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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

September 2, 1964

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IN BROAD REVIEW

Limited preliminary reports for August, additional information concerning July, and various reports on consumer and business plans indicate that the expansion under way since the spring of 1961 is being extended into the autumn of 1964. Except in residential building, activity recently has been running higher than a year ago by amounts such as 6 or 7 per cent for retail trade, 11 per cent in plant and equipment outlays, and 7 per cent in gross national product, reflecting for the most part real gains. Industrial production has risen every month since last November and is 5 or 6 per cent above a year ago. Unemployment, slow to respond, in the past year has declined from the 5-1/2 to 6 per cent level that prevailed so long to a level of around 5 per cent, and there has been some increase in use of available plant and equipment.

So far in this long expansion period, gains in activity and employment have been achieved without stimulating much accumulation of inventories or generating either widespread price advances for goods or many advances in wage rates in excess of continuing increases in productivity. Prices for nonferrous metals have shown persistent strength over the past year and a half and testing of markets has resulted in higher quotations for some other commodities, but there have also been some price declines and the broad indexes have continued to show relatively little change.

In the bond markets, the recent tendency has been toward a somewhat heavier tone, as both dealers and investors appear to have turned more cautious. Yields on both longer-term Treasury bonds and new corporate issues have risen several basis points since mid-August, while municipal dealers are reported to have made frequent small price concessions to move older inventories. The Treasury bill market, in contrast, has continued firm with the yield on 3-month bills continuing at around the 3.50 per cent level.

The money supply rose further in August. For the first 8 months, the rise has been at an annual rate of about 4 per cent, about the same as in the latter part of 1963.

Bank credit appears to have risen sharply in August, following the moderate July decline. In part this reflected bank absorption of Treasury cash financing, but loan expansion also was vigorous.

The U.S. balance of payments deficit was again very large in August, according to preliminary indications. Imports rose sharply in July, fully offsetting the small June dip.

Abroad, sterling has weakened further in exchange markets and British reserves showed a large decline in August. Payments positions have continued to improve in Italy and Japan, and remained strong in France.

Selected domestic economic developments:

-- Retail sales continued to rise in August and consumer buying plans reported for new autos and household durable goods were substantially above a year ago.

-- Expansion in consumer instalment credit accelerated in July after slowing in June.

-- Housing starts and permits declined more than seasonally in July.

-- New orders for durable goods rose sharply in July; much of the rise reflected a temporary bulge in defense orders.

-- Inventory accumulation at factories continued at a very slow pace in July and inventory-sales ratios declined further.

-- In late August a farmers' strike curtailed marketings of livestock temporarily, raising prices and accounting in large part for a rise of 1/2 per cent in the weekly wholesale price index. The index for industrial products remained stable.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest period	Amount			Per cent change: 3/	
		Latest period	Preceding period	Year ago	Year ago	2 years ago
Civilian labor force (mil.)	July'64	74.2	74.3	73.2	1.4	3.6
Unemployment (mil.)	"	3.6	4.0	4.1	-11.4	-6.4
Unemployment (per cent)	"	4.9	5.3	5.6	--	--
Nonfarm employment, payroll (mil.)	"	58.9	58.8	57.3	2.7	5.1
Manufacturing	"	17.4	17.4	17.1	1.6	2.7
Other industrial	"	7.8	7.8	7.6	2.2	4.4
Nonindustrial	"	33.7	33.6	32.6	3.4	6.7
Industrial production (57-59=100)	"	132.7	131.7	125.7	5.6	11.1
Final products	"	132.5	131.7	125.2	5.8	9.2
Materials	"	133.1	131.6	125.9	5.7	13.5
Wholesale prices (57-59=100) 1/	"	100.4	100.0	100.6	-0.2	--
Industrial commodities	"	100.8	100.7	100.6	0.2	0.1
Sensitive materials	"	99.1	99.1	97.5	1.6	1.7
Farm products and foods	"	98.1	97.1	99.8	-1.7	-0.8
Consumer prices (57-59=100) 1/	"	108.3	108.0	107.1	1.1	2.7
Commodities except food	"	104.3	104.3	103.5	0.8	1.7
Food	"	107.2	106.2	106.2	0.9	3.3
Services	"	115.3	115.1	113.1	1.9	3.8
Hourly earnings, mfg. ($)	"	2.53	2.52	2.45	3.3	6.3
Weekly earnings, mfg. ($)	"	102.66	102.25	98.93	3.8	6.8
Personal income ($ bil.) 2/	"	490.8	489.3	464.0	5.8	10.7
Retail sales, total ($ bil.)	"	21.9	21.7	20.7	5.8	11.5
Autos (million units) 2/	"	7,195	7,383	7,227	-0.4	9.9
GAF ($ bil.)	"	5.0	5.0	4.6	8.3	15.3
Selected leading indicators						
Housing starts, pvt. (thous.) 2/	"	1,517	1,596	1,588	-4.5	5.2
Factory workweek (hours)	"	40.6	40.6	40.4	0.5	0.5
New orders, dur. goods ($ bil.)	"	21.3	20.0	18.3	16.8	26.2
New orders, nonel. mach. ($ bil.)	"	3.0	3.0	2.6	13.2	22.3
Common stock prices (1941-43=10)	Aug'64	82.00	83.22	70.98	15.5	40.1
Inventories, book val. ($ bil.)	June'64	105.9	105.8	101.7	4.2	8.1
Gross national product ($ bil.) 2/	QII'64	618.6	608.8	577.4	7.1	11.8
Real GNP ($ bil., 1963 prices) 2/	"	608.5	601.3	578.5	5.2	8.1

1/ Not seasonally adjusted. 2/ Annual rate. 3/ Based on unrounded data.

SELECTED DOMESTIC FINANCIAL SERIES

	Week ended August 28	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	1.50
Treasury bills 3 mo., yield (per cent)	3.50	3.50	3.60	3.44
Net free reserves 2/ (mil. $)	74	94	230	18
Member bank borrowings 2/ (mil. $)	329	311	460	135
Security Markets (N.S.A.)				
Market yields 1/				
5-year Government securities (per cent)	4.06	4.05	4.21	4.00
20-year Government securities	4.19	4.18	4.26	4.15
Corporate new issues, Aaa (per cent)	4.40	4.39	4.53	4.37
Corporate seasoned, Aaa (per cent)	4.41	4.41	4.42	4.36
Municipal seasoned, Aaa (per cent)	3.08	3.03	3.08	2.94
FHA home mortgages-25-year (per cent)	n.a.	n.a.	n.a.	n.a.
Common stocks - S&P composite index 3/				
Prices, closing (1941-43=10)	81.99	82.07	84.01	78.31
Dividend yield (per cent)	3.03	3.03	3.10	2.93

	Change in July	Average change--last 3 mos.	Annual rate of change (%) 3 mos.	Annual rate of change (%) 1 year
Banking (S.A., mil. $)				
Total reserves	-89 4/	76	4.4	4.2
Bank loans and investments:				
Total	-900	800	3.8	6.8
Business loans	300	400	9.0	11.2
Other loans	300	1,000	11.4	12.2
U.S. Government securities	-1,600	-800	-16.4	-6.9
Other securities	100	300	9.0	11.0
Money and liquid assets:				
Demand dep. & currency	600 4/	900	7.2	4.0
Time and savings dep.	1,200 4/	1,100	10.9	12.6
Nonbank liquid assets	-2,300	100	0.3	6.3

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 August 26.
3/ Data are for weekly closing prices. 4/ Change in August.

U.S. BALANCE OF PAYMENTS

	1964					1963	1962
	July	June	May	Q-II	Q-I	Year	Year
Seasonally adjusted annual rates, in billions of dollars							
Balance on regular trans.				- 3.0	- .9	- 3.3	- 3.6
Exports 1/		23.7	24.2	24.1	24.3	21.9	20.5
Imports 1/	-18.9	-17.9	-18.4	-18.2	-17.4	-16.9	-16.1
Trade balance 1/		5.8	5.8	5.9	6.9	5.0	4.3
Unadjusted monthly averages, in millions of dollars							
Balance on regular trans.	- 687	- 112	- 30	- 192	26	- 275	- 298
Trade balance 1/		419	730	568	586	413	361
Securities transactions		- 10	- 76	- 64	- 9	- 69	- 80
Bank-reported claims 2/	122	- 357	- 80	- 200	- 211	- 117	- 39
Other		- 164	- 604	- 496	- 340	- 502	- 540
Financing, total	687	112	30	192	- 26	275	298
Special receipts 3/	0	0	0	- 13	65	57	95
Liabilities increase							
To nonofficial 4/	545	- 341	- 226	37	77	50	16
To official	178	189	213	67	- 151	136	59
Monetary reserves decrease	- 36	264	43	101	- 17	32	128
of which: Gold sales	(- 6)	(70)	(34)	(- 24)	(15)	(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, as indicated by weekly estimates, rose 1/2 per cent in late August when prices of livestock and meats increased 5 to 10 per cent because of a farmers' strike. The striking group's objective in curtailing market supplies is to obtain packers' agreement to minimum prices for livestock. A similar withholding movement in 1962 failed after about two weeks.

The index of industrial commodity prices in August was unchanged from July and also unchanged from last December. Supplies of industrial materials, with the important exception of nonferrous metals, appear to be readily available and average prices of materials remain stable. While attention is drawn to the labor-contract negotiations in the auto industry for indications of future developments, labor costs in manufacturing so far have continued to show little change. With neither labor costs nor materials' costs generally rising, average wholesale prices of finished industrial products have been stable; they have not changed significantly since business activity turned up in early 1961.

In the metal markets, copper demands continue strong and supplies continue to be limited by strikes here and abroad. Major producers raised prices (2 cents to 32-1/2 cents a pound) for foreign delivery, and it is widely expected that domestic prices will be raised after the strikes are settled. For lead and zinc, increases in foreign prices generated pressures to raise domestic quotations despite recent sales from the U.S. stockpile and expansion in world production. A major domestic producer of lead raised prices (1 cent to 14 cents per pound) in mid-August, and other producers followed at the month's end. Most recently, prices of lead and zinc abroad have eased somewhat. Tin prices have risen sharply further although weekly sales from the stockpile have been large. Steel scrap prices increased appreciably in late July as steel production showed less summer decline than had been expected. Buying of scrap was curtailed as prices rose, however, and in late August prices declined half way back to the July level. These metals, included as 5 of the 13 materials in the BLS daily index of raw industrials, largely accounted for the rise of about 5 per cent in that index from mid-June to mid-August.

