	6.3
Inventory change	-7.4	-0.1	1.1	-3.9	2.9	-0.5	-0.7	-3.3	-2.0
Final sales	51.1	72.2	64.9	20.1	13.5	16.0	12.2	11.1	8.3
Private excluding net exports	27.9	54.7	50.5	16.5	10.5	10.5	9.6	7.6	6.5
Net exports	-0.1	-2.7	-0.5	0.3	0.5	0.0	0.5	1.5	0.5
Government	23.3	20.2	14.9	3.3	2.5	5.5	2.1	2.0	1.3
GNP in constant (1958) dollars	16.5	33.0	20.6	4.6	4.2	2.8	2.1	-0.4	-1.0
Final sales	23.5	33.3	19.9	8.2	1.9	3.3	2.3	2.5	0.8
Private	10.0	24.9	17.8	7.8	2.5	2.7	2.3	2.3	1.5
	In Per Cent Per Year								
Gross National Product	5.8	9.1	7.6	7.3	7.2	6.7	4.9	3.3	2.6
Final sales	7.0	9.2	7.6	9.1	6.0	7.0	5.2	4.7	3.5
Private	6.1	8.5	7.6	9.9	6.4	6.0	5.7	5.0	3.8
Personal consumption expenditures	5.6	9.0	7.4	8.2	6.2	7.2	6.7	6.2	5.1
Durable goods	3.1	14.1	7.6	9.7	9.0	-2.7	0.0	-2.2	-3.6
Nondurable goods	4.0	7.2	6.0	7.3	3.4	10.0	8.3	7.9	5.9
Services	8.3	9.1	8.7	8.5	8.2	8.0	7.7	7.5	7.2
Gross private domestic investment	-4.4	8.9	9.6	3.9	13.9	-0.9	-2.6	-14.1	-9.3
Residential construction	0.0	20.8	5.3	17.6	-10.8	-16.0	-9.0	-7.9	12.1
Business fixed investment	2.6	6.1	10.6	16.6	11.3	6.1	2.0	-4.0	-8.1
Gov't. purchases of goods & services	14.9	11.2	7.4	6.4	4.8	10.4	3.9	3.6	2.3
Federal	16.6	9.7	2.4	-1.2	-3.9	9.9	-2.7	-2.7	-5.1
Defense	19.3	7.7	2.1	-1.5	-1.5	10.2	-3.5	-3.5	-6.6
Other	7.6	16.8	3.7	1.8	-12.4	9.1	0.0	0.0	0.0
State & local	13.0	12.8	12.5	14.1	12.5	10.7	9.7	9.2	8.6
GNP in constant (1958) dollars	2.5	4.9	2.9	2.5	2.4	1.5	1.1	-0.2	-0.6
Final sales	3.6	5.0	2.8	4.6	1.1	1.8	1.3	1.4	0.4
Private	1.9	4.7	3.2	5.6	1.8	1.9	1.6	1.6	1.0
GNP implicit deflator	3.2	4.0	4.6	4.7	4.8	5.1*	3.8	3.5	3.2
Personal income	7.2	9.3	8.5	7.4	9.0	7.6	5.4	5.4	4.4
Wages and salaries	7.4	9.8	9.5	9.3	8.8	9.0	6.1	4.7	4.2
Disposable income	6.8	8.0	6.6	4.2	8.1	8.9	4.7	7.5	3.9
Corporate profits before tax	-4.6	13.4	2.1	4.2	-4.2	-8.5	-13.0	-20.1	-18.8
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	6.0	16.7	13.7	23.1	6.5	-1.2	2.6	-11.1	0.6
Expenditures	14.7	10.8	5.8	3.4	3.2	7.3	0.6	2.3	2.5
Nonfarm payroll employment	3.0	3.0	3.5	4.7	2.9	3.4	1.7	0.6	-1.1
Manufacturing	1.0	2.1	2.0	4.0	0.0	4.0	-2.0	-2.0	-4.0
Industrial production	1.2	4.6	5.3	6.7	6.1	3.2	1.8	-2.3	-2.3
Housing starts, private	10.9	16.7	-1.3	28.2	-49.2	-25.8	-16.5	14.8	14.3
Sales new domestic autos	-9.7	14.0	-5.0	-20.4	8.4	-9.1	-4.8	-12.1	0.0

* Excluding Federal pay increase 4.0 per cent.

<u>Industrial production</u>. In July, industrial production is estimated to have risen about one point further to 175 per cent of the 1957-59 average--0.5 per cent, or slightly more, above the preliminary June figure and 5.5 per cent above a year earlier.

Auto assemblies in July, after allowance for the earlier model changeover, rose to an annual rate of 9.1 million units as output met projected schedules. Production schedules for August and September are set at the July rate. For the third quarter as a whole, auto output is scheduled at about the level of a year earlier, but the monthly pattern in this model changeover period differs sharply from last year. Among other consumer goods, output of furniture and most appliances was apparently maintained at advanced levels and production of television sets remained at the reduced May-June rate. The July employment data indicate a further substantial rise in output of most business equipment lines while production of defense equipment recovered from the strike-reduced June level. Output of steel and most other industrial materials is estimated to have increased further, with a decline in production of crude oil offset by a recovery in coal output which had been sharply curtailed in June in observance of the death of John L. Lewis.

The expansion in output of materials in the first half of this year has brought this sector to an advanced level relative to indicated materials consumption. Further, the business equipment component of industrial products is higher relative to output of consumer goods than ever before except in late 1966. Meanwhile, output of consumer goods since last fall has been running higher than usual relative to deflated final sales of these goods. Although changes in these relationships partly reflect statistical considerations, the differences appear to be large and persistent enough to indicate growing imbalances in the industrial sector of the economy.

Capacity utilization. The manufacturing capacity utilization rate edged up to 84.6 per cent in the second quarter from 84.5 per cent in the first. The June rate is estimated at 84.7 per cent and July is expected to be slightly higher.

The stability of the operating rate in recent quarters has in part reflected offsetting trends. Utilization rates in some materials producing industries have been rising since last fall. Operating rates are now high in production of paper and nonferrous metals products and are above normal in iron and steel. This has been offset by reduced operating rates in the motor vehicle and aircraft industries.

MANUFACTURING CAPACITY UTILIZATION
(Per cent)

Industry	1968		1969				
	QIII	QIV	QI	QII	April	May	June
Manufacturing	84.0	84.2	84.5	84.6	84.5	84.5	84.7
Primary processing industries	84.6	85.6	87.0	87.5	87.5	87.5	87.5
Advanced processing industries	83.5	83.2	82.7	82.4	82.3	82.4	82.6

Retail sales. Weekly figures suggest that July retail sales were little changed from June. Sales for both May and June have been revised upward, but the absence of expansive strength in consumer demand for goods is indicated by the fact that the revised June level is about the same as last February.

In July, a large decline in sales of durable goods stores was about offset by an increase (estimated at more than 1 per cent) in sales of nondurable goods stores. In real terms, July was probably the third consecutive month with sales below a year earlier.

RETAIL SALES
(Percentage change from previous month)

	Jan.	Feb.	March	April	May	June
Total	2.3	1.0	-1.3	1.8	-0.2	-0.2
Durable	2.3	1.6	-2.3	2.1	-1.0	0.7
Automotive	2.4	0.6	-1.6	1.0	-1.0	2.0
Nondurable	2.3	0.8	-0.8	1.7	0.2	-0.6
Department stores	-0.6	2.2	-1.0	6.4	-2.2	-0.4
Real*	2.1	0.7	-2.0	1.3	-0.4	-0.9

* Deflated by the all commodities CPI.

Sales of new domestic autos were at a seasonally adjusted annual rate of 8.1 million units for the month of July, down 10 per cent from June and also from a year earlier when sales set a record for July. For the year to date, sales are now slightly behind 1968. The total 5.03 million units compared with 5.08 million in the first seven months of last year. Stocks of new autos on July 20 amounted to 1.67 million units, 2 per cent below a year earlier.

Consumer credit. Consumer credit growth stepped up considerably during the spring months, but the second quarter increase was still smaller than the gains registered in the final two quarters of 1968. The second quarter rise in instalment credit outstanding amounted to $9.6 billion (seasonally adjusted annual rate) compared with $8.3 billion in the first quarter of 1969 and an average slightly above $10 billion in the second half of last year.

Extensions and repayments of instalment credit both increased substantially. Extensions rose $3.7 billion to a seasonally adjusted annual rate of $104.4 billion, after little change in the first quarter, and repayments advanced by $2.5 billion, compared with a $2.2 billion increase in the first quarter.

As credit use expanded during a period when retail sales had slackened, credit purchases rose to a record proportion of retail sales of autos and other consumer goods in recent months. During the second quarter, the average monthly dollar volume of instalment credit extensions for these goods reached 41.3 per cent of combined retail sales of autos and GAF merchandise. Auto credit extensions, relative to retail sales of automotive group stores, virtually equaled the temporary peak of 50 per cent reached in late 1964; extensions of instalment credit for purchases of other consumer goods exceeded 35 per cent of retail GAF sales for the first time on record.

RATIO OF INSTALMENT CREDIT EXTENSIONS TO RETAIL STORE SALES 1/
(Per cent)

	Total 2/	Auto	Other Consumer Goods
1967 - QI	38.1	46.4	32.3
QII	37.1	44.8	31.5
QIII	37.8	44.1	33.1
QIV	38.4	47.1	32.6
1968 - QI	39.8	48.5	33.5
QII	40.0	47.6	34.6
QIII	39.5	48.0	33.3
QIV	40.6	48.8	34.7
1969 - QI	40.1	48.5	34.1
QII	41.3	49.9	35.3

1/ Based on seasonally adjusted data.
2/ Extensions of auto and other consumer goods credit relative to retail sales of automotive group and GAF stores.

Leading indicators. The Census composite leading indicator increased slightly in June, returning to the April peak level, according to preliminary calculations. The increase occurred as a result of rises in nonagricultural job placements, industrial materials prices, and the ratio of price to unit labor cost; there was also a slight increase in new private housing permits, which remained at a reduced level. The manufacturing workweek was unchanged, and durable orders, plant and equipment contracts and orders, and stock prices were down. Net business formation, inventory change, and change in consumer instalment debt were not available for June and profits were not available for the second quarter.

COMPOSITE CYCLICAL INDICATORS
1963 = 100

		12 Leading Indicators	5 Coincident Indicators	6 Lagging Indicators
1969:	April	148.5	167.7	183.5
	May	147.9	169.0	185.7
	June (prel.)	148.6	170.6	186.1

Over the past half year, the leading composite has been increasing at a rate slower than the rapid pace of the second half of 1968 and about the same as in the first half of 1968. Postwar peaks in the economy, including those at the beginning of the "mini-recessions" of 1951 and 1967 as well as of the four recessions, were all preceded either by four or more months of sustained decline in this composite or by longer periods of hesitation--close to two years of little change in the case of the 1957-58 downturn.

The subgroups and the individual leading indicators, which are not adjusted for trend and therefore have longer leads than the trend-adjusted leading composite, currently suggest general hesitation or lack of strength, though still no clear signal of a downturn. Of the leading indicator subgroups (not shown in the table here), only the employment composite rose in June, by a small amount; it is well below its most recent peak last July.

Manufacturers' orders and shipments. New orders for durable goods dropped 3.5 per cent in June, following May's 3.1 per cent decline.

The entire June decline was in the defense industries, with other changes small and offsetting. The decline in defense new orders was associated with a $1.1 billion cut in unfilled orders at those industries, partly accounted for by cancellation of the Manned Orbiting Laboratory. Durable shipments rose in total and in most groups, excepting aerospace. Nondurable shipments and orders repeated their May increase.

CHANGES IN MANUFACTURERS' NEW ORDERS
Per cent changes in quarterly averages from
preceding quarter, seasonally adjusted

	1969	
	QI	QII
Manufacturing, total	0.1	1.3
Durable goods	1.0	0.0
Nondurable goods	-1.0	2.9
Selected market groupings:		
Defense products industries	-2.2	-13.0
Machinery and equipment industries	1.3	4.7
Construction materials	-1.4	2.0
Automotive equipment	-1.1	- 1.3
Home goods and apparel	5.8	0.9
Consumer staples	-2.9	2.5

For the second quarter as a whole, the value of durable goods orders showed no change, as the sharp drop in defense industry orders was offset by increases associated with capital spending. The continuing strength in machinery and equipment was apparently not just a result of April's heavy anticipatory ordering, for May and June orders in this category--although well below April--were nevertheless above the already high first-quarter average.

Not too much significance should be attached to the second-quarter increase in nondurables, which is similar to movements in the seasonally adjusted series last year. The rise reflects partly the erratic movements in consumer staples; demand for other manufactured consumer goods was not strong in the second quarter.

Inventories. Reflecting a sharp rise in book values in April and May, the Commerce Department's preliminary GNP estimates showed inventory accumulation increasing from a $6.6 billion to a $9.5 billion annual rate between the first and second quarter. However, preliminary statistics for June indicate that the book value of manufacturers' inventories failed to rise in the last month of the quarter. Unless data on trade inventories (available next week) show a very fast rise for June, it seems probable that the GNP inventory figure for the second quarter will be revised down somewhat. The outlook for trade inventories in June is uncertain; there is evidence of little further change in auto dealers' inventories, but retail sales of other consumer goods appear to have been weak and manufacturers' shipments were strong.

INVENTORY RATIOS

	1966			1969		
	Oct.	Nov.	Dec.	Apr.	May	June
Inventories to sales						
Manufacturing and Trade	1.51	1.54	1.56	1.54	1.53	n.a.
Manufacturing, ~~total~~	1.65	1.69	1.72	1.71	1.71	1.69
Durable	1.88	1.95	2.00	2.00	2.04	2.01
Nondurable	1.37	1.38	1.37	1.34	1.32	1.29
Trade, total	1.36	1.38	1.39	1.36	1.34	n.a.
Wholesale	1.17	1.21	1.22	1.19	1.17	n.a.
Retail	1.48	1.49	1.51	1.47	1.46	n.a.
Durable	2.07	2.10	2.10	2.05	1.98	n.a.
Nondurable	1.20	1.20	1.23	1.19	1.21	n.a.
Inventories to unfilled orders						
Durable manufacturing	.622	.633	.639	.687	.693	.703

The June rise in manufacturers' shipments, with inventories unchanged, lowered their inventory-sales ratios. However, with the billion-dollar drop in durable unfilled orders resulting from the cut in the defense industry backlog, the durable inventory-backlog ratio rose further. This ratio has been rising at a rate comparable to that of late 1966 and is now considerably higher than it was then, suggesting the possibility of a slowdown from the recent rapid rate of inventory growth at durable manufacturers.

Inventory-sales ratios were reduced at the trade level in May; there was a sharp drop at durable retailers, reflecting the reduction in auto inventories, but the retail nondurable ratio rose. Recent levels and changes in the trade ratios suggest less imbalance as of the end of May than there was in late 1966, with future developments dependent largely on the strength of consumer demand.

Construction and real estate. Outlays for new construction put in place, which were revised upward somewhat for June to virtually the peak reached early this year, changed very little in July. However, residential construction expenditures were revised downward by 2 per cent for recent months, and they dipped further in July, reflecting the general downtrend in housing starts since the January peak. Outlays for nonresidential structures rose slightly, but remained below their early-year peak. Public construction dipped from a record high in June.

As in other recent months, more than half the year-to-year increase in current dollar outlays for total construction represented higher costs as measured by the Census Bureau.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	July 1969 ($ billions) 1/	Per cent change from June 1969	Per cent change from July 1968
Total	91.9	--	+13
Private	61.5	--	+12
Residential	29.9	-1	+ 8
Nonresidential	31.6	+1	+16
Public	30.4	-1	+14

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

The further decline in seasonally adjusted private housing starts in June amounted to 4 per cent, to an annual rate of 1.45 million units. Even so, the average for the second quarter as a whole was little changed from the relatively advanced rate for the year 1968--1.51 million. In the second quarter of 1966, by contrast, the starts rate had already dropped more than a tenth below the 1965 total of 1.47 million units.

