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[2] A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

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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

July 1, 1964

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IN BROAD REVIEW

The domestic economy has continued to perform well, although some very recent data suggest a moderate slowing of momentum from the rapid rate of expansion in April and May. Confidence is high but not without a sense of calculating caution. Consumer buying has been maintained at an advanced level and business commitments for fixed capital have been expansive but not exuberantly so. Inventory policies have continued conservative. The tax cut continues to exert a stimulative influence, but Federal spending has been below earlier Budget projections.

In June bank credit expanded further and the money supply grew at an accelerated rate, notwithstanding an unusually large build-up in U.S. Government deposits after the tax date. Markets for fixed return securities have continued firm with yields in some areas recently showing a downward tilt. Prices of common stocks have recovered to about earlier highs; profits have been strong with profit margins increasing.

Industrial commodity prices seem to have settled back into their rut of little change. Labor costs in manufacturing also have remained stable as the rise in earnings and fringe benefits has continued within the bounds of productivity gains. Prospective supplies of most commodities, equipment and labor seem adequate to permit further gains in activity without undue pressure on resource availability.

The U. S. balance of payments deficit for the first half of this year now estimated to exceed $2 billion, seasonally adjusted annual rate. The exceptionally large adverse balance in April was followed by smaller deficits in May and three weeks of June, running more or less in line with the $2 billion rate of deficit.

Abroad, there is further evidence of the leveling off in import buying of other industrial countries as noted in earlier reports.

More specific facts of particular interest which have become available recently include:

-- Retail sales, although sharply above a year earlier, apparently did not maintain in June the record level reached in May. Auto sales drifted down a little from an advanced level.

-- Consumer attitudes and buying plans reflected a mixture of optimism and moderation in the May-June survey of the Michigan Research Center.

-- Personal income rose further in May but less than in the two preceding months.

-- Wholesale prices edged up in June but remained virtually unchanged from a year earlier or from the averages for the years 1958 through 1963. Industrial prices, despite continued strength in some materials, remained no higher than last December.

-- New orders for durable goods declined in May following a sharp increase in April; orders for machinery and equipment, however, rose further. Backlogs again increased.

-- Manufacturers' inventories declined in May and accumulation in the first two months of the second quarter was running well below anticipations.

-- New housing starts declined again in May.

-- Free reserves held moderately below the $100 million level in the latest four weeks, a little lower than in the two preceding months; borrowings were somewhat higher while excess reserves were little changed.

-- Treasury 90-day bill rates remained below the discount rate. Yields on Treasury securities at mid-year were below those at the end of the first quarter.

-- Yields on municipal securities leveled off and yields on new corporate bonds declined after early June. Both remained above their February-March lows.

-- The Treasury cash balance rose to around $10 billion on June 30 and was above expectations. The fiscal year cash deficit of about $4-1/2 billion was significantly below earlier official estimates.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally Adjusted)

	Latest Period	Amount			% Change from:	
		Latest Period	Preceding Period	Year Ago	Year Ago	2 Years Ago
Civilian labor force (mil.)	May '64	74.6	74.6	73.0	2.2	3.8
Unemployment (mil.)	"	3.8	4.0	4.3	-10.7	-3.0
Unemployment (per cent)	"	5.1	5.4	5.9	--	--
Nonfarm employment, payroll (mil.)	"	58.5	58.5	57.1	2.5	4.8
Manufacturing	"	17.3	17.3	17.1	1.3	2.3
Other industrial	"	7.7	7.7	7.6	1.6	2.4
Nonindustrial	"	33.5	33.5	32.4	3.4	6.7
Industrial production (57-59=100)	"	130.3	129.6	124.5	4.7	10.1
Final products	"	130.0	129.4	123.5	5.3	8.9
Materials	"	130.4	129.5	125.7	3.7	11.1
Wholesale prices (57-59=100) 1/	"	100.1	100.3	100.0	0.1	-0.1
Industrial commodities	"	100.8	100.8	100.4	0.4	0.0
Sensitive materials	"	99.2	99.3	96.8	2.5	1.4
Farm products and foods	"	96.8	97.8	98.4	-1.6	-1.2
Consumer prices (57-59=100) 1/	"	107.8	107.8	106.2	1.5	2.5
Commodities except food	"	104.3	104.3	103.0	1.3	1.6
Food	"	105.5	105.7	104.2	1.2	2.2
Services	"	114.9	114.8	112.6	2.0	3.8
Hourly earnings, mfg. ($)	"	2.52	2.51	2.44	3.3	5.4
Weekly earnings, mfg. ($)	"	102.46	102.47	98.74	3.8	6.5
Personal income ($ bil.) 2/	"	484.8	483.6	460.1	5.4	10.0
Retail sales, total ($ bil.)	"	21.7	21.4	20.2	7.4	10.8
Autos (million units) 2/	"	7,814	7,726	7,232	8.0	17.7
GAF ($ bil.)	"	5.0	4.9	4.4	13.9	16.0
Selected leading indicators						
Housing starts, pvt. (thous.) 2/	"	1,501	1,515	1,618	-7.2	-0.9
Factory workweek (hours)	"	40.7	40.7	40.5	0.5	0.5
New orders, dur. goods ($ bil.)		20.1	20.5	18.7	7.3	16.7
New orders, nonel. mach. ($ bil.)		3.0	2.9	2.6	13.4	23.0
Common stock prices (1941-43=10)	"	80.72	79.94	70.14	15.1	28.1
Inventories, book val. ($ bil.)	Apr.'64	105.4	105.0	101.2	4.2	8.4
Gross national product ($ bil.) 2/	Q.I '64	608.0	600.1	571.8	6.3	11.7
Real GNP ($ bil., 1963 prices) 2/	"	600.6	595.4	575.7	4.3	8.2

1/ Not seasonally adjusted. 2/ Annual rate.

SELECTED DOMESTIC FINANCIAL SERIES

Indicators	Week ended June 26	Four Week Average	Last six months High	Last six months Low
Money Market[1] (N.S.A.)				
Federal funds (per cent)	3.50	3.50	3.50	2.00
Treasury bills 3 mo., yield (per cent)	3.47	3.48	3.60	3.44
Net free reserves[2] (mil. $)	117	78	239	18
Member bank borrowings[2] (mil. $)	232	278	558	135
Security Markets (N.S.A.)				
Market yields[1]				
5-year Government securities (per cent)	4.02	4.02	4.21	4.00
20-year Government securities	4.16	4.17	4.26	4.16
Corporate new issues, Aaa (per cent)	4.41	4.43	4.53	4.30
Corporate seasoned, Aaa (per cent)	4.41	4.41	4.41	4.35
Municipal seasoned, Aaa (per cent)	3.11	3.10	3.16	3.07
FHA home mortgages (per cent)	n.a.	n.a.	5.44	5.44
Common stocks - S&P composite index[3]				
Prices, closing (1941-43=10)	81.46	80.24	81.46	75.50
Dividend yield (per cent)	3.01	3.05	3.10	2.96

Indicators	Change in May	Average change-- last 3 mos.	Annual rate of change (%) 3 mos.	Annual rate of change (%) 1 year
Banking (S.A., mil. $)				
Total reserves	-27	46	2.7	2.8
Bank loans and investments:				
Total	1,700	1,700	8.2	7.6
Business loans	400	300	7.5	10.7
Other loans	1,500	1,500	18.2	14.0
U. S. Government securities	-500	-300	-5.9	-6.1
Other securities	300	200	5.6	12.5
Money and liquid assets:				
Demand dep. & currency[4]	1,100	470	3.6	3.6
Time and savings dep.[4]	1,300	1,000	10.4	13.5
Nonbank liquid assets	400	1,700	6.6	7.1

N.S.A.--not seasonally adjusted. S.A.--seasonally adjusted. n.a.--not available.
1/ Average of daily figures. 2/ Averages for statement week ending June 24.
3/ Data are for weekly closing prices. 4/ Based on tentative estimates for June which are derived from incomplete data.

U.S. BALANCE OF PAYMENTS

	1964 May	1964 Apr.	1964 Mar.	1964 Q-1	1963 Q-IV	1963 Year	1962 Year
Seasonally adjusted annual rates, in billions of dollars							
Balance on regular trans.				- .7	- 1.6	- 3.3	- 3.6
Exports 1/		24.2	24.5	24.3	23.6	21.9	20.5
Imports 1/		- 18.3	- 18.1	- 17.4	- 17.5	- 16.9	- 16.1
Trade balance 1/		5.8	6.5	6.9	6.1	5.0	4.3
Unadjusted monthly averages, in millions of dollars							
Balance on regular trans.	-116	-475	370	21	-146	-275	-298
Trade balance 1/		542	518	583	529	413	361
Securities transactions		-104	- 2	- 9	19	- 69	- 80
Bank-reported claims 2/	- 87	-159	-239	-209	-263	-117	- 39
Other		-754	93	-344	-431	-502	-540
Financing, total	116	475	-370	- 21	146	275	298
Special receipts 3/	0	0	42	65	88	57	95
Liabilities increase:							
To nonofficial 4/	-143	684	-166	91	10	50	17
To official	217	-204	-123	-160	50	136	59
Monetary reserves decrease	42	- 5	-123	- 17	- 2	32	128
of which: Gold sales	(33)	(-177)	(- 32)	(15)	(13)	(38)	(74)

1/ Balance of payments basis; differs a little from Census basis.
2/ Adjusted for changes in coverage and for long-term claims taken over from nonfinancial concerns.
3/ Other than nonmarketable bonds, which are included in liabilities to official. Advances on military exports are assumed as zero for individual months in absence of information.
4/ Including international institutions (except IMF), commercial banks and private nonbank.