The consumer price index rose .3 per cent in July, mainly because of an increase of nearly 1 per cent in foods. Retail prices of meats, which often reach a seasonal peak in July, rose more than 2 per cent. Prices of nonfood commodities were unchanged and those of services continued to rise at an annual rate of about 2 per cent. The total index was 1.1 per cent higher than in July of last year.

Industrial production. Available output data for August, while meager, indicate a continued high level of industrial production with the possibility of a further rise. Auto and truck assemblies, after allowance for the model changeover shutdowns, continued at record rates. Output of crude petroleum and activity at petroleum refineries changed about seasonally and paperboard production increased to record levels. Steel ingot production, which showed much less than the usual seasonal decline in July, rose less than usual in August despite continuing heavy demand for a wide range of steel products.

In July, industrial production increased for the eighth consecutive month to a level 28 per cent above the low in early 1961 and 33 per cent above the 1957-59 average. In July, as shown in the table, the broadest market groups--consumer goods, equipment (business and defense), and materials--were all about the same amount above the average for 1957-59, a period that included two relatively prosperous years and one recession year. Business equipment, however, was at a relatively higher rate reflecting chiefly an advance of 9 per cent over the past year at a time when consumer goods output was rising 5 per cent and materials output 6 per cent.

The broad industry divisions have shown more diverse changes from 1957-59 levels, reflecting in the main long-time trends toward sharply higher levels of output at electric and gas utilities and relatively little higher levels at mines. In manufacturing, output of durable goods is up about as much as output of nondurable goods.

INCREASES IN INDUSTRIAL PRODUCTION
(Per cent)

	1957-59 to July 1964	July 1963 to July 1964
Total	32.7	5.7
Final products	32.5	5.8
Consumer goods	32.3	5.2
Equipment, incl. defense	32.9	7.2
Business equipment	40.5	9.4
Materials	33.1	5.6
Manufacturing	33.6	5.9
Durable goods	34.5	6.7
Nondurable goods	32.5	5.2
Mining	12.3	2.0
Utilities	49.0	5.0

Auto negotiations. The United Auto Workers Union turned down offers made recently by the three major producers but arranged to extend existing contracts from August 31 to September 9. The union has also offered to extend its contracts with Ford and General Motors beyond September 9 on a day-to-day basis while negotiating with the Chrysler Corporation, selected as the target company for concentrated negotiations and possible strike.

The head of the union has estimated that the contracts proposed by the companies were worth about 35 cents an hour over a three-year period, excluding cost-of-living allowances. This would imply an annual increase of about 3 per cent a year based on estimated hourly earnings including fringes of $3.80 per hour. The auto companies have not made public any estimate of the additional costs. The three-year package negotiated in 1961 was estimated at about 30 cents an hour.

The company offers included a continuation of the 2.5 per cent annual improvement factor (this same rate of rise in hourly earnings has been in the auto contracts since 1955) and substitution of an annual cost-of-living allowance for the current quarterly adjustment. In addition, the offers included higher pension benefits, incentives to encourage earlier retirement, fully paid life insurance, more vacations for some workers and higher supplementary unemployment benefits. The companies apparently have made no offer to increase relief time for assembly workers, one of the major demands made by the union.

Construction activity. In July, private housing starts declined more than seasonally, lowering the annual rate to slightly less than the April-May level. Residential building permits also declined in July. Based on three-month moving averages, both starts and permits in the May-July period were running about 10 per cent below last fall's highs. On the other hand, the F. W. Dodge index of construction contracts--covering all types of work--held steady in July for the fourth consecutive month, and was not far below earlier highs.

PRIVATE HOUSING STARTS AND PERMITS

	July (thousands of units)1/	Per cent change from:	
		Month ago	Year ago
Starts	1,517	-5	-4
Permits	1,237	-6	-5
1 family	674	-7	-8
2 or more family	563	-5	-2

1/ Seasonally adjusted annual rate; preliminary estimates.

Home mortgage markets. In July, mortgage market conditions continued to show little change, but there were additional reports of somewhat less ease in certain areas. Secondary market yields on certain FHA-insured 30-year home loans--at 5.46 per cent--were virtually unchanged from levels prevailing for more than a year, and secondary market operations of the Federal National Mortgage Association remained small.

Several provisions of the Housing Act of 1964 now on the President's desk would have a direct effect on home mortgage markets, as noted in Appendix B. One other recent development which may also affect mortgage markets is the August 19 action of the Federal Home Loan

Bank Board, approving a general policy statement on advances by the 12 regional Federal Home Loan Banks to member institutions. The statement recommends that credit lines for expansion purposes be progressively reduced for institutions with unduly weak portfolios or lending practices. Outstanding advances totaled $4.7 billion toward the end of August, compared with $3.8 billion a year earlier.

Consumer spending. Another large increase in consumer spending is indicated for the third quarter. Retail sales in August appear to be up somewhat from the record July level, as sales at nondurable goods stores have continued their steady upward pace of the past nine months and sales at durable goods stores have risen slightly. For July and August total sales appear to have been about 2 per cent above the second quarter monthly average. Meanwhile, personal income in July rose only $1.5 billion, annual rate. Thus there is some indication that the saving rate, which jumped in the second quarter after the tax cut, is likely to show some decline in the third quarter, as was projected in the GNP model underlying the Budget message.

Sales of new domestic autos increased in the second ten days of August, continuing to reflect the strengthening influence of the end of the trucking strike. For the first twenty days, sales were at the month-ago level although they usually decline from July to August. The seasonally adjusted annual rate for the two months of July and August taken together apparently was about 7.7 million, the same as for the whole 1964 model year. Stocks continued to decline but at 925,000 units were 14 per cent above last year. Sales of used cars also increased in mid-August and for the first twenty days were 2 per cent above a year earlier.

Prospects for continued expansion in consumer spending appear good. In particular, according to the most recent Census quarterly survey of buying intentions, plans to buy new autos and household durable goods are up considerably from a year ago.

New car buying plans this year appear to have continued the upward trend that was evident last year. As shown in the table below, plans to buy a new auto increased about as much from January to July as they did last year and held a 7 to 10 per cent gain over last year's level. Just as last year's rise in future buying plans may have been a harbinger of this year's rise in auto sales, this year's rise in plans may suggest some further increase in auto sales--or, at the least, a sustained record volume of sales--over the coming 12 months. Twelve-month used car buying plans in July, however, were somewhat below a year earlier and the lowest for the month since 1960.

	Intentions to buy a new auto within 12 months (Per cent of all households)		Per cent increase 1963 to 1964
	1963	1964	
January survey	7.8	8.5	9
April survey	8.1	8.9	10
July survey	8.4	9.0	7
October survey	8.9*		

* October usually shows a large seasonal rise associated with the introduction of new models.

Demands for household durable goods have also been significantly above year-earlier levels: the proportion of households reporting intentions to buy any of 7 major household durable items in the next six months has averaged 17 per cent this year as compared with 16.3 per cent in the first three surveys last year and in the July survey alone the margin was wide, 17.1 per cent as against 16.0.

Plans to buy either a new or previously occupied house within 12 months, as reported in mid-July, were about unchanged from earlier this year. They were somewhat less numerous, however, than in July 1963.

Consumer credit. Demands for consumer credit were strong again in July, following a marked slowdown in June. The rise in instalment debt--nearly $500 million--was about the same as the average for the year to date. Noninstalment credit was up nearly $200 million in July.

The tempo quickened for virtually all types of loans and for most lender groups, with an especially sharp pickup in non-automotive consumer goods paper. Automotive credit showed only a modest increase. Among the major lender groups, the July gain was greatest at retail establishments. At sales finance companies, by contrast, the rise in instalment credit in July was a little less than in June.

Manufacturers' capital appropriations. Capital appropriations of the thousand largest U. S. manufacturing companies rose a fifth from the first to the second quarter, according to the National Industrial Conference Board survey, but preliminary estimates indicate only a small further increase in the third quarter. (This is the first survey in which the NICB asked respondents to include estimates of appropriations for the current quarter.) The second quarter rise followed two quarters of little change after a moderately large rise in the third quarter of last year.

The advance in new capital appropriations since last winter appears broadly consistent with the rise in outlays for plant and equipment indicated for the balance of this year by the Commerce-SEC May survey. (Results of the August survey, to be available shortly, will be included in the Supplement if possible.)

Business inventories. Despite continuing increases in sales in retail and wholesale markets, businessmen have not displayed much eagerness to add significantly to their stocks. Manufacturers' inventory investment in July continued at the slack pace of other recent months. Book value, seasonally adjusted, increased only $50 million, following a rise of only $70 million for the entire second quarter. Manufacturers' sales, which had declined moderately in June, showed a large gain in July to a new record level and stock-sales ratios for both durable and nondurable goods declined appreciably to new lows for this expansion period.

The small rise in inventories in July was at durable goods producers and reflected a gain in work-in-process stocks which more than offset declines in materials and finished goods. Nondurable goods inventories were unchanged in July at a level below the end of May by more than $300 million.

In the first seven months of this year, the book value of manufacturers' inventories increased only about $300 million, as compared with a rise of $1.1 billion in the corresponding period of 1963. As indicated in the table below, defense products industries accounted for a large part of the over-all difference between the two periods. This year defense inventories have been declining, whereas in 1963 they were rising. For the durable goods sector excluding defense, total accumulation has been the same this year as last although this year's accumulation has not included a build-up in steel stocks such as occurred in 1963. The decline in textile stocks this year has apparently largely reflected the repercussions of the "one-price" cotton law enacted in the spring. There is little reason to expect much further decline in textile stocks, but--with defense cutbacks in prospect--inventories in defense industries may well decline further.