A striking feature of the comparatively high level of starts so far this year has been the relative strength in multifamily units. While such starts have also declined since January, in the first half as a whole they were three-fifths higher than in the same period of 1966, as shown in the table. Single-family starts in the first half year averaged about the same as in the corresponding half of 1966; consequently, multifamily starts accounted for all of the total increase over this period. An important stimulus to the record multifamily performance this year has been the accumulated demand for housing units of all types. In response to this stimulus, multifamily builders thus far have shown a willingness and ability to compete aggressively for funds from outside as well as within the mortgage market.

PRIVATE HOUSING STARTS AND PERMITS

	1st Half 1969 (Thousands of units)1/	Per cent change from 2nd Half 1968	1st Half 1968	1st Half 1966
Starts	1,610	+ 2	+ 9	+19
1-family	889	- 3	- 2	- 1
2-or-more-family	722	+10	+29	+59
Northeast	253	+ 3	+19	+ 5
North Central	427	+16	+11	+22
South	624	- 5	+ 6	+18
West	306	--	+ 8	+ 33
Permits	1,409	+ 3	+ 8	+17
1-family	656	- 6	- 4	- 4
2-or-more-family	753	+12	+20	+45

1/ Seasonally adjusted annual rates; preliminary.

Labor market. Labor demand continued strong in July. About 160,000 workers were added to nonfarm payrolls and the workweek continued at the high June average. Despite the sizable gains of recent months, employment growth has been at a slower pace than in the first quarter, and also smaller than growth of the labor force. The unemployment rate edged up in July by two-tenths of a point, to 3.6 per cent.

Increased unemployment in the second quarter occurred mainly among women, reflecting greater difficulty of finding jobs when entering the labor force. In July, however, the unemployment rise occurred largely among men and, in part, reflected layoffs resulting from cancellations and the stretching out of some space and defense contracts. These layoffs have resulted in a slow but steady rise in initial claims for unemployment insurance, and in the last half of July, the level of insured unemployment was higher than a year earlier for the first time in sixteen months.

UNEMPLOYMENT RATES, 1969
(Seasonally adjusted)

	1st quarter	2nd quarter	July
Total	3.3	3.5	3.6
Teenagers	12.1	12.3	12.2
Women	3.5	3.7	3.7
Men	1.9	2.0	2.2

All major sectors except construction and services reported employment increases in July, but the over-all increase was smaller than the average monthly rise in the second quarter, which in turn had shown smaller increases than the first quarter. The slowing of employment growth has been concentrated in nonmanufacturing activities, primarily in services, which--exclusive of finance--have not shown an appreciable increase since March. Manufacturing employment increased by 65,000 in July (adjusted for returns of strikers during the month);

the largest increase occurred in the electrical equipment industries, and there were modest gains in most other manufacturing industries.

NONFARM PAYROLL EMPLOYMENT*
(Average monthly change, in thousands, seasonally adjusted)

	December to March	March to June	June to July
Total	281	205	162
Government	33	41	41
Private industry	248	164	121
Manufacturing	56	36	64
Nonmanufacturing	192	129	57

* Adjusted for major strikes.

Average hourly earnings in July advanced to $3.03 in nonfarm industries, an increase of 6.3 per cent from a year earlier. As has been the case for the last several months, the rise was at a slightly slower rate than in 1968.

In June, total wage and salary payments rose by $4 billion, reflecting increases in employment and pay rates in all major industry groups. Despite the relatively strong advance, the growth rate of total wage and salary payments slowed further in the second quarter. However, the general pay raise for Federal military and civilian employees boosted income sharply in July.

WAGE AND SALARY INCOME
(Per cent increase from prior quarter at annual rates, seasonally adjusted)

	1968				1969	
	I	II	III	IV	I	II
Total	10.7	9.6	10.2	9.7	9.3	8.8
Manufacturing	11.7	8.5	9.2	8.4	7.2	8.3
Nonmanufacturing	10.2	10.3	10.7	10.1	10.4	9.1

Industrial relations. Major collective bargaining settlements affecting 1.4 million workers during the first half of 1969 provided median first-year wage increases of nearly 7-1/2 per cent, slightly higher than the median rise for 1968 as a whole. Large increases were negotiated in the shipping, airline, and construction industries. Construction settlements, covering more than 150,000 workers, provided median first-year wage increases of 15.2 per cent.

MAJOR COLLECTIVE BARGAINING SETTLEMENTS

	Full Year			1st Half
	1966	1967	1968	1969
Workers covered (millions)	3.4	4.4	4.6	1.4
Wages (per cent increase, annually):				
Life of contract	3.9	5.0	5.2	6.1
First year	4.8	5.6	7.2	7.4
Wages and benefits (per cent, annually)	4.0	5.2	6.0	7.1

Because of the very large settlements in construction and shipping, there was a substantial gap between the first-year wage increases in manufacturing (6.6 per cent) and nonmanufacturing (10.1 per cent). If consumer prices continue to increase sharply, the unions in the manufacturing industries may be expected to demand considerably larger wage increases when contracts are reopened later this year and next.

Collective bargaining will continue at a relatively slow pace in the last half of 1969, with 1.4 million workers in the apparel, ship building, construction, and electrical equipment industries renegotiating contracts. But during this period, about 3.2 million workers will receive deferred wage increases--averaging about 4 per cent--provided by contracts negotiated in 1968 or earlier years.

Wholesale prices. According to preliminary BLS estimates, wholesale prices rose only 0.1 per cent from mid-June to mid-July, the smallest monthly increase this year. Average prices of industrial commodities were up 0.2 per cent, but farm and food prices, which had accounted for most of the recent monthly increases in the WPI, were unchanged, and sensitive material prices declined.

WHOLESALE PRICES
(Per cent changes, annual rates)

	1968	1969		
	June-Dec.	Dec.-Mar.	Mar.-June	June-July[p]
All commodities	2.0	6.9	5.4	1.2
Farm products, and processed foods & feeds	0.7	8.5	17.3	0.0
Industrial commodities	2.6	6.5	0.7	2.4
Sensitive materials (FRB)	7.9	20.3	-11.8	-4.8e

Increases were reported for almost half the industrial commodity classes in July, about the same proportion as in most recent months. Prices of steel mill products, nonferrous metals, and fabricated structural metal products were all higher, as were those for machinery and equipment, rubber and rubber products, textile products, and apparel. Lumber and wood products declined for the fourth consecutive month, holding down the advance in the industrial average. Prices of farm products decreased 0.7 per cent in July mainly as a result of increased supplies of cattle, grains, and fresh fruits and vegetables, but processed foods were up.

INDUSTRIAL PRICES
Average monthly changes in product classes 1/

	1968		1969		
	Q1	Q2	Q1	Q2	July p
Number of:					
Increases	123	99	121	107	110
Decreases	30	39	37	34	37
No changes	72	87	69	86	80

1/ 225 product classes in 1968; 227 product classes in 1969.

Since mid-July, additional price increases have been announced for a number of industrial commodities, the most important being U.S. Steel's average increase of 4.8 per cent for about one-third of its products and the increase of 2 cents a pound for copper by the three largest domestic producers. Most steel producers have followed U.S. Steel's lead, and the price increases will affect about one-half of industry shipments. It might be noted that the price increase originally announced for galvanized sheets was reduced by U.S. Steel to conform to the new level set by most competitors. Most of these price increases are effective in early August, with new prices of tinplate effective later in the year. If these higher prices remain firm--as is now expected--price increases in steel-using consumer goods industries are likely to result. Of uncertain significance now is the fact that General Motors has notified U.S. Steel not to ship steel at the new prices until General Motors has reevaluated the competitive steel price situation.

The increase in copper prices to 48-48-1/2 cents a pound--an all-time high--has already resulted in the seventh increase this year in the prices of brass mill products.

Further declines were registered in prices of livestock during the latter part of July as deliveries of livestock increased, and wholesale meat prices were also down. Prices of livestock are likely to decrease further in the next few months if expectations of increased beef supplies are realized.

Consumer prices. Consumer prices rose at an annual rate of 7.6 per cent in June, sharply above the 3.8 per cent of May and somewhat more than the average increase in the first half of this year. June prices were 5.5 per cent above a year earlier with exceptionally large increases over this period in costs of services, apparel, and foods.

Food prices accounted for one-half of the rise in consumer prices in June. The advance of 8.7 per cent in meat prices from March to June was one of the largest in the post-war period. A further sizable gain at retail is likely in July, although beef prices at wholesale have declined. For the third quarter as a whole, beef marketings are expected to improve substantially and the rise in retail food prices should taper off. The outlook for adequate supplies of other foods is favorable.

Costs of consumer services rose more slowly in June than earlier, but still accounted for about one-fourth of the advance in the index. Costs of mortgage interest and home maintenance and repair services continued to rise appreciably as did public transportation fares. Higher physicians' fees contributed most to the rise in cost of medical care.

Apparel prices continued to increase in June, but at a slower rate than earlier. Fall apparel prices are expected to reflect higher labor costs in manufacturing. Durable goods, including new autos, are likely to advance further, reflecting higher costs of both labor and materials.

CONSUMER PRICES
(Per cent change at annual rates)

	June 1968 to June 1969	Dec. 1968 to Mar. 1969	Mar. 1969 to June 1969	May 1969 to June 1969
All items	5.5	6.1	6.4	7.6
Nondurable goods	5.0	3.6	7.6	10.7
Food	5.4	4.0	10.1	17.5
Apparel and upkeep	5.9	1.9	6.7	3.8
Durable goods	4.0	8.8	2.2	4.3
New cars	1.7	-1.2	-2.3	0.0
Household durables	4.4	5.4	5.4	2.3
Services	7.0	8.1	6.8	5.0
Mortgage interest rates	14.5	13.4	16.7	5.4
Medical care	8.7	10.9	8.0	6.4
Transportation	6.8	12.0	4.0	4.2
Recreation	4.9	2.5	8.2	4.6

Farm income and prices. A sharp upswing in prices of livestock products during the second quarter boosted gross farm income to a new high and raised farmers' net realized income to $16.3 billion (seasonally adjusted annual rate), 9 per cent above the first quarter, as shown in the table. Most of the gain accrued to livestock producers who benefitted from slackened marketings of meat animals during the second quarter in the face of burgeoning consumer demand for meats. Gross receipts of crop producers were also a little more favorable than a year earlier with a larger volume of marketings and somewhat larger Government payments compensating for lower crop prices.

The uptrend in costs of production items accelerated in the second quarter largely because of a 21 per cent increase in feeder livestock prices. Prices of feed were unchanged and prices of nonfarm inputs rose 1 per cent. Wage rates, interest, and taxes also rose. The volume of inputs was generally larger than last year and total outlays for expenses were up 8 per cent on average.

During the second half, farmers' gross returns may advance further but net realized income may be held in check by advancing production expenses. If July 1 crop production prospects are realized, continued downward pressure on crop prices is likely with prices of grains and oilseeds averaging near price support loan levels as in 1968. Livestock prices are likely to move down from present high levels but should average above a year earlier. If the midyear surveys of feed cattle and hog numbers are reasonably accurate, beef supplies will average above a year earlier in the second half but pork will drop below in the fourth quarter. Larger broiler and egg production and smaller milk production are anticipated. Milk is in near balance with demand, and shortages are not likely.

FARM INCOME AND PRICES

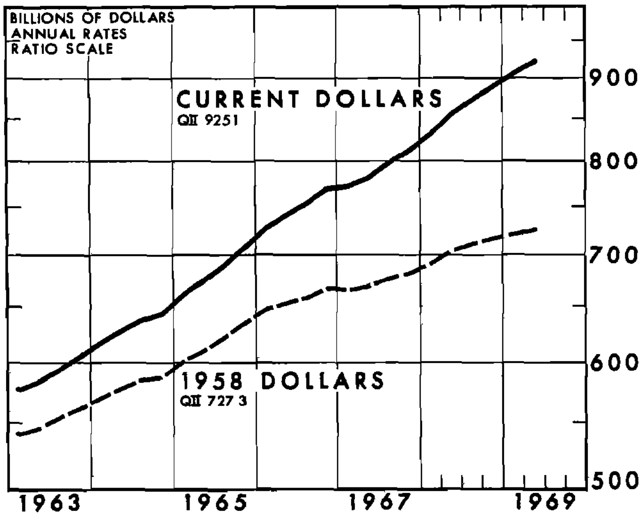
	1969		Per cent change from:		
			Q1 to	Year earlier	
	Q1	Q2	Q2	Q1	Q2
Farm income 1/					
Gross realized income	52.9	55.1	4	6	8
Minus: production expenses	37.9	38.8	2	7	8
Net realized income	15.0	16.3	9	4	10
Price Indexes, 1957-59=100					
Prices received by farmers	110	115	5	3	7
Livestock and products	117	124	6	7	13
Crops	101	104	3	-2	-1
Prices paid for production items	114	117	3	3	5
Farm origin	108	113	5	2	6
Nonfarm origin	119	120	1	4	4

1/ Seasonally adjusted annual rates in billions of dollars. Net changes in farm inventories are excluded.

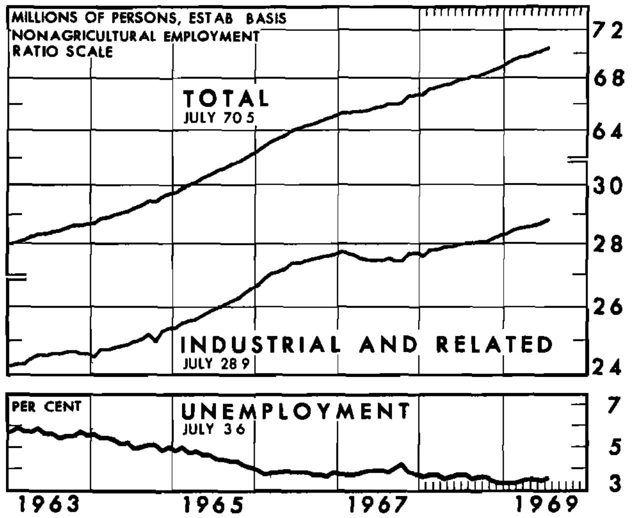
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

