Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[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.

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

December 9, 1964

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

December 9, 1964

IN BROAD REVIEW

Changes in the economic and financial situation have continued orderly and not greatly different from those taking place before the international financial crisis and the steps taken to deal with it. In sensitive commodity markets, prices have changed little; in credit and capital markets, initial responses were relatively moderate and have been generally followed by a return toward earlier yield levels. Short-term market rates have held significantly above their levels before the increase in the discount rate, although Treasury bill rates have declined a little from the peaks reached at the time of the December 1 meeting. Stock market prices have receded but the volume of trading has been moderate and the net decline in prices from the record level of November 20 is less than 3 per cent.

Business confidence remains high, according to recently reported surveys of business plans for plant and equipment outlays, of actual capital appropriations by manufacturers, and of manufacturers' anticipated inventories and sales. The official plant and equipment survey indicates a further rise in fixed capital outlays through mid-1965, but at a lower rate than this year.

The Board's production index still appears likely to rise to a new high in November and probably will advance again in December, unless transportation strikes disrupt activity on a wide scale. The labor market, aside from the increased unrest now coming to the surface in many places, shows some strengthening of demand. The over-all unemployment rate declined in November but remained within the range prevailing since May.

Commodity prices recently have been slightly above the level of the past year. Since mid-October the industrial component apparently has risen a little further while farm and food prices have declined. Consumer prices have continued about 1-1/4 per cent above a year earlier.

GNP in the fourth quarter will probably show a much smaller increase than earlier this year when each quarter showed a gain of $10 billion. The shortfall largely reflects a slower rate of expansion in consumer spending because of sharply curtailed auto supplies. In the first quarter of next year, however, the increase in GNP may be unusually large--and considerably larger than can be sustained--as strike curtailments are made up and as protective ordering against future strikes continues.

In the financial area, bank credit expansion was large in November, reflecting in the main the heavy volume of Treasury financing. Long-term credit demands on the capital markets have been moderate while supplies of funds have remained quite adequate.

Growth in time deposits was unusually large in November, but the increase in the money supply was a little less than the average of the previous three months. Free reserves averaged only $10 million over the five weeks ending December 2, compared with $90 million in October.

The balance of payments deficit in the fourth quarter will tend to be reduced by inflows of U.S. private capital as a result of the sterling crisis, although no magnitude can be given to the amounts involved. Such funds are volatile and these inflows are likely to be reversed if the outlook for the British balance of payments and sterling improves. Sterling has remained weak in foreign exchange markets, however, necessitating official support of both the spot and the forward rates.

Short-term interest rates in Britain and Canada have moved up by about as much as the increases in discount rates, but movements in bond yields in these markets have been small. Aside from the Euro-dollar market, reactions in other financial markets abroad have been negligible. Movements in forward exchange rates have offset changes in relative interest rates, and covered interest rate differentials have shown little change.

Appendix A: International Interest Rates, Mid-1963 to November 1964.

Appendix B: Federal Excise Taxes.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally Adjusted)

	Latest Period	Amount			Per cent chang	
		Latest Period	Preced'g Period	Year Ago	Year Ago 1/	2 years Ago 1/
Civilian labor force (mil.)	Nov.	74.4	74.2	73.6	1.2	3.3
Unemployment (mil.)	1964	3.7	3.9	4.4	-14.3	-11.2
Unemployment (per cent)	"	5.0	5.2	5.9	-	-
Nonfarm employment, payroll (mil.)	Oct.	59.0	59.0	57.6	2.3	5.0
Manufacturing	1964	17.3	17.5	17.1	0.8	2.1
Other industrial	"	7.8	7.8	7.6	2.0	4.0
Nonindustrial	"	33.9	33.8	32.9	3.2	6.7
Industrial production (57-59=100)	"	131.7	134.0	126.1	4.4	10.6
Final products	"	130.7	132.6	127.2	2.8	7.9
Materials	"	132.7	135.7	125.5	5.7	13.0
Wholesale prices (57-59=100) 2/	"	100.8	100.7	100.5	0.3	0.2
Industrial commodities	"	101.1	100.7	100.6	0.5	0.7
Sensitive materials	"	100.4	99.5	97.0	3.5	4.0
Farm products and foods	"	98.2	99.3	99.1	-0.9	-2.1
Consumer prices (57-59=100) 2/	"	108.5	108.4	107.2	1.2	2.4
Commodities except food	"	104.6	104.3	104.2	0.4	1.2
Food	"	106.9	107.2	104.9	1.9	2.5
Services	"	115.7	115.5	113.7	1.8	4.0
Hourly earnings, mfg. ($)	"	2.54	2.58	2.48	2.4	5.8
Weekly earnings, mfg. ($)	"	103.07	104.25	100.63	2.4	6.9
Personal income ($ bil.) 3/	"	498.6	497.9	472.7	5.5	11.4
Retail sales, total ($ bil.)	"	21.4	22.3	20.7	3.1	7.5
Autos (million units) 3/	Nov.	6.878	5.963	7.320	-6.0	-5.0
GAF ($ bil.)	Oct.	5.1	4.9	4.5	12.2	15.9
Selected leading indicators						
Housing starts, pvt. (thous.) 3/	"	1,600	1,465	1,864	-14.2	4.1
Factory workweek (hours)	"	40.6	40.6	40.6	0.0	1.0
New orders, dur. goods ($ bil.)	"	19.5	19.9	18.6	4.6	12.7
New orders, nonel. mach. ($ bil.)		3.0	2.9	2.7	11.2	24.8
Common stock prices (1941-43=10)	Nov.	85.44	84.85	72.62	17.7	42.3
Inventories, book val. ($ bil.)	Sept.	107.2	106.7	103.1	3.9	7.9
Gross national product ($ bil.) 3/	Q3-64	628.4	618.6	587.2	7.0	12.4
Real GNP ($ bil., 1963 prices) 3/	"	614.9	608.5	586.6	4.8	8.4

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

SELECTED DOMESTIC FINANCIAL SERIES

	Week ended Dec. 4	Four-Week Average	Last six months High	Last six months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent)	3.85	3.57	4.00	1.00
U.S. Treas. bills, 3-mo., yield (per cent)	3.82	3.70	3.85	3.42
Net free reserves 2/ (mil. $)	10	19	192	-60
Member bank borrowings 2/ (mil. $)	375	388	590	159
Security Markets (N.S.A.)				
Market yields 1/ (per cent)				
5-year U.S. Treas. bonds	4.10	4.04	4.12	4.00
20-year U.S. Treas. bonds	4.20	4.16	4.24	4.15
Corporate new bond issues, Aaa	4.47	4.47	4.52	4.37
Corporate seasoned bonds, Aaa	4.45	4.44	4.45	4.40
Municipal seasoned bonds, Aaa	3.05	3.07	3.12	3.05
FHA home mortgages, 30-year 3/	5.45	5.45	5.46	5.45
Common stocks S&P composite index 4/				
Prices, closing (1941-43=10)	84.35	85.25	86.28	79.60
Dividend yield (per cent)	3.03	2.98	3.07	2.93

	Change in Nov.	Average change-- last 3 mos.	Annual rate of change (%) 3 mos.	Annual rate of change (%) 1 year
Banking (S.A., mil. $)				
Total reserves	77	91	5.1	5.2
Bank loans and investments:				
Total	4,100	2,100	9.6	8.5
Business loans	500	400	9.4	10.3
Other loans	1,600	800	9.1	11.9
U.S. Government securities	1,400	400	7.3	-0.2
Other securities	600	500	15.1	11.6
Money and liquid assets:				
Demand dep. & currency	500	600	4.8	3.6
Time and savings dep.	1,800	1,400	14.3	12.4
Nonbank liquid assets	3/900	1,600	8.0	6.4

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 December 2.
3/ Latest figure indicated is for month of October. 4/ Data are for weekly closing prices.

U.S. BALANCE OF PAYMENTS

	1964 Oct.	Sept.	Aug.	Q-III	Q-II	Q-I	1963 Year
	Seasonally adjusted annual rates, in billions of dollars						
Balance on regular trans.				- 2.3	- 2.7	- .9	- 3.3
Exports 1/	25.2	26.9	24.6	25.2	24.2	24.4	21.9
Imports 1/	-18.4	-18.5	-18.9	-19.0	-18.3	-17.4	-16.9
Trade balance 1/	6.8	8.4	5.7	6.2	5.9	7.0	5.0
	Unadjusted monthly averages, in millions of dollars						
Balance on regular trans.	- 829	- 65	- 284	- 337	- 191	23	- 272
Trade balance 1/	626	506	388	433	567	587	416
Securities transactions		- 73	22	- 35	- 64	- 12	- 70
Bank-reported claims 2/	- 219	- 136	- 122	- 48	- 198	- 209	- 123
Other		- 362	- 572	- 687	- 496	- 343	- 495
Financing, total	829	65	284	337	191	- 23	272
Special receipts 3/	0	0	0	0	- 14	68	55
Liabilities increase							
To nonofficial 4/	684	- 141	147	186	36	77	49
To official	10	37	200	128	68	- 151	136
Monetary reserves decrease	135	169	- 63	23	101	- 17	32
of which: Gold sales	(37)	(14)	(- 28)	(- 7)	(- 24)	(15)	(38)

1/ Balance of payments basis; differs a little from Census basis.
2/ Adjusted 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

Industrial production. Industrial production in November still appears to have increased about 2-1/2 points from the reduced October level of 131.7 per cent to somewhat above the September figure of 134.0. A firmer figure for November will be available for the Supplement.

The direct effects of the auto strike on the index can be seen in the table below. From August to October, output of autos, trucks, and motor vehicle parts dropped 65 points and the total production index declined 2 points to 132 per cent of the 1957-59 average. Output of final products and materials other than automotive increased further.

INDUSTRIAL PRODUCTION
1957-59 = 100, seasonally adjusted

	August	September	October
Total	134	134	132
Automotive	161	150	96
Exclusive of automotive			
Final products	131	131	133
Materials	132	134	134

Passenger car assemblies in November slightly exceeded earlier schedules and the seasonally adjusted index rose to 145 per cent of the 1957-59 average from an October low of 83 per cent--an increase amounting to more than one point in the total industrial production index. Additional gains in trucks and motor vehicle parts will bring the increase for the automotive industry to over 2 points in the total index.

With all firms back in full production at the start of December, domestic automobile producers have scheduled a record output of 866,000 units for the month. If these schedules are met, the auto assembly index will rise to 170 per cent of the 1957-59 average--a seasonally adjusted annual rate of 8.8 million cars. Such an advance by itself would contribute half a point to the over-all production index. Part of this flood of new cars is to boost inventories, which at the end of November were 10 per cent below a year earlier.

Output of iron and steel changed little from July to October, at a level of around 130 per cent of the 1957-59 average. During most of this period output was about 30 per cent above the level a year earlier when inventories were being liquidated. In November, steel ingot output increased and available weekly data on coal, crude oil, petroleum refinery runs, and miscellaneous freight car-loadings, indicate a continued high level of output in those industries. Paper and paperboard production declined due to a 12-day strike on the West Coast.

Consumer spending. On the basis of current information, it appears that the increase in consumer purchases of goods and services in the fourth quarter will be one of the smallest quarterly increases of this expansion period. Consumer after-tax income will show a sizable gain, however, and the personal saving rate is likely to rise significantly.

The smallness of the increase in consumer spending is mainly attributable to the limited availability of new autos. Even if auto sales in December are as large as indicated, fourth quarter sales will show a considerable reduction from the preceding quarter.

In November, total retail sales apparently declined moderately further from their already reduced October level. The November decline is attributable to sales of nondurable goods, with unusually warm weather an adverse influence on apparel sales. The October-November average for nondurable goods stores is estimated to be up less than one per cent from the third quarter average. The two-month average for furniture and appliance stores is little changed from the third quarter level, while the automotive group is, of course, down sharply. As compared with a year earlier, October-November sales were up 7 per cent for both nondurable goods and furniture and appliances.

If the strength shown in auto markets toward the end of November continues, December sales of domestic cars will total at least 650,000 units, or 4 per cent more than a year ago. The indicated annual rate for the fourth quarter is 7.0 million and for the year nearly 7.6 million.