MANUFACTURERS' INVENTORIES
(Book value, seas. adj., $ billion)

	Dec. 1963	July 1964	Change 1st 7 mos. 1964	Dec. 1962	July 1963	Change 1st 7 mos. 1963
Manufacturing, total	60.15	60.44	.29	57.75	58.88	1.13
Durable goods	36.03	36.55	.52	34.33	35.35	1.02
Defense products	5.58	5.38	-.20	5.34	5.65	.31
Civilian products	30.45	31.17	.72	28.99	29.70	.71
Mach. & equip.	8.54	8.80	.26	8.10	8.32	.22
Other durables	21.91	22.37	.46	20.89	21.38	.49
Nondurable goods	24.12	23.89	-.23	23.43	23.54	.11
Textiles	2.89	2.75	-.14	2.61	2.69	.08
Other nondurables	21.23	21.14	-.09	20.82	20.85	.03

With distributors' inventories rising more than they did in the first half of 1963, accumulation of business inventories at all levels was at about the same moderate rate prevailing in the first half of last year. The rise in distributors' inventories this year has been less rapid than the advance in sales and stock-sales ratios have declined somewhat.

<u>Orders for durable goods</u>. New orders received by manufacturers of durable goods, seasonally adjusted, increased 7 per cent to a new peak in July reflecting in large part an unexpected rise in defense orders. As is shown in the chart, new orders for civilian products increased 2 per cent, recovering to about the April high. Machinery and equipment orders in July were close to the record May-June level and 6.5 per cent above April; for all other civilian products combined the July level was up from June but moderately below April.

The July increase brought the rise in new orders since December to 19 per cent. Shipments also increased substantially over that period--7 per cent--but the new order level exceeded shipments in each month, and the value of unfilled orders increased 10 per cent. This increase in the order backlog in this seven-month period was about as large as the net gain from the cyclical low in early 1961 to the end of 1963.

The table below shows the gains in new orders, shipments, and unfilled orders for key durable goods sectors since December. The extraordinary rise in new orders shown for defense products is not representative of trends in that sector: the level was unusually low in December and exceptionally (and temporarily) high in July. However, throughout the period new defense orders generally exceeded shipments and the order backlog rose percentagewise as much as unfilled orders for civilian products. Within the civilian sector, the rise in order backlogs was largely concentrated in producers' equipment and primary metals.

PER CENT INCREASE FROM DECEMBER 1963 TO JULY 1964

	New orders	Shipments	Unfilled orders
Durable goods, total	19	7	10
Defense products	123	1	10
Civilian products	9	8	10
Mach. & equipment	6	10	12
Primary metals	19	14	29
Other civilian	8	5	4

While order backlogs for durable manufacturers have generally shown impressive gains this year, the increases for the entire cyclical upswing to date remain well below dollar gains in the 1954-56 expansion when prices, as well as physical volume, were rising and capacity limitations were operative. In real terms, the increase this time may be nearly as large as in the earlier period. The table below compares the increases in the value of unfilled orders for the two periods, measured from the cyclical lows in unfilled orders and, in 1954-56, to the cyclical high.

PER CENT INCREASE IN VALUE OF UNFILLED ORDERS

	March 1961 to July 1964 (40 months)	Aug. 1954 to Dec. 1956 (28 months)
Durable goods, total	21	43
Defense products	9	20
Civilian products	31	66
Mach. & equipment	33	60
Primary metals	50	196
Other civilian	23	33

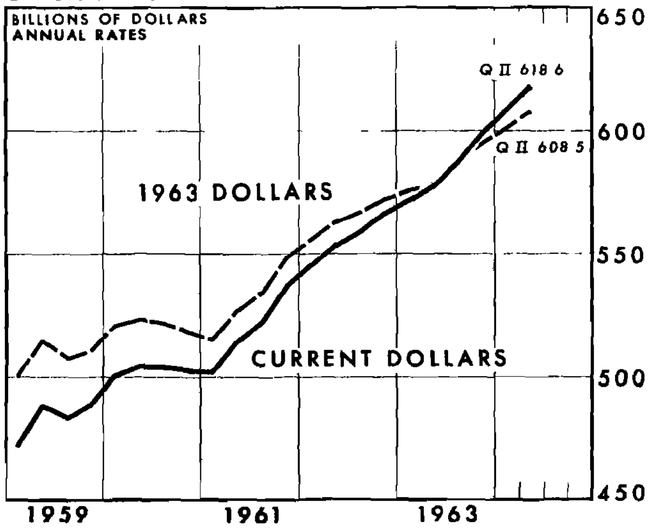
Farm land values. The long-term uptrend in land values is persisting. A rise of 6 per cent in the year ending March 1 this year, following a rise of 4 per cent in the preceding year, brought the national index of value per acre to 131 (1957-59=100). Preliminary figures indicate a further rise of 3 per cent from March 1 to July 1, the same as a year ago. Rising values were reported in all areas, with the Southern tier of states continuing to outpace the rest of the country: the increase there since 1957-59 is now more than 50 per cent. Among the factors contributing to the strong real estate market were the continued demand for land for farm enlargement and the current ready availability of mortgage money.

Agricultural income. Net income realized by farmers in the first half of 1964, at a seasonally adjusted annual rate of $12.3 billion, was down about 1per cent from a year earlier as rising production expenses narrowed margins. Gross income was somewhat higher than a year earlier. Cash receipts from crops, poultry products, and milk were up while receipts from cattle were down as price decreases more than offset marked increased in the volume of marketings.

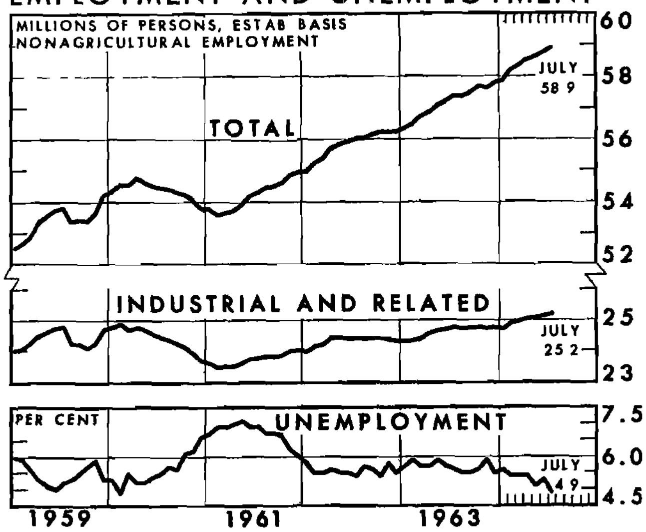
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

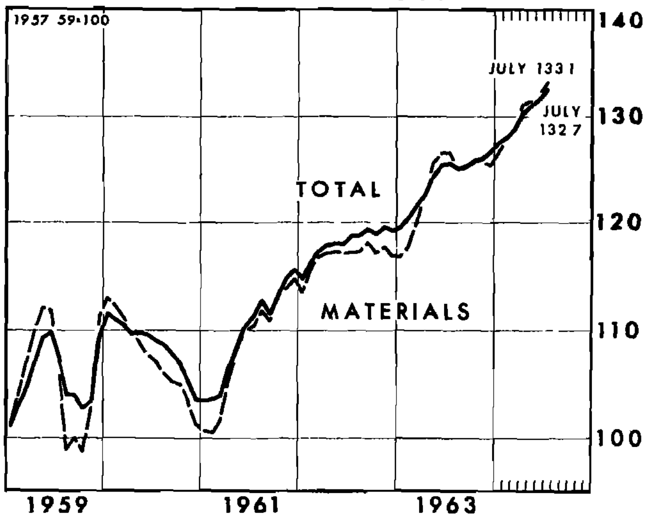
GROSS NATIONAL PRODUCT



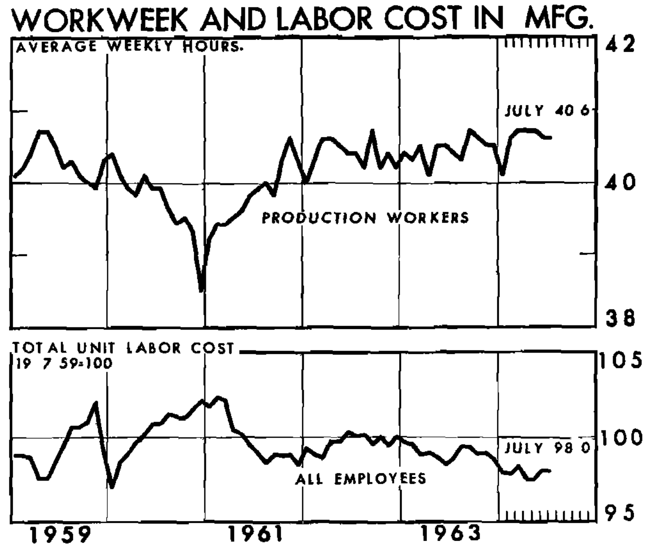
EMPLOYMENT AND UNEMPLOYMENT



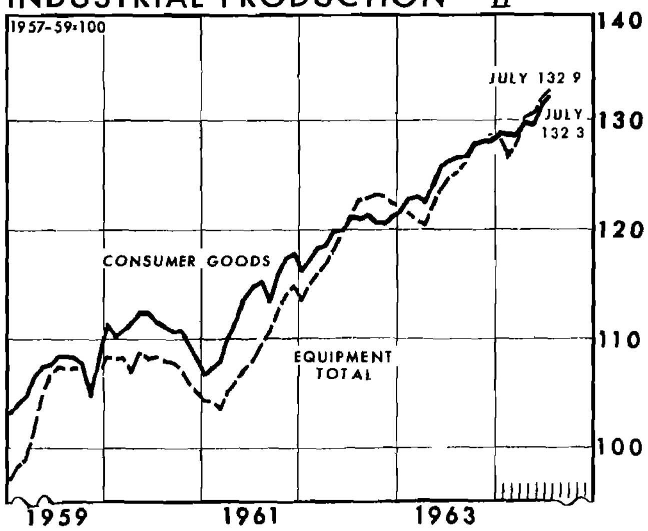
INDUSTRIAL PRODUCTION-I



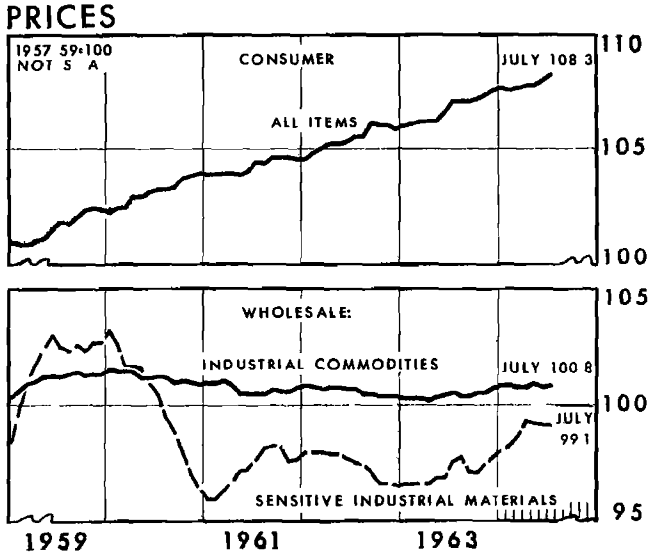
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION — II