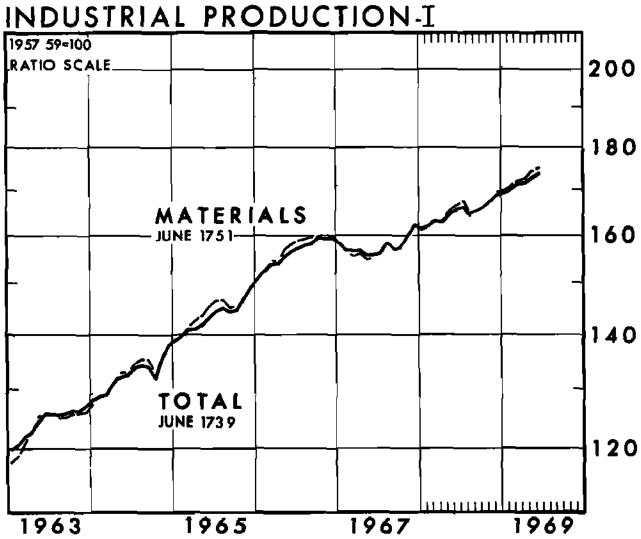
GROSS NATIONAL PRODUCT



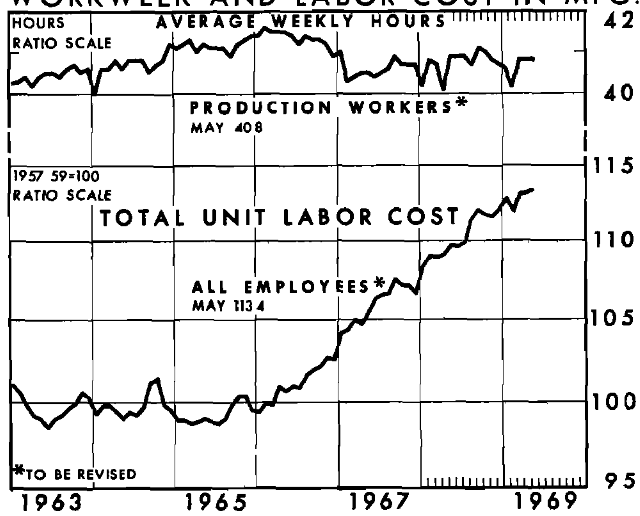
EMPLOYMENT AND UNEMPLOYMENT



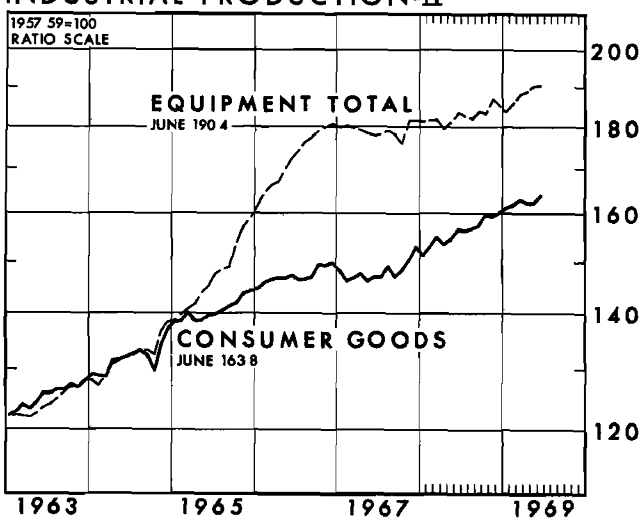
INDUSTRIAL PRODUCTION-I



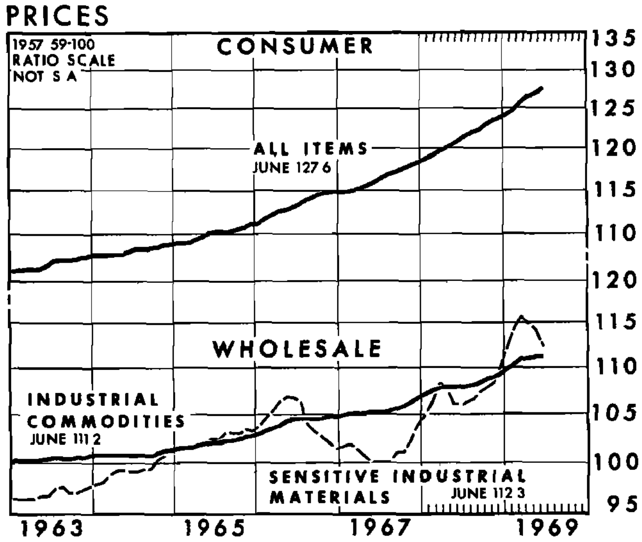
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



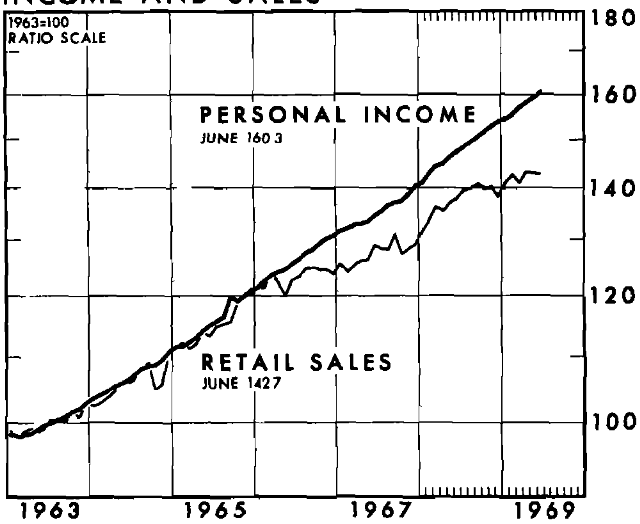
PRICES



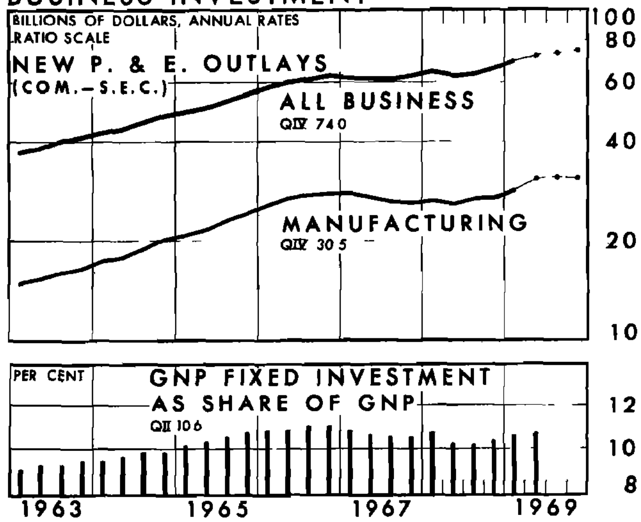
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

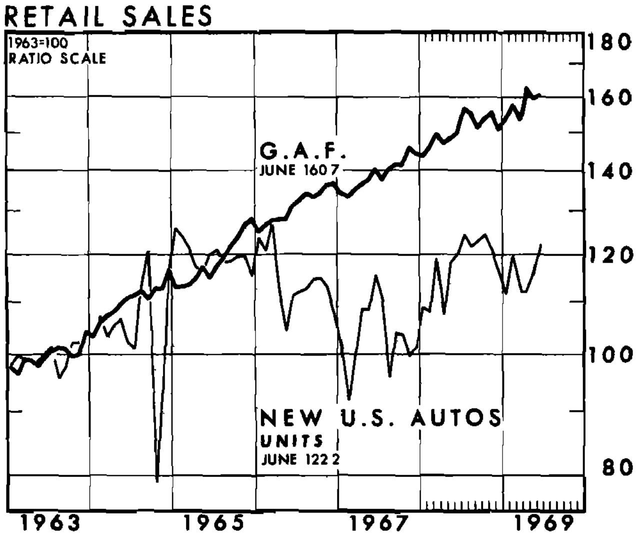
INCOME AND SALES



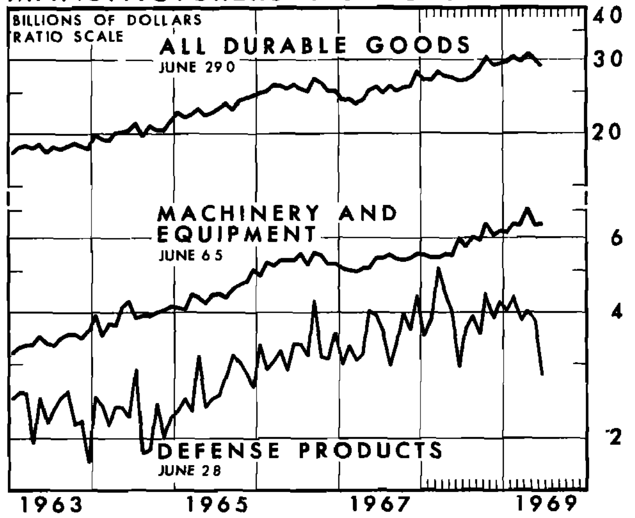
BUSINESS INVESTMENT



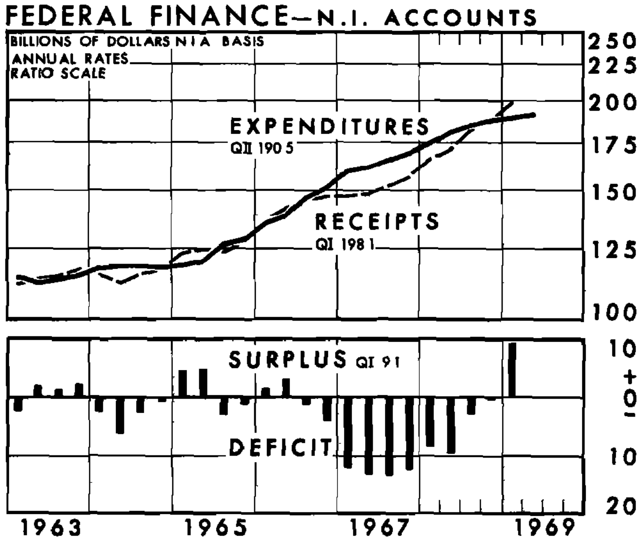
RETAIL SALES



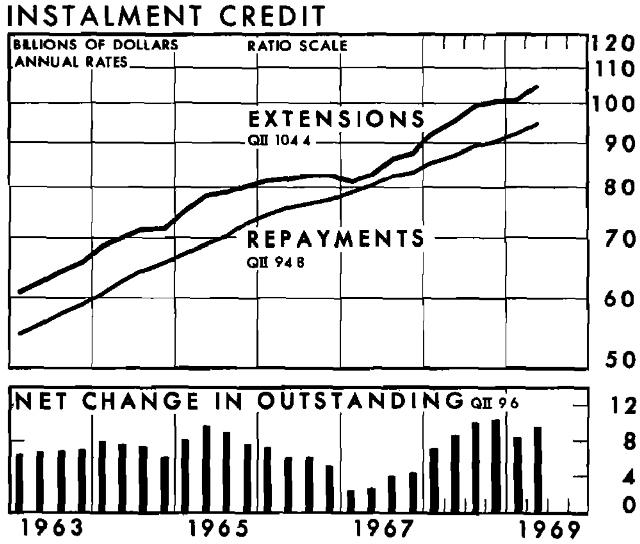
MANUFACTURERS' NEW ORDERS



FEDERAL FINANCE—N.I. ACCOUNTS



INSTALMENT CREDIT



THE ECONOMIC PICTURE IN DETAIL

Domestic Financial Situation

Bank Credit. Although commercial bank credit is estimated to have risen substantially in July, most of the advance is attributable to temporary factors. There was a temporary increase in bank holdings of Treasury bills associated with bank underwriting of the tax bill financing around mid-month and a sharp rise in one-day broker-dealer loans resulting from large System matched sale-purchase transactions near month-end. The continued limited availability of bank credit to private sectors was reflected in accelerated bank liquidation of other securities and a moderate rate of loan expansion (exclusive of the effect of the matched sale-purchase transactions) that was well below that of earlier in the year.

NET CHANGE IN BANK CREDIT
All Commercial Banks
(Seasonally adjusted percentage change, at annual rates)

	1968	1969		
	Q IV	1st 5 mos.	June-July	July
Total loans & investments 1/	10.7	3.9	3.2(1.4) 2/	7.7(4.0) 2/
U.S. Gov't. securities	-15.6	-21.5	8.6	19.3
Other securities	26.9	--	-5.9	-10.1
Total loans	13.1	11.2	4.6(1.8) 2/	10.0(4.6) 2/
Business loans	15.2	16.8	2.3	4.7
All other loans	11.9	7.7	6.0(1.5) 2/	13.5(4.5) 2/

1/ Last Wednesday of month series. Data for July are preliminary estimates and are subject to revision.

2/ Figures in parentheses are adjusted to exclude $1.2 billion of System matched sale-purchase transactions.

Bank holdings of securities rose somewhat in July, following a decline of about $5.7 billion over the first half of the year. This increase reflected bank underwriting of nearly all of a $3.5 billion Treasury financing, payable 100 per cent in credits to tax and loan accounts. Prior to the financing, the run-off of Treasury bills in early July had been sizable. Moreover, during July banks liquidated a very large amount of municipals--both short- and long-term--as well as some participation certificates and agency issues.

Bank loans--excluding the $1.2 billion increase in broker-dealer loans resulting from System matched sale-purchase transactions at month-end--rose only moderately in July, following a slight decline in June. Even if loans sold outright to bank holding companies and affiliates are included for June and July, the average increase in loans was less than half the average monthly increase during the first five months of the year.

Much of the recent slowdown in loan expansion reflects a marked reduction in the rate of growth of business loans. After remaining unchanged in June, business loans rose by only $400 million in July, as compared to an average monthly increase of more than $1.3 billion during the first five months of the year. Even inclusion of loans sold outright to holding companies and affiliates would raise the average monthly increase in June and July to only about 1/2 that earlier in the year. The increase in the prime rate early in June, as well as further deterioration in bank liquidity, probably have been important factors in the moderation of business loan expansion. Among weekly reporting banks, the recent weakness in business loans was somewhat more evident at banks outside New York and was fairly widespread among industry categories.

Growth in other loans has also slackened in recent months. The rate of expansion of real estate loans, which began to slow in May, moderated even further in June and July. Similarly, the rate of increase in consumer loans during the past few months has slowed even further from the reduced pace earlier in the year.

The erosion of bank liquidity that has been taking place since late last year continued in June and July. Despite the $1.7 billion increase in Treasury bill holdings in the week of July 23--mostly representing temporary financing--average liquidity positions at large banks for the first four weeks in July had fallen well below the lowest levels reached in 1966.

BANK LIQUIDITY 1/
Weekly Reporting Banks
(In per cent)

	1966	1968		1969	
	Fall	Spring	Fall	June	July 2/
Weekly reporting banks	9.4	10.0	11.9	9.2	8.9
New York City banks	10.5	11.9	14.0	9.8	9.6
Outside banks	9.0	9.4	11.3	9.0	8.7

1/ As measured by liquid assets/total assets less capital accounts and valuation reserves. Monthly average of weekly data.

2/ Average of first four weeks only.

<u>Bank sources of funds.</u> Total member bank deposits fell sharply further in July, declining by more than $5 billion. This reduction reflected mainly outflows of time and savings deposits, particularly CD's, although U.S. Government deposits also declined substantially. Banks with foreign branches borrowed further in the Euro-dollar market, with liabilities to foreign branches rising by an additional $1 billion during July. Moreover, banks continued to raise funds from other nondeposit sources. During the first four weeks in July, as indicated by the chart on the following page, such additional borrowings by the head offices of banks and their subsidiaries, affiliates, and holding companies rose by almost $1.2 billion as compared to the $660 million raised by these means in June.