Sharing the expansion, sales of imported automobiles have increased considerably this year and will come close to half a million. Thus total new car sales are likely to reach a historic high of 8.0 million units or more.

NEW CAR SALES, 1955, 1961-64
(Thousands of cars)

Year	New Car Sales		
	Domestic	Imported	Total
1955	7,400	52	7,452
1961	5,551	380	5,931
1962	6,717	341	7,058
1963	7,312	386	7,698
1964 (est.)	7,557	478	8,035

Consumer credit. Instalment debt rose $410 million in October, considerably less than in September ($513 million) and one of the smallest increases this year. The reduction in auto sales was largely responsible for the slowdown. However, the proportion of cars sold on credit increased somewhat, reversing the September-October pattern of recent years. The earlier introduction of new models this year contributed to this shift, since cash buyers tend to be more numerous early in the model year than later on.

Extensions of auto credit in October fell to their lowest level since last January. Repayments on auto contracts also turned down, but not as sharply. The net result was a seasonally adjusted increase of only $136 million in auto debt, well under the average of $217 million for the first nine months and the $234 million increase of October 1963.

Excluding the auto category, the rise in instalment debt in October was almost equal to the September advance and considerably larger than in other recent months.

Demands for personal loans continued strong although, with repayments accelerating sharply, the net increase in such debt was less than in September. Obligations incurred for the purchase of GAF-type goods, on the other hand, accumulated more rapidly in October than in any month since last March.

New construction. Seasonally adjusted new construction activity changed little from October to November when it was at a rate just below the high in July. Private residential activity, which had already declined 9 per cent from its peak in March, was about unchanged in November. Private nonresidential construction continued at a record high.

The value of total activity in the first eleven months of this year averaged 6 per cent above a year earlier, and followed full year gains of 5 per cent in 1963 and 7 per cent in 1962. The Commerce Department recently forecast a more moderate rise for 1965, 3 per cent, with a further decline assumed for apartment building.

NEW CONSTRUCTION PUT IN PLACE

	November (billions) 1/	Per cent change from year ago: November	Per cent change from year ago: First eleven months
Total	$65.6	+1	+6
Private	45.4	--	+5
Residential	25.5	-6	+3
Nonresidential	19.9	+7	+8
Business	14.3	+9	+9
Public	20.3	+3	+7

1/ Seasonally adjusted annual rate; preliminary.

<u>Plant and equipment expenditures</u>. Nonfarm business expenditures for new plant and equipment will show a moderate, continued rise to the middle of 1965, according to the Commerce-SEC survey conducted in November.

EXPENDITURES PLANNED FOR NEW PLANT AND EQUIPMENT

	1964				1965	
	Q1	Q2	Q3	Q4	Q1	Q2
	Seasonally adjusted Annual Rates (Billions of dollars)					
All industries	42.5	43.5	45.6	46.7	47.9	48.7
Manufacturing	17.4	17.8	18.8	19.8	20.4	20.7
All other	25.1	25.7	26.8	26.9	27.5	28.0
	Per cent Increase from Preceding Quarter					
All industries	3.3	2.2	4.9	2.3	2.6	1.7
Manufacturing	5.8	2.3	5.9	4.8	3.3	1.5
All other	1.2	2.4	4.3	.2	2.4	1.8

The survey also found that actual outlays in the third quarter were substantially larger than those anticipated last August, thereby continuing the pattern of upward revision that has prevailed since the beginning of the year. Expenditures for this year are now estimated at $44.7 billion, $5.5 billion or 13.9 per cent higher than in 1963. This compares with a 10 per cent gain for the year indicated by the February survey.

Implications of the latest survey for spending for the full year 1965 are uncertain. Fixed capital spending now planned for the first two quarters of next year averages 8 per cent above the average for the full year 1964. If outlays in the second half of next year were to increase by the $1 billion a quarter now indicated for the first half, expenditures for the year as a whole would be 10 per cent above 1964. This bit of arithmetic may be compared with the McGraw-Hill survey taken in October which indicated a rise of 5 per cent for the year, or 8 per cent after allowance for probable understatement as indicated by previous surveys.

Manufacturers' outlays for plant and equipment this year are now expected to total $18.5 billion, up 18.0 per cent from last year, and by nonmanufacturing industries, $26.2 billion, up 11 per cent. Most manufacturing industries now plan to increase spending further in the first half of next year with motor vehicles, nonelectrical machinery, stone-clay-glass, and other durable goods industries anticipating substantial advances. Among nonmanufacturing industries, public utilities and commercial firms, mainly trade, account for most of the increase.

Manufacturers reported that expenditures yet to be made on projects already under way rose further from the end of June to the end of September, when they were nearly one-third larger than a year earlier.

Continued strength in manufacturers' outlays for fixed capital is also indicated by the just released results of the Newsweek-NICB survey of capital appropriations of manufacturers. Appropriations in the third quarter rose to $5.4 billion, seasonally adjusted, $500 million more than in the second quarter. Appropriations were substantially larger than expenditures and the backlog of unspent appropriations rose further.

<u>Business inventories</u>. The book value of business inventories declined moderately in October, as a drop of $770 million at distributors more than offset a rise of $565 million at manufacturers. Virtually the entire decline at distributors was in dealers' stocks of autos. Apart from auto dealers, distributors' stocks were about unchanged for the month.

Despite the decline in October, an increase in inventory investment probably occurred in the fourth quarter. Auto stocks recently have been rising more than seasonally. As noted, inventory accumulation was stepped up sharply at manufacturers in October and manufacturers anticipate a continued high rate of accumulation for the quarter as a whole.

According to the latest Commerce quarterly survey conducted in November, manufacturers anticipate an inventory build-up totaling $1.2 billion in the fourth quarter. A book value increase of this size would be double the third quarter rise, which in turn was sharply above the low rates in the first half of the year. In looking ahead to the first quarter next year, manufacturers anticipate a drop back to an increase of $600 million. Accompanying these inventory anticipations, manufacturers expect no change in sales from the third to the fourth quarter of this year but a rise of nearly 3 per cent in the first quarter of 1965.

Of the $1.2 billion inventory increase expected in the current quarter, $700 million would be in durable goods industries and $500 million in the nondurable sector. The latter increase represents a pronounced step-up, but at the end of the third quarter, the level of nondurable goods inventories was about the same as at the end of 1963. In the first quarter of next year, nondurable goods producers expect to revert to a very small inventory gain and durable goods producers anticipate an increase of about $500 million, about the same as occurred in the third quarter of this year.

Labor market. Employment strengthened in November largely because favorable weather conditions permitted more workers than usual to engage in construction and other outdoor work. Total employment (household survey) increased by nearly 400,000 with most of the gain among adult men. The increase from November 1963 amounted to 1.5 million, about the same as in other months this year.

Unemployment declined slightly to 5.0 per cent in November from 5.2 per cent in October, a rate within the 4.9-5.3 per cent range which has prevailed since May. The November decline in unemployment was mainly among adult men and those with short-term joblessness. The unemployment rate for adult men declined to 3.5 per cent and for married men to 2.5 per cent. For these groups the rates are now close to those in 1956 and 1957 when over-all unemployment was 4 per cent. There was no improvement among youths or in the total number of long-term job seekers.

Unemployment among teenagers continued at 15 per cent, about one-half greater than seven years ago. The imbalance between supply and demand for important groups may widen further as sharply increased numbers of high school graduates enter the labor market in 1965.

The civilian labor force rose by 200,000 in November and, at 74.4 million, was only 900,000 above a year ago. This contrasts with an average increase of 1.3 million so far this year. Most of the increase in the labor force so far this year has occurred among teenagers and adult women. For these groups, employment gains have about offset their labor force growth. Among adult men, there has been little labor force growth and continued strength in demand has resulted in a decline in unemployment.

Industrial relations. Major transportation strikes are threatened within the next two weeks. Mediation between the railroads and three shopcraft unions has reached a stalemate. The unions have set December 15 as the strike deadline but the companies are expected to seek an injunction to halt the strike. Although all other nonoperating unions have agreed to a three-year contract providing for a 9 cents an hour wage increase and additional fringes as recommended by an emergency board, the three skilled unions are asking for a larger wage increase so as to maintain wage differentials for skilled workers in the railroad shops.

A strike of the East and Gulf Coast longshoremen was averted September 30 by the President's invoking of the Taft-Hartley Act, thereby exhausting established emergency procedures. The strike can be resumed December 21 and would affect all East Coast and Gulf shipping. The dispute centers on automation, size of work crews and job security guarantees. Wages are not an issue. Some progress has been made in settling the dispute but differences still exist.

The steel union's wage policy committee met during the past week and called for a formal reopening of the contract on January 1, which in effect establishes a strike deadline on May 1. New contract demands promulgated by the Committee were extremely broad including substantial wage increases, earlier retirement, reinstatement of the cost of living escalator clause and other fringe improvements. In addition, demands were made for changes in local contracts relating to size of crews, contracting out, seniority, overtime, etc.

Prices. Daily indexes of commodity prices have changed little over the past two weeks, in the wake of the British and U.S. monetary actions. The BLS daily index of 13 raw industrials has declined slightly further to a point 1 per cent below the high reached at the end of October; the decline reflects a sharp drop in tin prices after announcement by GSA of a large increase in the amount of the metal it will make available from the stockpile. In the London metal market tin prices also have declined appreciably; spot and futures prices for other nonferrous metals have continued to show fairly large day-to-day fluctuations but early this week they were little changed from levels just prior to the increase in the bank rate.

Weekly estimates of the wholesale price index through November indicate continued stability in the total. However, stability since mid-October has reflected further declines in farm products and foods and a slight further rise in industrial commodities. At an estimated 101.3 per cent of the 1957-59 average, the industrial index at the end of November was up about 1/2 per cent from the level which prevailed in the first 9 months of the year. The rise since September has reflected mainly some recovery in fuel oils and further increases in nonferrous metals and scrap. In late November, major producers of aluminum raised prices of ingot one-half cent to 24-1/2 cents per pound and prices of most semi-fabricated products 2 to 3 per cent.

The consumer price index increased by .1 per cent in October to 108.5 per cent of its 1957-59 average and remained 1.2 per cent above a year earlier. Prices of new cars, apparel, and fuels showed increases that were related to seasonal developments, and nonfood commodities averaged only .4 per cent higher than in October 1963. Services continued to rise at an annual rate of about 2 per cent. Food prices declined slightly in October due primarily to decreases in meats, eggs, and fruits and vegetables. Since October 1963, however, food prices have risen about 2 per cent, mainly because of a 5 per cent rise in fruits and vegetables as a result of unfavorable weather in some areas.

Agricultural outlook for 1965. Department of Agriculture analysts at the Outlook Conference on November 16-19 predicted little change for the agricultural sector in 1965. For the economy as a whole they forecast that the current expansion, aided by the tax cut, would continue in 1965 but at a somewhat lesser rate than in 1964. They noted that the business expansion thus far has been associated with little over-all change in wholesale prices.

Rising incomes have stimulated spending for food, now running 5 per cent above a year earlier. Further gains are forecast for 1965 with the physical volume matching the increase in population and with retail prices increasing only slightly. On a per capita basis, the volume of food consumed is up 1 per cent in 1964 with most of the increase in beef and fresh fruits. Further small gains in consumption of these products in 1965 will probably offset declines in pork, lamb, and dairy products.

Mill consumption of cotton is expected to rise sharply in 1965, largely in response to the rebate provided by recent legislation.

Farm exports for the year beginning last July probably will not equal the record $6.1 billion of 1963-64, largely because of more nearly normal wheat shipments. Cotton and tobacco experts may be down moderately because of stronger competition from foreign suppliers. Larger shipments of feed grains, soybeans, vegetable oils, dry nonfat mild, and hides are expected to partly offset these declines.

Little change is expected in realized net incomes of farm operators in 1965 from the $12.5 billion level prevailing since 1960, but realized returns per farm will probably be higher, assuming continuation of the trend towards fewer and larger farms. Gross realized income may be much the same as in 1964 with slightly lower cash receipts offset by higher direct payments. The smaller than usual increase in production expenses in 1964 may extend into 1965 reflecting continued stability in prices paid for items used in production and declining amounts of labor used.