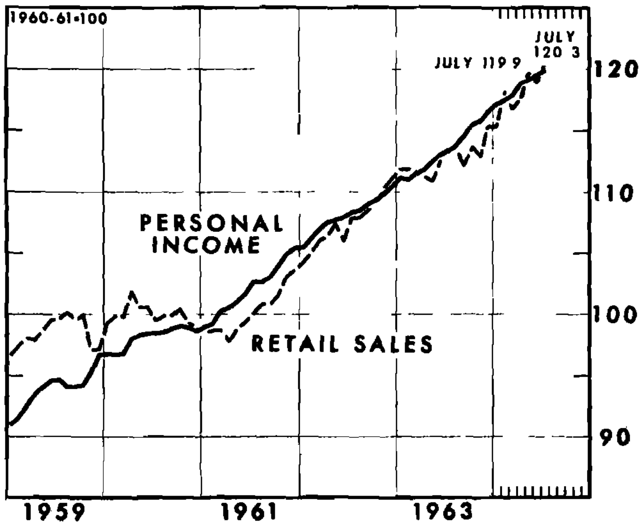
PRICES



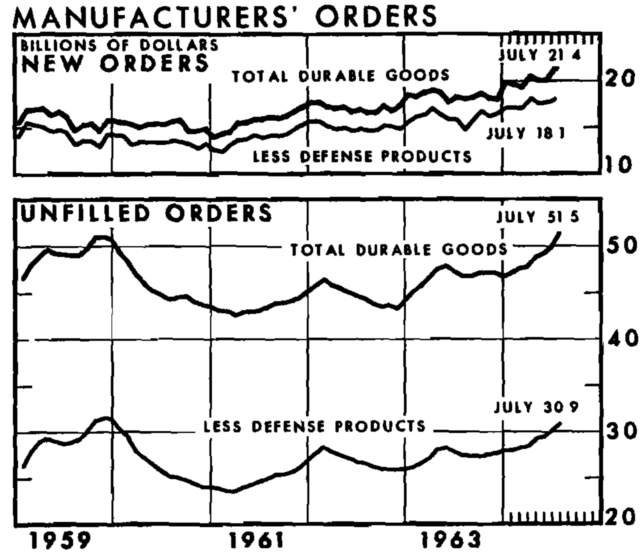
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

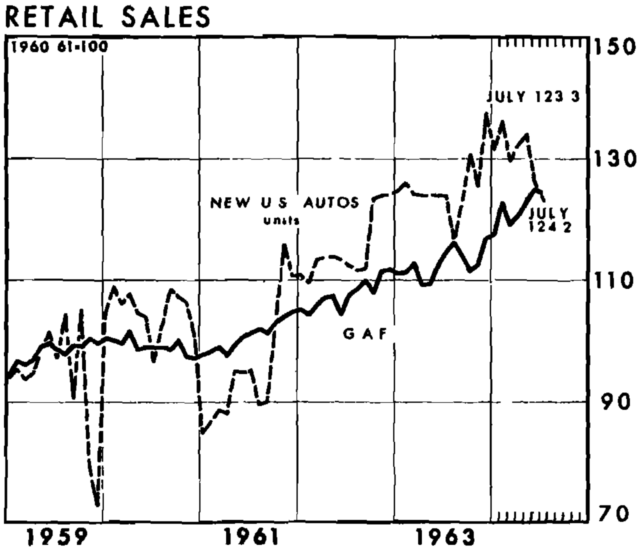
PERSONAL INCOME AND RETAIL SALES



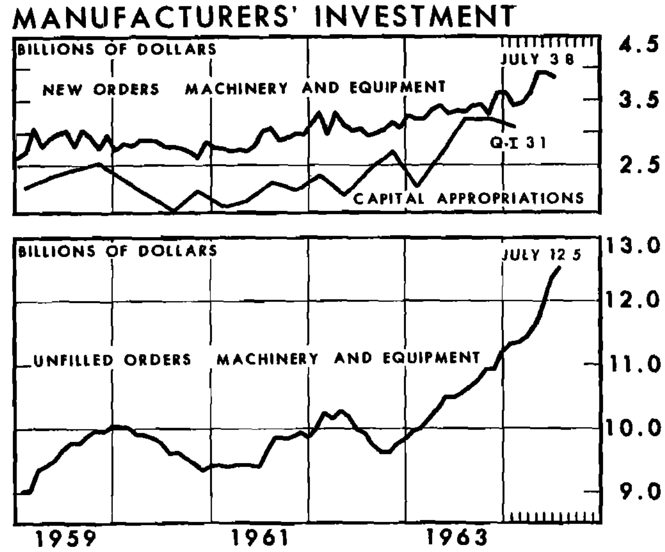
MANUFACTURERS' ORDERS



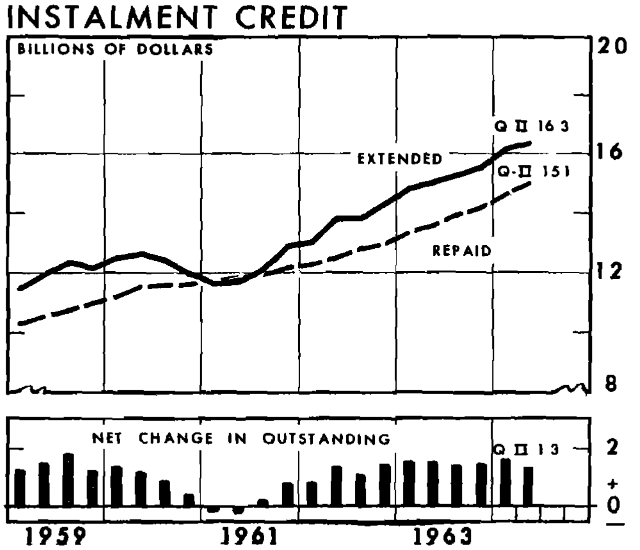
RETAIL SALES



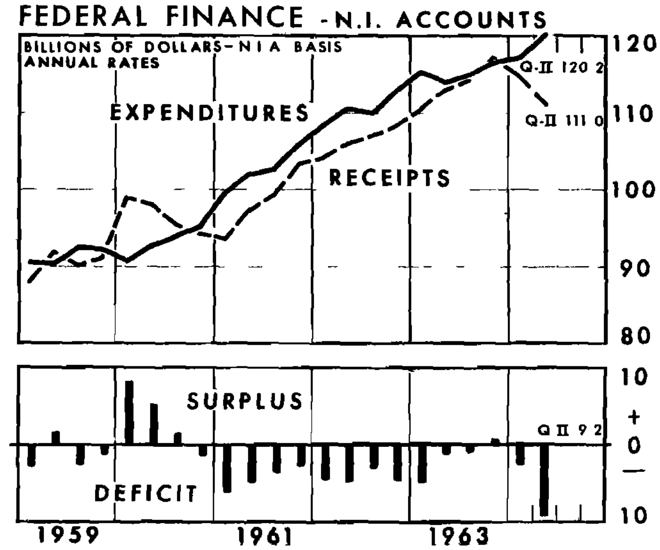
MANUFACTURERS' INVESTMENT



INSTALMENT CREDIT



FEDERAL FINANCE - N.I. ACCOUNTS



DOMESTIC FINANCIAL SITUATION

Bank credit. Loans and investments at city banks rose nearly $2 billion over the three weeks ending August 19 in contrast with much smaller increases or moderate declines in the corresponding weeks of other recent years. In addition, credit rose a little more than usual at banks outside leading cities in the first half of August. Thus, even after allowance for the large credit decline in the last week of the month, seasonally adjusted loans and investments at all commercial banks probably will show a large rise in August, possibly around $4 billion, following a moderate decline in July.

NET CHANGE IN CITY BANK CREDIT
FIRST THREE REPORTING WEEKS OF AUGUST
(In millions of dollars)

	1964	1963	1962	1961
Total loans & investments	1,860	-545	14	-490
Loans	1,098	248	192	205
U.S. Govt. securities	504	-1,142	-188	-775
Other securities	258	349	10	80
Loans to:				
Businesses	417	250	272	272
Real estate owners	156	173	131	50
Security brokers and dealers	49	-190	-72	-304
Nonbank financial institutions	451	-81	-120	296

The contra-seasonal rise in holdings of U. S. Government securities at city banks in August reflected in part the unusual pattern of Treasury financing operations this summer. In the absence of the usual large cash financing in July, banks were not in a position to make secondary distribution sales of Governments in August as they did in most other recent years. Rather, after reducing holdings of Governments at the time of the July advance refunding, banks were active participants in the two August financings. All commercial banks were allotted about $600 million of the $1 billion Treasury bills on August 4--somewhat more than in similar financings in past months--and about $1.2 billion of the $4 billion 3-7/8 per cent 18-month notes on August 17, about $400 million more than their holdings of the maturing issues.

A major factor in the large loan expansion over the period was the $420 million increase in business loans, more than half again as much as in the comparable weeks of any of the past three years. The seasonally adjusted rise for the month of August at all commercial banks is estimated at $500 million, about the same as the accelerated rate of the previous four months. For the year to date, the annual rate of growth has been about 8 per cent compared with about 9 per cent over the year 1963.

Loans to metals companies, the construction industry and trade concerns increased more than usual in the first three weeks of August and loans to public utilities, which usually decline in this period, also rose. In addition, "unclassified" business loans, representing principally loans made by the smaller weekly reporting banks not reporting the industrial breakdowns, have been larger than in corresponding weeks of other recent years. On the other hand, loans to textile and apparel manufacturers, petroleum and chemical companies, and to commodity dealers have been showing less strength than usual.

Another major factor in the large loan rise in the first three weeks of August was the unusually heavy borrowing by nonbank financial institutions, particularly finance companies. Security loans, which normally decline in this period, also rose, associated in part with the early and mid-month Treasury financings. In the subsequent week of August 26, however, both security loans and loans to finance companies declined substantially at city banks. Real estate and other loans continued to expand in August.