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

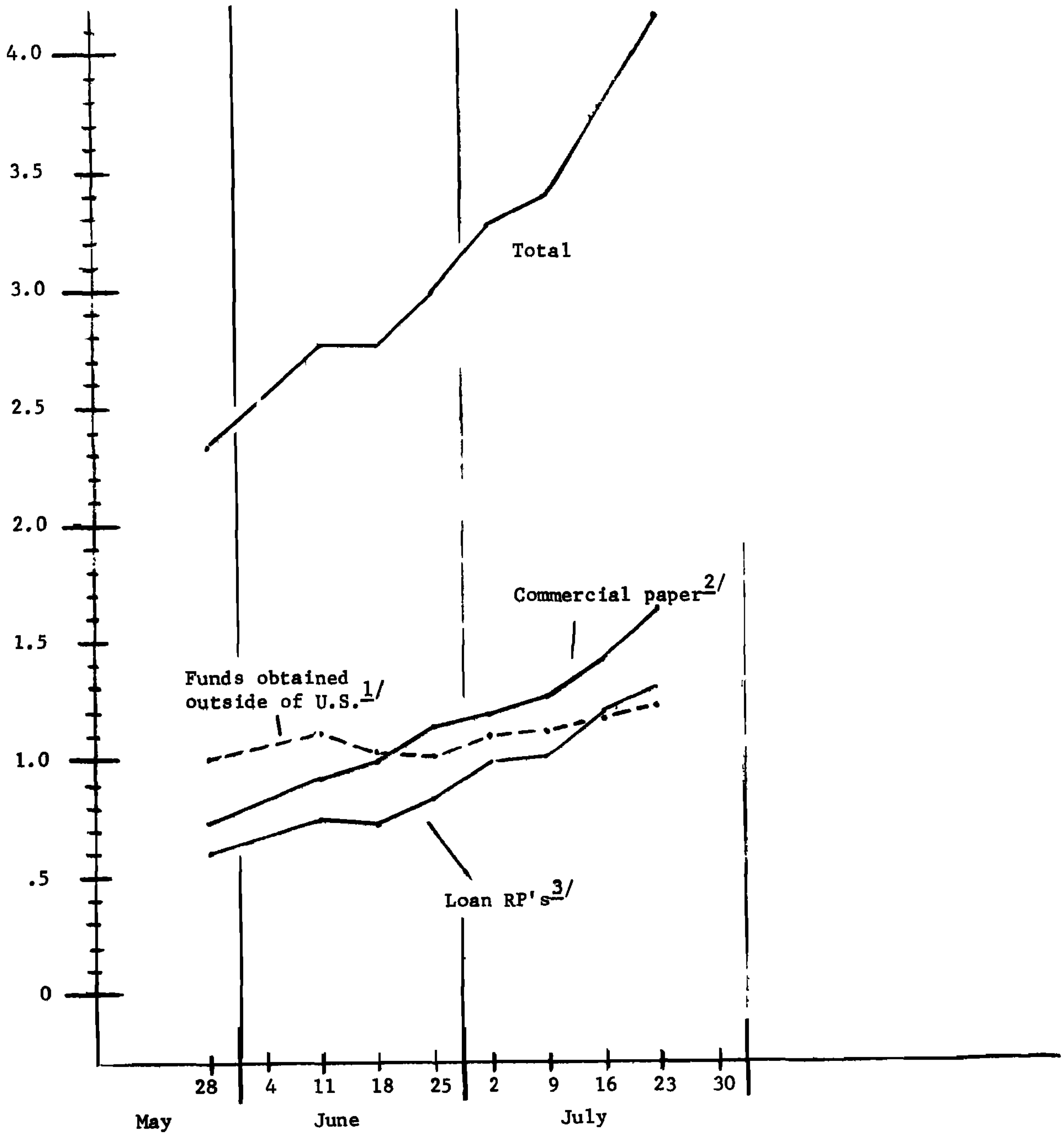
	Dec. 11- June 25 1/			June 25 - July 23 1/		
	1967	1968	1969	1967	1968	1969
Total time & savings deps.	10,088	459	-8,670	1,352	2,405	-2,892
Consumer-type deposits	5,353	2,504	505	643	458	- 575
Savings deposits	753	81	-1,222	78	- 342	- 444
Time deps., IPC (other than CD's, IPC)	4,600	2,423	1,727	565	800	- 131
Negotiable CD's	3,746	-1,844	-8,989	543	2,009	-1,576
All other time deps. 2/	989	- 201	- 186	166	- 62	- 741
MEMO:						
Euro-dollar borrowings 3/	-1,182	1,607	6,688	493	440	912

1/ Dates are for 1969, comparable dates used for other years.
2/ Consists primarily of time deposits held by State and local governments and by foreign institutions.
3/ Liabilities of major U.S. banks to their foreign branches, Wednesday figures. These liabilities rose by an additional $111 million in the week ending July 30.

III - 5

NONDEPOSIT SOURCES OF FUNDS

(Outstandings in billions of dollars)



1/ Euro-dollars borrowed directly or through brokers or dealers, and liabilities to bank's own branches in U.S. territories and possessions. Does not include liabilities to own foreign branches.

2/ Issued by a bank holding company or other bank affiliate.

3/ Loans or participations in pools of loans sold under repurchase agreement to other than banks and other than banks' own affiliates or subsidiaries.

As most money market rates advanced further, outstanding CD's declined by nearly $1.6 billion during the first four weeks in July, and New York and Chicago banks lost another $20 million in the week ending July 30. This brought the reduction since early December to nearly $10.6 billion or about 45 per cent of the amount of CD's outstanding at that time. The run-off of CD's in both June and July was substantially larger than earlier in the year both in terms of dollar volume and as a per cent of maturing issues. Moreover, most of this increased attrition occurred at banks outside of New York and Chicago.

Banks also experienced sizable outflows of consumer-type time and savings deposits during the first four weeks in July, following interest crediting at midyear. At large banks, savings deposits fell further, after having declined substantially earlier in the year. Consumer time deposits, which began to decline in June, decreased even more rapidly in July. Moreover, time and savings deposits at country banks began to fall in July--for the first time this year--following substantially reduced growth during the second quarter.

The money stock, measured on a daily average basis, rose at about a 3 per cent annual rate in July, slightly more rapid than the pace of the first half. U.S. Government deposits fell by an additional $1.5 billion in July, more than offsetting the slight rise in private demand balances.

<u>Nonbank depositary intermediaries.</u> Savings outflows from thrift institutions during the recent reinvestment period were sizeable, as had been expected. Outflows from savings and loan associations were somewhat larger than last year but, to the extent that comparison is possible, appear to have been considerably less than in 1966. The New York City mutual savings banks experienced very large outflows--much larger than in 1966, when they were able to limit withdrawals by increasing their offering rates. The most noteworthy feature of the recent period appears to have been persistence of withdrawal activity even after the reinvestment period. At least through the third week of July, net inflows had not yet materialized for New York mutual savings banks, and S&L outflows during the latter half of July amounted to a rather sizeable $300 million.

JUNE-JULY REINVESTMENT PERIOD
SAVINGS FLOWS AT THRIFT INSTITUTIONS
(Millions of dollars)

	Mutual Savings Banks 1/	Savings and Loan Associations 2/
1966	- 6	*
1967	- 5	- 593
1968	- 77	-1,109
1969	-298	-1,459

1/ Fifteen largest savings banks in New York City. Data exclude interest credited and repayment of passbook loans made to save interest, and cover the last 3 business days in June through July 15.
2/ Universe estimates based upon a sample. Data exclude dividends and interest credited.
* Survey did not cover the entire reinvestment period; for the July portion only, the loss in 1966 was $1.2 billion, versus $700 million during the comparable period in July 1969.

JULY SAVINGS FLOWS
SAVINGS AND LOAN ASSOCIATIONS
(Millions of dollars)

	Month of July	July Portion Reinvestment Period	Balance Of Month
1966	-1,474	-1,221	-253
1967	75	- 25	100
1968	- 605	- 499	-106
1969	-1,048	- 738	-310

The reinvestment period was generally in accord with forecasts, and the institutions apparently had prepared to meet withdrawals in the magnitude realized. Savings banks reportedly did not rely heavily on their lines of credit, but instead were said to have sold part of their corporate bond portfolio to supplement usual liquid sources. Savings and loan associations relied heavily on FHLB advances, which increased by $680 million during July. FHLB system liquidity was down to $700 million at one point during the month, but has since been bolstered by the $500 million of new money received from the recent financing. The FHLBB has again raised rates on advances, to the 6.75% - to -7% range.

S&L savings growth during the past two months is estimated to have slowed even further from the reduced second quarter pace. Estimates for the savings banks' experience in July are not yet available.

SAVINGS GROWTH AT THRIFT INSTITUTIONS*
(Seasonally adjusted, percentage changes at annual rates)

	Mutual Savings Banks	Savings and Loan Associations	Both
1969 - I	6.2	6.1	6.1
II	4.2	3.5	3.7
April	3.0	1.7	2.1
May	6.6	4.5	5.2
June p/	3.1	4.3	3.9
July p/	n.a.	.2	n.a.
June-July p/	n.a.	2.2	n.a.

* Note: Because of seasonal adjustment difficulties, month-to-month patterns may not be significant.

p/ Preliminary.

Mortgage market. Although net outflows from the thrift institutions apparently persisted beyond the July reinvestment period, trade expectations in recent weeks as indicated by FNMA field reports were for conditions in the home mortgage market to tighten little further--if not to ease moderately--over the near term. Reflecting partly these expectations but mainly the continued exceptionally large volume of FNMA bids accepted, the average secondary market yield for 6-month commitments in FNMA's August 4 auction averaged 8.28 per cent--19 basis points below the high reached early last month.

FNMA WEEKLY AUCTION

		Amount of total offers Received	Amount of total offers Accepted	Implicit private market yield 6-month commitments
		(Millions of dollars)		(per cent)
Highs				
1968		\$232(6/3)	\$ 89(7/1)	7.71 (6/10)
1969		410(6/16)	131(7/22)	8.47 (7/7)
July	7	196	121	8.47
	14	177	130	8.40
	22	251	131	8.31
	28	298	130	8.26
Aug.	4	282	125	8.28 1/

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 services. The first auction date was May 6, 1968.

1/ Reflects adjustment in FRB implicit yield calculation for a regulatory change introduced July 29 that now effectively eliminates the possibility of capital gains in the sale of FNMA stock. Under the new arrangement FNMA retains the right of first refusal (at the issue price) on all stock sales within three years by auction participants.

During June, when the prime rate increase was followed by growing apprehension about the then-approaching reinvestment period, average returns in both the primary and secondary market for new-home mortgages rose sharply to new highs at or above usury ceilings prevailing in nearly half of the States. Even so, investment in home mortgages continued relatively unattractive compared with yields on new issues of high grade corporate bonds. Moreover, returns on home loans remained well below nominal rates on multifamily and nonresidential mortgages, which are usually not limited by usury ceilings, involve lower net servicing costs, and may carry "equity kickers" as well.

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)	Discounts (points)
1968					
Low	6.75 (Jan., Feb.)	23 (Mar.)	6.78 (Feb.)	26 (Mar.)	4.4(Sept.)
High	7.40 (Dec.)	115 (Aug.)	7.52 (June)	120 (Aug.)	7.9(April)
1969					
January	7.55	63	7.85e	93e	2.8e
February	7.60	69	7.99	108	3.9
March	7.65	28	8.05	68	4.4
April	7.75	58	8.06	89	4.5
May	7.75	53	8.06	84	4.5
June	8.00	42	8.35	77	6.7

Note: FHA series: Interest rates on conventional first mortgages (excluding additional fees and charges) are rounded to the nearest 5 basis points. Data for FHA loans in January 1969 estimated by Federal Reserve for 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 service fees, minus average yield on new issues of high grade corporate bonds with 5-year call protection.

Reflecting continuing pressures throughout the capital market, insured S&L's and New York State mutual savings banks cut back their total new mortgage commitments during June, after seasonal adjustment. Outstanding commitments of these institutions, while still quite high, edged down for the second consecutive month. The outstanding commitments represented about a 4-1/2 month volume of S&L mortgage acquisitions and a 9-month volume of savings bank lending, based on the rate of loans disbursed by these institutions in June.

So far this year, insured S&L's have provided much stronger support to the mortgage market than they did in 1966. At the end of June this year, their commitment backlogs were slightly larger than at the end of last December. By mid-1966, in contrast, outstanding mortgage commitments of the S&L's were a fifth below the levels of the preceding December.

Corporate and municipal bond markets. Yields on the latest corporate new bond issues have stabilized, at least temporarily, after increasing in the last half of July, with Aaa-rated equivalent yields of 7-5/8 - 7-3/4 per cent receiving excellent responses from investors. This increased investor interest reportedly stems, in part, from individuals shifting funds out of equities and financial intermediary claims.

BOND YIELDS

	New Corporate Aaa 1/	Long-term State and Local Bonds 2/
1968		
Low	6.13 (8/30)	4.07 (8/9)
High	6.92 (12/13)	4.85 (12/29)
1969		
Low	6.90 (1/10)	4.82 (1/24)
High	7.75 (6/13)	5.93 (8/1)
Week of:		
June 20	7.66	5.79
27	7.50	5.68
July 4	7.63	5.68
11	7.68	5.65
18	7.52	5.62
25	7.58	5.86
Aug. 1	7.75	5.93

1/ With call protection (includes some issues with 10-year call protection)
2/ Bond Buyer (mixed qualities.)

In contrast, municipal bond yields over the last two weeks advanced more than 30 basis points. The immediate cause of the sharp deterioration seems to be uncertainties associated with the tax reform proposals as they apply to the treatment of income from tax-exempt securities. With many individual investors reluctant to undertake commitments until the tax reform issues are resolved, and with commercial banks reducing their municipal holdings, new issues sold slowly even at substantially higher yields. In the last few days, however, yields declined significantly as the market was buoyed by committee elimination from the tax reform bill of the proposal to tax the municipal interest receipts of corporate holders.

Unsettled municipal market conditions led to an increase in the pace of bond postponements. But the flotation of several large issues early in the month--when yields were declining--kept the aggregate volume for July from falling below $1 billion. Assuming continued sizeable postponements, municipal bond volume for August is estimated at $700 million and September is expected to show only about a seasonal increase, to $800 million. Thus, the average monthly volume for the third quarter would be nearly one-third below the quarter earlier and only about half as large as in the comparable year-ago period.

LONG-TERM STATE AND LOCAL GOVERNMENT
BOND OFFERINGS AND POSTPONEMENTS 1/
Monthly or Monthly Averages
(Millions of dollars)

	Gross Offerings		Postponements 2/	
	1968	1969	1968	1969
YEAR	1,381	--	86	--
Q I	1,246	930	83	281
Q II	1,285	1,208	125	172
Q III	1,537	850e		--
July	1,469	1,050e	10	274p
August	1,699	700e	40	--
September	1,444	800e	48	--

e/ Estimated.
p/ Preliminary.

1/ Data are for principal amounts of new issues.

2/ Imputed from published sources. Does not include issues postponed that were never officially scheduled.

Public offerings of corporate bonds totaled almost $1.4 billion in July, the largest monthly volume in more than a year. Nearly one-third of this volume was accounted for by straight debt offerings of industrial firms--issues largely absent during the first half of the year. The sharp break in stock prices led to a drop-off in equity offerings, however, so that total corporate security offerings, at less than $2.4 billion, were slightly below the second quarter average.

CORPORATE SECURITY OFFERINGS 1/
Monthly or Monthly Averages
(Millions of dollars)

	Public Bond Offerings		Private Bond Offerings		Stocks		Total	
	1968	1969	1968	1969	1968	1969	1968	1969
YEAR	894	--	554	--	382	--	1,830	--
Q I	821	886	574	513	330	674	1,726	2,073
Q II	1,035	1,126e	548	597e	319	729e	1,902	2,447e
Q III	869	1,120e	454	533e	389	467e	1,711	2,120e
July	1,244	1,360e	528	500e	372	500e	2,144	2,360e
August	637	1,000e	400	500e	396	400e	1,433	1,900e
September	727	1,000e	433	600e	398	500e	1,556	2,100e

e/ Estimated.

1/ Data are gross proceeds.

Underwriters report that relatively few large industrial issues are contemplated within the next two months, reflecting in part the attempts of borrowers to tap alternative sources of funds in anticipation of lower long-term rates in the future. Public bond volume is, therefore, not expected to rise above $1 billion per month and might be less if stock prices decline further and discourage offerings of convertible bonds. Total corporate bond and stock offerings, including private placements, are estimated at $1.9 billion in August, $400 million below July. After allowance for a seasonal upturn in September, total corporate security offerings for the quarter as a whole are estimated to average $2.1 billion--significantly below the pace during the second quarter.

Stock market. Stock prices continued to decline sharply through nearly the end of July before experiencing a presumed technical rally late last week. At the close of trading on July 29, prices on the American and New York Stock Exchanges reached new lows for the year and were 17 to 24 per cent below their recent high levels in mid-May. With increased indication of some weakening in corporate earnings over the second quarter, widespread expectations of a coming business adjustment, and uncertainty as to future capital gains treatment in proposed tax reform legislation, few issues have escaped the downward trend. On the average day over the three weeks prior to July 29, declines outnumbered advances by more than two to one in the issues traded on the New York Stock Exchange.

By current standards, trading volume has continued at a relatively moderate pace in recent weeks with no noticeable effect of the July 7 extension of daily trading sessions by one-half hour. Fails to deliver by NYSE member firms at the end of June were reported to be $2.1 billion, the lowest level since these data became available in April 1968 and substantially below the December 1968 peak of $4.1 billion.