THE DOMESTIC ECONOMY

Prices. The wholesale commodity price index edged up in June but was virtually unchanged from December and from June, 1963. In late June, at 100.4 per cent of the 1957-59 average, the index was little changed from the annual averages for 1958 through 1963.

Average prices of foodstuffs rose about one per cent in June as a decrease in marketings of meat animals was accompanied by increases of about five per cent in prices of livestock and meats. Market supplies of livestock continue appreciably greater, and prices moderately lower, than at this season of the past several years. Prices of winter wheat declined sharply further in adjustment to the new Federal program for wheat that began on July 1. While the program continues to support income of wheat producers and costs to flour millers apparently are higher, the Federal loan rate and market prices are substantially below a year ago.

Industrial commodity prices in June remained at the level reached last December--a level one-half per cent above the early months of last year but no higher than at the business recession low in early 1961 and one-half per cent lower than in early 1960. In recent weeks there have been some price decreases among cotton textiles, influenced by the lower cost of cotton for domestic use resulting from recent legislation. Steel scrap prices have increased and upward price pressures continue to be apparent in markets for some nonferrous metals, although lead and zinc have been stable and copper in the more speculative markets is below the highs of two months ago. Tin prices rose sharply in the first half of June and reached levels almost as high as in February before sales from the U.S. stockpile were increased.

Market supplies and prices of major nonferrous metals will be strongly influenced for some period ahead by current labor contract negotiations in the copper industry and by the outcome of legislation to authorize sale of metals from the Government stockpile. Labor contracts in copper generally expired on June 30, but production and negotiations have continued. Interruption to the flow of copper would, of course, intensify upward pressures on prices; on the other hand, settlement without a strike might ease pressures, if much of recent strength has reflected inventory demands because of the strike threat. On the "stockpile front," the House has approved measures to permit the sale of sizable quantities of lead and zinc as well as the remaining tin in the stockpile.

The consumer price index was unchanged in May and remained 1.5 per cent above a year earlier. Retail prices of foods, chiefly meat and eggs, declined somewhat in May while prices of services edged up further. The average for all nonfood commodities was unchanged with prices of appliances and textile house furnishings a little lower and those of apparel a little higher.

Unit labor costs. Productivity and labor costs per unit of output in May continued their favorable trends. With manhours in manufacturing relatively stable and output rising, output per manhour for all employees has continued to advance at a rapid rate. The average annual gain for the first five months of this year over the same months last year was 4.3 per cent--somewhat higher than the rise of 3.8 per cent for all of 1963.

So far this year hourly earnings also have followed much the same trend as last year, with no acceleration in the increase in wage rates. Hourly earnings in May rose to $2.53, 2 cents an hour more than in December 1963. In the same period last year, hourly earnings went up 3 cents. When fringes and salary income are also included, unit labor costs in manufacturing were little changed both from April and from a year earlier.

Employment. Nonfarm employment in both the household and establishment series rose further in May but the gains were significantly smaller than in earlier months this year. Some tapering off is apparently under way in the rate of expansion in employment.

The increase of 40,000 in May at nonfarm establishments was the smallest rise by far this year. Nonfarm employment was 1.4 million higher than a year earlier, as compared with a year-over-year margin of 1.7 million in February.

There was little change in manufacturing employment between April and May. Some further advance in machinery and electrical equipment employment was offset by declines in industries producing construction materials. Employment in transportation equipment and primary and fabricated metals--which had accounted for a large proportion of earlier gains in the manufacturing sector--stabilized in May. In other industries changes were small, and in both directions.

Employment in nonmanufacturing activities increased moderately in May following a more sizable advance the previous month. In addition to a small decline in retail trade, employment was lower in contract construction, partly owing to strikes. However, demand for labor continued strong in State and local government, services, and finance.

The average workweek in manufacturing at 40.7 hours, seasonally adjusted, remained unchanged for the third consecutive month. This over-all stability reflected little change in most durable and nondurable goods industries. Weekly hours in primary metal industries edged up slightly further in May to a high for the year. In contrast, the workweek in the transportation equipment industry declined somewhat, as overtime was curtailed, and was below the high levels of a year earlier.

Consumers

In the consumer sector, recent developments include (1) the quite small May increase in personal income as well as employment; (2) continued gains in purchases of nondurable goods, probably reflecting in part the effects of tax reduction; and (3) a tendency for purchases of automobiles and other durable goods to level off. A sizable further increase in total consumers purchases in the second quarter resulted primarily from nondurable goods and services. The latest survey of the Michigan Research Center found consumers optimistic but did not see any "spending splurge" in prospect for autos, houses, and major household goods.

<u>Personal income</u>. Personal income in May advanced further, but the rise was smaller than in the two preceding months. Wages and salaries continued to rise at a moderate pace in most nonindustrial activities. Manufacturing payrolls, however, were barely up as employment rose only a little further and the average workweek was unchanged. Other major components of personal income were either unchanged or up slightly.

<u>Retail sales</u>. Retail sales in June appear to be off slightly from their May peak, after allowance for normal seasonal variation. However, the second quarter monthly average was about 1 per cent above the first quarter.

The estimated decline in June is attributable to durable goods sales. Both automotive and furniture and appliance sales were below their May levels; for the quarter as a whole, sales at these outlets showed little change.

On a unit basis, figures for the first 20 days of the month suggest that the number of new domestic cars sold declined moderately in June to an annual rate of 7-1/2 million. This rate compares with 7-3/4 million through the first 8 months of the model year (October-May) and about 7-1/4 million in the 1963 model year. Dealer stocks increased somewhat, as they usually do in the early part of June, and remained about a fourth higher than a year ago.

June sales at nondurable goods stores, in contrast, were slightly above their May peak, mirroring sharp gains at food outlets. For the second quarter such sales were a strong 2-1/2 per cent above the first quarter, with sizable increases in outlets for apparel, gasoline, general merchandise, and food.

Consumer credit. The first reports coming in for May suggest that instalment credit extensions continued to rise while repayments probably showed little change, on a seasonally adjusted basis. Extensions of auto credit in particular accelerated a little more than repayments.

A rise in extensions of credit by commercial bank lenders seems to have continued into June, weekly data suggest. Sales finance company business apparently also held up well through May; no June figures are yet available. Returns from a scattering of retailers indicate some leveling-off in May in the rate of credit extensions.

Instalment debt repayments moved up from the first quarter to the second and their ratio to disposable personal income apparently remained close to 14 per cent. Collection experience has continued good. The seasonally adjusted moving average of commercial bank delinquency ratios has now registered three successive months of improvement in most categories and four months in some.

The seasonally adjusted increase in instalment credit outstanding was probably a little larger in May than in April but seems unlikely to have matched the highs of last February and March. Other consumer credit, including charge accounts, turned up in April after a dip in March, the first month following the tax cut; results for May are not yet available.

Consumer surveys. "Consumer attitudes in May-June 1964 are characterized by optimism as well as moderation," according to the Survey Research Center's latest survey of consumer attitudes and inclinations to buy. The index of consumer sentiment remains near the 7-year peak reached early this year. Plans to buy autos, houses, and major household goods are somewhat above year-earlier levels, suggesting, according to the Survey Research Center, "that a high level of sales, but no spending splurge, is in prospect." These plans are broadly consistent with the actual pattern of consumer purchases in recent months.

The preceding (January) survey found that the tax cut was widely anticipated and was contributing to the unusual optimism at that time. Expectations regarding business conditions remain decidedly optimistic, and the proportion of families that feel they are better off financially than a year earlier has risen sharply since the beginning of the year. While the tax cut was undoubtedly an important factor in this substantial heightening of financial well-being, consumers tended to attribute the improvement almost entirely to other factors, such as pay raises, better jobs, or overtime.

In tending to minimize the contribution of the tax cut to their financial well-being, consumers attributed few major spending--or savings--decisions to the tax cut. "For the most part consumers seem to be pursuing goals--consumption as well as savings goals--which they set for themselves prior to the tax cut."

It may be commented that these survey findings are hardly surprising. The tax cut made a marginal contribution to consumer after-tax incomes and for wage earners generally the weekly addition was small in dollar terms. The test of the efficacy of the tax cut will be what consumers in the aggregate actually do, rather than how they now evaluate what appear to be small sums to them.

Business

Demands in the business sector continue to exhibit the orderly tendencies generally prevailing during this cyclical expansion. Incoming orders to durable goods producers were off in May but were at very high levels. Manufacturers' inventory policies continue conservative and stock-sales ratios declined further.

Manufacturers' inventories and shipments. The seasonally adjusted book value of manufacturers' inventories declined about $100 million in May, following an increase of $200 million in April. The net increase of only $100 million for the two months is far below the anticipated rate of accumulation for the second quarter and about equals the low monthly rate in the first quarter. In the Commerce May anticipations survey, a book value increase of $400 million was projected for the second quarter.

The May inventory decline was aoncentrated in nondurable goods industries, where shipments showed an appreciable further increase to a level 4 per cent above the first quarter. This is larger than the increase expected by nondurable goods manufacturers in the anticipations survey; the inventory decline accompanying these unexpectedly large shipments may have been involuntary. The run-up in shipments of nondurable goods producers is in line with retail sales developments.

The rise in nondurable goods shipments in May more than offset a small decline in durable goods industries, and total manufacturers' shipments increased slightly further. With inventories down somewhat, the over-all manufacturers' stock-sales ratio declined further to a new low for this expansion period.