Money supply and time deposits. The seasonally adjusted money supply (preliminary estimate) increased \$600 million further in August, somewhat less than the \$1.1 billion increases in each of the two previous months. Through August, growth this year was at an annual rate of 4 per cent, about the same as in the last half of 1963. U. S. Government deposits declined \$700 million in August, somewhat more than usual.

Seasonally adjusted time and savings deposits at all commercial banks (preliminary estimate) increased \$1.2 billion further in August, somewhat more than in any other month since the late winter. Through August, growth was at an annual rate of 11.1 per cent, considerably below the 14.8 per cent expansion in 1963.

Over the three weeks ending August 19, savings deposits at city banks increased \$200 million, a third more than in the corresponding weeks last year. Through July, such deposits had increased only about three-fifths as much as in the first seven months of 1963. Other time deposits, however, increased only slightly further over the first three weeks of August. In the comparable period last year, these deposits, particularly CD's, had increased sharply after interest rates paid on time deposits had been raised in mid-July. At banks outside leading cities, growth in total time and savings deposits rose substantially in the first half of August, although somewhat less than in the comparable period of 1963.

Bank reserves. Free reserves of member banks averaged $95 million over the four weeks ending August 26, a little below the $110 million average of the previous six months.[1/] Excess reserves averaged $405 million and borrowings, $310 million, both a little higher than earlier prevailing levels. The effective rate on Federal funds remained at 3-1/2 per cent over the entire four-week period, though some transactions took place slightly below that rate on four days.

Total required reserves, not seasonally adjusted, increased $215 million between the weeks of July 29 and August 26; in the corresponding weeks of most other recent years required reserves had declined. Reserves required against private demand deposits declined less than usual and those against U. S. Government deposits rose more than usual from temporarily low end-of-July levels.

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 days in the calendar month.

Corporate and municipal bond markets. The tone of the market for corporate bonds appears to have weakened a little recently. The yield series on new issues has edged higher, and yields on several recently offered utility bonds released from syndicate have advanced in secondary trading.

The recent highlight of the municipal bond market was the excellent reception accorded last week's large negotiated offerings of $314 million Columbia Storage Power Exchange Bonds and $38 million Massachusetts Turnpike Bonds. Reflecting their relatively high yields both of these issues sold out quickly and moved to attractive premiums in secondary trading. Heavy over-subscriptions for the Columbia Storage issue in particular--reportedly coming in part from investors not generally active in the municipal market--necessitated a partial allotment of requested orders. But there has been no evidence as yet of a pickup in demand for other municipal bonds. In fact, dealers have reportedly had to make small price concessions throughout the month in order to distribute their advertised inventories, although yields on seasoned bonds have remained unchanged.

BOND YIELDS
(In per cent)

	Corporate Aaa		State & local governments	
	New	Seasoned	Moody's	Bond Buyer (mixed quality)
1964 - High	4.53(5/8)	4.42(8/14)	3.16(3/26)	3.32(4/21)
Low	4.30(2/21)	4.35(2/28)	3.07(7/16)	3.13(1/20)
June high	4.45	4.41	3.11	3.21
July low	4.37	4.40	3.07	3.16
August 7	n.a.	4.41	3.08	3.19
August 28	4.40	4.41	3.08	3.19

The more cautious tone recently evident in the corporate bond market is probably mainly a reflection of the larger calendar of new offerings scheduled for September. To a limited extent, however, it may also reflect the continuing overhang of Treasury coupon issues involved in recent Treasury refinancing activities as well as the more general reviewing of underlying conditions that has been evident in the Treasury bond market during the past two weeks. While the volume of corporate bonds currently slated for public offering in September is no larger than the average monthly supply brought to market earlier this year, it is substantially above the seasonally low July-August volume and includes a larger than usual number of utility bonds to be offered for competitive bidding.

BOND OFFERINGS 1/
(Millions of dollars)

	Corporate				State & local govt.	
	Public offerings		Private placements			
	1964	1963	1964	1963	1964	1963
Jan.-June avg.	389r/	416	477r/	521	935	975
July	235	279		431	925e/	928
Aug.	190e/	336		318	750e/	764
Sept.	375e/	283		501	900e/	480

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

Municipal dealers' began the month of August holding a near-record inventory of $725 million. With August new issue volume seasonally low (particularly if one excludes the Columbia Storage issue because of its general appeal to other types of investors), dealers succeeded in cutting their advertised inventories by about $100 million during the month. The September calendar of municipal offerings has expanded recently to an estimated $900 million, roughly twice the volume of September a year ago.

Stock market. Common stock prices, as measured by Standard and Poor's composite index of 500 stocks, have fluctuated within a narrow range recently on only moderate volume. At the September 1 close of 82.18, the index was about 2 per cent below the all-time high reached around mid-July.

Customer credit in the stock market eased $69 million further during July to $7.2 billion at the month-end. Customers' net debit balances with brokers (except on U. S. Government securities) dropped $81 million further to $5.3 billion, their lowest level since August 1963. "Purpose" loans by banks to others than brokers and dealers rose $12 million, however, and now total $1.9 billion, a new high.

Customers' net debit balances have declined significantly from the $5.6 billion outstanding last November when initial margin requirements were raised to 70 per cent, although stock prices increased about 14 per cent over the same period. In fact, the magnitude of the drop in customer credit is probably understated, due to technical influences on the data stemming from the Ira Haupt liquidation last fall and the AT&T "rights" offering in April. This downward trend, contrasts sharply with the behavior of customer credit following other recent increases in margin requirements. Earlier increases have sharply reduced the rate at which credit was expanding, but the volume outstanding did not decline until market developments dampened enthusiasm for holding stock on margin.

Margin regulations now differ from those in force earlier, primarily in the requirement imposed on undermargined accounts that 70 per cent of sales proceeds must be applied to reducing excess debt. Although it applies only to net sales and not same-day substitutions, this provision appears to have had considerable success in upgrading margin account debt as stock prices have risen further on balance.

Financial intermediaries. July data on net savings flows to mutual savings banks and savings and loan associations suggest that these institutions are continuing to benefit from the tax cut. At mutual savings banks the July gain was roughly double that for last year, and at savings and loan associations--which typically experience much larger gross withdrawals in July than in other months--there was little change in total savings capital this July compared with a small net loss a year ago. If rough allowance is made for seasonal influences, savings and loan associations realized net savings inflows during June and July that were nearly as large as the record gain experienced in the early months of 1963.

U. S. Government finance. A note of hesitancy entered the market for Treasury coupon issues toward the end of August. There was a small rise in yields of most issues, but no strong evidence of a basic shift in market psychology. The slight weakening of the market was apparently related to a reduction of public demand and to some increase in selling by investors, including commercial banks, which appeared to be taking the opportunity to prepare for expected fall loan demand or to realize capital gains. At the same time dealers became somewhat less patient with their still sizable inventory of notes and bonds.

The market was sustained in the latter part of August by sizable official purchases of coupon issues, mainly by the System. The Treasury trust accounts were also fairly persistent, though small, buyers.

Under the circumstances, dealers gradually reduced their positions, even though public demand tapered off. At month's end dealer holdings of bonds due in more than five years were around $500 million, down from just under $800 million at mid-month and around $1 billion earlier in the month. The decline reflected official account purchases of nearly $325 million of longer-term bonds during the month of August, concentrated in the second half. After they took into position about $430 million of 18-month notes in the August refinancing, dealer holdings of 1-5 year issues were little changed during the rest of the month despite official account purchases of around $225 million.

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

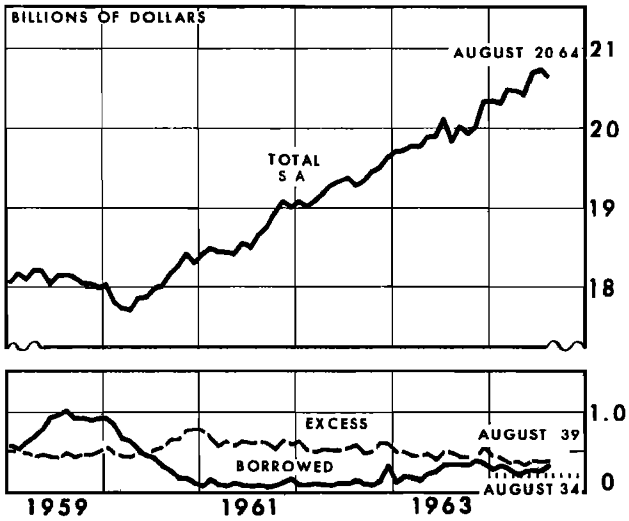
Date (closing bids)	3-month bills	6-month bills	3 years	5 years	10 years	20 years
1963						
June 28	2.99	3.06	3.61	3.82	4.00	4.03
Dec. 31	3.51	3.64	4.05	4.06	4.14	4.19
1964						
Mar. 31	3.51	3.68	4.16	4.16	4.23	4.24
June 30	3.47	3.52	3.95	4.01	4.15	4.15
Aug. 18	3.49	3.62	3.92	4.05	4.19	4.18
Sept. 1	3.50 1/	3.64	3.97	4.08	4.20	4.20

1/ Quote for old bill; new issue quoted at 3.52 per cent.

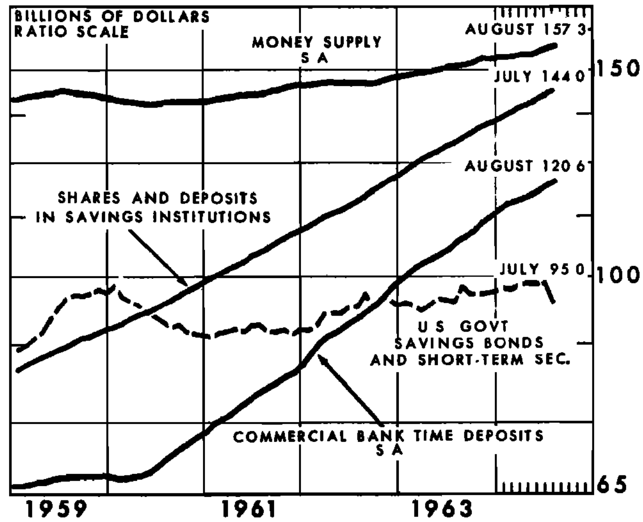
Treasury bill rates showed little net change during the second half of August. For a brief period toward the end of the month, there was a tendency for rates to decline even though the System was providing reserves through purchases of coupon issues. This tendency reflected sizable market demand, especially for December bills and for the March tax bill that was auctioned Wednesday, August 26. But when this demand faded, the bill market became more hesitant, and the 3-month bill rate closed the month at 3.50 per cent. On Monday, August 31, the Treasury announced that it would add $100 million to each of the next four weekly auctions of 3-month bills. Dealer bidding in the auction immediately following this announcement was cautious and their awards were the lightest of the year.