STOCK PRICES AND TRADING VOLUME

	Stock Prices 1/		Trading Volume 2/	
	New York Stock Exchange	American Stock Exchange	New York Stock Exchange	American Stock Exchange
1968				
Low	48.66(3/4)	21.58(3/5)	c/ 8,512(2/23)	a/2,852(3/29)
High	61.14(12/2)	33.25(12/20)	b/17,125(7/12)	a/9,223(5/31)
1969				
Low	49.31(7/29)	25.02(7/29)	c/ 9,200(3/14)	c/3,786(3/14)
High	59.32(5/14)	32.91(1/3)	c/14,536(5/2)	c/7,957(1/31)
Week ending:				
July 3	55.21	28.64	c/10,000	c/4,229
11	53.05	27.43	10,361	4,108
18	52.58	27.10	9,785	3,792
25	50.82	26.16	10,260	3,371
Aug. 1	51.62	26.20	14,050	5,600
Per cent change:				
1968 high to July 29	-19.4	-24.8	--	--
1969 high to July 29	-16.9	-24.0	--	--
July 3 to July 29	-10.7	-12.6	--	--
July 29 to August 1	4.7	4.7	--	--

1/ Closing prices for the New York Stock Exchange Composite Index and the American Stock Exchange Index.

2/ Daily average of trading volume in thousands of shares for week ended on date shown. Except as noted, trading hours were 4-1/2 hours per day, 5 days per week:
- a/ 5-1/2 hours per day, 5 days per week.
- b/ 5-1/2 hours per day, 4 days per week.
- c/ 4 hours per day, 5 days per week.

Analysis of preliminary data indicates that margin customers continued to liquidate holdings during June. Margin credit extended by NYSE member firms to their customers declined $270 million for the month, to $5.4 billion, the largest decline since January 1969 and the second largest in the three and one-half year history of the new margin credit series. Market value of collateral in margin accounts fell $3.27 billion (13.6 per cent) to $20.77 billion, reflecting the combination of withdrawal of securities sold from accounts and shrinkage in market value of securities held.

As a result of declining collateral values, the equity status of margin accounts deteriorated during June. At month-end 98.2 per cent of margin credit was in accounts which were restricted in withdrawal of either cash or securities, compared with 95.2 of total margin credit in May. The amount of debt in accounts with less than 40 per cent net equity, and thus potentially subject to calls for additional margin or forced liquidation of securities, increased during June from 17 per cent to 20 per cent of total margin debt.

Although comparable detailed data is unavailable for bank lending on stock collateral, bank loans to others than brokers and dealers for purchasing securities declined in June by $30 million to $2.74 billion. In combination, total reported stock market credit at the end of June was $8.14 billion, the lowest level since September 1967 and more than 11 per cent below the $9.1 billion level of June 1968, when margin requirements were raised to their current 80 per cent level.

<u>Corporate profits</u>. Corporate profits before tax, which had a slight increase in the first quarter of this year, are estimated to have declined by about the same amount in the second quarter. Profits in nonmanufacturing industries as a whole seem likely to have remained at about the first quarter level, but profits of manufacturing corporations appear to have declined by at least $1 billion. Since total manufacturing shipments were slightly larger in the second quarter than in the first, the decline in profits apparently reflected a drop in profit margins.

The estimate for manufacturing profits is based on published earnings reports for nearly 800 companies that account for about two-thirds of total manufacturing profits. Data for these companies suggest that, on a seasonally unadjusted basis, manufacturing profits before tax rose only 7 per cent from the first to the second quarter of 1969 (compared with an increase averaging 15 per cent in the preceding 5 years) and were only 2 per cent larger in the second quarter of this year than in the same quarter of last year (compared with year-to-year increases of 10 to 20 per cent throughout 1968 and in the first quarter of 1969). Profits of automobile and of primary iron and steel producers were sharply below their year-earlier totals but, even with these two groups excluded, earnings in other manufacturing industries as a whole also showed an unusually small increase over the second quarter of 1968 and the first quarter of this year.

Government securities market. Interest rates on longer-term Government securities edged somewhat higher in the period immediately following the last Committee meeting as possible terms for the Treasury August refinancing were being debated. Once the favorable character of this financing became clear, these yield advances were reversed. Yields on most Treasury bills have edged lower since the last meeting, particularly in recent days.

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

	Lows	Highs	July 14	July 28	August 4
Bills					
1-month	5.30(3/25)	7.00(7/1)	6.95	6.84	6.48
3-month	5.87(4/30)	7.14(7/29)	6.94	7.12	6.93
6-month	5.96(4/30)	7.38(7/15)	7.35	7.26	7.03
1-year	5.86(1/16)	7.47(7/1)	7.09	7.34	7.24
Coupons					
3-year	6.02(1/20)	7.38(7/9)	7.24	7.38	7.24
5-year	6.11(1/20)	7.08(7/9)	6.94	7.07	6.94
10-year	5.95(1/20)	6.82(7/9)	6.69	6.73	6.62
20-year	5.91(5/5)	6.46(5/28)	6.22	6.28	6.21

1/ Latest dates of high or low rates in parentheses.

The cumulative effects of continued tight credit conditions apparently contributed to yield advances during the earlier part of the period. More recently, however, Congressional approval of a 6-month extension of the surtax and some strengthening of expectations for a slowing of business activity ahead have contributed to a considerable improvement in market psychology.

There was also some easing in dealer financing conditions in the latter part of July. The effective rate on Federal funds trading in New York averaged 8.28 per cent in the latter half of July compared to 9.15 per cent in the first half, and lending rates to dealers by the major New York banks moved down by nearly a percentage point on average. Moreover, dealers recently have reported a better availability of out-of-town RP money--often at around 7-1/2 per cent--stemming partly from temporarily liquid funds held by corporations.

In recent weekly and monthly Treasury bill auctions, interest in the new issues before bidding time appeared to be relatively unenthusiastic, but usually turned out to be better than expected--as customers were attracted by the higher rate levels--resulting in generally narrow spreads between the average and stop-out rates. Of special note, there has been some further increase lately in noncompetitive tenders, reflecting an enlarged interest in bills from stock houses and individuals.

Demand for bills in the secondary market has continued to be concentrated largely in the shorter maturities, and consequently dealers have often had net short positions in bills due within 3 months in recent weeks. At the same time, holdings of longer bills have grown further on average, largely reflecting additional positioning of tax bills, as commercial banks have sold more of their awards into the Street following initial underwriting of the TAB financing that was paid for in mid-July.

DEALER POSITIONS IN GOVERNMENT SECURITIES
(In millions of dollars)

	July 14	July 28	August 4
Total	2,022	2,791	2,468
Treasury bills (total)	1,398	2,165	1,710
Due in 92 days or less	- 115	- 166	- 314
93 days and over	1,513	2,331	2,024
Treasury notes and bonds (total)	625	627	759
Due within 1 year	303	265	517
1-5 years	16	58	- 71
over 5 years	306	304	313

In the August refinancing, the Treasury offered a single 18-month note in a rights exchange for the $3.4 billion of August maturities. The note bears a 7-3/4 per cent coupon and was priced to yield 7.82 per cent. Books were open for the exchange on August 4-6. The Treasury decided not to include a pre-refunding of the $5.7 billion of October 1 maturities, in the hope that borrowing costs might be lower by that time.

The early market reaction to the refunding appeared quite favorable, with a good investor interest anticipated, especially from commercial banks, who generally are heavy buyers of Government debt in the 18-month area. Most recently, the when-issued bid on the new note was 100-6/32--compared to the initial price of 99-29/32--which . would reduce the yield to around 7.62 per cent. Recent market ideas on the size of attrition centered around 5 to 10 per cent.

<u>Other short-term credit markets</u>. Upward rate pressures in short-term credit markets lessened somewhat in July following the sharp upward adjustments of June. Nonetheless, yields in some of these markets did continue to move higher. For example, finance paper rates at the end of July were generally 25 to 75 basis points higher than at the beginning of the month, while short-term Agency yields rose 10 to 25 basis points over the month. However, commercial paper rates eased in the latter half of July and rates on bankers' acceptances also moved lower on balance in July. More recent information available for rates on bankers' acceptances and Agency issues show some further easing.

Selected Short-Term Interest Rates
(Discount basis)

	July 2	July 16	July 30
<u>3-month</u>			
Commercial paper	8.75	8.75	8.38
Finance paper	7.50	7.75	8.25
Bankers' acceptances	8.50	8.38	8.13
Federal agencies (secondary market)	7.47	7.44	7.76
Treasury bill	6.74	7.04	7.11
<u>6-month</u>			
Commercial paper	8.75	8.75	8.38
Finance paper	7.50	7.75	7.75
Bankers' acceptances	8.50	8.50	8.13
Federal agencies	8.02	7.85	8.14
Treasury bill	7.10	7.35	7.20
<u>12-month</u>			
Prime municipals 1/	5.10	5.30	5.30
Treasury bill	7.42	7.08	7.31

1/ Bond yield basis.

In addition to those factors that have affected other markets as well, the recent tendency toward some slowing or reversal in the upward movement in short-term credit market rates has reflected the better supplies of investable funds in these markets in July. For example, the market has reported considerable investor interest from corporations that have not been able to employ their cash flows in the dealer repurchase market because of the reduced volume of dealer financing requirements. Funds have also been more readily available from mutual funds and others who have temporarily moved out of equities, as well as, perhaps, reflecting savings outflows from depositary-type institutions. Seasonal flows associated with the automobile pre-model change-over period have also added to the current supplies of funds to these markets.

Data on the changes in commercial and finance paper outstanding for July will not be available until late August. June data show a sharp increase from the May pace. However, the data for directly placed paper, generally representing finance company paper, includes some $600 million of outstanding paper issued by bank holding companies not included earlier. Therefore, the increase in this component of these data for June is not as large as indicated in the table. The sharp rise in dealer-placed commercial paper in June should also be interpreted carefully, since market reports toward the end of June suggested that the greater part of the rise came early in the month prior to the prime rate increase and that activity later in the month slackened.

Change in outstanding
commercial and finance paper and in
bankers' acceptances, April-June, 1969
(seasonally adjusted)
(Millions of dollars)

	April	May	June	2nd Quarter
Commercial paper:				
Dealer placed	1,301	-25	608	1,884
Directly placed	-176	625	1,247 1/	1,696
Bankers' acceptances*	46	158	212	416

*Not seasonally adjusted
1/ Includes $600 million bank holding company paper not previously recorded.

The July short-term Agency calendar totalled $2.5 billion, about the same as in June. However, the July offerings raised a total of only $755 million of new money, the smallest month of such net new Agency borrowing since March, and about $500 million less than in June.

FEDERAL AGENCY FINANCING
June-July, 1969

Agency	Amount (millions)	New Money (millions)	Maturity (months)	Yield
June:				
TVA	100	100	5 yr.	7.75
FHLB	550	260	1 yr.	8.00
CCC	700	700	39 day	8.72
Coops	249	-19	6 mo.	7.85
FICB	432	106	9 mo.	7.90
TVA	90	--	126 day	8.21
FNMA	250	100	17 mo.	8.10
Totals	2,371	1,247		
July:				
FLB	270	151	13 mo.	8.15
FLB	270		2 yr.	8.15
FHLB	500	500	10 mo.	8.00
FHLB	500		19 mo.	8.00
Coops	395	18	6 mo.	8.05
FICB	473	86	9 mo.	8.25
TVA	90		120 day	
Totals	2,498	755		8.09

Federal finance: Preliminary budget figures for all of fiscal 1969 showed an unexpectedly large surplus of $3.1 billion with receipts running above earlier Administration forecasts and outlays falling substantially short of official expenditure ceilings. (A more detailed explanation of the factors contributing to this surplus is provided in the Appendix.)

The Treasury cash balance at the end of July totaled a comfortable $5.7 billion. Nevertheless, because August and early September are a period of seasonal cash deficit, additional net cash borrowing of around $2.0 billion will be needed for payment in late August. After mid-September, the quarterly pick-up in income tax receipts is expected to rebuild the Treasury balance to a month-end level of more than $9 billion. This should finance most of the anticipated seasonal deficit for October and early November.

Around mid-September, the Treasury is expected to announce plans for refinancing the rather sizable volume of Federal debt maturing on October 1, $5.7 billion of which is held by the public. This will be the last operation for calendar 1969 in which investors are offered new coupon issues. There are no debt maturities to be refunded in the usual November quarterly refinancing period, and fourth quarter cash financing is expected to be confined exclusively to tax anticipation bills.

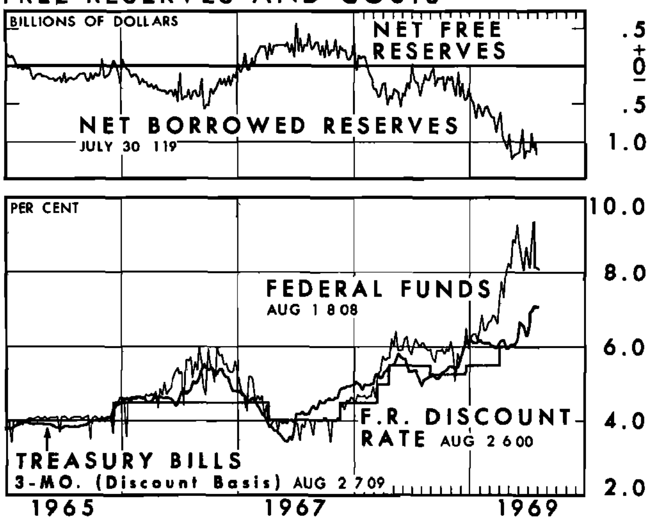
PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	June[a/]	July	Aug.	Sept.
Borrowing operations				
New cash raised:				
Weekly and monthly bills	--	--	--	--
Tax bills	--	3.5	2.0	--
Coupon issues	--	--	--	--
Other (agency, debt repayment, etc.)	-8.6	- .2	-1.2	--
Total net borrowing from public	-8.6	3.3	.8	--
Plus: Other net financial sources[b/]	-1.3	- .6	- .9	.7
Plus: Budget surplus or deficit (-)	10.1	-2.9	-1.6	4.7
Equals: Change in cash balance	.2	- .2	-1.7	5.4
Memoranda: Level of cash balance end of period	5.9	5.7	4.0	9.4
Derivation of budget surplus or deficit				
Budget receipts	23.9	12.0	14.8	21.1
Budget outlays	13.7	14.9	16.4	16.4

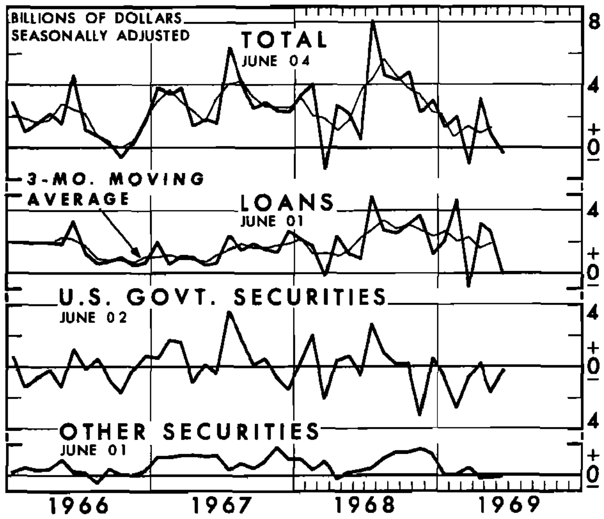
a/ Actual
b/ Checks issued less checks paid and other accrual items.