Production of both livestock and crops is likely to increase somewhat in 1965. Livestock output will probably rise less than the 3 per cent increase of 1964, when beef production rose 10 per cent. With normal weather, crop production which was reduced by drought in 1964 should regain this loss. Little change in average farm prices of livestock and products is foreseen for 1965. Meat animal prices may be strengthened by the lower hog production indicated by the pig crop estimates and by further government purchases of beef which proved effective in 1964. Not much change is in prospect for crop prices either. Substantially lower 1964 loan rates on cotton and wheat will continue in 1965. However, feed grain loan rates are up a little. Prices of potatoes and some other vegetables will be lower, if average growing conditions prevail.

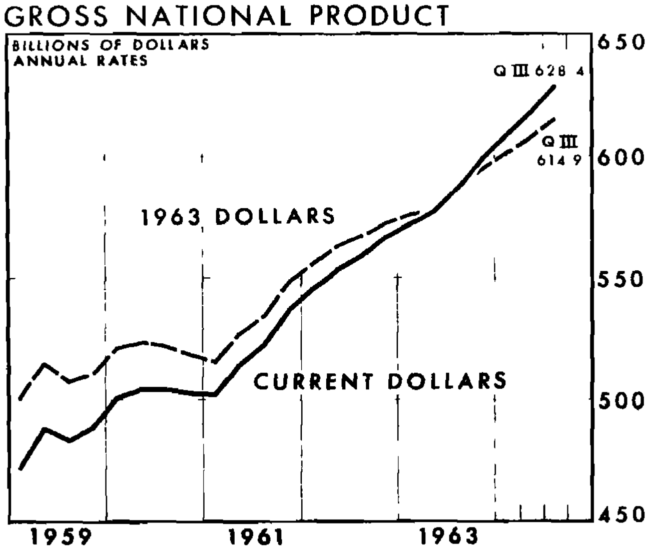
Farm real estate values are expected to continue upward during 1965. Demand for land continued to outpace offerings during 1964. Half of the sales were for farm enlargement.

Debts of farmers will probably continue to rise in 1965 too, but not as much as the value of farmers' assets, and some further increase in farmers' equities is expected. Aggregate debt of farmers at the end of 1964 is estimated at $36 billion, up 10 per cent from a year earlier. Some refinancing of short-term debt into longer-term loans secured by real estate has been reported in cattle feeding and producing areas and in some other areas. Repayment rates remain high and the supply of loanable funds large. Competition among lenders for sound loans was keen throughout 1964.

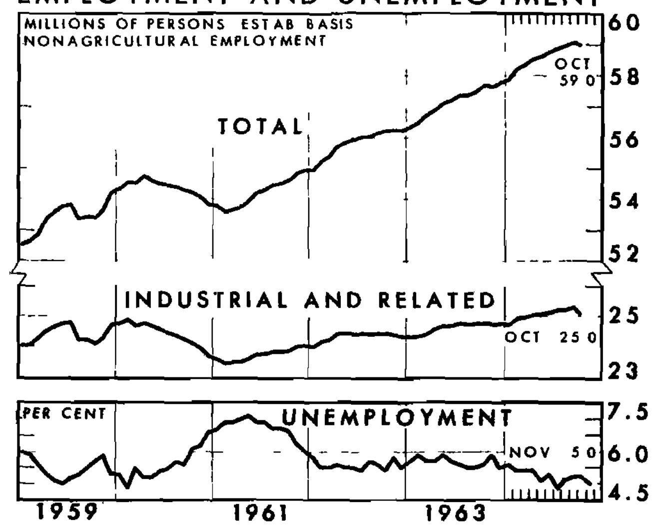
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

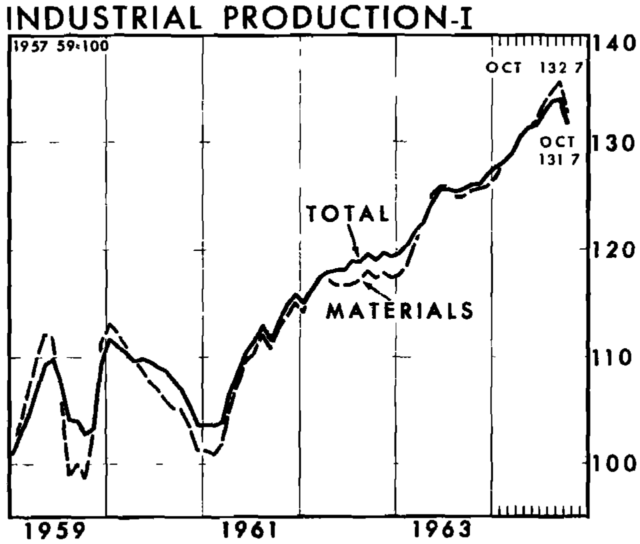
GROSS NATIONAL PRODUCT



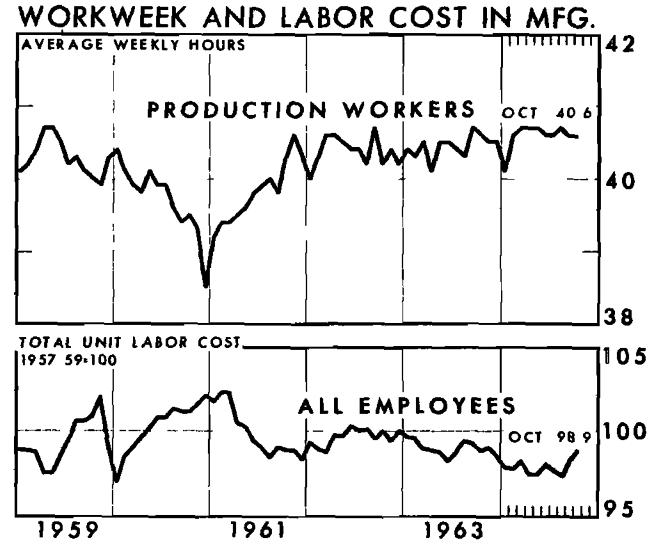
EMPLOYMENT AND UNEMPLOYMENT



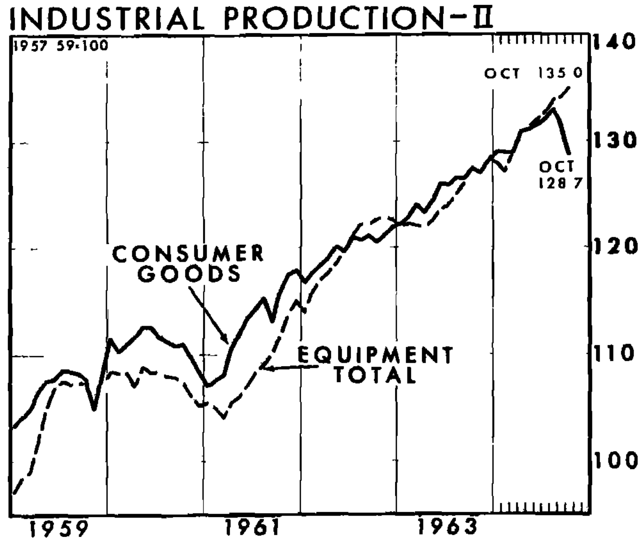
INDUSTRIAL PRODUCTION-I



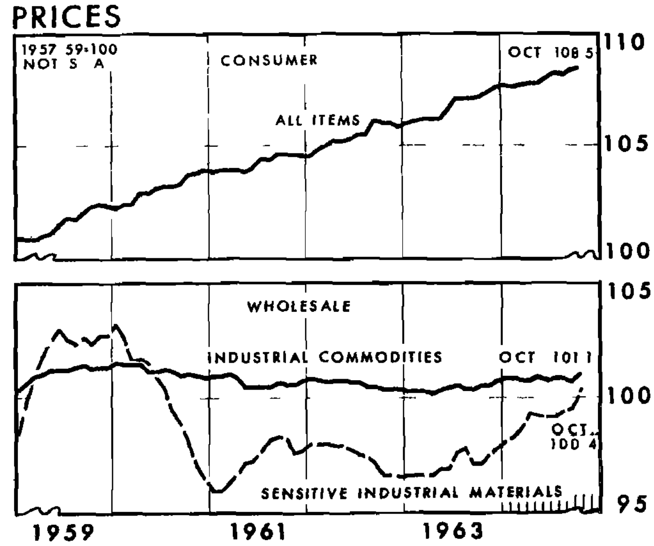
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



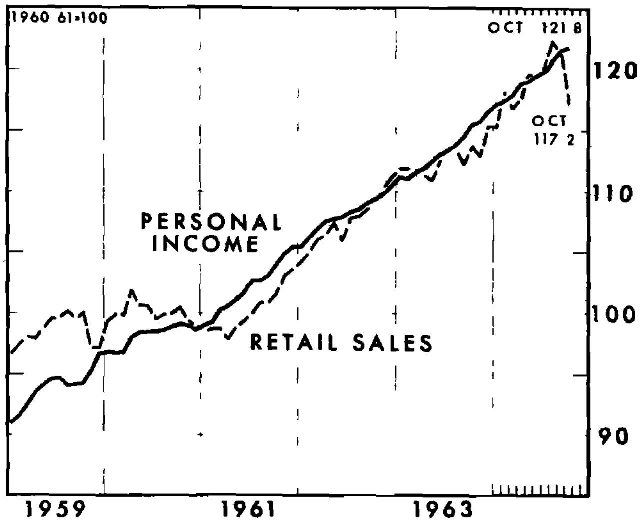
PRICES



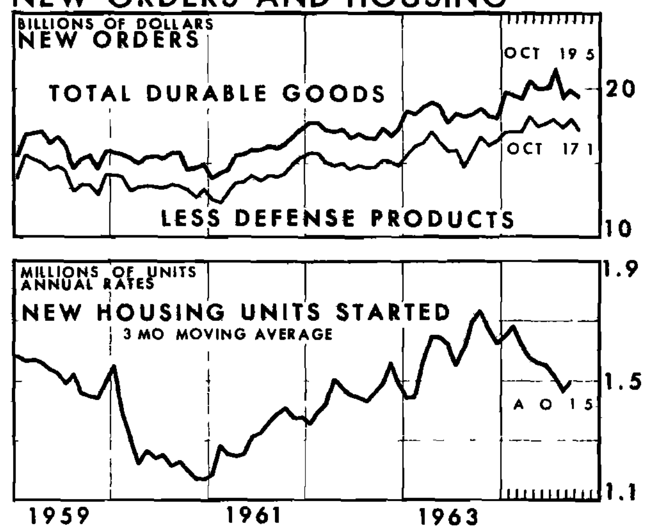
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