FINANCIAL DEVELOPMENTS - UNITED STATES

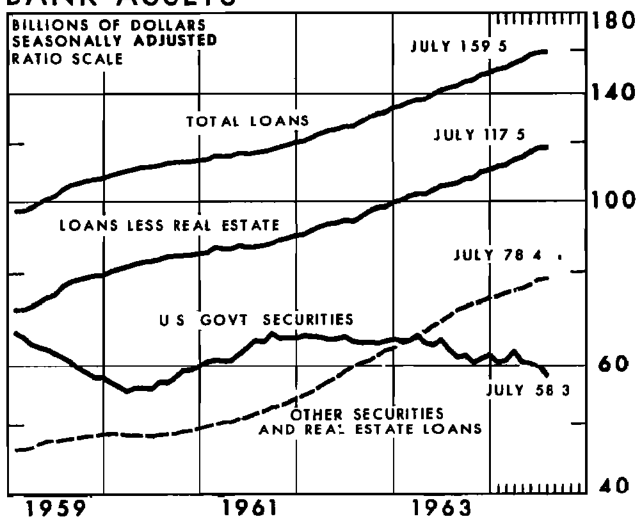
BANK RESERVES



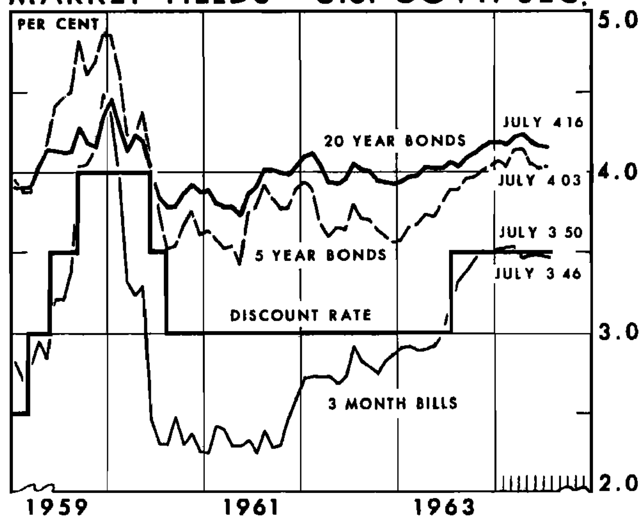
LIQUID ASSETS HELD BY PUBLIC



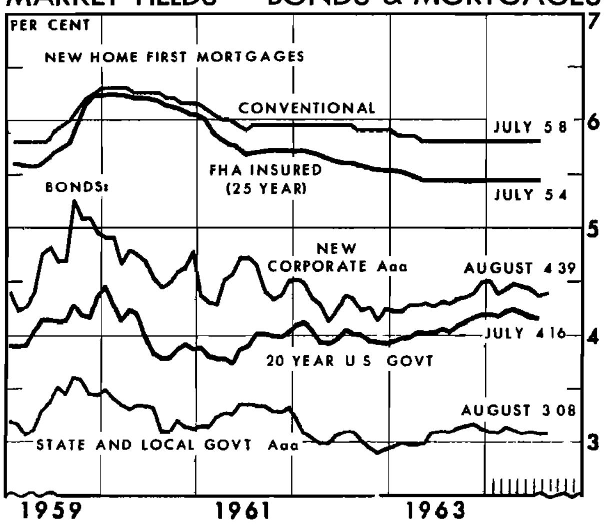
BANK ASSETS



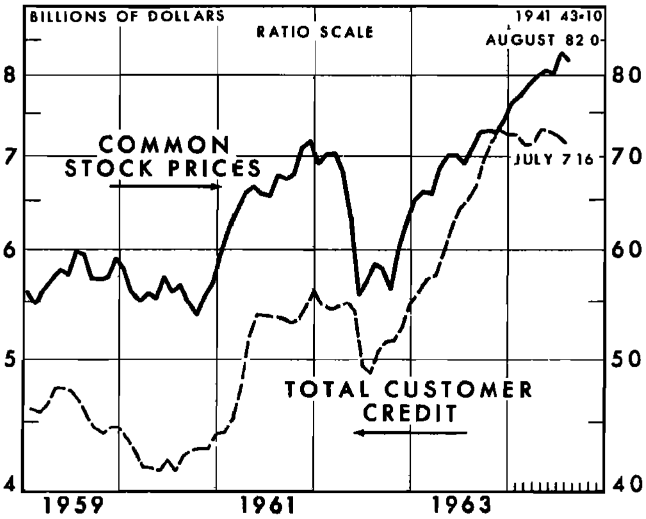
MARKET YIELDS – U.S. GOVT. SEC.



MARKET YIELDS — BONDS & MORTGAGES



STOCK MARKET PRICES AND CREDIT



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. Tentative data indicate a U.S. payments deficit of almost $400 million in the four-week period ending 26th August. The July deficit figure has now been revised upwards on the basis of more complete information to total $687 million. Even after approximate allowance for adverse seasonal influences, such a rate of deficit in these two months would be well above the second quarter annual rate of $3 billion.

In July, short-term claims reported by banks declined $175 million, offsetting more than half of the extraordinary rise recorded in June. The increase in these claims for the two months taken together was below the rate of earlier this year.

The July drop in short-term claims reflected substantial repatriation of both dollar and foreign currency deposits which had been placed abroad at mid-year when the Euro-dollar market and other foreign money markets tightened temporarily. There was also some reflow from foreign currency money market paper. On the other hand, there are preliminary indications that,in contrast to movements in bank-reported claims, nonfinancial concerns placed some funds abroad in July.

The July outflow on long-term bank loans totaled $55 million, somewhat above the low net outflows of the second quarter. The outflow on new security issues was only about $30 million compared to $230 million in the second quarter; however, the third quarter outflow is customarily low and seasonally adjusted purchases of new issues in the second half of the year are still expected to be about in line with those of the first half.

An important element in the deterioration in the payments position since early this year has been the resumption of the cyclical rise in imports. Total imports in the second quarter were $0.8 billion higher on a payments basis than in the first quarter. In July imports picked up sharply following a small dip recorded in June. The July import rise, like that from the first to the second quarter, was concentrated in materials and finished manufactures; imports of foods were unchanged.

Export figures for July are not yet available. In June exports to Continental Western Europe declined further and were 10 per cent below the first quarter average. Exports to Japan also decreased and there was a fairly marked drop in shipments to Canada which up to then had been rising very strongly. Exports to Latin America rose very sharply, however, continuing the rise of the previous eight months and there was also an increase in exports to Britain.

Business and financial developments abroad. Trade and payments positions have continued to strengthen in Italy and Japan. Britain's trade deficit has increased, however, and the sterling exchange rate fell further in August. Since midyear the French payments surplus has remained large while the German surplus has diminished somewhat.

Britain's payments position has shown signs of further deterioration and sterling has come under increasing pressure in the last three weeks. On September 2, spot sterling was quoted at 278.44 cents,down nearly 0.5 cents from early in the month. Reserves fell by $92 million in August.

The trade deficit remained large in July. Exports declined again and in June-July averaged nearly 5 per cent less than in the first quarter.

About half of this reduction results from lower shipments to Common Market countries. Imports, which had risen sharply in June, fell back again in July and for the two months averaged the same as in the preceding five months. The trade deficit in June-July was running at an annual rate of \$1.7 billion (on a balance of payments basis), \$0.5 billion larger than in the first quarter.

Indicators of domestic activity are mixed but point to some moderation of demands. Industrial output was unchanged in June for the sixth consecutive month. The volume of retail sales, excluding autos, was also unchanged from May to June. In August, employment vacancies declined further, after allowance for seasonal variation, and the unemployment rate rose to 1.6 per cent, partly because of a large influx of school leavers into the labor force. Evidence of the continued strength of domestic investment demand is afforded by a sharp increase in industrial development certificates issued in the second quarter and by reports of supply shortages in the construction sector.

German imports increased again in July while exports continued to show little change from earlier months. The seasonally adjusted trade surplus in July was less than half the average rate of surplus in the first six months of this year. Official reserves had increased by \$237 million in June because of an inflow of short-term capital funds, but some reversal of these flows is indicated by a drop in official reserves in July of \$110 million and virtually no change in the first three weeks of August. On the other hand, net foreign sales of German securities which were very large in the second quarter following announcement of a proposed tax on foreign earnings from fixed interest securities, have reportedly tapered off since midyear.

Following the rise in commercial bank reserve requirements on August 1st, rates on 3-months money market paper increased by about 1/8 per cent.

French official reserves continued to show moderate increases in the first three weeks of August. The trade deficit has diminished and in July corresponded to a slight trade surplus on a payments basis: imports in June-July were unchanged from the level of the three preceding months whereas exports averaged somewhat higher.

June industrial production remained essentially unchanged from earlier months. Construction activity has remained strong and demand for building materials has reportedly been an important factor sustaining over-all output in manufacturing and mining industries.

Hourly wage rates again increased in the second quarter by nearly 2 per cent and average hours worked have apparently remained high. So far, however, retail sales remain below peaks of last year and have only recently shown signs of some recovery. Seasonally adjusted Paris department sales rose 1 per cent in July, following modest increases in the two preceding months.

The National Credit Council has extended for another year the existing directives on commercial bank credit. This action will limit increases in bank credit to the private sector to 10 per cent during the year beginning 1st October.

The Italian external position has continued to improve. A further large payments surplus of about $120 million was recorded in July and large reserve accruals apparently continued in August. During August, Italy paid $58 million in gold as its subscription to an enlarged quota in the IMF and this month repaid $65 million of its drawing from the Fund of last March, thus eliminating its net debtor position in the Fund.