FINANCIAL DEVELOPMENTS - UNITED STATES

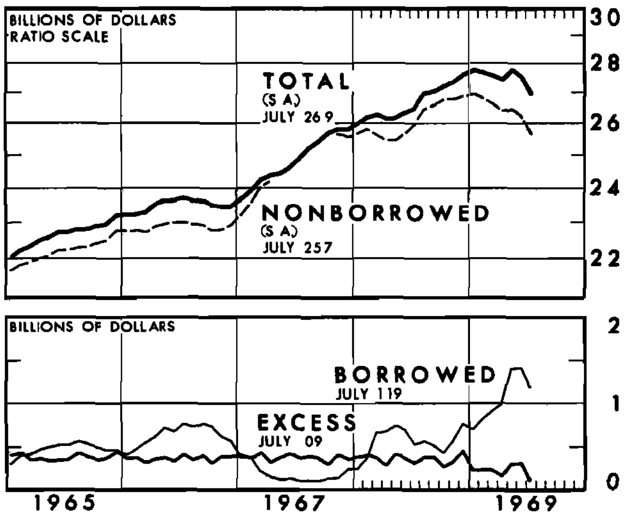
FREE RESERVES AND COSTS



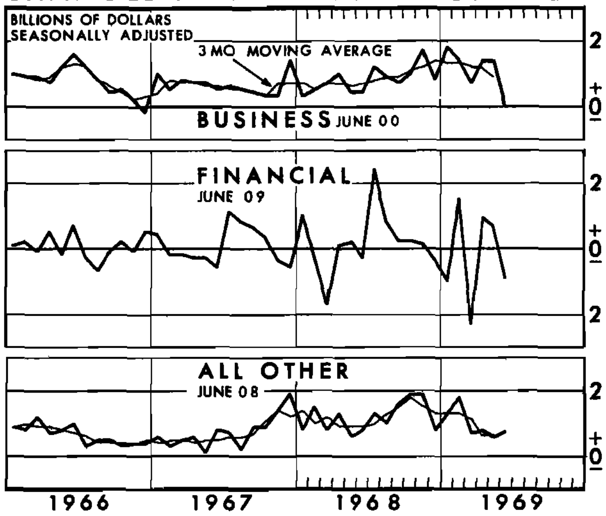
CHANGES IN BANK CREDIT



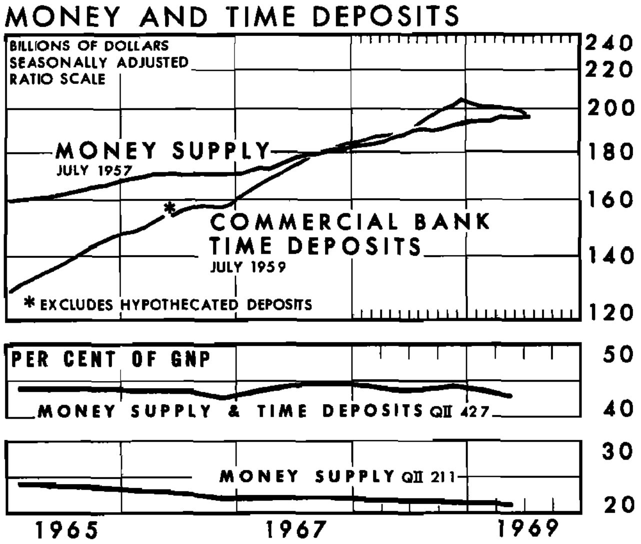
BANK RESERVES



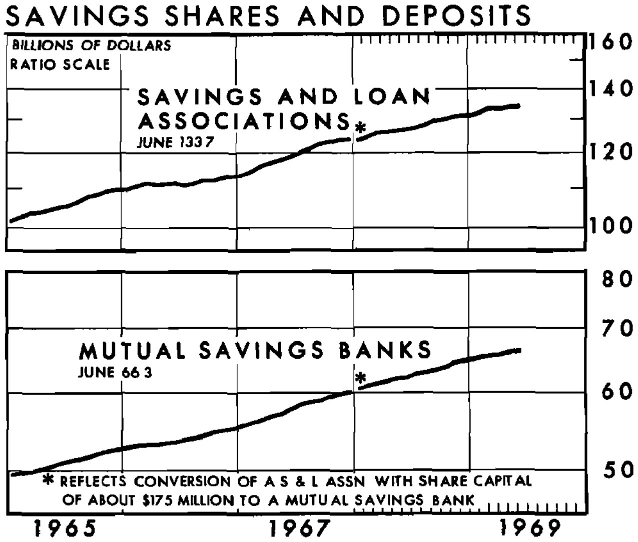
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

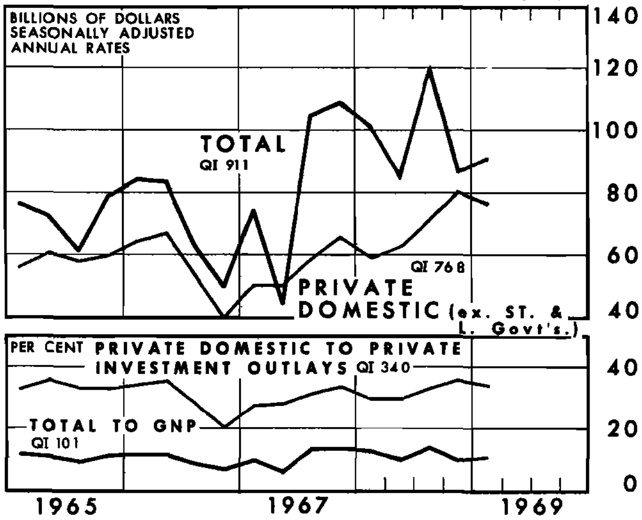


SAVINGS SHARES AND DEPOSITS

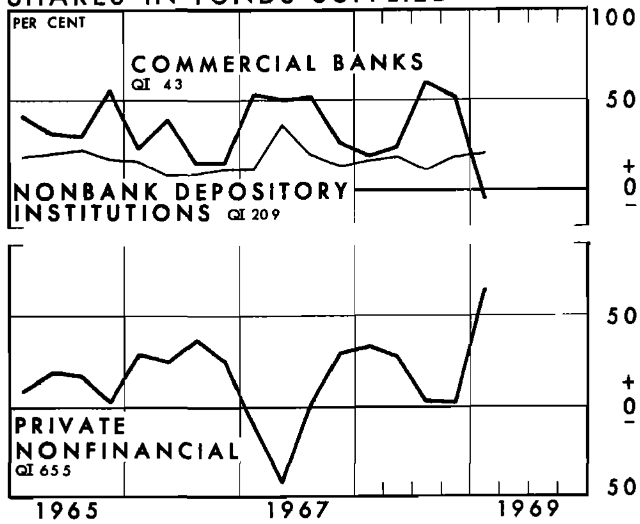


FINANCIAL DEVELOPMENTS - UNITED STATES

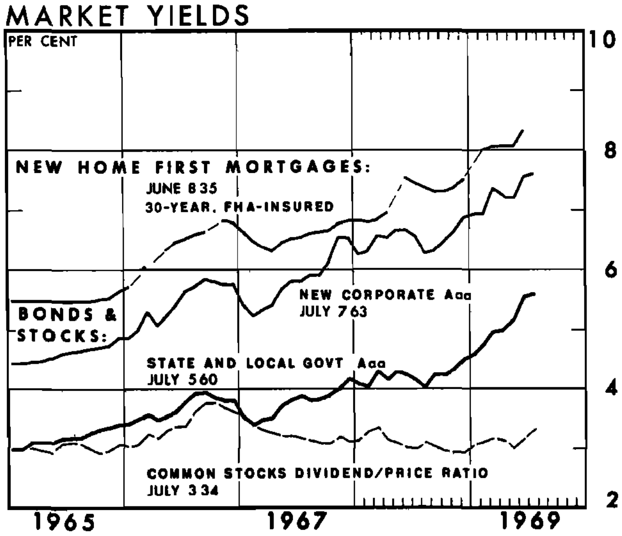
NET FUNDS RAISED-NONFINANCIAL SECTORS



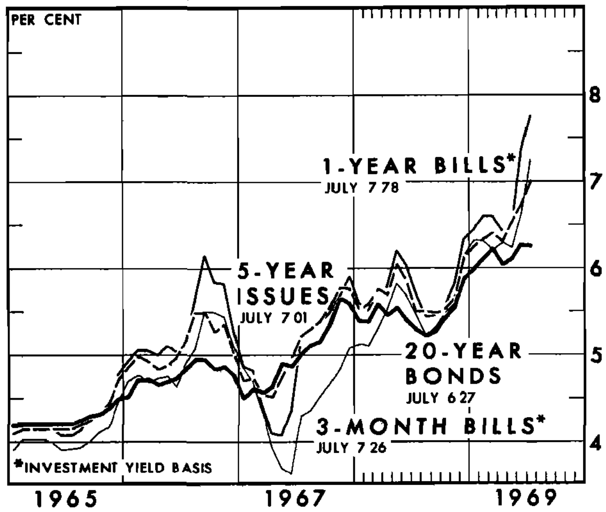
SHARES IN FUNDS SUPPLIED



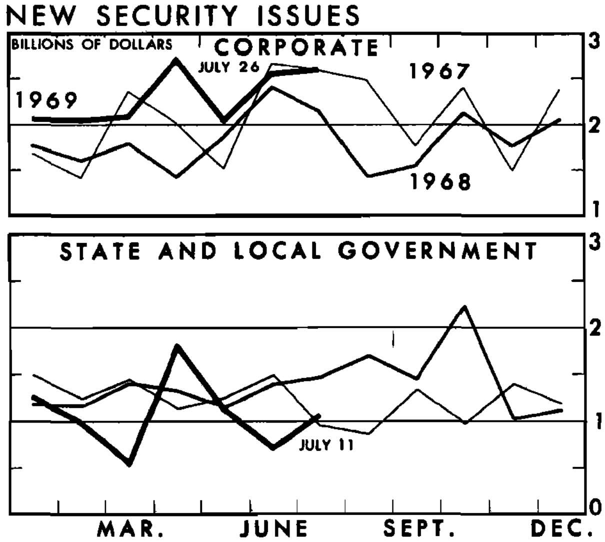
MARKET YIELDS



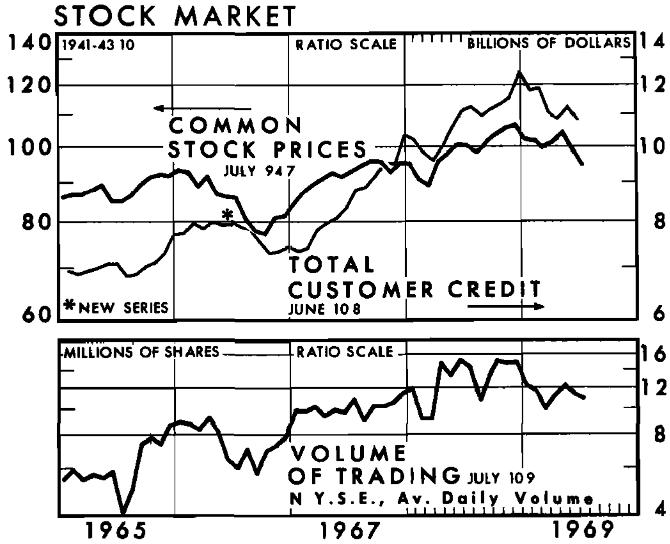
MARKET YIELDS—U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



THE ECONOMIC PICTURE IN DETAIL

International Developments

Foreign exchange and money markets. Demand for most major foreign currencies was generally stronger during July -- providing some relief from the selling pressures which have persisted for most of the year. This change in demand for foreign currencies may reflect the fact that recent credit restraint actions in Europe are beginning to bite; higher interest rates abroad coupled with some easing of Euro-dollar rates has moderated, if not stopped for the most part, the generally widespread movement of funds out of foreign currencies into Euro-dollars which reached a peak in June.

The market for sterling was generally firm in July -- though experiencing a little weakness on announcement of the June trade deficit, which was a little above the sharply reduced May level. The Bank of England was able to purchase $350 million during June. The French franc continued under some selling pressure, but the Bank of France had to sell only $140 million in the market in July, compared with $330 million in June.

Future developments in Germany continue to be the major uncertainty overhanging exchange markets. With the Bundesbank taking further tightening measures, the sustainability of the capital outflow needed to offset the large German trade surplus becomes more questionable.

Revaluation fever flared-up on a small scale in mid-July and the Bundesbank purchased a moderate amount of dollars at that time. However, for the month as a whole its market transactions -- both spot and forward -- produced a $125 million decline in reserves.

Conditions in many major national money markets abroad tightened further in July. The Bank of Canada announced a 1/2 per cent bank rate increase to 8 per cent on July 16; on July 17 the Bundesbank announced a 10 per cent increase in reserve requirements against German banks' deposit liabilities; on July 30 the Belgian National Bank raised its bank rate by 1 per cent to 7 per cent; and the Netherlands Bank followed on August 1 with a 1/2 per cent bank rate increase to 6 per cent. The Swiss money market failed to ease after the passing of the midyear.

The degree of tightness in the German money market has been such that the banks have not taken advantage on any significant scale of the Bundesbank's reduced swap contract rate for placement of funds in the Euro-dollar market; by August 5 the Bundesbank had reduced its rate for forward DM to a 4 per cent per annum premium, about 1/4 per cent below the market forward rate.

Tending to moderate movements into Euro-dollars on the part of foreign banks and nonbanks in general, Euro-dollar interest rates have declined steadily in all maturities during the past four weeks. The three-month deposit rate, for example, averaged about 10.3 per cent in the week ending August 6, compared to an average rate of 11.2 per cent during the week ending July 9 -- for an average decline in excess of 20 basis points per week. Shorter-dated deposits have eased even more. The one-month rate averaged a little over 9-1/2 per cent in the week ending August 6, about 1-3/8 per cent below its average level in the second week of July; call deposits, recently bid at about 9 per cent, had been about 2-1/2 percentage points higher in early July.

U.S. banks' liabilities to their foreign branches continued to increase during this four-week period of easing Euro-dollar rates, though at a considerably reduced rate after mid-July. These borrowings increased by $1 billion between June 25 and July 16, but by only $170 million between July 16 and July 30. Partial data through Monday, August 4, show some decline since July 30.

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

Average for week ending Wednesday	(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
May 28	9.75	8.92	0.83	9.83	6.07	3.76
June 11	10.88	9.13	1.75	11.51	6.50	5.01
25	9.48	8.34	1.14	11.11	6.48	4.63
July 9	10.60	9.07	1.53	11.20	6.93	4.27
16	9.68	9.23	0.45	11.07	6.98	4.09
23	9.25	8.50	0.75	10.84	7.08	3.76
30	9.05	8.05	1.00	10.57	7.12	3.45
Aug. 6	8.98	9.57p/	-0.59	10.25	6.98p/	3.27

p/ Preliminary.

<u>U.S. balance of payments</u>. Developments in the first half of the year, and results now indicated for July, underline the dangers in relying on a structure of U.S. international transactions such as that which emerged last year, with large capital inflows rather than a strong current account. Exports have not yet responded as well as expected to strong demand pressures abroad, and imports, while not rising strongly, have not retreated significantly from their recent very high ratio to GNP. Some liquidation of U.S. corporate equities by foreign investors occurred in June, and very likely intensified in July, while outflows of U.S. capital have been rising.

In terms of the liquidity balance, the first-half deficit reached \$5.5 billion (seasonally adjusted, but not an annual rate) and indications are that the July deficit was \$1-1/2 billion or more, after rough adjustment for adverse seasonal influences in the month. In both quarters there seem to have been unusually large outflows of private capital, in large part unrecorded. In addition, there was a sharp deterioration from the first to the second quarter in a number of transactions for which data are currently available, or can be estimated, as shown in the table on the following page.