STOCK-SALES RATIOS
(In per cent)

	1964		1963	1962
	May	1st qtr. average	average	average
Manufacturing, total	1.62	1.65	1.69	1.70
Durable goods	1.89	1.89	1.95	1.97
Nondurable goods	1.34	1.39	1.41	1.42

Orders. Seasonally adjusted new orders received by manufacturers of durable goods in May declined 2 per cent following a 6 per cent advance in April to a record level. Sizable reductions were reported by the auto and primary metals industries. New orders for equipment increased sharply further, as a result of a large run-up in railroad equipment and shipbuilding, and there were moderate gains in the machinery industries.

New orders for primary metals had shown a pronounced and rather inexplicable bulge in April, accounting for nearly half of the large rise in total durable new orders in that month. The drop in May brought the order level for primary metals back to the first quarter rate. New orders had also spurted in the auto industry in April.

New orders remained appreciably above shipments and the order backlog increased for the fifth consecutive month. Unfilled orders for durable goods were 3 per cent above May 1963, when the steel backlog was unusually large, and 5-1/2 per cent larger than at the end of last year.

Construction and real estate. Private housing starts--including farm--edged off further in May, following a 3 per cent downward revision in the already reduced rate for April. On a three-month moving average basis, starts still rounded to 1.6 million in the most recent period and were almost a tenth below the recent high in September-November.

Seasonally adjusted building permits, which had also dropped sharply in April, were maintained in May. Permits for structures of 5-or-more families continued downward, however, and were three-tenths below their peak in December of last year.

PRIVATE RESIDENTIAL STARTS AND PERMITS

	May (thousands of units) 1/	Per cent change from: Month ago	Year ago
Starts (total)	1,501	-1	-7
Permits (total)	1,258	--	-5
1 - family	734	+4	-3
2-4 - "	99	--	-15
5 or more	425	-6	-7

1/ Seasonally adjusted annual rate; preliminary.

Mortgage markets. Mortgage markets have continued to show little change in recent months. In May, secondary market purchases by private investors from the Federal National Mortgage Association remained well below the unusually high levels of a year ago, and yields on 30-year FHA-insured mortgages were maintained at an average of 5.45 per cent.

In the primary market, contract rates for conventional first mortgages on new homes were also steady, (at 5.80 per cent) while those for existing homes returned to their earlier level (5.85 per cent) after a slight rise in April. With competition for mortgages continuing, maturities and loan-to-value ratios have held near the highs reached earlier this spring. While average loan amounts dipped somewhat in April to $17,200 for new homes and $13,200 for existing homes, they were both about 8 per cent higher than in April last year.

Foreclosures on nonfarm real estate--mainly homes--rose moderately in the first quarter of this year and were 8 per cent above a year earlier. The year-to-year increase was the smallest in recent years, reflecting an indicated decline in foreclosures on conventional mortgages.

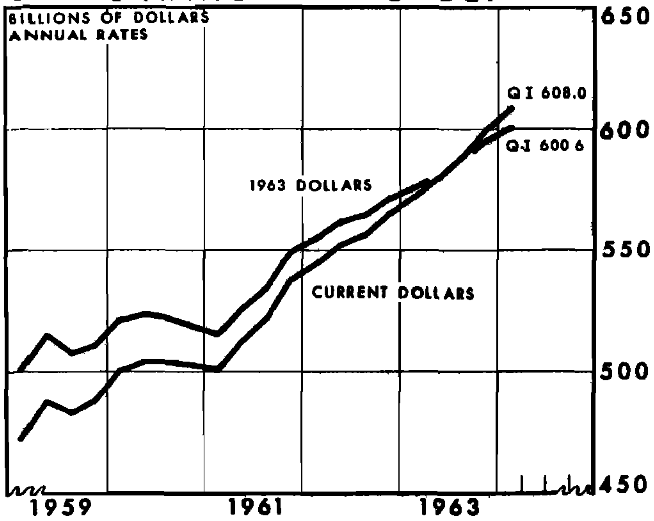
NONFARM MORTGAGE FORECLOSURES

	Number (thousands)	Rate per thousand mortgaged homes
1964 first quarter	101.4	4.5
1963 " "	94.0	4.4
1962 " "	83.7	4.1
1961 " "	67.6	3.5
1960 " "	45.0	2.4

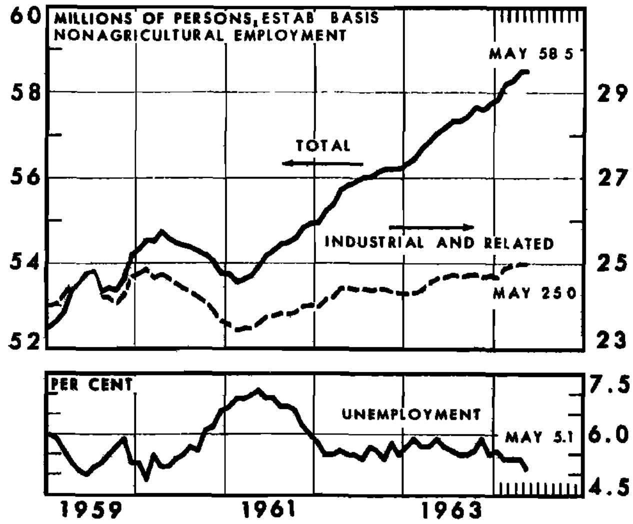
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

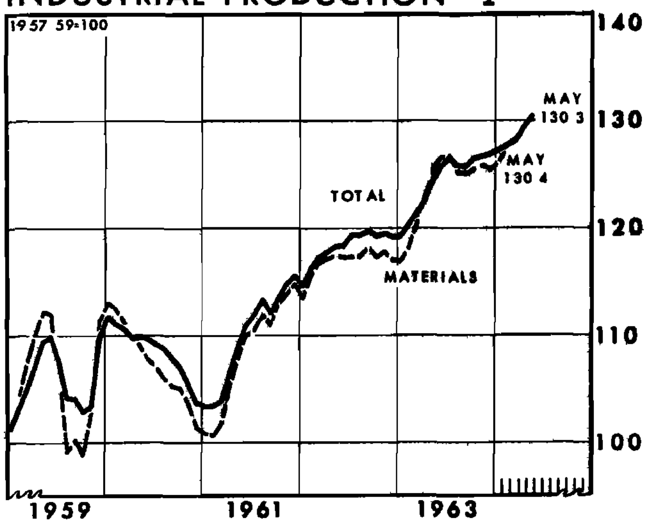
GROSS NATIONAL PRODUCT



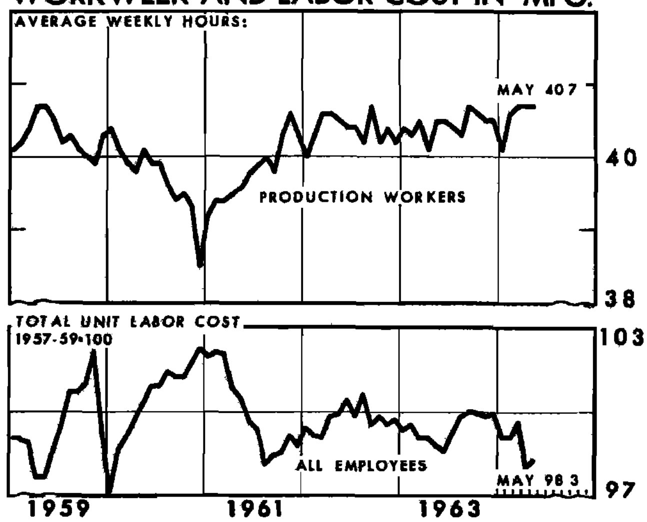
EMPLOYMENT AND UNEMPLOYMENT



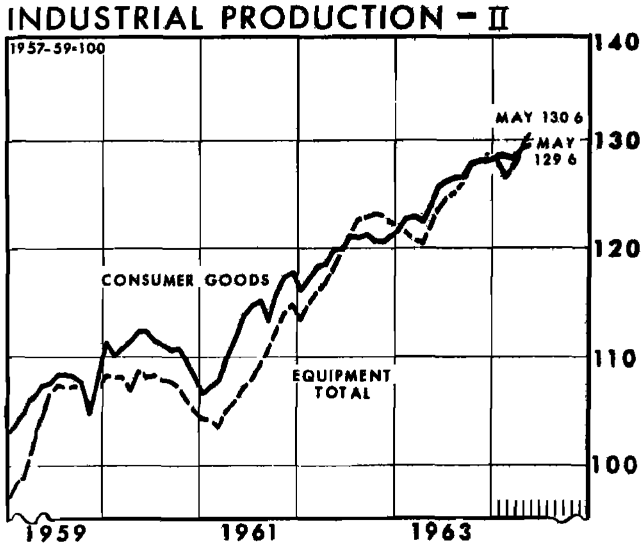
INDUSTRIAL PRODUCTION - I



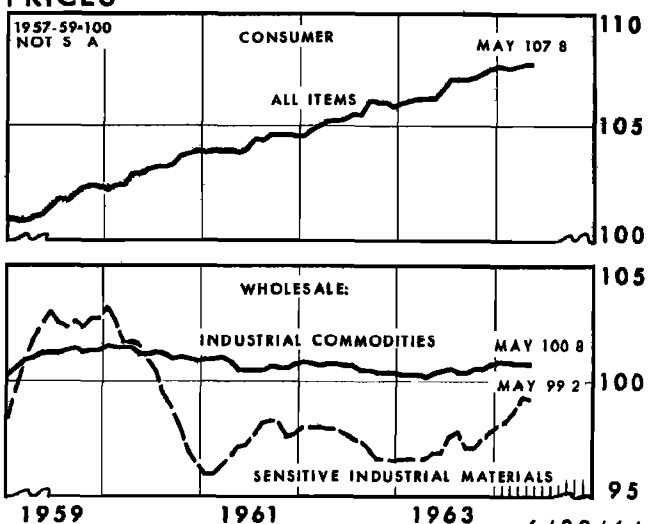
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION – II