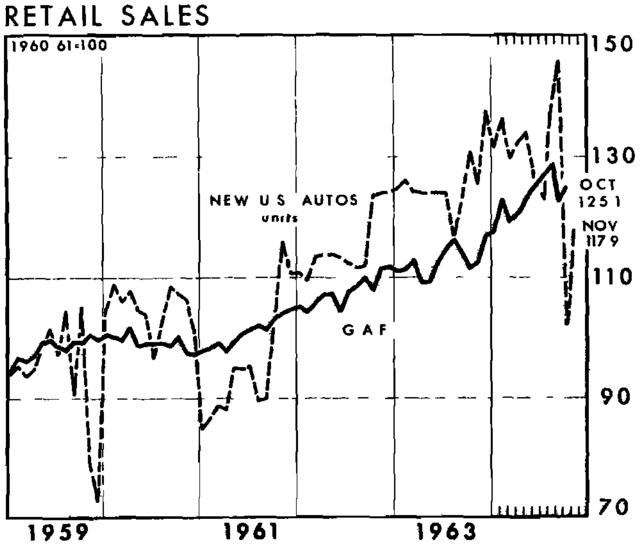
PERSONAL INCOME AND RETAIL SALES



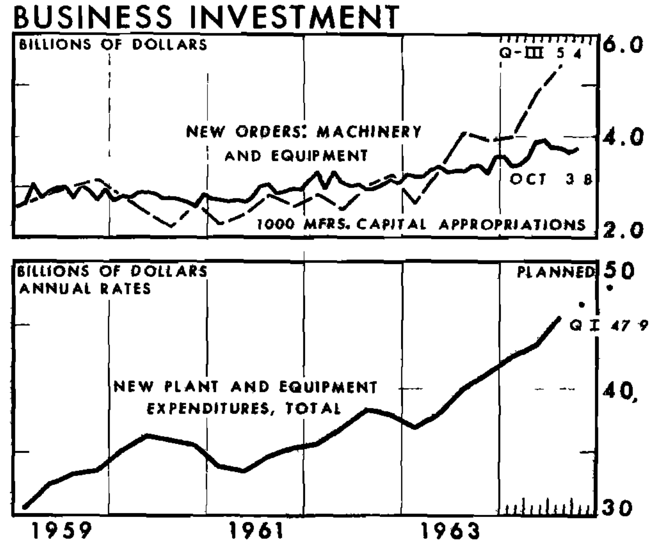
NEW ORDERS AND HOUSING



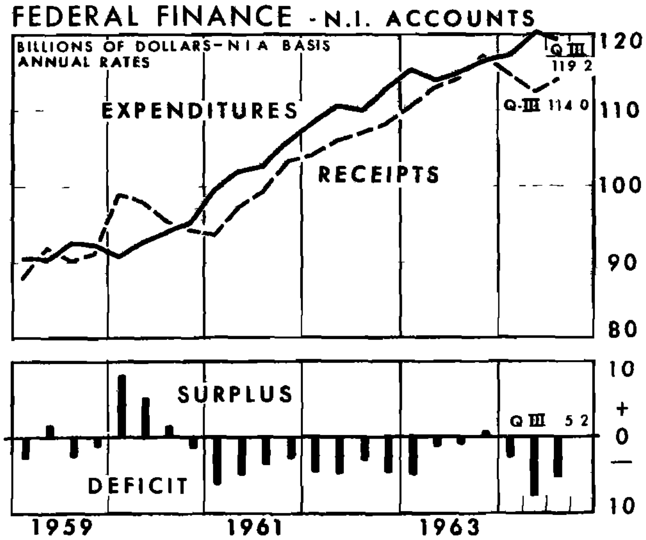
RETAIL SALES



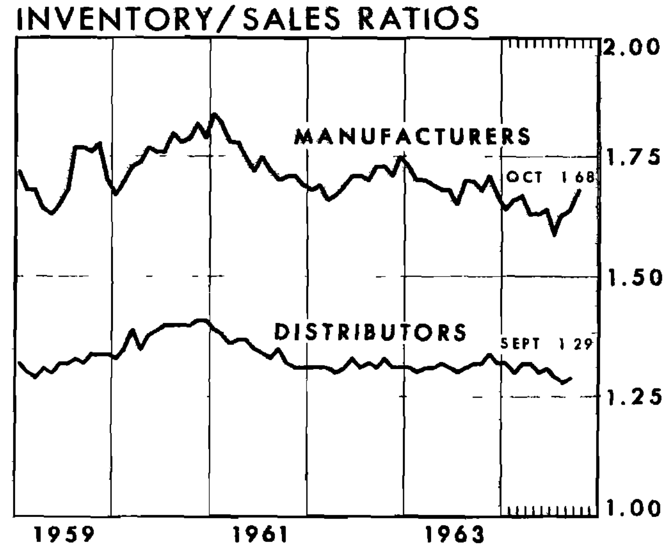
BUSINESS INVESTMENT



FEDERAL FINANCE - N.I. ACCOUNTS



INVENTORY/SALES RATIOS



DOMESTIC FINANCIAL SITUATION

U.S. Government finance. In early December yields in all maturity sectors of the U.S. Government securities market receded from their recent highs reached after the Bank of England and Federal Reserve rate actions.

On December 8, Treasury bond yields were only a few basis points above their 1964 lows reached around mid-November. The initial adjustment in the Treasury bond market to the official rate actions

YIELDS ON U. S. GOVERNMENT SECURITIES

Date (closing bids)	3-month bills	6-month bills	3 years	5 years	10 years	20 years
1964						
Highs	3.88	4.03	4.22	4.21	4.26	4.26
Lows	3.40	3.50	3.92	3.99	4.12	4.14
1964						
November 12	3.58	3.75	3.97	3.99	4.12	4.14
November 20	3.62	3.80	4.02	4.01	4.13	4.15
November 24	3.80 1/	3.97 1/	4.11	4.09	4.18	4.20
December 1	3.88 1/	4.03 1/	4.14	4.13	4.21	4.21
December 7	3.76	3.93	4.07	4.06	4.16	4.18
December 8	3.84 1/	3.96 1/	4.07	4.05	4.15	4.17

1/ New bills.

was relatively mild and only modest selling of coupon issues mainly by commercial banks, appeared. Retail selling pressure in the market tapered off following System purchases of notes and bonds totaling about $105 million in the first two days of December, and an improved market atmosphere developed with the return of some investment and professional demand. The market was also buoyed by President Johnson's speech to the Business Advisory Council urging banks not to raise their interest rates to borrowers and by the subsequent rescinding by a large Boston bank of its previously announced increase in the prime rate.

Dealer positions in securities maturing in more than a year, at just under $600 million, showed virtually no change on balance over the week ending December 7, despite the System's purchases. Thus, dealers absorbed about $100 million in securities from banks and other investors, mainly in the 5-10 year maturity area. Reportedly, many of these investors were shortening up and switching into bills.

The demand for Treasury bills in the market picked up in late November and early December and was augmented by System purchases totaling $1.3 billion between November 24 and December 4 to supply seasonal reserve needs. In this period dealers were willing sellers of bills and worked down bill positions to their lowest levels in almost 3 years. As the trading supply of bills was reduced, bill rates backed away from their peaks. But following unexpectedly large awards of $1.1 billion of new bills to dealers in the December 7 weekly auction, bill rates adjusted higher. The 3-month bill closed at 3.84 per cent on December 8, as compared with the recent peak of 3.88 per cent on December 1.

The rise in other short-term rates since November 20 is shown in the following table:

RECENT SHORT-TERM RATE DEVELOPMENTS[1/]
(In per cent)

	Nov. 20	Dec. 1	Dec. 7	1964 Range
Commercial paper 4-6 months	4.00	4.125	4.125	3.88-4.125
Finance company paper 30-89 days	3.75	3.88	3.88	3.63-3.88
Bankers' acceptances 1-90 days	3.75	4.00	4.00	3.63-4.00
Certificates of Deposit of large New York banks				
3-months: most often quoted				
issuing rate	3.90	4.00	4.00	3.75-4.00
secondary market	3.95	4.10	4.125	3.80-4.125
6-months: most often quoted				
issuing rate	4.00	4.25	4.25	3.88-4.25
secondary market	4.05	4.28	4.28	3.94-4.28

1/ All short-term rates are on a bank discount basis except CD's which are on an investment yield basis.

Treasury financing outlook. The Treasury is currently expected to end the calendar year with a cash balance of perhaps $7.3 billion, which would be $700 million more than the balance at the end of 1963. Still, seasonal drains during January and early February will require the Treasury to raise new cash early next year. The market anticipates that a portion of this cash will be raised through an addition of perhaps $1.5 billion to the June tax bill. The Treasury could also add $100 million to weekly auctions of bills during January and February.

The next regularly scheduled financing in the coupon area will be the refinancing of about $4.0 billion bonds ($3.4 billion publicly-held) maturing February 15. In recent years, the Treasury has also undertaken advance refundings early in the year when market conditions were favorable.

<u>Corporate and municipal bond markets</u>. Reaction in the capital markets to the sterling crisis and subsequent increase in Federal Reserve discount rates had apparently run its course by last week, when three new corporate bond issues--the first large public offerings since late October--came to market. Reoffering yields on these issues--adjusted to a Aaa basis--averaged 4.47 per cent, only 1 basis point above the adjusted yield on the last comparable new corporate bond which had been offered in the third week of October.

Initially, yields on corporate and municipal bonds had risen as much as 7 basis points in the wake of the U.K. and U.S. discount rate actions. But last week when it became apparent that no general increase in the prime rate at city banks was likely to follow these actions, the three new corporate offerings sold out quickly, encouraging further yield declines in the secondary market. Currently, yields on recently offered corporate issues have erased more than half of their late November rise. They are also slightly below the levels prevailing in mid-October at the start of the earlier bond market rally, but, as is often the case, the more sluggish yield series on seasoned corporate bonds have not fully reflected either the general rise or subsequent decline of other bond yields. In the market for State and local bonds, yields have also retraced much of their recent advance, carrying the average on Moody's high grade issues back down to the yearly low reached in mid-November.

BOND YIELDS

	Corporate Aaa		State and local govt.	
	New	Seasoned	Moody's Aaa	Bond Buyer (mixed qualities)
1964 - High	4.54(5/8)	4.43(11/13)	3.16(3/26)	3.32(4/21)
Low	4.30(2/21)	4.35(2/28)	3.05(11/19)	3.13(1/20)
Sept.-Oct. high	4.52	4.43	3.12	3.26
Week ending Nov. 20	n.a.	4.42	3.05	3.15
Nov. 27	n.a.	4.44	3.09	3.21
Dec. 4	4.47	4.45	3.05	3.18

The recent readjustment of corporate bond yields toward the levels reached before the British discount rate action has reflected in large measure the continuing ample supply of long-term funds relative to the limited volume of recent and prospective new offerings. Market reports indicate that pension funds in particular were active buyers of last week's new issues--once the immediate uncertainties on the prime rate dissipated.

In contrast to the corporate calendar, December offerings of municipal issues are expected to be unseasonably large, with the prospective volume more than $250 million above a year earlier. Recent market strength in the face of this year-end test may reflect an expectation that the changes in Regulation Q will operate to sustain, and possibly to increase, commercial bank participation in municipal issues. In any event, demand for new issues has remained favorable, and dealers' advertised inventories have declined further.

BOND OFFERINGS 1/
(Millions of dollars)

	Corporate				State & local govt.	
	Public offerings		Private placements			
	1964	1963	1964	1963	1964	1963
Jan.-Sept. avg.	344	377	478	486	917e/	892
October	175e/	511	550e/	481	900e/	1,265
November	30e/	183	600e/	549	600e/	754
December	275e/	626	800e/	751	750e/	495

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

Stock prices. Stock prices as measured by Standard and Poor's composite index of 500 common stocks reacted to the uncertainties of late November with 6 consecutive daily declines from the record level of 86.28 which had been reached on November 20. The declines however were orderly and trading volume shrank from 5.6 million shares on November 20 to an average of 4.7 million shares per day over the past two weeks. More recently, the index has fluctuated uncertainly; after erasing about a third of the earlier declines last week, it has since edged down again and on December 8 closed at 84.00.

Mortgage markets. Mortgage funds have remained ample and trade expectations are that the Federal Reserve discount and Regulation Q actions by themselves will have little immediate effect on either mortgage rates or lending activity. Total mortgage debt in the third quarter expanded at a rate slightly below that a year earlier. This reflected the recent slowing in residential construction activity as well as indications of increased selectivity by some lenders--notably savings and loan associations--in making some types of loans. Nevertheless, in October, prices of houses and loan amounts on conventional first mortgages continued to average appreciably higher than a year earlier, according to the Federal Home Loan Bank Board. Except for a decline in average fees and charges, most other terms were also at or near their year-earlier levels.

CHARACTERISTICS OF CONVENTIONAL FIRST MORTGAGES

	September	October	Per cent increase from October 1963
New home loans			
Contract rate (per cent)	5.77	5.75	- 1
Fees & charges (per cent)	.57	.58	- 5
Purchase price ($1,000)	23.9	24.1	+ 7
Loan amount ($1,000)	17.6	17.4	+ 6
Loan/price (per cent)	74.2	73.2	--
Maturity (years)	25.0	24.5	--
Existing home loans			
Contract rate (per cent)	5.93	5.91	--
Fees & charges (per cent)	.55	.52	-10
Purchase price ($1,000)	18.8	18.7	+ 4
Loan amount ($1,000)	13.4	13.3	+ 5
Loan/price (per cent)	71.6	71.4	+ 1
Maturity (years)	19.8	20.0	+ 3

Bank credit. Total credit at all commercial banks, seasonally adjusted, rose $4.1 billion in November following a sizable reduction in October. Expansion was rapid at both weekly reporting and outside banks, with the rise at outside banks being particularly large in the last half of the month. Major factors in the rise were (1) a large increase in holdings of U.S. Government securities associated with the large volume and unusual timing of Treasury financing and (2) a controversial rise in loans to nonbank dealers to finance increased trading positions and refinance maturing repurchase agreements with nonfinancial corporations. Over the past five months, credit growth has been at an annual rate of 8.1 per cent, the same as over the first half of this year and the full year 1963.