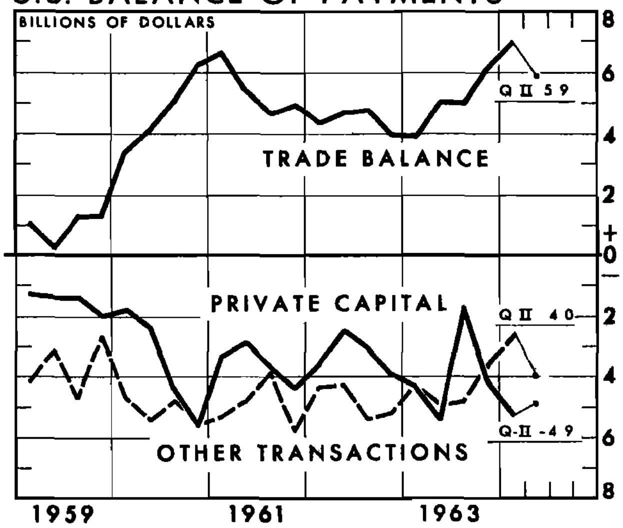
The Italian Government has enacted new tax measures, including increases in turnover and income tax rates. At the same time, social security contributions are being reduced to lower labor costs and to minimize the possibility of rising unemployment in the near future. There has not yet been any significant rise in unemployment but industrial production declined again in June and was 5.6 per cent below the first quarter average.

Japanese balance of payments data for July indicated virtual balance on current transactions for the first time since December 1962. The $22 million fall in official reserves during the month resulted from net repayments on short-term borrowings. In August, official reserves increased by $12 million. Late in the month, advance import deposit requirements covering approximately 20 per cent of total imports were reduced from 5 to 1 per cent.

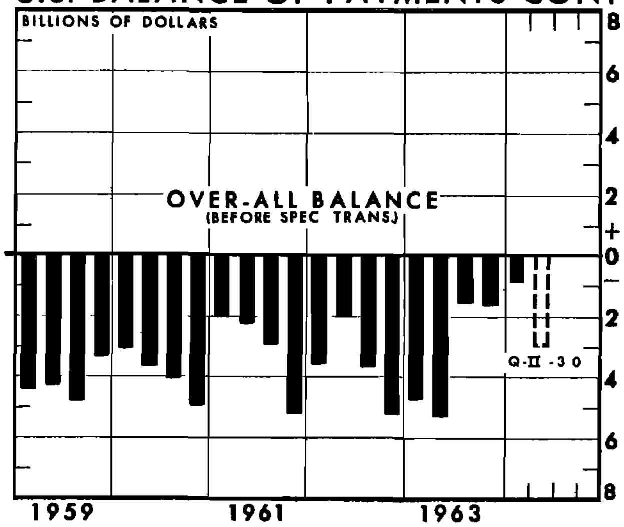
U.S. AND INTERNATIONAL - ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED, ANNUAL RATES

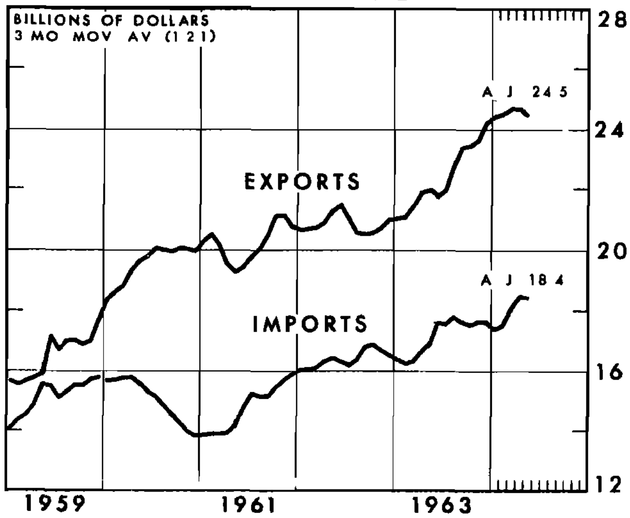
U.S. BALANCE OF PAYMENTS



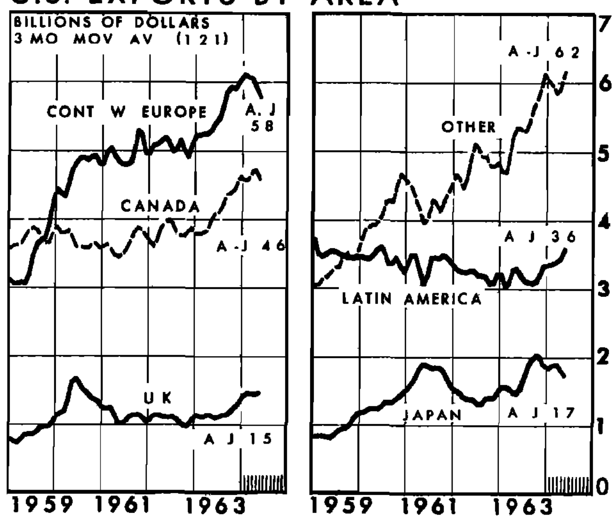
U.S. BALANCE OF PAYMENTS-CONT.



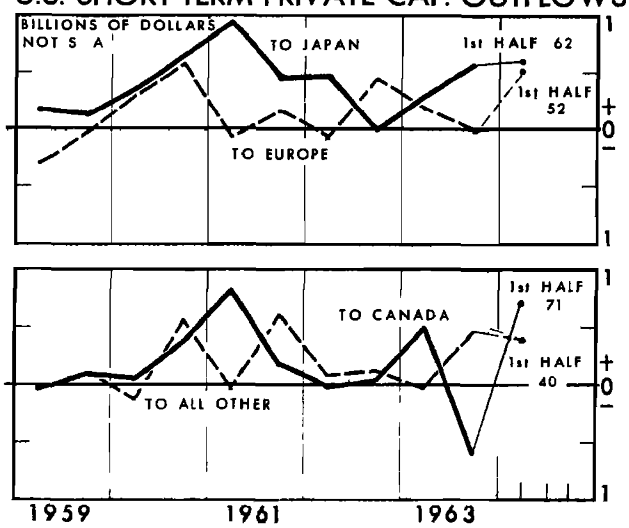
U.S. MERCHANDISE TRADE



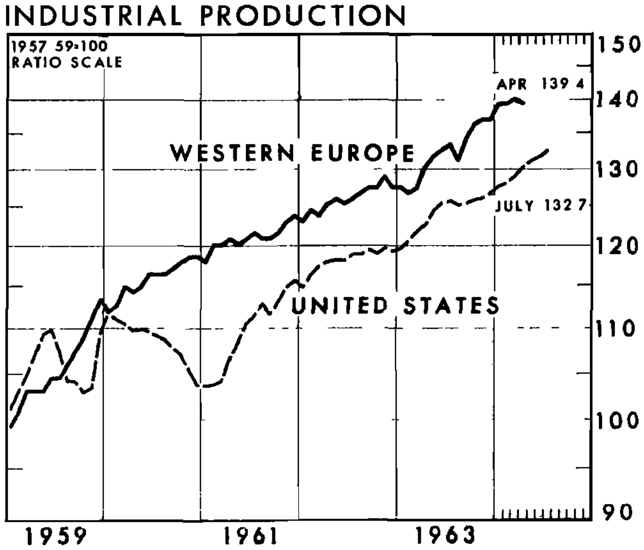
U.S. EXPORTS BY AREA



U.S. SHORT-TERM PRIVATE CAP. OUTFLOWS



INDUSTRIAL PRODUCTION



APPENDIX A: RECENT CHANGES IN BANK LIQUIDITY

The decline in bank liquidity which began in early 1962 has continued this year under bank pressure to maximize earning assets. From both a loan-deposit ratio and a liquid security holding point of view, not only are banks less liquid than at the beginning of the current economic expansion in 1961, they are also considerably less liquid than in late 1959 and early 1960 when lending conditions were the most restrictive of the postwar period.

These elements of the liquidity situation are shown in the attached charts. Loan-deposit ratios have moved steadily upward since the end of 1961, reaching about the previous postwar (1959-60) highs in New York City and considerably surpassing those highs at other classes of member banks. For all member banks, the current loan-deposit ratio is around 62 per cent--4 percentage points higher than the previous postwar high in mid-1960. (The present ratio for all member banks was exceeded by only 4 percentage points in 1929, when broker and dealer loans, which were used as liquidity instruments at the time, are excluded.)

This rise in the loan-deposit ratio has been associated with substantial growth in both deposits and loans, as contrasted with 1959, when loans rose sharply but deposits were relatively constant. It may be argued that the growth of time and savings deposits--with their much lower turnover than demand deposits--has reduced the need for bank liquidity relative to total deposits. But loan-deposit ratios are now considerably higher than in 1959-60, and it should be remembered that time and saving deposits totals currently include more than $12.5 billion of negotiable CD's that could contract rather quickly should open market yields rise without a change in Regulation Q. In any event, the decline in bank liquidity relative to total deposits tends to limit the latitude that banks would have in meeting additional loan demands.

The counterpart of a rise in loan-deposit ratios over the last 2-1/2 years has been the declining ratio of investments to deposits, particularly Treasury securities. The relative decline in Treasury holdings has been sharpest in maturities under one year, but the ratio of these holdings to deposits is still above the 1959-60 low. However, maturities in the one- to five-year range have also dropped markedly relative to deposits, partly reflecting debt management emphasis on advance refundings. As a result, the ratio of relatively liquid Treasury securities (all those maturing within five years) to deposits has been halved for the weekly reporting banks--dropping from 25 per cent in late 1961 to 12.5 per cent at the end of July--and is well below the 19 per cent low point reached at the end of 1959. The decline in this ratio for New York City banks (not shown separately) is even sharper--dropping from 27.0 to 11.0 per cent over this period. (Treasuries maturing in over five years at the weekly reporting banks now amount to 5.5 per cent of deposits as compared with 6.0 per cent in late 1959.)

The loss of liquid Treasuries has been partly induced and partly offset by expansions in bank holdings of tax exempt securities--some of which would be readily marketable--and Federal agency bonds--most of which are relatively short and have a ready market. As a rough adjustment to conventional bank liquidity measures, allowance was made for the growth in such holdings by calculating modified liquidity ratios that include one-fourth of the tax exempt holdings and all of the agency portfolios; the former allocation was used on the grounds that about one-half of the total tax exempt portfolio is indicated to mature within five years (according to surveys of the Cleveland Federal Reserve Bank and reviews of recent bank examination reports); but that only a portion of even these shorter maturities would be readily marketable. When allowance is so made for the growth in such holdings, the decline in the ratio of liquid investments to deposits is modified, but the picture is not materially changed. Modified liquidity ratios are still currently far below the end of 1961 and lower than at the time of maximum restraint in bank lending conditions in 1959-60.