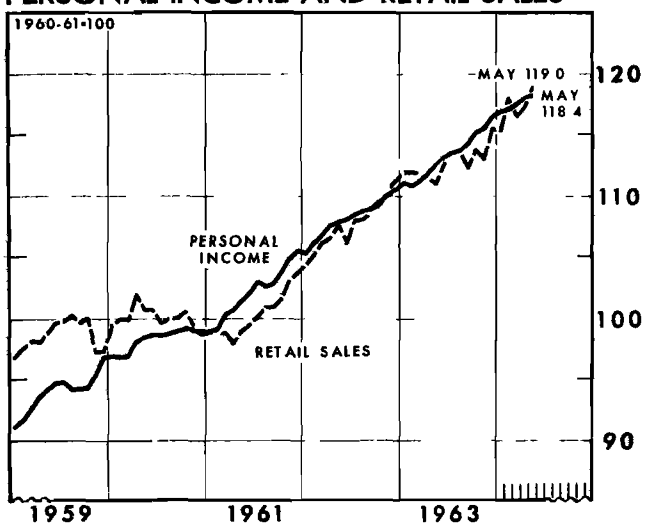
PRICES



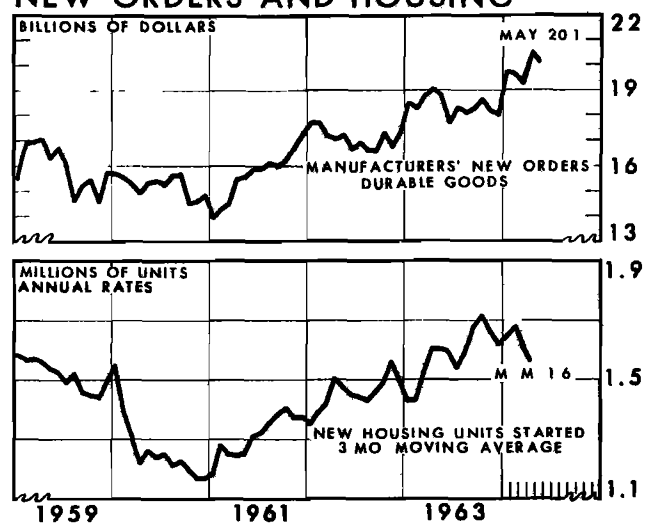
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

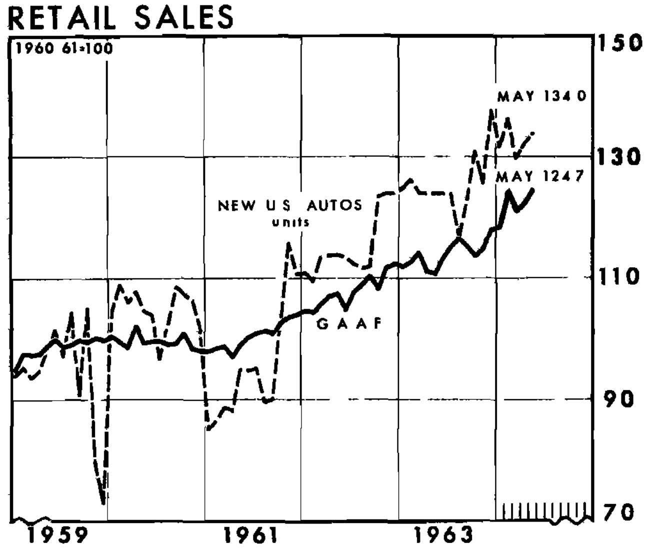
PERSONAL INCOME AND RETAIL SALES



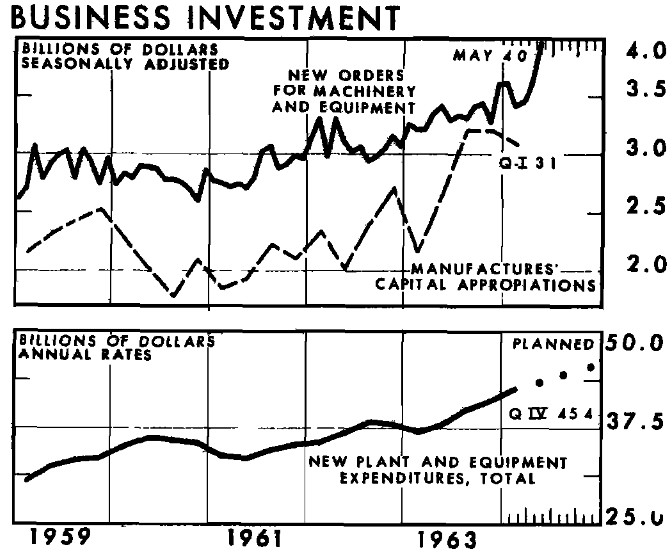
NEW ORDERS AND HOUSING



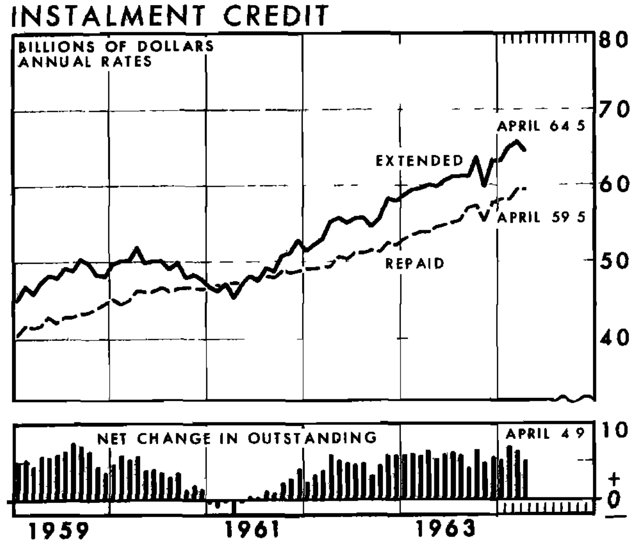
RETAIL SALES



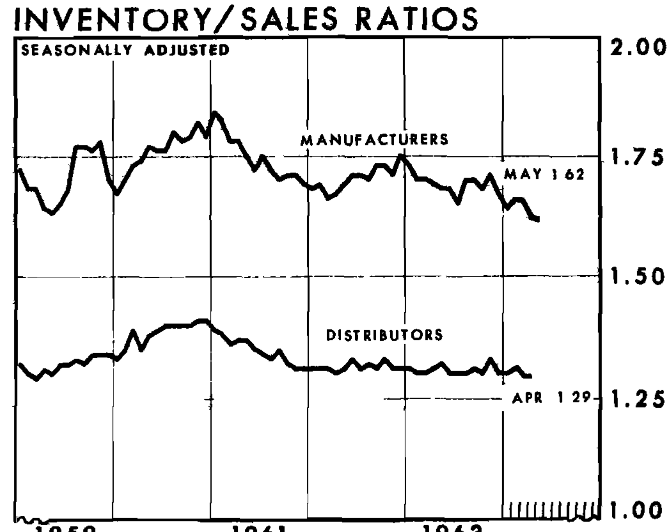
BUSINESS INVESTMENT



INSTALMENT CREDIT



INVENTORY/SALES RATIOS



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DOMESTIC FINANCIAL SITUATION

Bank credit. Total credit at city banks increased about $2.2 billion over the four weeks ending June 24, about the same as in the corresponding weeks of most other recent years, if allowance is made for the late June financing last year. Expansion during the tax and dividend payment period was similar to that in the comparable periods of 1962 and 1963. The increase in early June was larger, reflecting in part this year's auction of 1-year Treasury bills, but the decline in the week following the tax period was also larger. Total loans and investments at nonweekly reporting banks also increased somewhat more than usual over the early part of June.

TAX AND DIVIDEND PERIOD FINANCING
(Two mid-June weeks)
(In millions of dollars)

	1964	1963	1962
Corporate tax payments	6,200 1/	5,500	5,400
Tax anticipation securities outstanding	2,500	2,500	2,500
Net change in selected items at weekly reporting banks			
Total loans and investments	+2,222	+2,290	+2,056
Loans	+1,915	+1,779	+1,348
U.S. Government securities	- 67	+ 131	+ 498
Other securities	+ 374	+ 380	+ 448
Business loans	+ 642	+ 527	+ 537
Treasury bills	+ 76	+ 139	+ 204
Loans to Govt. security dealers	+ 21	+ 271	+ 290
Loans to finance companies	+ 642	+ 352	+ 234
Negotiable CD's	- 319	n.a.	n.a.

1/ Estimated.

Credir extended by banks directly to businesses over the mid-June period was somewhat larger this year than in the two past years, with most of the increase accounted for by banks in New York City. In relation to the $700 million increase in corporate tax payments this year, the rise in direct borrowing appears moderate, suggesting that corporate liquidity remains sizable. This is also suggested by the large business loan repayments in the week of June 24, a period in which these loans usually increase.