NET CHANGES IN COMMERCIAL BANK CREDIT
(Seasonally adjusted)

	Dollar amount (billions of dollars)		Annual rate (per cent)			
	Nov. 1964	Average Jan.-Nov.	July-Nov.	Jan.-June	Jan.-Nov.	Year 1963
Total loans & investments	4.1	1.7	8.1	8.0	8.1	8.0
U.S. Govt. securities	1.4	-0.1	5.2	-6.8	-1.4	-4.8
Other securities	0.6	0.3	13.9	7.4	10.6	19.9
Total loans	2.1	1.4	7.8	14.2	11.5	11.6
Business	0.5	0.4	9.7	10.0	10.1	9.2
Security	0.6	0.1	-9.0	19.4	16.3	8.1
Nonbank financial	0.2	0.1	1/	24.2	12.0	19.7
Real estate	0.3	0.4	9.9	11.8	11.2	14.3
Consumer	0.3	0.2	10.3	9.7	10.2	12.7
Loans (excl. security)	1.5	1.3	8.7	13.0	11.3	11.7

1/ Less than 0.05 per cent.

The $1.4 billion increase in holdings of U.S. Government securities reflected not only the larger than usual volume of Treasury financing in November but also the delivery of the June tax bills only one day prior to the end-of-month bank condition statement date. Banks were allotted about $1.5 billion of the new 18-month Treasury notes, issued November 15, whereas they held only about $1 billion of the maturing issues; they were allotted practically all of the $1.5 billion June tax bills, issued November 24, for which 50 per cent of the payment was permitted through credit to tax and loan accounts. At weekly reporting banks, these bill acquisitions slightly more than offset heavy sales earlier in the month, but sales were large again in the week ending December 2. Banks continued to reduce their holdings of long-term U.S. Government bonds.

Banks added to their holdings of municipal and agency issues in November at about the same rapid pace as in August and September. Since midyear, the growth rate has been almost twice that for the first half of 1964 but substantially below that for the year 1963.

Total loans increased substantially in November, reflecting not only the heavy borrowing by Government security dealers in connection with the Treasury financings but also relatively strong growth in most other major loan categories. Excluding security loans, the November increase was somewhat larger than in most other recent months, but the annual rate of growth since midyear is somewhat below that for the first half of this year and for the full year 1963.

Business loans at all commercial banks, seasonally adjusted, increased $500 million in November following a $200 million rise in October. Expansion at city banks was quite rapid over the first three weeks of the month, but this was followed by an appreciable decline in the last reporting week. There was a large rise again in the first week of December. Over the past five months, the growth rate has been a little slower than earlier in the year and a little faster than over the full year 1963.

The substantial November rise was attributable mainly to heavy borrowing by food processors and commodity dealers and to a large rise in total business loans at the smaller banks in the weekly series which do not report an industrial breakdown. Over the past couple of months, borrowing by food processors and commodity dealers has been running close to the accelerated pace that developed in late 1963, when these borrowers curtailed use of acceptances for meeting part of their seasonal financing needs. On the other hand, expansion in loans to petroleum and chemicals companies, which had been rapid in September and October, slackened in November, and outstanding loans to the metals group showed only about the usual seasonal rise.

Money supply and time deposits. The seasonally adjusted money supply increased $500 million in November, a little below the average monthly expansion of $600 million in the three previous months which followed the June-July bulge. A large rise in the first half of the month was followed by a slight decline in the second half when U.S. Government deposits rose much more than usual. Over the August-November period, money supply increased at an annual rate of 4.6 per cent, a little faster than the 3.9 per cent over the first 7 months of 1964.

Seasonally adjusted time and savings deposits at all commercial banks increased $1.8 billion in November, considerably more than in other recent months but the same as in November last year. The annual rate of growth in these deposits through November was 12.2 per cent compared with 14.7 per cent over the year 1963.

Growth in savings deposits appears to have been the major contributor to the large recent rise, presumably reflecting in part reduced drains on savings for the purchase of new automobiles. These deposits at city banks continued to rise faster in November than in the corresponding weeks a year ago. Moreover, total time and savings deposits at banks outside leading cities, 70 per cent of which are savings, showed an appreciable rise this November in contrast with declines in earlier years. Other time deposits at city banks, however, declined somewhat in November whereas last year they had increased. A further moderate expansion in foreign time deposits and in CD's at banks in New York and Chicago offset only in part the redemption of Christmas Club funds and a decline in outstanding CD's at outside banks.

Bank reserves. Free reserves averaged $10 million over the five weeks ending December 2 compared with $90 million in October.[1/] In the last two weeks of the period, however, free reserves averaged $55 million, compared with small average net borrowed reserves (revised) in the three previous weeks. In the two most recent weeks, borrowings averaged $265 million, following much higher levels in early November, and excess reserves also dropped to an average of $320 million.

Prior to the increase in the discount rate, the effective rate on Federal funds in November was never below 3-1/2 par cent and on

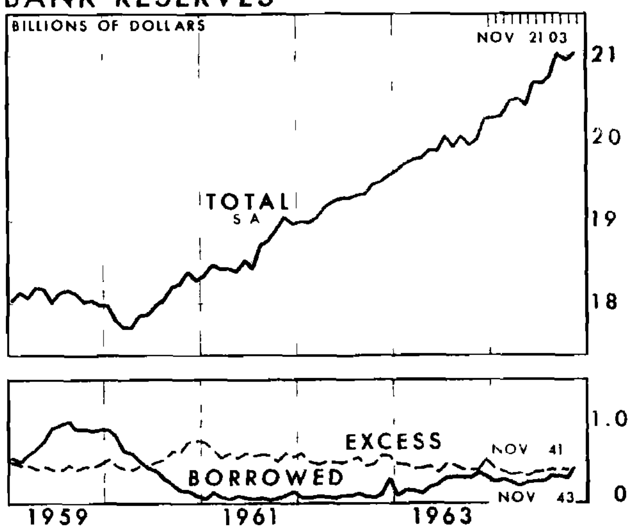
1/ Based on the average of daily figures for all of the reserve weeks ending in the month as used in the reserve memorandum to the FOMC, rather than an average of all days in the calendar month.

several days was 3-5/8 per cent. From then through December 8, it fluctuated between 2-1/2 and 4 per cent, being at 4 per cent on four days and at lower rates on six days.

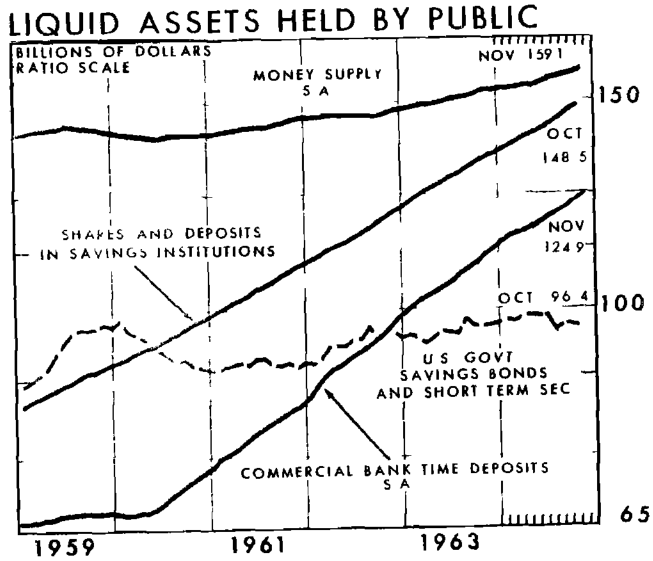
Seasonally adjusted reserves required against private demand deposits rose at an annual rate of less than one per cent in November following an increase at an annual rate of 5 per cent in October. Reserves required against U.S. Government deposits rose in November compared with declines in most other recent years.

FINANCIAL DEVELOPMENTS - UNITED STATES

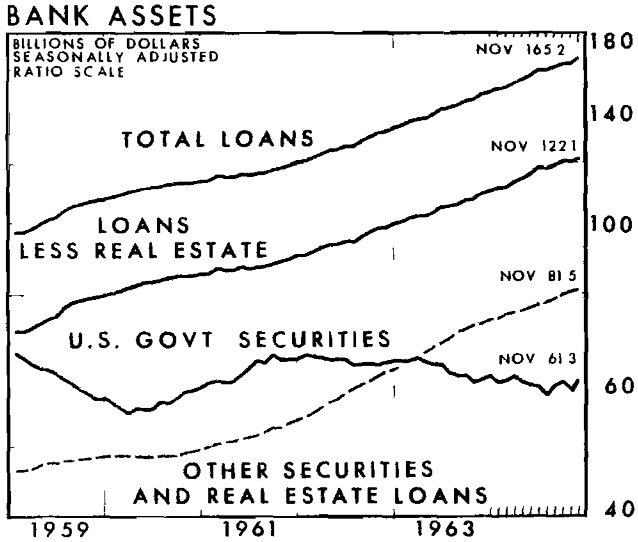
BANK RESERVES



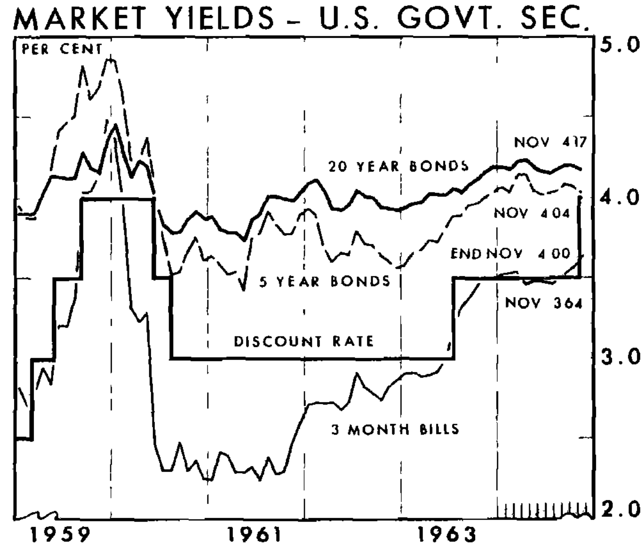
LIQUID ASSETS HELD BY PUBLIC



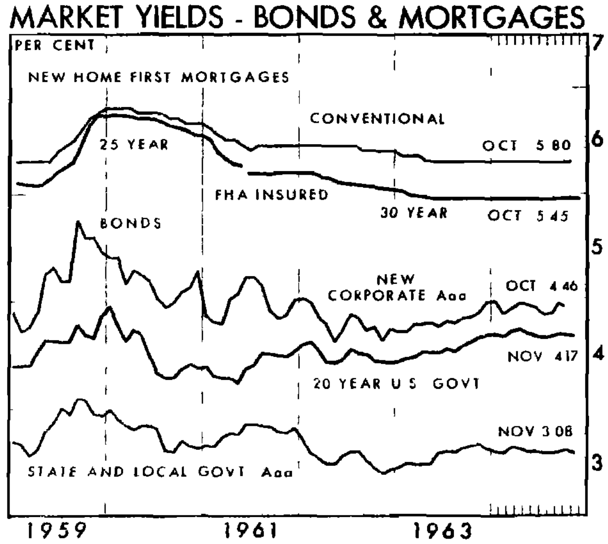
BANK ASSETS



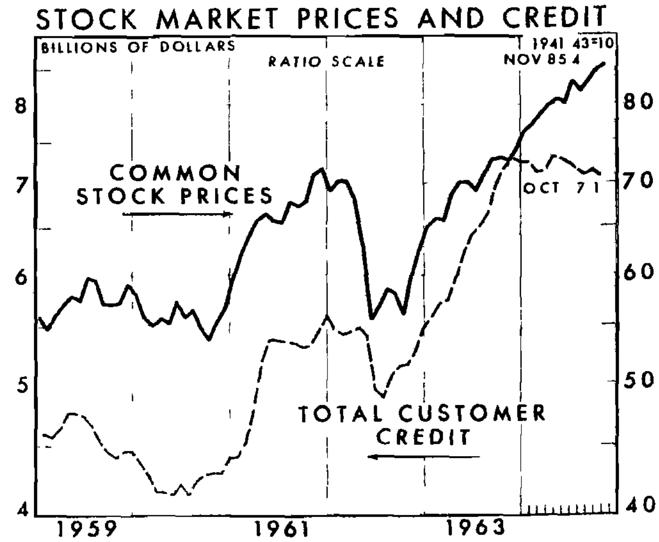
MARKET YIELDS - U.S. GOVT. SEC.