A prominent feature of the accounts in the first half is the extraordinary size of the payments that appear in the residual line of the table. In the first quarter, for which a full set of accounts has been prepared, that residual contains not only recorded outflows of private corporate capital, U.S. Government grants and credits, and the

Balance of Payments 1/
(millions of dollars, seasonally adjusted)

	1968 Year	1968 I	1968 II	1968 III	1968 IV	1969 I	1969 IIe
Merchandise excluding military							
Exports	33,598	7,941	8,395	8,879	8,383	7,474	9,644
Imports	-32,972	-7,817	-8,131	-8,566	-8,458	-7,577	-9,619
Net	626	124	264	313	-75	-103	25
U.S. purchases (-) of foreign securities	-1,266	-311	-164	-337	-455	-325	-400e
Claims reported by U.S. banks (increase(-))	269	236	243	-90	-120	71	-460e
Foreign purchases of U.S. corporate stock	2,084	309	530	459	786	731	120e
Foreign purchases of other U.S. securities, excluding Treasury issues	2,276	530	586	656	504	635	180e
"Special" Government transactions							
Nonscheduled debt repayments	269	42	3	55	169	44	--
Nonliquid U.S. bank liabilities 2/	590	56	175	119	240	-51	-179
Nonliquid U.S. Government liabilities	2,010	273	772	409	556	100	-126
Liquid liabilities to private foreign accounts	3,887	548	2,381	796	162	2,898	4,689
Liquid liabilities to official foreign accts.	-3,100	-888	-2,193	-63	44	-1,146	-556
U.S. reserve assets (increase(-))	-880	904	-137	-571	-1,076	-48	-299
Other transactions (derived as residual)	-6,765	-1,823	-2,460	-1,746	-735	-2,806	-2,994
Balances (deficit(-))							
Official settlements balance	1,639	-379	1,553	97	368	1,151	1,214
Liquidity balance	93	-564	-51	-162	870	-1,704	-3,834
Adjusted over-all balance	-1,811	-844	-812	-635	480	-1,858	-3,527

e/ Partially estimated.
1/ Items available, or partially estimated, for second quarter of 1969 as of end of July.
2/ Includes some non-official transactions.

other usual income and service accounts, but also an errors and omissions item of $1.4 billion. This probably can be viewed in large measure as unrecorded outflows of U.S. corporate capital which had been brought back to the United States in the last months of 1968 to meet the requirements of the controls. However, in the second quarter this residual item became even larger, strongly suggesting that there were large outflows of private capital, first to move into DM in May and then, after mid-May, to take advantage of steeply rising Euro-dollar rates.

If major corporations are taking part in this capital outflow by way of their foreign affiliates the second quarter accounts will show a large increase in direct investments abroad, compared to a relatively low amount in the first quarter. However, there is a strong presumption that high Euro-dollar rates have attracted substantial amounts of U.S. funds into deposits abroad that are, in effect, then redeposited in the United States via branch banks abroad, thus avoiding the limitations of Regulation Q. The very large July liquidity deficit suggests that this type of outflow was continuing. Funds of this type are not likely to remain abroad and add to foreign official reserves once interest rate relationships change, and may therefore be discounted as a potential threat to U.S. reserves.

Several items shown in the table worsened markedly between the first and second quarters; outflows of bank-reported claims increased by over $500 million, foreign purchases of U.S. securities were lower by about $1 billion, and "special" intergovernmental financing transactions shifted adversely by $400 million. In both quarters Germany made its usual purchase of medium-term securities under the military offset arrangement, but in the second quarter this source of receipts was greatly outweighed by the liquidation of long-term deposits (over-one-year maturities) by a number of countries, and by the liquidation of $250 million of Canadian holdings of nonliquid U.S. Treasury issues.

The rise in bank-reported claims in the second quarter contained several elements; it included about $100 million of outflows for the account of customers, a comparable amount said to represent advances to foreign branches that are likely to be reversed fairly soon, and some outflows to Germany and Canada that might reflect temporary influences. However, in June the major outflow was to Japan, indicating that some outstanding commitments were utilized.

More significant is the drop in foreign purchases of U.S. securities. Investments in U.S. corporate equities had continued, though on a diminished scale, through May, but in June there was a net liquidation of over $100 million, which was probably influenced by such factors as the weakening of the U.S. market, high yields available on Euro-dollar and other alternative investments, and the relatively good showing of some other stock markets such as those of Germany and Japan. Also, U.S. investors have recently increased the rate at which they have been purchasing foreign equities.

There has also been a major reduction in foreign purchases of other U.S. securities, excluding Treasury issues. Acquisitions of U.S.

Government agency securities by international organizations, typically to absorb the proceeds of new borrowings in the U.S. market, were halted. More important, there has been a drop in sales of securities abroad by U.S. corporations mainly intended to finance their foreign affiliates. The lack of investor interest, for the reasons mentioned above, has been the main factor in this drop, though there may also be a reduced demand on the part of U.S. corporations that have sufficient leeway under the regulations, or have accumulated proceeds out of earlier borrowings.

According to reports to the OFDI earlier in the year, direct investors had expected to utilize even larger amounts of foreign-source funds abroad this year than last year, so that the rise in outflows of U.S. funds would be less than allowed by their ceilings under the regulations. Failure to secure these offshore funds would cause some additional outflow of U.S. funds. Very little is known about corporate capital transfers in the second quarter. Reports on liquid assets held abroad by U.S. nonbanks show an outflow of about $140 million in April-May, including some outflow into DM assets, but major investors may have moved a much larger amount of funds abroad via their foreign affiliates, for which there is no current information. It is also possible that dividends paid by foreign affiliates are being held to a minimum.

The official settlements balance continued to register surpluses to mid-July, as borrowing by U.S. banks drew funds out of other currencies at the expense of official reserves abroad. Liabilities to commercial banks abroad (including foreign branches) rose by $3.2 billion in the first quarter, and there was a further rise of $4.6 billion in the second quarter.

Merchandise trade. The trade balance in June (balance of payments basis) was barely in surplus ($0.4 billion, annual rate) as exports increased slightly while imports decreased from the record May amount. For the second quarter, exports and imports were virtually equal at a $38.5 billion, annual rate. The balance for the entire first half of 1969 was a deficit of $0.2 billion, annual rate, compared to small export surpluses in both halves of 1968. Most of the adverse effect of the December-March dock strike was felt in the first half -- the permanent loss due to the strike has been estimated as perhaps $500 million in exports ($300 million in agricultural good and $200 million in other types) and $200 million in imports.

In the first half of this year exports were about 1 per cent less than in the second half of 1968 and imports were 1 per cent larger. Even if the assumed permanent strike loss was included in the first-half totals, the change from the preceding half year would be small for both exports and imports compared with much stronger advances in both the first and second halves of 1968.

Exports throughout the second quarter were above "normal" levels but for the entire first half were at an annual rate of only $34.2 billion (balance of payments basis), slightly less than the rate of the second half of 1968. A small increase in nonagricultural exports was offset by a 12 per cent decline in agricultural shipments -- there would be some decline even without the estimated $300 million permanent strike loss. In spite of the continued economic boom in

U.S. MERCHANDISE TRADE
(billions of dollars, seasonally adjusted annual rates)

	1967		1968		1969
	I	II	I	II	I
Census basis					
Exports, total	31.1	31.1	33.0	35.2	34.9 1/
Agricultural	6.6	6.4	6.4	6.2	5.4
Non-agricultural	24.6	24.7	26.6	29.0	29.5
Imports, total	26.5	27.5	32.0	34.2	34.6
Foods and beverages	4.6	4.6	5.1	5.4	5.0
Industrial supplies	11.8	12.0	14.0	14.2	13.9
Iron and steel	1.4	1.5	2.0	2.2	1.8
Capital equipment	2.4	2.4	2.7	3.0	3.2
Automotive vehicles & parts	2.4	2.9	3.9	4.9	4.9
From Canada	1.5	1.8	2.4	2.9	3.2
Consumer goods	4.1	4.3	5.0	5.5	6.3
All other	1.2	1.3	1.3	1.2	1.3
Balance of payments basis					
Exports	30.8	30.5	32.7	34.5	34.2
Imports	26.3	27.4	31.9	34.1	34.4
Balance	4.5	3.1	0.8	0.4	-0.2

1/ Includes $55 million not included in published June export data, but due to be included in July statistics as published.

Europe, U.S. first half exports to Western Europe were about 4 per cent less than those of the second half of 1968; at least part of this decline may be attributed to declining agricultural shipments. Exports to Japan and Canada increased at rates nearly equal to those of the second half 1968.

Export orders for machinery in the first half of 1969 were more than 11 per cent greater than orders in the preceding half-year -- a rate of increase about equal to that reached in the second half of 1968. Machinery exports, however, particularly nonelectric machinery, slowed in the first half. Chemical exports also weakened.

Imports in the second quarter were also well above first quarter rates and for the first half of 1969 were at a $34.4 billion annual rate (balance of payments basis), 1 per cent greater than in the second half of 1968. The import/GNP ratio for the first half, although slightly lower than the second half 1968 ratio, remained at the high level reached in 1968 as strong U.S. output and consumption continued to provide good markets. Imports of nonfood consumer goods (excluding automobiles) increased by nearly 15 per cent over the second half of 1968. Automotive imports equaled the 1968 second half record amount as sales of Japanese cars (Toyota and Datsun) in January-June more than doubled sales in the same period a year ago. Automotive imports from Canada continued to increase but at a slower rate than experienced during the past few half-year periods. Machinery imports also continued to increase, at a rate equal to that of the second half of 1968.

Not all categories of imports increased in the first half of 1969. Imports of foods (particularly coffee) and industrial supplies (particularly steel) declined. Part of the softening in steel imports may be attributable to increased European demand for steel and price increases in the common market and Japan; imports from EEC countries in the first half are less than the quotas established by last year's import restriction agreement. However, during the first six months of the year steel has been imported from Japan at a rate above that set by its annual quota.

Inflationary pressures in other industrial countries. How intense are current inflationary pressures in industrial countries outside the United States? Officials in Canada, Japan and a number of Continental European countries--particularly Germany, France, the Netherlands, Belgium and Sweden--refer with increasing frequency to the "overheating" which their economies are approaching or already are experiencing. Restrictive monetary and fiscal policies adopted by these countries in recent months have been justified on these grounds. For some, however, external considerations have reinforced decisions to pursue restrictive policies.

The two important exceptions to this general picture of inflationary pressures are the United Kingdom and Italy, where there are no immediate tendencies toward overheating.

As reported in the June 18 Greenbook, price increases in most industrial countries have accelerated since mid-1968. With the exception of the Netherlands, where a price freeze was introduced in mid-April, prices have continued to advance in recent months.

A strong surge in private investment and a continued expansion of foreign demand for exports have fueled the upswing in most of the countries. Consumer expenditures have advanced more moderately, except in France. Even in countries where restrictive fiscal measures have not been adopted, the public sector has not been a major contributing force to the expansion.

Until recently, supply conditions have adjusted comparatively well to rising demand in most cases, but lately we see some signs that capacity limitations are inhibiting further rapid expansion of production. Evidence of growing pressure on resources can be found in data relating to capacity utilization, order backlogs and the labor market. In several countries, production capacities are becoming fully stretched and distinct labor shortages are appearing. Some economies appear to be approaching or exceeding resource utilization levels attained at the peaks of the previous booms of the 1960's.

Most of the countries are at a policy crossroads: should they introduce even stronger anti-inflationary policies and perhaps prematurely curb the expansion, or should they allow the upswing to continue at its current pace and face the risk of excessive inflation? Since the toleration of inflation in many of these countries is not very high, there may be a tendency for authorities to choose the first course of action--to move early in order to prevent what they consider to be inflationary excesses. In the case of France and some of the smaller economies, external considerations may lead the authorities to intensify their efforts to curb the economic expansion.

The United Kingdom and Italy are currently not experiencing boom conditions, as reflected by supply shortages and, therefore, fall outside the scope of this discussion. In the United Kingdom, in fact, real GDP in the first quarter of this year was more than 1 per cent below the previous quarter's level. Moreover, although the index for total industrial production in the second quarter of this year was running above the January-March level, it was still below the level of the fourth quarter of 1968. In Italy, the upswing is gaining momentum, but the availability of underutilized resources has allowed supply expansion to accommodate the buoyand demand thus far.

The economic expansion in Germany, now in its third year, has developed into a vigorous upswing. Strong foreign demand and private investment outlays have been the main sources supplying the buoyancy. Most data indicate that resources are now under even greater strain than they were at the peaks of the 1959-61 and 1963-66 upswings. In contrast to previous expansions, however, the building and public sectors are not major contributors to the overheating. Currently, construction activity does not appear to be excessive, and recent fiscal policy steps have reduced the contribution of the government to the expansion of aggregate demand. External demand for German exports has continued to show strength longer than in previous periods of expansion. When the anti-inflationary efforts of the United States, the United Kingdom and France take effect and lead to a reduction of those countries' import demands, however, there should be some tendency to ease the pressure on German resources. In view of these factors, it may be that the current boom can be held in check without requiring drastic additional restrictive policies. A revaluation of the DM, appropriate on other grounds, would also help to contain inflationary pressures.

The rate of industrial capacity utilization reached 90 per cent in April, a level not attained since the fourth quarter of 1960. An increasing number of firms are reporting labor shortages. Unemployment, at 0.5 per cent of the labor force in June (compared to 1.1 per cent a year earlier), is almost non-existent; vacancies outnumber job applicants by nearly five to one. Labor requirements are being filled by drawing in foreign workers. The number of foreign workers has risen from nearly 1.0 million at the bottom of the recession in August 1967 to a new all-time high of 1.4 million in June. Firms are turning increasingly to overtime to expand production.

Substantial productivity gains have so far held price pressures under control. However, productivity has risen more slowly during the early months of 1969 than in 1968. These slower productivity advances, combined with sizable wage and salary increases which are expected to result from the wage rounds scheduled this autumn--as well as the lack of excess capacity--might lead to more marked price increases later this year. Nevertheless, considering the advanced stage of the cycle, productivity increases this year have been surprisingly large. Profit margins, therefore, are under much less pressure than normal at this cyclical stage.

Industrial production advanced at an annual rate of more than 14 per cent from the second half of 1968 to the average of the first five months of this year--following annual rates of increase of 11 and 14 per cent in the first and second halves of 1968, respectively.

Since new orders have risen more rapidly--at rates of 14 and 25 per cent in the first and second halves of 1968 and by 25 per cent in January-May 1969--order backlogs in industry are increasing significantly. Order backlogs increased from the equivalent of 3.7 months sales in March of this year to 4.1 months in June--a level matched only at the time of the 1961 boom.

The French economy is showing continued strength. Industrial production rose 10 per cent in the year ended April, and in May remained steady. Because of the progressive absorption of margins of unused resources following last year's unrest, firms are finding it harder to increase production. The restrictive measures already applied or announced appear to be appropriate on both domestic and external grounds.

Surveys by INSEE (French Statistical Institute) indicate that nearly one-half of responding businessmen claim that they do not expect further production increases because of skilled labor shortages. (The booming economy has been slow, however, to absorb unemployed workers with limited skills). At the end of June, there were nearly two jobseekers for every unfilled vacancy, whereas a year before the ratio was eight to one. Order positions are very strong and inventories unusually low.

Private investment this year is projected to show an increase of 22 per cent (in real terms) over 1968. The relatively high rate of increase in investment spending is in part due to a low level in 1968, but reflects also the effects of tax incentives for investment enacted in September 1968. The credit tightening and the expiration on June 1 of tax incentives for investment have thus far not led to a significant reduction of investment intentions. For 1970 the private sector plans to increase investment by 16 per cent over this year's level.

Consumer demand has remained vigorous. Retail sales advanced steadily through the first quarter of this year, but eased somewhat in the second quarter. Consumer behavior will be much affected by the degree of confidence in the franc. A recurrence of speculative pressures against the franc in foreign exchange markets would be likely to result in a renewed consumer buying spree and might necessitate additional restrictive measures.

Prices continue to rise sharply. The cost of living increased by half a percentage point in each of the three months ended May, advanced further by 0.3 per cent in June, and was up by 6.5 per cent over the year. Price developments will be influenced by the results of the wage negotiations scheduled to take place in September.

The expansion of economic activity in Belgium has quickened this year. Increasing, and probably accelerating, demand for plant and equipment has been accompanied by strong increases in private consumption and in exports. Capacity utilization in manufacturing is said to be higher than at the peak of the previous boom in 1964. Order backlogs soared steadily from the equivalent of approximately 3 months' output in April 1968 to about 4.5 months in May 1969. This movement was from an all-time low to an all-time high since this statistical series was begun in 1958. Since last November, manufacturers' stocks of finished goods have been lower than at any time since late 1963.

Unemployment in Belgium has been declining since the summer of 1968, but the labor market is not yet as tight as in the preceding boom. Much of the remaining unemployment, however, is structural and regional. Increases in wages have accelerated this year; the year-to-year rise in hourly earnings in manufacturing, mining and transportation was 7.6 per cent in March compared with 5.6 per cent for 1968 as a whole. However, increases have not been as rapid as in 1963-64, when they were close to 10 per cent a year. Although the upswing has not yet resulted in rapid price increases--wholesale prices of finished goods advanced 1.4 per cent from December 1968 to May 1969, compared with a nominal decline in the corresponding period last year--fears that the boom may get out control have led the authorities to adopt restrictive measures. The increase of the discount rate from 6 to 7 per cent on July 31, unlike the increases during the spring, was influenced less by external considerations than by domestic developments.