Banks also made substantial amounts of funds available to businesses over the tax and dividend period through indirect channels. While funds provided through acquisitions of Treasury bills and loans to Government securities dealers, in the aggregate, were less than in past years, loans to finance companies to replace maturing paper held by corporations were much heavier (but most of this was repaid in the week of June 24). In addition, data for banks in New York and Chicago suggest that some businesses relied more heavily on CD run-offs this year than previously. This did not create exceptional strain on the banking system, however. Scheduled maturities at all weekly reporting banks over the tax and dividend period totaled about $700 million, but banks were able to replace over half of them and outstandings declined only $320 million.

Real estate loans at city banks continued to increase through June at about the same substantial rate as in other recent months. "Other loans," which include those to consumers, have also been rising steadily.

Money supply and time deposits. Estimates based on incomplete data indicate that the seasonally adjusted money supply increased about $1.1 billion in June following a small reduction in May. U. S. Government deposits also increased $800 million, somewhat more than usual. Through the first half of 1964, money supply growth has been at an annual rate of 3.1 per cent compared with 3.7 per cent over the year 1963 and 4 per cent over the last half of that year.

Seasonally adjusted time and savings deposits at all commercial banks are estimated on the basis of incomplete data to have increased $1.3 billion in June, more than in May and about twice as much as in March and April, when repayments of consumer credit accelerated and the AT&T financing was absorbing funds. Through June, total time and savings deposits increased at an annual rate of 11.4 per cent compared with 14.8 per cent over the year 1963.

At city banks, growth in savings deposits in June continued to fall behind year-earlier increases. Other IPC time deposits also rose less than in the comparable weeks last year. The sharp tax-date reduction in negotiable CD's was offset in part by the depositing of most of the $200 million proceeds of the Comsat securities issue in time deposits, open account.

Bank reserves. Free reserves averaged $78 million over the four weeks ending June 24, a little below the averages of other recent months.[1/] Excess reserves at $356 million were about the same as in

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

April and May but considerably below earlier levels; borrowings at $278 million were somewhat higher than in the two previous months but still below prevailing levels of earlier 1964 and late 1963. The effective rate on Federal funds remained consistently at 3-1/2 per cent over the four weeks ending June 24; only on one day were there transactions below this level.

Seasonally adjusted reserves against private demand deposits increased in June after declining in May. The level of these reserves in the week ending June 24 was still below the peak April 22 level, however. Reserves supporting U. S. Government deposits showed their usual increase late in June, more than offsetting earlier declines.

Corporate and municipal bond markets. Markets for corporate and State and local government bonds have also been generally steady in recent weeks. While yields on high-grade municipals and new issues of corporate bonds (adjusted to an Aaa basis) rose slightly in late May and early June, new corporate issues have declined in yield since then, and yields on municipals have levelled off.

BOND YIELDS
(In per cent)

	Corporate Aaa		State & local	
	New	Seasoned	Moody's Aaa	Bond Buyer (Mixed qualities)
1964 - High	4.53(5/8)	4.41(5/1)	3.16(3/26)	3.32(3/19)
Low	4.30(2/21)	4.35(2/28)	3.07(5/21)	3.13(1/30)
May Low	4.43	4.41	3.07	3.16
June High	4.45	4.41	3.11	3.21
Latest Week	4.41	4.41	3.11	3.21

The recent stability of municipal yields reflects the ample supply of securities available for sale and the already low yield level--only 4 basis points above the 1964 low. Dealers' advertised inventories of unsold securities have persistently totaled more than $600 million; the volume of new offerings in June was well above May; and July offerings may continue close to the June level.

In the corporate securities market, on the other hand, public offerings of bonds reached a 1964 monthly peak in May, dropped back during June, and are expected to decline considerably further in the period immediately ahead. Unsold syndicate balances totaled more than $100 million early in June, but have since been cut to about half that size. Increased demands from pension funds have reportedly helped to clear the market of this older supply.

BOND OFFERINGS 1/
(In millions of dollars)

	Corporate				State & local govt.	
	Public offerings		Private placements			
	1964	1963	1964	1963	1964	1963
Jan.-April Mo. average	340	372	413	440	990	954
May	470e/	550	380e/	694	650e/	961
June	460e/	459	650e/	675	850e/	1,074
July	250e/	279	350e/	431	800-900e/	928

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

Corporate finance. The recent upward revision in anticipated plant and equipment expenditures does not of itself mean that needs for long-term external business financing have increased. First, most of the upward revision is in industries (motor vehicles, petroleum, and chemicals) that customarily rely heavily on internal funds and resort only irregularly to the capital markets. Public utilities, on the other hand, have made only slight changes in their spending plans, and plans of the communication, commercial and other group have been reduced slightly. Second, corporate internal funds are running higher than expected and are likely to be as large relative to plant and equipment outlays this year as they were in 1963, even if undistributed profits for the year as a whole are no higher than the first quarter rate.

INTERNAL FUNDS AND CAPITAL OUTLAYS: NONFINANCIAL CORPORATIONS
(Billions of dollars)

	Internal Funds			
	Depreciation	Undistributed profits	Total	Plant and equipment outlays
1962	27.8	7.0	34.9	32.0
1963	29.6	8.1	37.7	34.0
1964 1st Quarter 1/	30.7	10.5	41.2	37.0
Year (est.)	31.5	(10.5)	(42.0)	38.2

1/ Seasonally adjusted annual rate.

Internal funds were roughly $2-1/2 billion larger in the first quarter of 1964 than in the final quarter of last year, due mostly to the effect of the tax cut. In addition, depreciation allowances maintained their steady growth, and profits before taxes reached a new peak as corporate sales continued to rise and profit margins increased further. The seasonally adjusted rate of profits (before taxes) to sales for manufacturing corporations was 9.1 per cent in the first quarter. Except for the unusual second quarter of 1959, this is the first time the profit/sales ratio has been as high as 9 per cent since early 1957.

Even if the large profits of early 1964 do not continue throughout the year, undistributed profits for the year as a whole are expected to exceed their 1963 level. For undistributed profits to be no larger than in 1963 would require a 20 per cent drop in profits before taxes in the second half of the year.

Stock market. Common stock prices, as measured by Standard and Poor's composite index of 500 stocks, have fully recovered the declines experienced from mid-May to early June, and have recently moved to a new all-time high of 81.69 up 3.9 per cent from the early June low. Trading volume has picked up since early June to average 4.6 million shares per day in the latest week.

Savings and loan associations. Preliminary data for May indicate that the net inflow of savings to savings and loan associations slightly exceeded the inflow for May a year ago. This represented a change from the first four months of the year, when net inflow lagged consistently behind the comparable months a year earlier. Some commentators have interpreted this reversal in year-over-year relationships as evidence that the tax cut has recently expanded the flow of savings to depositary institutions. The indicated shift, however, is probably attributable more to changes in the monthly pattern of savings flows last year than to current developments.

During the first quarter of 1963 net inflows to savings and loans were in record volume, following increases in dividend rates announced by a sizable number of associations around the start of the year. But in the second quarter, with which year-over-year comparisons are now being made, net inflows dropped back somewhat, as the Home

Loan Bank Board sought (through moral suasion) to roll back rate advances and as some associations experienced difficulties investing their increased savings flows.

Making rough allowance for seasonal influences net savings flows to savings and loan associations are indicated to have slowed in the second quarter of 1963; since then, monthly inflows have changed relatively little.

U. S. Government finance. The Treasury's cash balance, which amounted to $10.1 billion on June 30, is substantially above expectations. This is due primarily to lower than expected expenditures, concentrated in defense outlays. In the postwar period, a mid-year cash balance of this magnitude was exceeded only in 1963, when the Treasury had just sold $1.9 billion of new Treasury bonds. The current large balance caused the Treasury to state on June 25 (in connection with the announcement of its customary monthly one-year bill offering) that additional cash requirements for the summer appeared lower than previously forecast and that it would delay announcement of new borrowing plans. Such an announcement is not likely until the week after the July 4 weekend, or later.

The restraint on spending during the past several months apparently will result in cash payments for fiscal year 1964 some $2.5-$3.0 billion below projections in the January budget document. Cash receipts for the fiscal year will exceed expectations (after allowing for the delay in the tax cut) by only $300 million, as there has been no indication of any significant step-up in individuals' withholding or in their declarations to make up for the under-withholding implicit in the new tax law. Reflecting these developments, the cash deficit for fiscal 1964 should be around $4.5 billion, somewhat above last year's $4 billion deficit but below the $5.8 billion deficit of fiscal 1962.

With knowledge of the improved Treasury cash outlook becoming more widespread, the market for U. S. Government securities continued steady to firm during recent weeks. Following minor tax date pressures, Treasury bill yields declined with the 3- and 6-month issues closing on June 30 at 3.48 and 3.52 per cent, down 2 and 7 basis points respectively from June 17, the last FOMC meeting date. Continued strength in the bill area--in the face of sizable dealer awards in recent auctions--in part reflected System purchases in the market totaling $613 million in the period. But demand from public funds and corporations also was in evidence.