MARKET YIELDS - BONDS & MORTGAGES



STOCK MARKET PRICES AND CREDIT



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. The U.S. payments deficit in the fourth quarter now appears likely to be held down as a result of the sterling crisis. Data available through mid-November provided little in the way of conclusive evidence of movements of U.S. capital from Britain to the U.S. as a result of growing uncertainties about the pound. In the week of the most acute pressure on sterling, however, a substantial U.S. payments surplus was recorded.

The speculation against sterling engaged in by U.S. residents may have taken several forms: movements out of sterling into other currencies or more probably into Euro-Dollars (some advance hedging of this sort is suggested by the data on dollar claims on foreigners in October, reported below); delays in payments for imports, direct investments, etc., or short-term borrowing in sterling to make such payments; and repatriation of funds and short-term investments. Movements into Euro-dollars would not affect the U.S. payments deficit whereas leads and lags and repatriation of funds would tend to reduce the deficit. The unwinding of such speculation may well take some time, given the continued uncertainties about sterling. Some allowance will need to be made for such inflows of U.S. capital in interpreting the fourth quarter balance of payments figures.

Another factor tending to hold down the fourth quarter deficit may be a higher level of merchandise exports than earlier expected. Exports remained high in October, after allowance for the distortions of the figures introduced by acceleration of shipments in September in the face of a threatened port strike. Exports in September-October averaged nearly $26 billion at a seasonally adjusted annual rate, and were 7 per cent higher than the average for the first half of the year. A small part of this increase resulted from some concentration of deliveries of new jet aircraft in October. Imports in October were unchanged from September after seasonal adjustment. The trade surplus in these two months accordingly averaged $7.5 billion at an annual rate, about $1 billion higher than in the first half of the year.

The $220 million increase in bank-reported claims on foreigners in October mainly reflected outflows of bank credits to Europe and to Latin America. Out of the $120 million increase in long-term bank credits, nearly half was to a wide range of countries in Europe and represented a continuation of the pattern of earlier this year. Outflows of short-term bank credit to Europe, principally Germany and Italy, totaled $40 million. In addition, there appears to have been some shifting of liquid claims on the U.K. reported by banks: claims in sterling (mainly deposits) fell $13 million while dollar claims (probably Euro-dollars) rose $21 million.

Developments in international financial markets.

Announcement of the $3 billion international assistance package to Britain stopped the massive run on sterling, but uncertainty about the position of the pound has persisted in foreign exchange markets.

The spot rate for the pound has remained fairly stable at slightly above \$2.79, but the forward discount is still above 2-1/2 per cent per annum, thus shutting off movements of arbitrage funds to London. While the extreme uncertainty about sterling, which obtained at the end of November and pushed the discount on one-day forward sterling as high as 13 per cent, has disappeared, the Bank of England has still found substantial intervention necessary in both the spot and the forward markets for sterling. Despite these actions, the forward discounts have failed to narrow significantly; and the market continues to be threatened by potential large offers of sterling.

Reactions in financial markets abroad to the increase in Britian's Bank rate and the ensuing discount rate changes in the U.S. and Canada have for the most part been limited to the markets directly affected.

In Britain, short-term market rates have risen by amounts approximately equal to the increase in Bank rate, or almost 2 percentage points. The increased gross interest advantage of British short-term investments over comparable U.S. investments was, initially, swamped by the increase in the discount on forward sterling; for 3-months contracts the discount rose from nearly 1 per cent per annum on November 19 to more than 2-3/4 per cent per annum on November 25. This widening of the forward discount apparently prevented any significant movement of short-term funds into sterling from U.S. dollar assets. Since December 1, the Bank of England has intervened

Selected Interest Rates
(per cent per annum)

Britain		Nov. 19	Dec. 2	Dec. 9
Treasury bill	3 mos.	4.53	6.38	6.41
Local Authority Deposits	"	5.38	7.13	7.75
Hire-purchase paper	"	5.38	7.13	7.50
Discount on 3-month forward sterling		0.95	2.72	2.65
Covered arbitrage - Treasury Bills (favor of London)		0.00	-0.17	-0.10
3-1/2 % War Loan		6.15	6.30	6.33

Canada		Nov. 18	Dec. 2	Dec. 9
Treasury bill	3 mos.	3.60	3.78	3.74
Canadian finance paper	"	4.38	4.50	4.50
Discount on 3-month forward C$		0.13	0.13	0.10
Covered arbitrage - Treasury bills (favor of Canada)		-0.07	-0.19	-0.18
3-1/4 % Bond ('96-'98)		5.04	5.06	n.a.

U.S.		Nov. 19	Dec. 2	Dec. 9
Treasury bill	3 mos.	3.58	3.84	3.82
Finance paper	"	3.88	3.94	4.00
Certificates of Deposit	"	3.90	4.00	4.00

Euro-dollar deposits (London)	Nov. 19	Dec. 2	Dec. 9
30-day	4.06	4.75	4.63
90-day	4.50	4.94	4.75
180-day	4.50	5.00	4.75

in the exchange markets to effect a narrowing of the forward sterling discount, but this narrowing has not fully eliminated the covered spread on Treasury bills in favor of New York. However, rates on U.K.-

hire purchase paper and on local authority deposits were subsequently marked up sharply with the result that the covered yields on these investments are now higher than before the rise in Bank rate.

The attractiveness of covered short-term investments in Canadian dollar paper seems not to have been altered by the changes in discount rates. Both before and after the discount rate changes, Canadian finance company paper has held about a 35 to 40 basis point covered advantage over similar U.S. instruments.

Direct reactions of other short-term rates abroad were negligible except in the Euro-dollar market. Rates on 90- and 180-day Euro-dollar deposits in London rose by 1/2 per cent to 5 per cent immediately after the increase in ceilings payable under Regulation Q. By early December, however, these rates had eased somewhat. Movements out of sterling into Euro-dollars may have prevented a larger rise in these rates such as might have occurred in sympathy with the rate advances in the London money market and in anticipation of the year-end tightness in the Euro-dollar market.

In Japan, action was taken late in November to forestall a possible withdrawal loss of Euro-dollar deposits from Japan as a result of the increase in Euro-dollar rates in London. The rates that Japanese foreign exchange banks are allowed to pay on these deposits were raised by from 25 to 88 basis points, with the largest increase applying to one-month deposits.

Long-term interest rates in Britain have shown only modest net increases over the past two weeks. There has, however, been a good deal of fluctuation in bond yields and in stock prices as well, stemming from uncertainty about the application of the Government's proposed capital gains tax to government securities and the extent and amount of the proposed corporate profits tax. Changing expectations regarding these measures have been largely responsible for a shifting back and forth by investors between government securities and equities and for the resultant fluctuations in prices of both. On balance, yields on long-term Government bonds have risen by a little less than 20 basis points. Share prices, except for an initial fillip, continued to fall and on December 8 were nearly 9 per cent below the high reached on October 1.

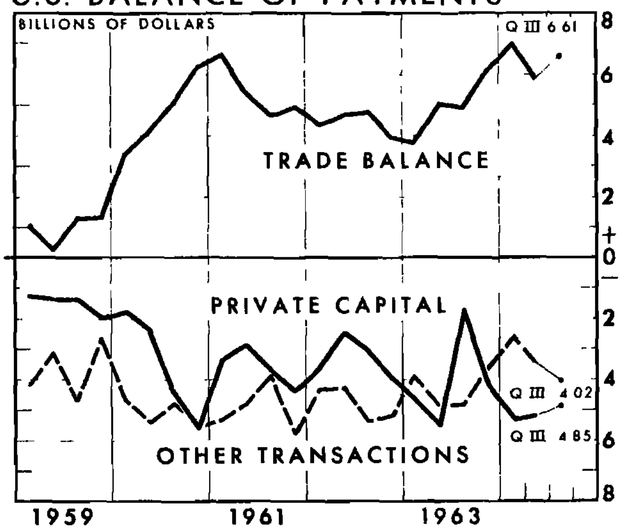
Prices of long-term government bonds in Canada fell immediately after the discount rate increase, but regained most of the decline in the following week. During this period fairly large shifts in holdings of these securities also took place. Large sales by the public were probably connected with seasonal purchases of Canadian Savings Bonds, but may also have represented bearish expectations about future bond prices in Canada. These sales were met by purchases by commercial banks and by the Bank of Canada.

In other major markets, the crisis in sterling and the resultant policy actions have had very little effect on long-term rates. Yields on long-term bonds in several Continental markets changed by only about one basis point.

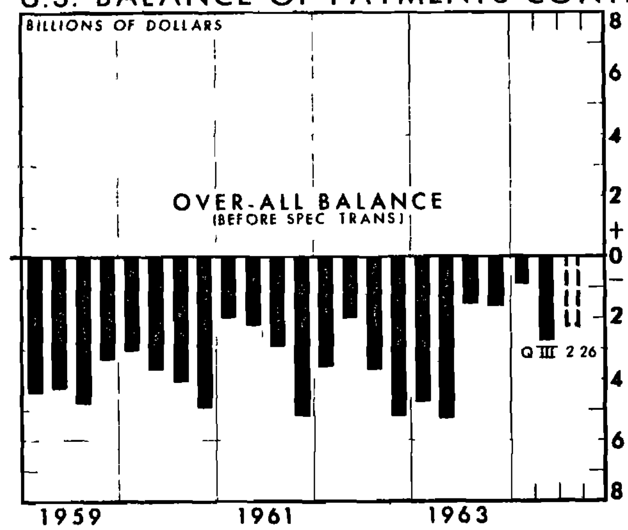
U.S. AND INTERNATIONAL - ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED, ANNUAL RATES

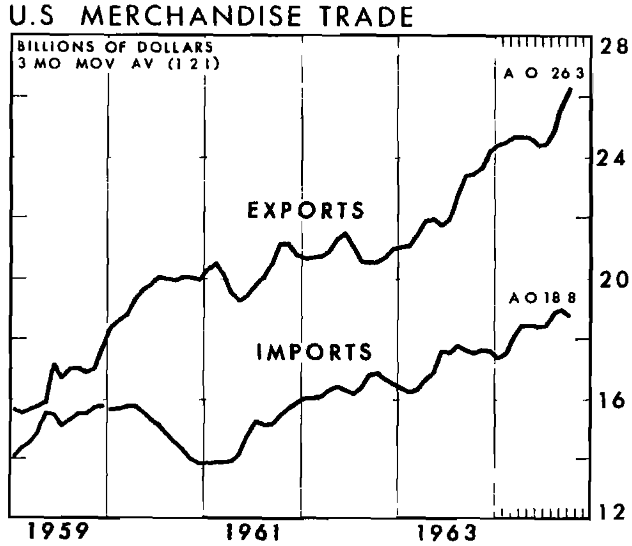
U.S. BALANCE OF PAYMENTS



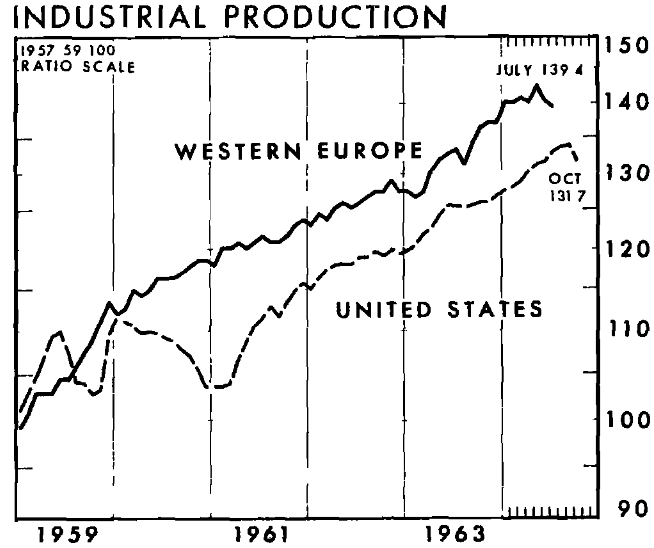
U.S. BALANCE OF PAYMENTS-CONT.