In the event of a surge in business loan demand, some funds could be freed by curtailing other types of lending activity. However, in certain areas where restraint has often occurred in the past--lending to finance companies and Government security dealers--current loan ratios are not especially high since funds from nonbank sources have been readily available. Funds could also be diverted from real estate lending, which has increased in recent years both absolutely and relative to deposits. However, secondary markets for such loans are limited and the existence of newly enlarged mortgage loan departments creates real incentives to maintain a substantial volume of such lending activity. There could, however, be a reduction in the net increases in bank mortgage loan portfolios, especially if there is a slackening in aggregate mortgage demands. To be sure, some of these and other assets could be sold and the funds shifted to business loan demand, but the costs of such shifts--especially given the above liquidity positions--could have a marked effect on loan rates.

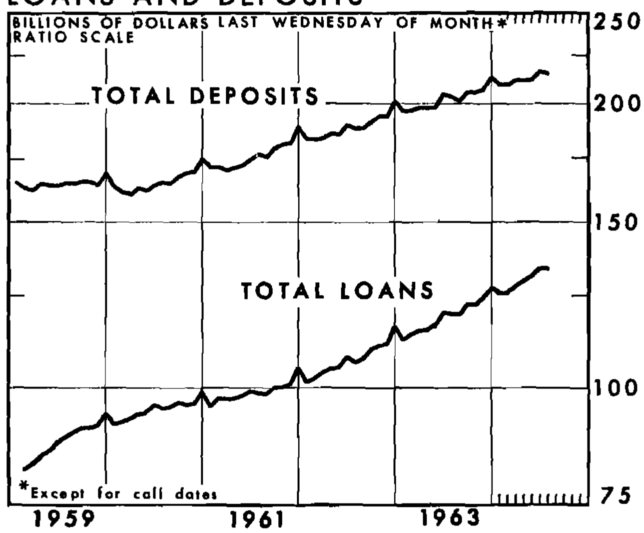
The restricted liquidity and shiftability position of commercial banks does not appear to have influenced lending attitudes and, for that matter, has not attracted a great deal of attention to date. The major reasons for this include the continued substantial growth in total deposits and nonborrowed reserves, the fact that business loan demand has to date not been characterized as unusually strong, and the relative stability in interest rates which has prevented depreciation in the market value of bond accounts.

Any substantial changes in any of these elements could bring abrupt changes in the positions and attitudes of banks. Current positions, therefore, appear to make the banking system unusually responsive and sensitive to monetary policy and changes in rates and rate structure. This does not mean that loan increases are impossible. In particular, member banks, while less liquid now than in 1959, are considerably less in debt to the System--$250 million as opposed to $1 billion in 1959. While each $100 million of additional borrowing could support several hundred million dollars of loans, increased borrowing--especially if unaccompanied by larger increases in nonborrowed reserves and considering the current liquidity level at the banks--would also tend to generate more restrictive bank loan policies and upward pressures on lending rates.

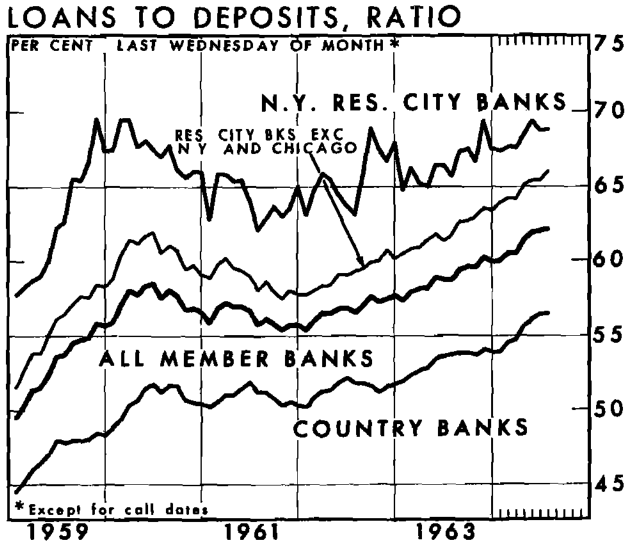
LOANS AND DEPOSITS

MEMBER BANKS

LOANS AND DEPOSITS



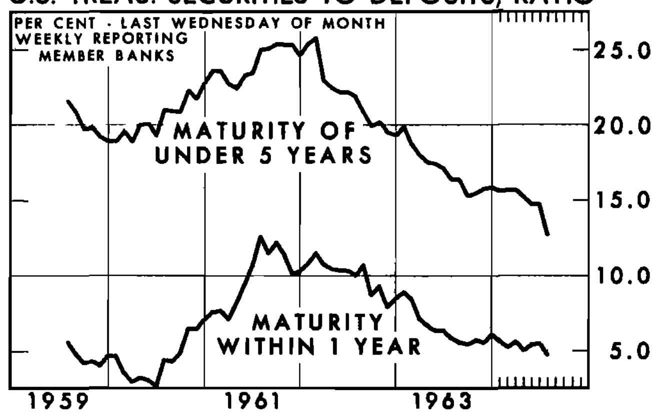
LOANS TO DEPOSITS, RATIO



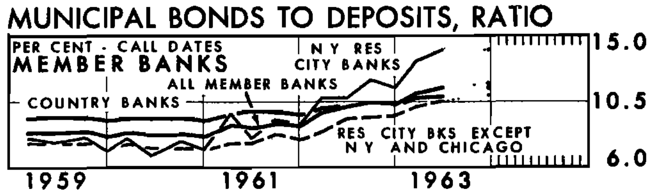
Note Total loans exclude only loans to commercial banks and are net of valuation reserves Total deposits are total demand plus total time less cash items in process of collection

SELECTED ASSETS TO DEPOSITS, RATIO

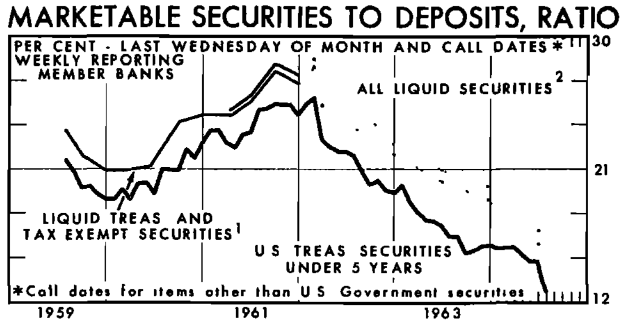
U.S. TREAS. SECURITIES TO DEPOSITS, RATIO



MUNICIPAL BONDS TO DEPOSITS, RATIO

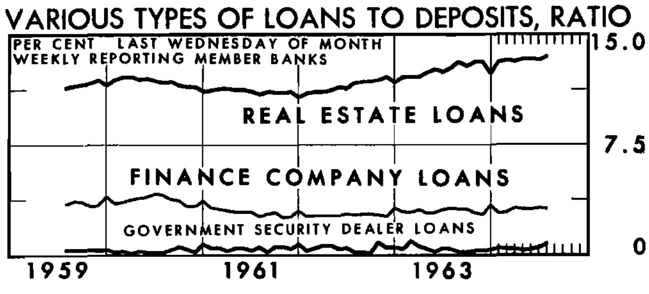


MARKETABLE SECURITIES TO DEPOSITS, RATIO



1 Includes 25 per cent of all tax exempt security holdings
2 Includes all Federal Agency security holdings

VARIOUS TYPES OF LOANS TO DEPOSITS, RATIO



Note Individual loan items are gross of valuation reserves Deposits are total demand plus total time less cash items in process of collection

APPENDIX B: PROPOSED HOUSING ACT OF 1964

The proposed Housing Act of 1964--the first major omnibus housing legislation in three years--has been sent to the President. Many provisions of this bill have implications for construction, including the extension, liberalization, or initiation of a variety of programs involving urban renewal, community facilities, public housing, farm housing, and the FHA. Among other things, the bill provides a $725 million additional authorization for urban renewal capital grants, bringing the total to $4,275 million, and capital grant authority for some 37,500 additional units of low-rent public housing. It also authorizes the Federal Housing Commissioner, when necessary, to correct structural defects for homeowners of new 1- to 4-family dwellings purchased with FHA-insured loans--a change from the traditional view that recourse by buyers could be only against builders.

Several provisions of the proposed Housing Act of 1964 would have a direct effect on home mortgage markets. One authorizes FNMA to guarantee and sell "participations" in first mortgages in which the United States holds an interest. Buyers of such participations would be assured of a guaranteed yield, with all servicing performed by FNMA. According to the 1965 Budget document, this measure could involve the sale of as much as $300 million in FHA and VA loans. The sale proceeds would be treated as an administrative budget receipt.

Another provision of the Housing Act increases the statutory limits on conventional real estate loans made by national banks to 80 per cent of appraised value (now 75 per cent) and to 25 years (now 20 years). In addition, savings and loan associations are granted further leeway to compete with commercial banks and other lenders. Associations insured by the Federal Savings and Loan Insurance Corporation are permitted to extend their present 50-mile basic lending area to 100 miles, and the Federal Government and its corporations are authorized for the first time to invest funds in share accounts of these associations. Moreover, federally-chartered associations are authorized among other things to make loans of up to $40,000 (now $35,000) on 1-family houses, to increase their holdings of loan participations, to invest in general obligations of State and local government, and to make loans for college education.

Larger loans per dwelling unit are authorized under several FHA home and project programs, along with broadened FHA insurance coverages (and smaller coinsurance risk) for private lenders. For example, the maximum insurable amount of an FHA-insured 1-family home loan under its regular program would be $30,000 (now $25,000).

In an effort to facilitate the conservation of older neighborhoods, the Housing bill also authorizes the appropriation of $50 million for a new, special revolving fund. Out of this fund the HHFA Administrator can make rehabilitation loans to business or residential owners or tenants in urban renewal areas, provided private financing is not available on reasonable terms. Such loans could not exceed 3 per cent in interest, 20 years in maturity, and $10,000 per dwelling unit or $50,000 per business property.