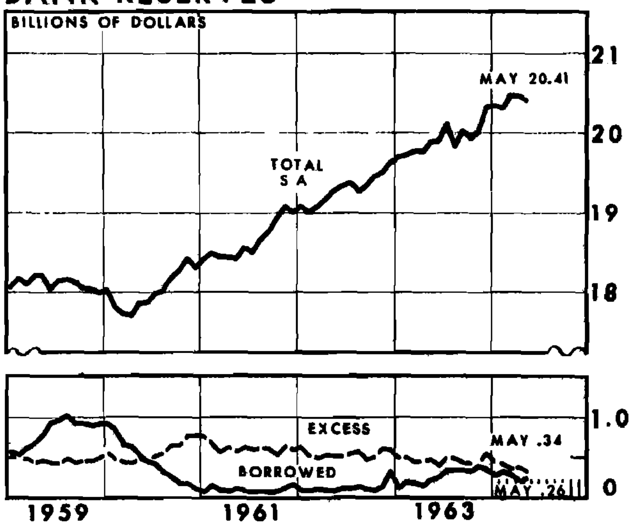
YIELDS ON U. S. GOVERNMENT SECURITIES
(Constant maturity series)

Date (closing bids)	3-month bills	6-month bills	3 years	5 years	10 years	20 years
1963						
June 28	2.99	3.06	3.61	3.82	4.00	4.03
Dec. 31	3.51	3.64	4.05	4.06	4.14	4.19
1964						
Mar. 31	3.51	3.94	4.16	4.16	4.23	4.24
June 17	3.50	3.59	4.02	4.02	4.18	4.17
June 30	3.48	3.52	3.95	4.01	4.15	4.15

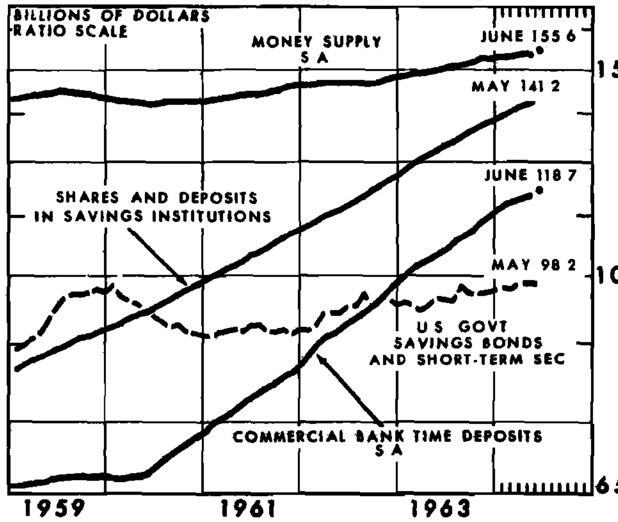
Against the background of a generally firm market, there was a little backing and filling in the intermediate-term area of the note and bond market in response to rumors of possible Treasury financings. Price movements were quite small, however, and the Treasury's June 25 statement was followed by some price improvement. At mid-year, yields remained well below levels obtaining at the end of the first quarter, when the market's view of the outlook for note and bond prices was more bearish than it is now.

FINANCIAL DEVELOPMENTS - UNITED STATES

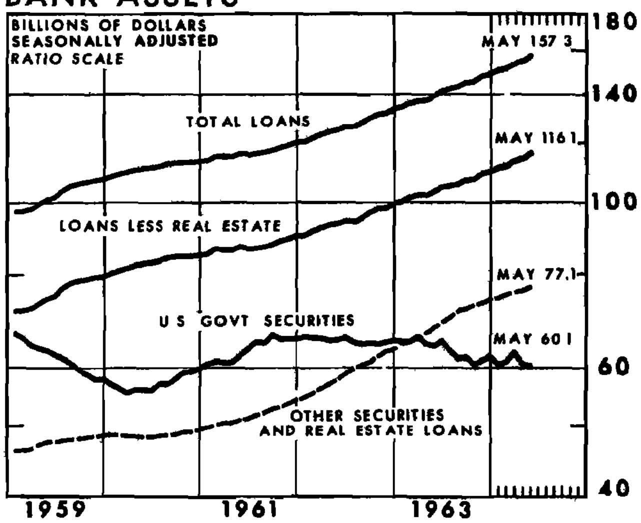
BANK RESERVES



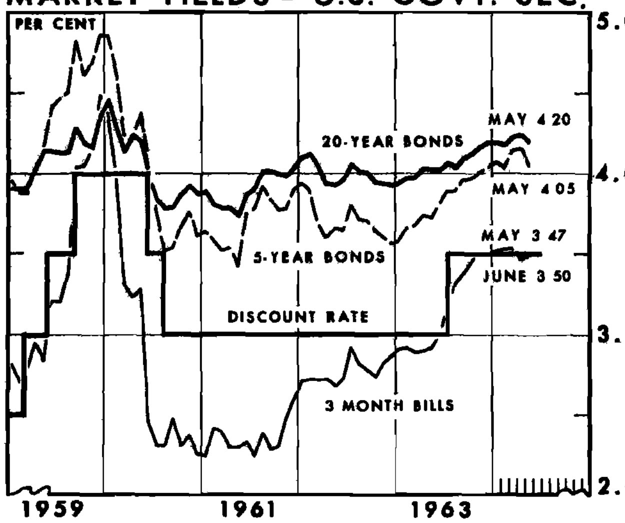
LIQUID ASSETS HELD BY PUBLIC



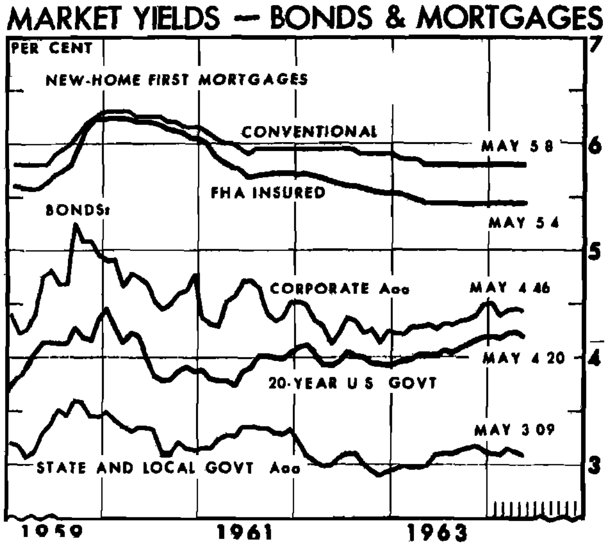
BANK ASSETS



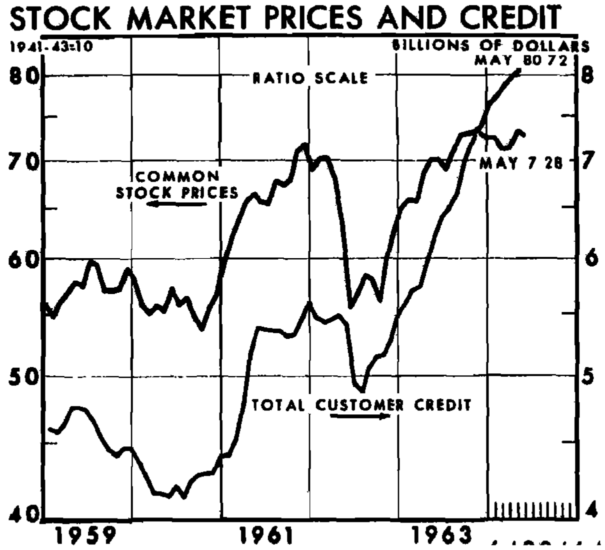
MARKET YIELDS - U.S. GOVT. SEC.



MARKET YIELDS — BONDS & MORTGAGES



STOCK MARKET PRICES AND CREDIT



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. Preliminary indicators show a U.S. payments deficit of $230 for 3-1/2 weeks of June, following a deficit of $115 million in May. The June worsening may have been at least partly seasonal. This brings the cumulative deficit on regular transactions for the second quarter thus far to more than $800 million of which about half occurred in April. With a $100 million allowance for seasonal factors the adjusted deficit comes to more than $900 million. For the year to date, the deficit on regular transactions is at a seasonally adjusted annual rate of about $2-1/4 billion.

Information on developments in May and June is limited to certain data on capital movements. Short-term claims on foreigners reported by banks rose only $57 million net in May, suggesting that the outflow of short-term bank credit remained at the reduced level to which it had fallen in March/April. The May outflow on long-term bank loans remained at the moderate April figure of $30 million, and total outflow for five months of 1964 has been $270 million -- a rate approximately equal to the average over the past year and a quarter. Preliminary indications are that the outflow on new security issues in June is down sharply from its high April and May level; the total outflow in the first half of 1964, now appears to be only a little over $300 million seasonally adjusted, the amount projected by the Balance of Payments Information Committee three months ago.

Thus, currently available data for May and June -- still quite partial -- show no evidence of extraordinary capital outflows of the sorts observed at various times in the first four months.

Recently released figures on the first-quarter balance of payments show that among the favorable factors in that period were a decline from the fourth quarter in outflows on Government capital and grants of $200 million (quarterly rate), and an increase in private investment income of about the same amount. Some of the decline in government capital outflow represented a drop in aid-financed exports (in spite of which merchandise exports rose by $200 million). Large repatriations of income by direct investment companies appear to have occurred late in the quarter, apparently postponed from 1963 to take advantage of the tax cut.

Business and financial developments abroad. Recent data provide signs of the effects of policies of restraint in France and probably also in Japan; the fall of the Italian coalition government may place the future of the Italian stabilization program in doubt. Developments in Britain and Germany are still expansionary.

In late May and early June the French authorities tightened consumer credit restrictions and raised the "super-hell" penalty discount rate from 6 to 7-1/2 per cent, while reducing the banks' required holdings of Treasury certificates and the liquidity ratio (lowered again in late June). The latter measures tend to reduce money market tightness, which had contributed to the Bank of France's reserve gain of $147 million in May. Market tightness had been generated primarily by Treasury repayments of advances at the Bank of France, made possible by reduction of the budget deficit. For 1964 the budget deficit is now expected to be only 3 billion francs, compared to 8.2 billion (cash basis) in 1963.