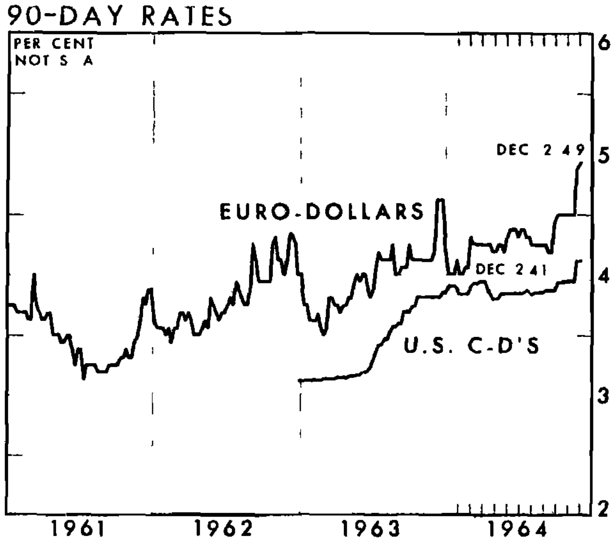
U.S MERCHANDISE TRADE



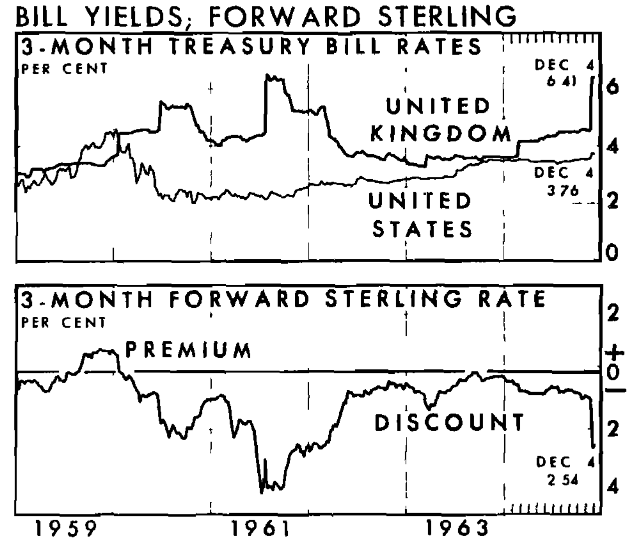
INDUSTRIAL PRODUCTION



90-DAY RATES



BILL YIELDS, FORWARD STERLING



APPENDIX A: INTERNATIONAL INTEREST RATES, MID-1963 TO NOVEMBER 1964

I. Even with the rise in Federal Reserve discount rates in July 1963, differentials in market yields between European financial centers and the United States did not narrow on short-term maturities--and actually widened on long-term--from mid-1963 to October 1964.

1. Early in 1963, credit markets in most European centers had been comfortable but, after mid-year, one by one, European monetary authorities moved toward policies of active restraint.

   a. A rapid recovery in European output in the second and third quarters of 1963, accompanied by accelerated rises in both wholesale and consumer prices, were responsible for these policy shifts.

   b. Credit conditions continued to tighten in Europe during 1964 except in Italy where, as a calculated risk, a shift to monetary expansion was initiated in August and in France where a slight relaxation in the degree of stringency was allowed.

2. In this period, changes in market yields do not fully mirror the changes which actually took place in credit conditions in several countries; for attempts were made to cushion the impact of credit curbs on domestic markets to minimize unwanted inflows of funds from abroad.

   a. In Germany, for example, where the banks have had to reduce their liquid asset holdings and increase their rediscounts at the central bank, the rediscount rate was kept at 3 per cent despite a rise in day-to-day money to nearly 4 per cent in late September and most of October; all market rates would undoubtedly have risen more had the rediscount rate been increased.

   b. In France, there was a large inflow of funds from abroad during much of May 1964 when day-to-day money rates in the Paris market rose above 6 per cent; as a result, the French authorities have not allowed the 6 per cent level to return.

3. On international short-term obligations, European rates moved up about as much as did yields in the United States but finance paper in Canada moved up somewhat more (after allowance for covering in the forward market,

   a. The 3-month Euro-dollar deposit rate exceeded the yield on U.S. CD's by 57 basis points at the end of June 1963 and by 55 basis points on October 30, 1964. (See Table 1.)

   b. But the Canadian finance paper rate (covered) was above yields on U.S. paper by 24 basis points in mid-1963 and 32 basis points in October 1964; U.S. short-term investment funds moved into Canada during this period.

   c. At the same time, the covered yields on Treasury bills rose as follows: United States, by 56 basis points; United Kingdom, 76; and Canada, 26.

4. By contrast, long-term rates rose by 33 to 92 basis points in European centers compared with a 15 point rise in the United States. (See Table 2.)

   a. In addition, European long-term rates moved closer together: Switzerland and the Netherlands--in historic shifts in policy--abandoned their attempts to maintain levels of rates much below those in neighboring countries.

   b. As a result, the stability and the lower absolute level of U.S. long-term rates contrasted conspicuously with developments in Europe during this period.

II. Discount rate and associated changes during November 1964 have thus far (on December 5) had the effect of increasing the gaps between U.S. and European market rates.

1. The initial movements of short-term rates have been varied:

   a. The spread of Euro-dollar deposit rates over CD's rates had widened about 27 basis points (to 82 points) on December 4. (See Table 1);

   b. The covered spread on Canadian finance paper had risen by 8 basis points (to 40 points)on December 4; and

   c. Covered yields on U.S., U.K., and Canadian Treasury bills have come close together, in part because of a wide discount on forward sterling.

2. On long-term bonds, up to November 27 U.K. yields had risen about 17 basis points but only fractional changes had been reported in other major markets. (See Table 2.)

   a. Uncertainties about the outlook for sterling prevented the emergence of the kinds of heavy flows into British bonds which occurred in late 1960 and 1961.

III. Interest rate developments abroad up to October and during November have been in the direction of encouraging a shift in financing from European to U.S. centers.

1. For short-term borrowings, the recent rises in Euro-dollar rates (and reduced European domestic credit availabilities since late 1963) have made borrowing in the United States less unattractive to European residents.

2. On the long-term side, there have been substantial marketings of long-term U.S. dollar bonds in European centers since the IET proposal, absorbing an important part of the flow of funds in Europe for this type of investment.

a. The Japanese Government has shut off further Japanese private flotations in Europe to make room for issues of Japanese governmental bodies, and it is reported that Japanese borrowers have been asking the Japanese Government for permission to make new issues in this country, despite the IET.

b. No significant volume of European issues has yet been sold to investors subject to the tax. One issue, privately placed, had a 35-month maturity. Only two issues this year will have been listed on the New York Stock Exchange. One, already issued, carried a yield attractive only to European investors, who are not subject to the tax, and the other will not be offered at all to U.S. investors.

3. European residents are borrowing (or refinancing) with U.S. bank loans, exempted from the IET.

IV. Thus far, despite the advances in yields there, we have no evidence of pick-up in the flow of U.S. funds into European financial markets. Bank-reported statistics of course do not yet go beyond October nor corporation-reported data beyond the month of September.

1. Because of the clouded sterling outlook, uncovered yields in London are not now drawing U.S. funds. At present, foreign funds are also not entering the London gilt-edged market in the hopes of capital gains from a turn-around in yield trends (such as occurred in 1961).

2. Rates on Euro-dollar deposits are quite attractive at the moment, although this may prove to be in part a year-end phenomenon. We have as yet no evidence that additional U.S. funds are being placed directly with European banks or indirectly moving to European markets through Canadian banks.

V. The impact of recent discount rate changes in flows of U.S. funds into Canada is not yet clear.

1. Movements of U.S. funds which occurred in October and November (prior to the central bank rate actions) are believed to have been mainly into U.S. dollar deposits with Canadian banks which aimed to build up balance sheet totals at yearly publication dates (end-October for most and end-November for two banks).

2. The incentive to hold Canadian over U.S. finance paper was slightly larger on December 4 than on October 30. (See Table 1.)

3. On the long-term side, Canadian borrowers have ended their wait-and-see on U.S. flotations and have recently entered our markets in volume. Since the discount rate changes, the spreads of Canadian over comparable U.S. bond yields have widened fractionally, suggesting a continuing Canadian interest in the U.S. market.

Samuel I. Katz
Europe and British Commonwealth Section
Division of International Finance

December 8, 1964

A - Table 1

International money market yields for U.S. dollar investors
(in per cent per annum)

	Rates on selected dates: 1963 Jan. 4	1963 June 28	1964 Oct. 30	1964 Dec. 4	Changes between selected dates: Jan. 4 to June 28, 1963	June 28 to Oct. 30, 1964	Oct. 30 to Dec. 4, 1964
	(1)	(2)	(3)	(4)	(1)-(2)	(2)-(3)	(3)-(4)
Euro-dollar/CD's:							
Euro-dollar dep.	4.00	3.81	4.50	4.94	-.19	+.69	+.44
U.S. C./D.	3.12	3.24	3.95	4.12	+.12	+.71	+.17
Differential	.88	.57	.55	.82	-.31	-.02	+.27
Treasury bills (covered):							
United Kingdom	3.02	3.04	3.80	3.89	+.02	+.76	+.09
United States	2.84	2.97	3.53	3.79	+.13	+.56	+.26
Differential	.18	.07	.27	.10	-.11	+.20	-.17
Canada	3.11	3.22	3.48	3.65	+.11	+.26	.17
United States	2.84	2.97	3.53	3.79	+.13	+.56	.26
Differential	.27	.25	-.05	-.14	-.02	-.30	-.09
Commercial paper (covered):							
Finance paper:							
Canada	3.45	3.62	4.20	4.40	+.17	+.58	.20
United States	3.25	3.38	3.88	4.00	+.13	+.50	+.12
Differential	.20	.24	.32	.40	+.04	+.08	+.08
U.K. hire purchase	n.a.	n.a.	4.40	5.12	n.a.	n.a.	.72
U.S. finance paper	3.25	3.38	3.88	4.00	+.13	+.50	.12
Differential	n.a.	n.a.	.52	1.12	n.a.	n.a.	.60

Source: Data as published in weekly "Capital Market Developments Abroad," Federal Reserve Board H.13 Series. (For detailed explanation of data and sources, see issue of September 23, 1964.)

A - Table 2

Long-term interest rates in selected countries, 1963-64
(in per cent per annum)

Country	Rates on selected dates:				Changes between selected dates:		
	1963		1964		Jan. 4 to June 28, 1963	June 28 to Oct. 30, 1964	Oct. 30 to Nov. 27, 1964
	Jan. 4	June 28	Oct. 30	Nov. 27			
	(1)	(2)	(3)	(4)	(1)-(2)	(2)-(3)	(3)-(4)
Europe:							
Germany	6.02	6.06	6.41	6.38	+.04	+.35	-.03
Netherlands	4.38	4.31	4.90	4.93	-.07	+.59	+.03
France	5.54	5.38	5.71	a/ 5.71	-.16	+.33	n.c.
Belgium	4.96	5.03	b/ 5.68	n.a.	+.07	+.65	n.a.
Switzerland	3.11	3.11	4.03	4.04	n.c.	+.92	+.01
United Kingdom	5.68	5.54	6.15	6.32	-.14	+.61	+.17
North America:							
United States	3.93	4.03	4.18	4.20	+.10	+.15	-.02
Canada	5.12	4.91	5.15	5.13	-.21	+.24	-.02

a/ Nov. 20.
b/ Oct. 1.

Notes: n.c., no change; n.a., data not available.