The Dutch economy appears to be experiencing inflationary pressures, originating to a large extent in external demand. Industrial production is expanding rapidly; by April it was 12 per cent above the level a year earlier. Exports in May recorded an 18 per cent year-over-year increase. The margins of unused capacity and excess labor, which reduced to all-time lows during the second quarter. These developments have been accompanied by higher levels of industrial employment and mounting labor shortages which are equal to previous cyclical highs reached in 1964-65.

In Canada, the expansion of economic activity continued during the spring, although at a subdued pace. There are signs that the policies undertaken to curb inflationary pressures are starting to take effect. Retail sales have declined since February, and in March-May averaged 0.2 per cent below December-February. Manufacturers' new orders peaked in February, then fell for three consecutive months, so that in March-May they were practically unchanged from the previous three-month period. Housing starts declined by 19 per cent in the second quarter following a 19 per cent rise in the previous quarter.

Industrial production in the first quarter of this year was nearly unchanged from the very high levels attained in the previous quarter, then showed monthly declines in both April and May. The May index was 2.7 per cent below the March peak. The figures for April and May, however, have been affected by strikes, and thus exaggerate the extent of reduction in demand pressures. The unemployment rate averaged 4.8 per cent in the second quarter, up sharply from the 4.3 per cent in the first three months of 1969. These high rates of unemployment partly reflect the recent influx into the labor force of large numbers of teenagers--creating a statistical problem of seasonal adjustment--as well as structural and regional unemployment. The pace of expansion in economic activity has been uneven among the provinces.

Because of built-in pressures, it is likely that it may take several months before the rate of price advance is reduced to a more acceptable level. Both the consumer and wholesale price indices in June were 5.2 per cent above their year earlier levels.

Japan is continuing to experience buoyant demand conditions. Although inflationary pressures are not yet approaching alarming proportions, officials are starting to express concern regarding the pace of the upswing.

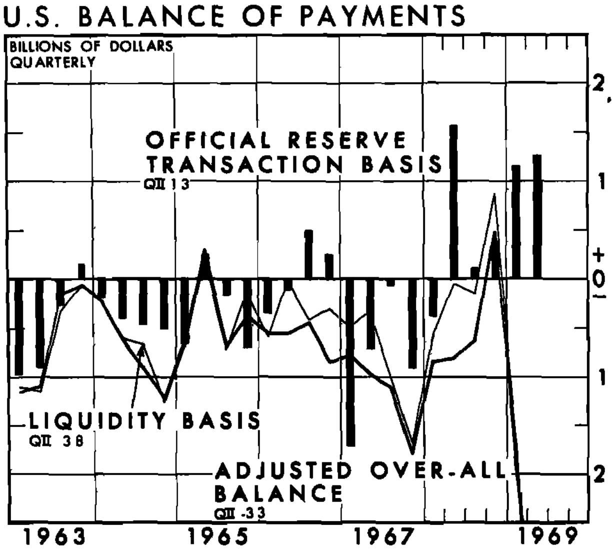
Following a very small increase in industrial production in the early months of 1969, the pace of economic activity has quickened again. Industrial output in the second quarter was 6.6 per cent above the January-March level. Plant and equipment investment, as well as private consumption, have resumed a strong rising trend. Capacity utilization has remained high and the labor market has been tight. The ratio of job vacancies to job seekers has risen continuously over the past year. Machinery new orders have increased further and in May were up by one-fourth over the level a year-earlier.

Finished goods inventories increased moderately further through May, but inventories of raw materials have been declining since February. Although prices are advancing--consumer prices in May were 5 per cent over the level a year earlier--the rise is not excessive compared to the average rate of price increases of recent years.

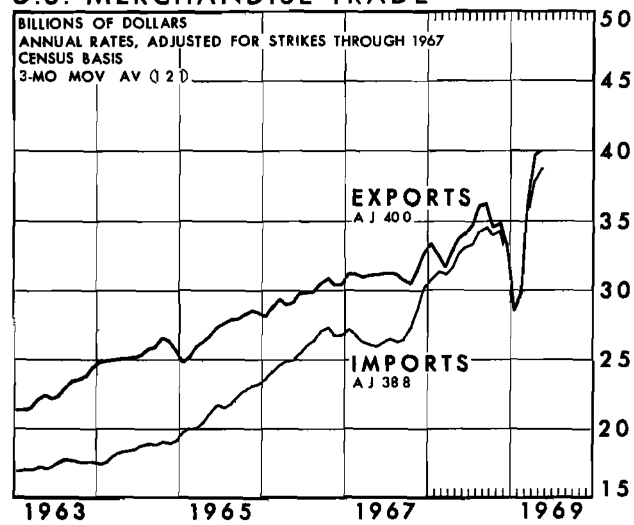
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

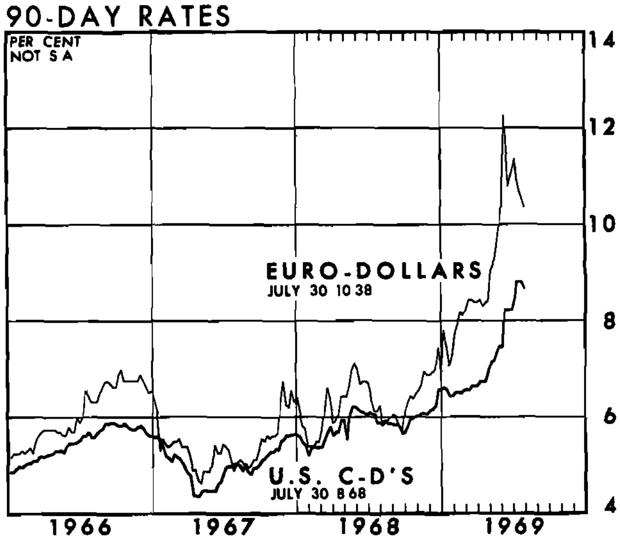
U.S. BALANCE OF PAYMENTS



U.S. MERCHANDISE TRADE



90-DAY RATES



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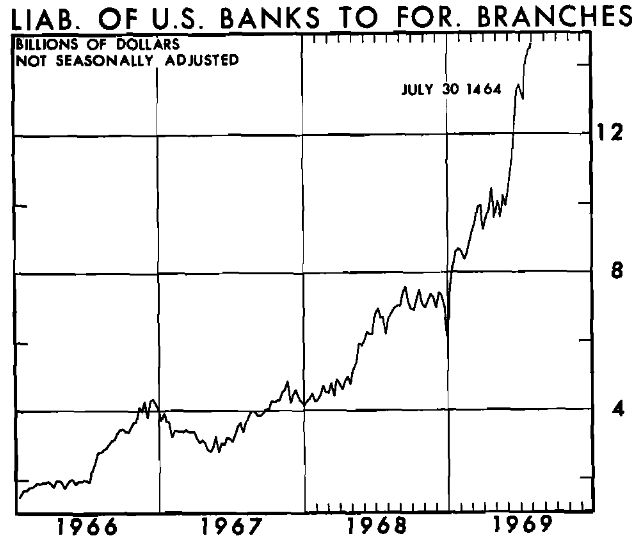
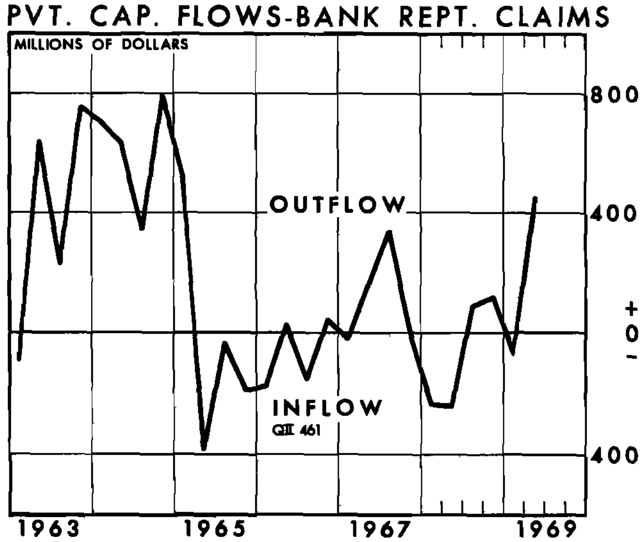
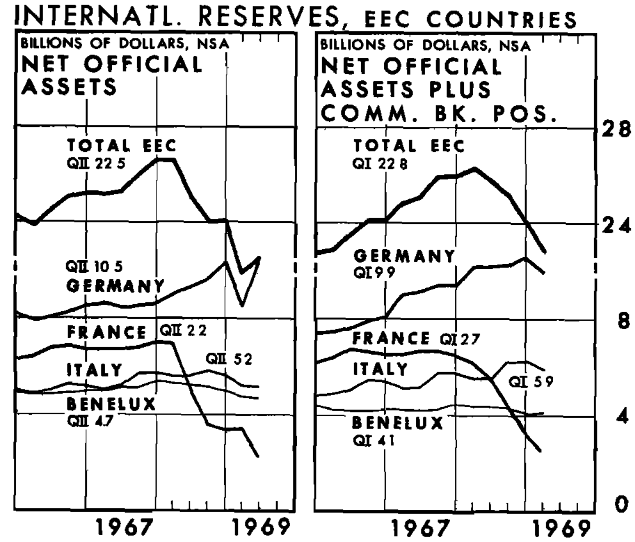


PVT. CAP. FLOWS-BANK REPT. CLAIMS



INTERNATL. RESERVES, EEC COUNTRIES



APPENDIX A: PRELIMINARY FEDERAL BUDGET RESULTS FOR FISCAL 1969 1/

The Federal budget surplus for fiscal 1969 turned out to be $3.1 billion, $2.2 billion larger than was being projected by the Administration as late as May 20. Receipts had been underestimated by $1.3 billion, and expenditures overestimated by $900 million.

The unanticipated overrun in receipts came chiefly from a surge in tax payments from individuals, with incomes growing faster in the final quarter of the fiscal year than the Administration had allowed for. With corporate profits behaving more sluggishly than they had projected for this quarter, however, a sizable part of the gain in receipts from individuals was offset by smaller than estimated tax payments on corporate incomes.

On the spending side, while defense outlays and interest payments not too surprisingly ran ahead of the Administration's May 20 forecast, shortfalls in other outlays more than offset these overruns. A large part of these other savings reflected lags in the allocation of funds under programs of the Department of Housing and Urban Development chiefly the Model Cities program. But shortfalls were also widely scattered through programs in other nondefense programs, possibly a result of hedging to insure that total departmental outlays did not exceed expenditure ceilings.

FISCAL 1969 BUDGET FIGURES:
A COMPARISON
(In billions of dollars)

	Actual	Difference from May 20 Budget Bureau estimates	Difference from May FRB estimates
Receipts			
Individual	87.2	+2.2	+1.0
Corporate	36.7	-1.4	- .6
Excise	15.2	+ .4	- .2
Other	48.7	+ .1	- .3
Total	187.8	+1.3	- .1
Outlays:			
Defense	77.9	+ .3	-1.0
Interest Payments	16.6	+ .3	+ .3
HUD	.7	- .5	- .3
Other	89.6	- .9	- .4
Total	184.8	- .9	-1.4
Surplus	3.1	+2.2	+1.4

1/ Prepared by M.E. Byrn of the Government Finance Section.

The Board staff's May estimate of total receipts for fiscal 1969 was nearly on target with published figures, although there were some offsetting misses among the components. Because the staff estimating techniques appear to be working fairly well and because Budget totals are still preliminary in any event, there appears to be little need to adjust current staff receipts estimates for fiscal 1970 to take account of the fiscal 1969 results.

The staff estimate of fiscal 1969 outlays was nearly $1.5 billion too high, mainly in defense. Although leading indicators of defense spending had been pointing down for several months, a trend which had been reflected in staff spending estimates, actual outlays dropped a little faster than the staff had anticipated. The fiscal 1969 record does not appreciably change the outlook for fiscal 1970, however, since some tapering off of defense spending had already been built into staff projections.

In the nondefense sector, the staff, like the Administration, assumed that HUD outlays would be larger in fiscal 1969 than they actually were. This shortfall will probably be reversed in the current fiscal year as the Model Cities program gains momentun. But some of the other programs that fell short in the preliminary expenditure figures for fiscal 1969 may be revised upward before the 1969 results are finalized. With agency budget officers now facing a new expenditure ceiling for fiscal 1970, those whose programs fell below last year's ceiling--and this includes defense--may find it to their advantage to back-date checks and raise fiscal 1969 outlays.

In short, despite the larger than projected surplus shown by the preliminary Federal Budget figures for fiscal 1969, there seems to be little reason at this point to use these results as the basis for significant revisions in staff forecasts of the Federal Budget outlook for fiscal 1970.

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

	FY 1969 Actual	Calendar year 1969 e/	Fiscal 1970 May Budget Bureau est.	Fiscal 1970 F.R. Bd	Calendar quarter 1969 I	1969 II	1969 IIIe/	1969 IVe/	1970 Ie/	1970 IIe/
Quarterly data, unadjusted										
New budget:										
Surplus/deficit	3.1	8.9	6.3	2.5	-2.0	15.3	.2	-4.6	-4.5	11.4
Receipts-	187.8	196.1	199.2	195.4	44.1	60.8	47.9	43.3	43.2	61.0
Total expenditures and net lending	184.8	187.2	192.9	192.9	46.1	45.5	47.7	47.9	47.7	49.6
Means of financing:										
Total borrowing from the public	-1.4 1/	-7.3		n.e.	.2	-12.6	4.1	1.0	n.e.	n.e.
Decrease in cash operating balance	- .6	-1.2		n.e.	- .1	- 1.1	-3.5	3.5	n.e.	n.e.
Other 2/	-1.1	- .5		1.1	1.9	- 1.7	- .8	.1	1.9	- .1
Cash operating balance, end of period	5.9	5.9		n.e.	4.8	5.9	9.4	5.9	n.e.	n.e.
Seasonally adjusted annual rate										
Federal surplus/deficit in national income accounts 3/	3.6 e/	8.6	6.3 3/	3.2	9.1	10.8	6.7	7.7	1.0	.1
Receipts	191.7 e/	200.5	202.8	198.6	198.1	201.3	200.7	202.0	196.4	196.7
Expenditures	188.1 e/	192.0	196.5	195.4	189.0	190.5	194.0	194.3	195.4	196.6
High-employment surplus/deficit 4/	1.1	8.2	n.e.	6.6	7.4	9.3	6.7	9.5	5.5	7.6

e--Projected. Assumes extension of surcharge at 10 per cent through end of calendar year 1969 and at 5 per cent for January to June 1970. Also assumes repeal of investment tax credit.

n.e. - Not estimated.

n.a. - Not available.

1/ Excludes effect of conversion of agencies to private ownership.

2/ Includes various accrual items, such as deposit fund accounts and clearing accounts.

3/ National Income account translation estimated by Federal Reserve staff.

4/ Estimated by Board staff using CIII 1969 as the base quarter.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	June[a]	July	Aug.	Sept.
Borrowing operations				
New cash raised:				
Weekly and months bills	--	--	--	--
Tax bills	--	3.5	2.0	--
Coupon issues	--	--	--	--
Other (agency, debt repayment, etc.)	-8.6	- .2	-1.2	--
Total net borrowing from public	-8.6	3.3	.8	--
Plus: Other net financial sources[b]	-1.3	- .6	- .9	.7
Plus: Budget surplus or deficit (-)	10.1	-2.9	-1.6	4.7
Equals: Change in cash balance	.2	- .2	-1.7	5.4
Memoranda: Level of cash balance end of period	5.9	5.7	4.0	9.4
Derivation of budget surplus or deficit				
Budget receipts	23.9	12.0	14.8	21.1
Budget outlays	13.7	14.9	16.4	16.4

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