The increase in the penalty rediscount rate widens the range within which money market rates may be expected to fluctuate, and emphasizes that there is to be no relaxation of the 10 per cent a year ceiling on bank credit expansion. In fact, any banks that exceed the ceiling are now to suffer more severe cuts in their normal rediscount quotas than before.

Recent signs of diminished inflationary pressures include:

stability in production -- the index rose in April after declining in the two previous months, but was only 1/2 per cent above January;

sluggish retail sales -- March/April sales were 2 per cent below the fourth quarter;

some easing in order backlogs and in the labor market;

continued near-stability of prices -- consumer prices in April were only 0.3 per cent above January.

Externally, French monetary and fiscal policies have affected trade as well as financial flows; imports have declined since January, and in May were 4 per cent below the first quarter average. The deficit on total trade in April/May averaged $80 million per month compared to $100 million in the preceding six months.

In Japan industrial production appears to have leveled off; the April rise in the index, which regained only one-third of the March decline, left it 1 per cent below February. Imports in May were at the first quarter average, and down 1 per cent from April. Wholesale prices eased slightly in May, and were 1 per cent below the peak last autumn.

Though May exports were off from the high of the previous month, they were 7 per cent above the first-quarter average. In June, official foreign exchange reserves rose a little, helped by a large bond issue in Germany.

Recent data for Britain seem to indicate a pause in the rise of production and retail sales. Industrial production (revised for earlier months, preliminary for April) is now shown as unchanged from January through April at 126 (1958 = 100), up one point from December. Retail sales for March and April averaged only fractionally above the fourth-quarter level in terms of constant prices, though up 2 per cent in value.

However, economic prospects in Britain are still definitely expansionary. In a June survey the proportion of firms expecting to increase their capital expenditures was even larger than in the preceding survey. In the first quarter, capital expenditures in manufacturing and distributive trades rose 6 per cent (in constant prices), and were 10 per cent above their 1963 average. Private housing starts in the first quarter were almost double their year-earlier level. Further impetus should come from the substantial increase in government capital expenditures projected in this year's budget.

Imports remained stable at a high level through May. Though exports rebounded in May after their very low April, the export average for the last three months was only 3 per cent above the fourth quarter of 1963, in contrast to a 7 per cent rise in imports.

The pound sterling has continued easy in exchange markets, and after mid-June it dropped markedly, with the Bank of England intervening only moderately to temper the decline. The selling pressures reportedly came both from outright sales from the Continent and from swaps into Euro-dollars connected with tightness in that market. Although the narrowing of the discount on forward sterling increased the covered arbitrage advantage on U.K. vs. U.S. Treasury bills, at one time to 40 basis points, there have been no reports of U.S. funds moving into sterling money market investments.

In Germany, retail buying has eased off a little. Sales in April/May averaged slightly lower than in February/March.

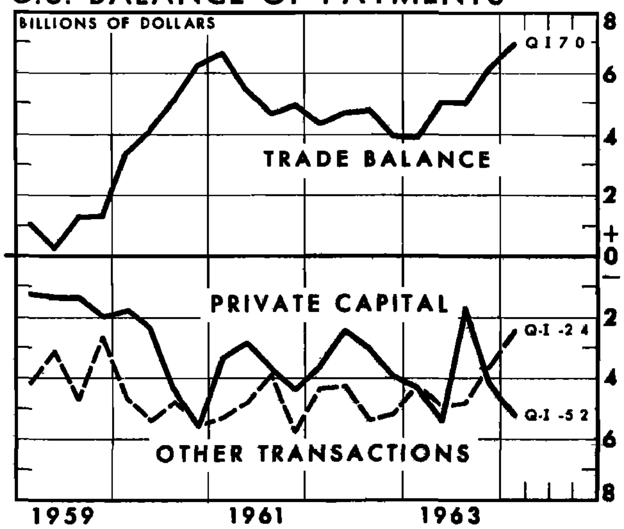
Both imports and exports, as seasonally adjusted by the Bundesbank, were down in May from the high April figures. For the two months together, imports averaged a little higher than in the preceding pair of months, while exports were not much changed.

Legislation has been passed reducing tariff duties on a large number of items to the level of the EEC's Common External Tariff. More importantly so far as probable effects are concerned, Germany has reduced its duties on intra-EEC trade by 50 per cent for many items and 25 per cent for some. Action on the 25 per cent withholding tax on foreigners' interest from German securities has been further deferred, along with the proposed elimination of the 2-1/2 per cent tax on new foreign securities.

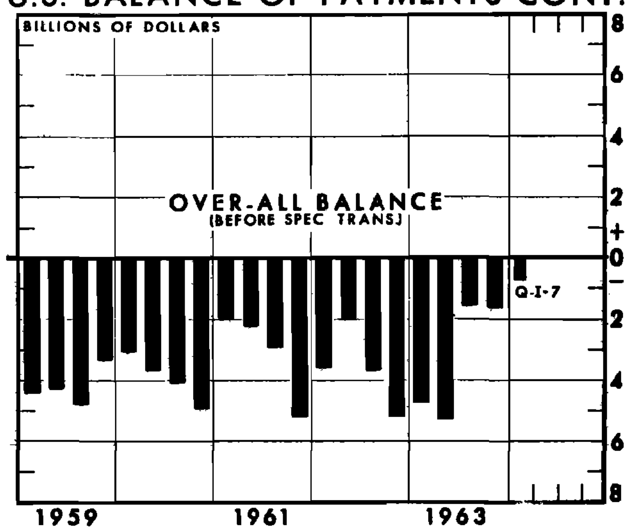
U.S. AND INTERNATIONAL - ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED, ANNUAL RATES

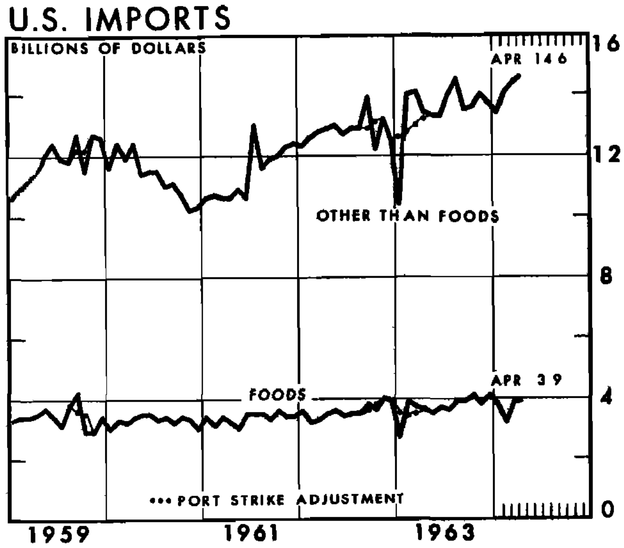
U.S. BALANCE OF PAYMENTS



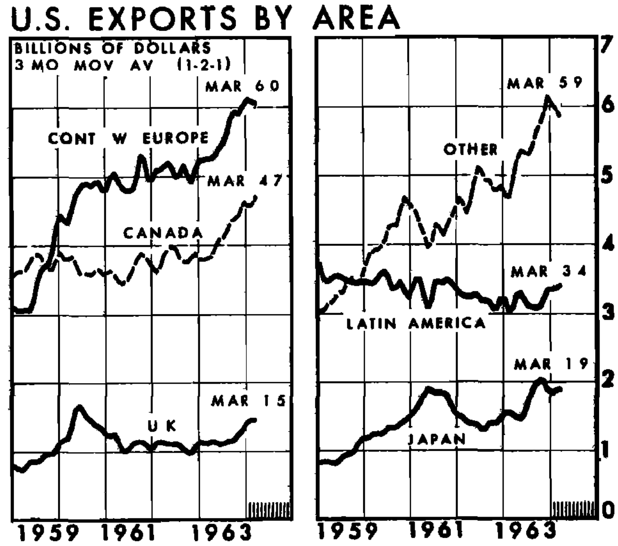
U.S. BALANCE OF PAYMENTS-CONT.



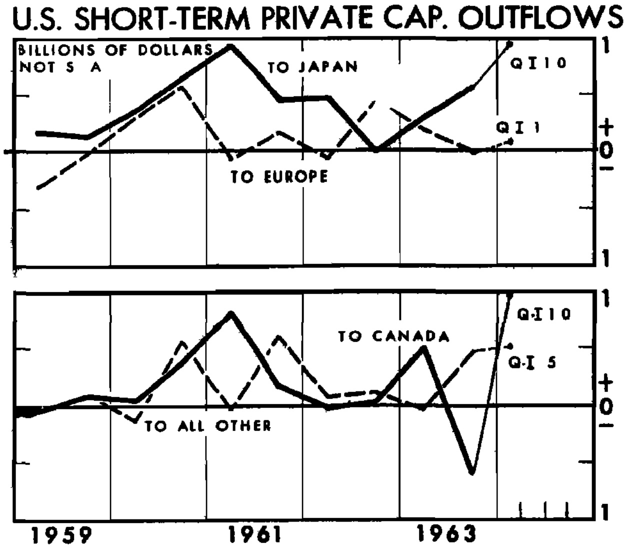
U.S. IMPORTS



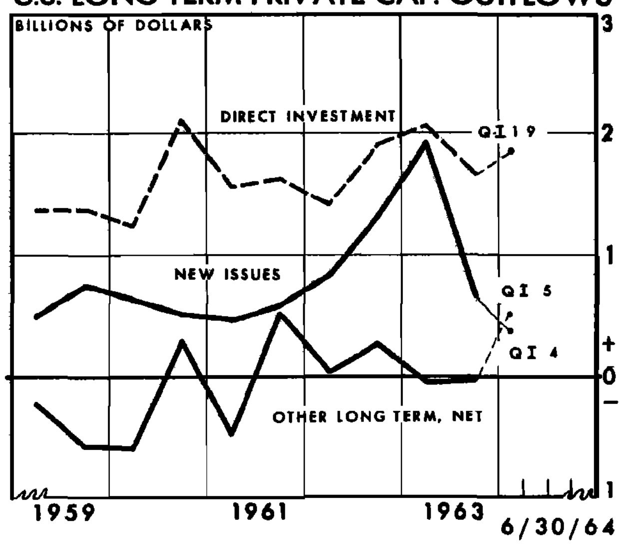
U.S. EXPORTS BY AREA



U.S. SHORT-TERM PRIVATE CAP. OUTFLOWS



U.S. LONG-TERM PRIVATE CAP. OUTFLOWS



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APPENDIX A: CHANGES IN THE FEDERAL DEBT STRUCTURE

Since late 1960, the Treasury has made gradual but steady progress in lengthening the maturity structure of the public debt. The accomplishment of this long-standing objective stands markedly in contrast to the results of the previous decade. During the 1950's, the maturity structure of the debt shortened rather continuously, except for two brief periods of recession and early recovery. Since a shortening of the outstanding public debt tends to increase its liquidity to holders or to increase the volume of close money substitutes, many observers saw in this shortening a building up of inflationary pressures.

Beginning in the last quarter of 1960, the Treasury has dramatically reversed the earlier trend. As can be seen in the last column of the accompanying table, the average maturity of publicly-held marketable debt rose from 54 months at the end of September 1960 to a peak of 66 months by September 1963. At the end of May of the current year, the average was 63 months.

But this kind of summary figure is not the only, nor necessarily the best, way to view the debt structure, as it gives too much weight to the longest-term bonds. The general impression of the nature of debt lengthening is slightly altered if we look at the maturity structure of the publicly-held debt by selected maturity categories rather than by average maturity. Some of the most striking changes in the debt structure since September 1960 have occurred at the extremes of the maturity spectrum, including the short end. The Treasury's debt lengthening activities during 1961, and to a smaller extent 1962, were undertaken at the same time as securities maturing within 1-year, especially Treasury bills, were expanded. Despite some overall reductions in under 1-year issues during 1963 and early 1964, there has been over the entire period from September 1960 to May 1964 an expansion of under 1-year issues of $10.5 billion, about equal to the increase in aggregate publicly-held marketable debt at that time.

The best evidence of the Treasury's debt lengthening accomplishments can be seen in terms of shifts within those maturity sectors often characterized as "intermediate" and "long-term." As indicated in the table, while increases in over 10-year maturities have been very moderate, there has been a decided rearrangement of issues between the 10-20 and the over 20-year breakdowns. In the past three and a half years, the over 20-year maturities have risen by $6.1 billion, while 10-20 year issues have declined by approximately $5.0 billion. This same type of rearrangement is evidenced by the shift from 1-5 into 5-10 year maturities--a shift of roughly $13.0 billion.

The Treasury's success in debt lengthening and in achieving a better balanced maturity structure is attributable, in large measure, to the advance refunding technique. Total sales to the public of over 10-year bonds in all regular refundings, cash refundings, and cash auctions combined have amounted to only $1-1/4 billion since September 1960. (Sales of 5-10 year bonds, however, have been considerably greater.) The greatest amount of debt extension was accomplished in the three "senior" advance refunding operations; that is, in those advance refundings in which exchange options were offered to holders of outstanding securities exceeding 5-years to maturity. The average maturity of the total marketable debt was extended by roughly 15 months in these three operations, the last one of which was in March 1962. The "senior" operations were characterized both by large "off the market" exchanges by such investors as life insurance companies and mutual savings banks, and by little market activity, as indicated by relatively small amounts of trading in "rights" and "when-issued" securities. There is little evidence of any lasting upward adjustments in long-term interest rates following these operations, despite their massive size.

The various "junior" advance refundings and pre-refundings accomplished somewhat less in terms of extending the average maturity of the debt. ("Junior" advance refundings are defined as those involving outstanding securities with 1-5 years to maturity, while pre-refundings involve outstanding securities with less than 1-year to maturity.) However, these operations were instrumental in the expansion of issues in the 5-10 year maturity range. By comparison with the "senior" operations, the various "junior" and pre-refunding operations have been characterized by a considerably larger degree of turnover in "rights" and "when-issued" securities. As indicated by the large amount of market activity and ownership changes, it seems possible that the sale of long-term bonds in the March 1963 and September 1963 operations may have absorbed a significant volume of new cash funds. Consequently, these operations may have exerted some upward impact on long-term interest rates in the following weeks.

What are the implications of this review for debt management operations in the future? First, in the absence of truly "senior" types of advance refundings, it may not be possible to accomplish a substantial extension in the average maturity of the marketable debt. In the combined "junior" pre-refunding operation of January 1964, for example, the average maturity of total marketable debt was extended by only 1.6 months. And no progress has been made in this respect in the last 12 months, as can be seen in the table.

However, the real importance of "junior" and pre-refunding operations is probably understated by concentrating too narrowly on a figure for average maturity. It is quite likely, for example, that extension of, say, $2 billion of 1-year securities into 10-year bonds has a more pronounced effect on liquidity than the extension of $1 billion of 10-year bonds into 30-year bonds. Pre-refundings and "junior" advance refundings are especially significant with respect to reducing the volume of relatively short-term securities outstanding.

Second, if market pressures push long-term interest rates upward, debt lengthening will become more difficult. If bond yields press on the 4-1/4 per cent legal interest rate ceiling, the debt structure could shorten considerably. For example, if no additional bonds were to be sold this year, the passage of time would move roughly $6.3 billion in publicly-held bonds out of the over 5-year maturity range. Coupled with the necessity of new cash borrowing of around $7 billion in the second half of 1964, the public's holdings of marketable issues under 5-years to maturity would register very substantial increases by the end of the year.

MATURITY STRUCTURE OF PUBLICLY HELD MARKETABLE DEBT
(In billions)

Date	Total	Under 1 Year			1-10 Years			Over 10 Years			Average maturity Of Publicly Held Marketable Debt (in months)
		Total	Bills	Other	Total	1-5 Years	5-10 Years	Total	10-20 Years	Over 20 Years	
September 1960	$151.4	$53.3	$33.0	$20.3	$80.1	$60.6	$19.5	$18.0	$11.1	$ 7.0	54
May 1963	161.8	65.0	45.8	19.2	78.7	48.2	30.5	18.1	4.8	13.2	63
September 1963	160.5	62.3	44.0	18.3	79.3	45.4	33.8	18.9	6.1	12.8	66
May 1964	161.8	63.8	46.3	17.5	78.9	46.7	32.2	19.1	6.1	13.0	63
Change from September 1960-September 1963	+ 9.1	+ 9.0	+11.0	- 2.0	- 0.8	-15.1	+14.3	+ 0.9	- 5.0	+ 5.9	+12
Change from September 1960-May 1964	+10.4	+10.5	+13.4	- 2.9	- 1.1	-13.8	+12.7	+ 1.1	- 5.0	+ 6.1	+ 9
Change from May 1963-May 1964	+ 0.1	- 1.3	+ 0.5	- 1.8	+ 0.3	- 1.5	+ 1.7	+ 1.1	+ 1.3	- 0.2	0

APPENDIX B: CORPORATE LIQUIDITY AND WORKING CAPITAL

Corporate liquidity declined less than usual in the first quarter of 1964, and net working capital showed an unusually large increase. Both developments reflected primarily a substantial reduction in notes and accounts payable, as may be seen from the table.

CURRENT ASSETS AND LIABILITIES OF U. S. CORPORATIONS
(Billions of dollars)

	Changes during first quarter			Level
	1962	1963	1964	1964-1st Q.
Current assets--total	2.7	1.9	0.6	350.6
Cash & deposits	-3.0	-3.8	-3.9	40.6
U. S. Govt. sec.	0.7	0.5	0.8	21.4
Notes & accts. receivable	1.5	2.1	1.3	164.6
Inventories	2.6	1.7	1.3	108.6
Other current assets	0.9	1.3	1.2	15.5
Current liabilities--total	1.0	0.9	-2.9	195.9
Notes & accts. payable	-0.1	0.7	-2.9	131.5
Accr. Fed. inc. tax liab.	-0.5	-0.9	-0.7	15.6
Other curr. liabilities	1.6	1.1	0.7	48.8
Net working capital	1.7	1.0	3.5	154.7

Figures shown in the table are derived from recently revised SEC estimates. These series are subject to annual revision when new Statistics of Income data become available. In this case, adjustment to the 1961 benchmarks required only moderate revision in the estimates.

A far more important revision adjusted for previous misclassification by some corporations of their holdings of negotiable time certificates of deposit. A recent clarification of SEC's reporting instructions to respondents revealed that substantial amounts of CD's had previously been included in "other current assets" and smaller amounts in receivables and U.S. Government securities. For manufacturing corporations the amount originally included in these other accounts totaled roughly $2-1/2 billion in the fourth quarter of 1963. In the revised working capital series, all corporate holdings of CD's are included in cash and deposits, but information is not available as to the method used to estimate the amounts that were added to cash and subtracted from other accounts in earlier quarters.

One result of correcting the previous misclassification of CD's is to moderate the decline since 1961 in the ratio of cash, deposits and U. S. Government security holdings to total current liabilities. This conventional liquidity ratio still moves downward, however. It was 31.6 per cent at the end of March 1964, compared with a revised 32.4 per cent a year ago and with 34.1 per cent in early 1962.