Source: For France, Bank of France weekly letter; for Belgium, National Bank of Belgium, monthly bulletin. For all other countries, data as published in weekly "Capital Market Developments Abroad," Federal Reserve Board H-13 Series. (For details, see issue of September 23, 1964.)

APPENDIX B: FEDERAL EXCISE TAXES*

At the present time, both the Treasury Department and the staff of the House Ways and Means Committee are making extensive studies of Federal Excise taxes. Earlier this year, there was an unsuccessful Congressional attempt to attach excise tax reduction as a rider to the Administration tax reduction program. President Johnson has recently stated that he will recommend at least removal of the retail excises, and probably other excise cuts will be added to the list. Thus it may be useful to review briefly the role that excise taxes play in the Federal revenue system.

Uses of Excise Taxation. The Federal excise taxes are an unbelievable hodge-podge. The Federal government has never used either a general manufacturer's excise tax or a general retail sales tax, as many European countries and many of our State governments do, but has imposed taxes on a wide variety of individual items. They range from the time-honored sumptuary taxes on alcoholic beverages and tobacco, through the financing of the highway trust fund, to a three cent per pound tax on the processing of coconut oil.

Many of the present excise taxes were passed during World War II, primarily to restrain consumption, and retained in the post-War years for revenue reasons. Although the individual excise taxes by themselves are not large revenue producers, total receipts of such taxes are a substantial source of revenue, averaging around 12 per cent of total Federal revenue in recent years.

Leaving aside for the moment the revenue potential of the excise taxes, there are several other functions that selective excise taxes can perform. There has been traditionally a sumptuary use -- that is to discourage the consumption of certain items which are considered socially undesirable -- such as alcoholic beverages and tobacco -- or which are in scarce supply -- such as electrical goods and transportation and communication services during World War II. Specific excise taxes have also been used as a means of regulating certain types of activities. The documentary stamp tax on the transfer of corporate securities, deeds, etc., and the tax on the transfer of ownership of fire-arms are of this sort.

Selective excise taxes also can be used as a generalized substitute for user-charges. The taxes on gasoline, diesel fuel, and other highway trust fund taxes are the outstanding examples of this type of

---

* Prepared by Nancy Teeters, Economist, Government Finance Section.

taxation. But there are others -- the Federal excise taxes on sporting goods are ear-marked for grants-in-aid to the States for the development of fish and wildlife and the tax on sugar is earmarked to pay subsidies to domestic producers, supposedly to equalize the domestic and international cost of production. 1/

There have been major changes in Federal excise tax laws in recent years. Federal taxes on entertainment services have been lowered several times. The taxes on the transportation of oil by pipeline and property (tax on the cost of shipping by railroad or truck) were repealed in August 1958. The tax on transportation of persons by railroad and bus was removed and the tax on air travel reduced from 10 to 5 per cent in 1962. The tax on air transportation is now more nearly in the category of being a user fee because the justification for keeping it was the Federal aid program for airport construction and the air traffic control system run by the C.A.B., although the funds are not ear-marked for such services.

The decline in tax rates on some goods has been offset by increases in taxes on other items. With the inauguration of the Federal inter-State highway building program in 1956, the tax rates on trucks and other highway related products were increased and a few new ones added. The tax on gasoline and diesel fuel was again increased in 1959 and on some of the other highway trust fund taxes in 1961. The changing pattern of excise tax collections is shown in appended Table 1, where taxes have been grouped as to whether they are primarily sumptuary, user fees, or regulatory. 2/

Responsiveness of Excise Taxes to Economic Activity. Offsetting changes in the tax laws have contributed to the comparatively stable behavior of excise tax receipts which, in the past nine years, have grown along with GNP, but at a slightly slower rate. But the question raised by many observers has been whether or not the excise tax structure is stabilizing in relation to the business cycle. One of the major criticisms of the Federal excise tax structure in economic literature is:

1/ The Sugar Act receipts are scheduled for reclassification. In the future, they will be included with custom receipts.

2/ This classification differs from that of the Treasury Bulletin which is the source of the data. The Treasury classifies the taxes as alcohol taxes; tobacco taxes; documentary and stamp taxes; manufacturers excise taxes, retailers excise taxes and miscellaneous excise taxes.

"... the relative insensitivity of the yields of present excises to changes in national income...."

"According to some estimates, the change in the yield of excise taxes is less than proportional to changes in income. It is argued, therefore, that the excises fail to meet what is now regarded as one important criterion applied to elements of the Federal revenue system; namely, that a tax should make a substantial contribution toward automatic stabilization of the economy."3/

In an attempt to measure the responsiveness of the excise taxes to changes in GNP, excise tax collections as a per cent of the GNP were calculated by type of tax. As is shown in appended Table 2, total Federal excises have been a remarkably stable proportion of GNP. 4/ This is partially the result of offsetting secular trends for some of the excises and partially the result of changes in tax rates. However, revenue from any one excise or even a group of excises is small compared to GNP. Consequently, all the individual percentages are below 1.0 per cent, which brings the importance for the economy of the variations into question.

The individual excise tax collections exhibit varying secular and cyclical trends. It is interesting to note that among those excises whose rates have been unchanged in the past nine years only the taxes on alcoholic beverages and tobacco products have shown a relatively steady tendency to decline as a percentage of GNP, the trend which many observers have attributed to all Federal excises. The tax on telephone service as a per cent of GNP on the other hand, showed a fairly steady upward trend until 1961, undoubtedly reflecting increased use of the service.

A good many of the excises -- the retail excise taxes, the regulatory taxes, and the user fees for sports and sugar -- have been fairly stable proportions of GNP, which indicates that they are responsive to changes in general business conditions on a proportional basis.

3/ The Federal Tax System: Facts and Problems 1964, materials assembled by the committee staff for the Joint Economic Committee, 88th Congress, 2nd Session p. 153.

4/ Excise tax collections reflect the preceding quarters liability. Rather than shift the collections to a liability basis, the annual totals for GNP were calculated on a fourth to third quarter basis, in order to relate the collections to the appropriate GNP. Quarterly percentages were also calculated. The trends exhibited in the annual data were also apparent in the quarterly series.

But the strongest cyclical pattern is displayed by the Federal tax on motor vehicles, purchases of which are themselves strongly related to the business cycle. In this case, tax collections have been a rising percentage of GNP during expansions and a declining percentage during contractions.

This brief summary indicates how the economic impact of the Federal excise tax structure depends on the changing demands for the items subject to tax. Some of the tax collections have an evident cyclical responsiveness. While it is difficult to evaluate the contribution of the excise tax structure as a whole to economic stability, it seems clear that the current excise tax structure at least does not have pro-cyclical effects.

Excise Taxes in Relation to Other Sources of Revenue. Although the Federal excises were originally enacted mostly for reasons other than revenue, these taxes in total are a major source of Federal receipts. Table 3 shows Federal cash receipts by type of tax, both in dollar amounts and also as a per cent of total revenue for the fiscal years 1955, 1959 through 1964 and the current estimates for fiscal 1965. Total excise tax collections, as mentioned earlier, have averaged around 12 per cent of total cash receipts in recent years as well as being a fairly stable proportion of GNP.

The three major forms of revenue -- individual, corporate, and employment taxes -- as a proportion of total revenue and as a proportion of GNP have been shifting in recent years and are scheduled to shift more at the beginning of calendar 1965. The recent reduction in individual income tax rates is apparent from the declining percentages in the last two years as shown in the table. The reduced reliance on the corporate profits tax is less apparent because the recent cyclical expansion is corporate profits has caused the ratio of corporate tax receipts to GNP to rise, even with the tax rate reduction. But looking back over a decade, corporate tax receipts have shown a declining secular trend both as a proportion of total Federal receipts and of GNP. In contrast, employment taxes have been becoming relatively more important as a source of revenue. Their share of total revenue has been rising since the mid 1950's and is scheduled to increase even more in the next five years.

Possible Excise Tax Reduction. Should it prove desirable from a fiscal policy point of view to reduce taxes further, reduction in Federal excises are a frequently mentioned candidate for reduction. It seems a reasonable assumption that any excise tax reduction would aim primarily at removing the left-over World War II sumptuary taxes, since there is no longer any economic reason for limiting the consumption of these items.

The ones most likely to be removed would be the retail excises and the manufacturers' excise taxes (other than those earmarked for the highway trust fund and sporting goods). In calendar 1963, total collections of these taxes were nearly \$3.1 billion--\$444 million from retail excises, \$512 million from manufacturers' excises (other than from highway taxes and automobiles) and \$2,038 million from the taxes on automobiles, parts and accessories. It seems doubtful that the Federal taxes on alcoholic beverages, tobacco products and gambling would be removed.5/

The argument usually made for removing the diverse retail and manufacturers' excises is that they are frequently arbitrary and no longer serve any national purpose except as a source of revenue. However, an argument might be made that the taxes on automobiles, parts, and accessories are something of a user fee although the receipts are not specifically ear-marked for the Highway Trust Fund.6/ But if the argument can be made that the other manufacturers' excises are arbitrary and no longer functional, it can also be applied in urging the removal of the Federal excise taxes on telephone service and the remaining taxation of entertainment. It is difficult to detect any large amount of special services provided by the Federal government to the telephone companies or much of the entertainment world. Repeal of the tax on telephone service and entertainment would result in an additional revenue loss of approximately \$1.0 billion.

Thus, the total amount of tax reduction available in the present excise tax structure appears to be in the neighborhood of \$4.0 billion at the outside, assuming that the Federal taxes on alcohol, tobacco products, gambling, the regulatory taxes or the user fees--especially the Highway Trust Funds taxes--are not reduced. However, there is little indication that the Administration will seek a tax reduction of that size. It seems as if it is more likely to be in the neighborhood of \$2.0 to \$2.5 billion, with the ultimate size dependent not only on economic circumstances, but also on the various political and other pressures that are brought to bear on the selection of individual excises to be reduced.

5/ Some of the minor miscellaneous taxes may also be candidates for repeal--such as the tax on the use of safety deposit boxes and playing cards. The tax on sales and transfers of silver bullion was repealed in 1963 and the tax on processed coconut oil has been suspended.

6/ As mentioned above, the Federal tax on air transportation has become more nearly a user fee than a sumptuary tax.

Economic Impact. How much economic stimulus a reduction in excise taxes would provide depends primarily on what would happen to the prices of the items to which the tax now applies. If removal of the excise taxes results in lower prices, the economic impact would come from increased demand both for the previously taxed goods and for all other goods and services, since the same monetary amount of personal disposable income would enable consumers to purchase a larger volume of real goods and services. This expansion in real income would thereby lead to an expansion in the nation's output--with the magnitude of the expansion depending in part on the degree to which consumers allocated their increased real income between spending and saving.

If the tax reduction results in no reduction in prices of previously taxed items, the entire amount of the reduction would be absorbed as increased returns to the factors of production, but presumably reflected primarily in increased corporate profits. Some of the higher profits would be immediately returned to the government in the form of increased corporate profit taxes, thus partially offsetting the immediate economic impact of the tax reduction. Of the higher after-tax profits, probably the largest part would go into corporate saving but it is likely that some of it would be paid out as dividends and thus might lead to some direct increase in consumption, but the amount undoubtedly would be small. These assumptions would probably lead to less of an immediate increase in economic activity from the tax cut than would occur if prices were reduced since consumers as a group are likely to spend more of new accretions to income than are dividend recipients and corporations. Corporations may be less likely to increase spending and more likely simply to alter their means of financing by taking the opportunity to reduce external borrowing.

Whether or not excise tax reductions would be accompanied by immediate price declines depends partly on the particular excises which are cut. The retail excises, the excises on entertainment, and the excises on telephone services are explicitly added on at the retail level. Removal of the telephone tax would probably result in an immediate reduction in price, since it is a regulated industry. It is less certain that the removal of the retail excises and the entertainment taxes would result in price reductions, unless there was a good deal of public discussion about the significance of the tax reduction in relation to prices.

It is even more difficult to predict what the price effect would be on the good subject to manufacturers' excise taxes. These taxes are not explicitly added on at the retail level; consequently, consumers, and possibly many retailers, are much less conscious of them. Price decreases comparable to the tax reduction would depend, therefore, on the state of competition in the industries currently subject to tax. In the last fifteen years--with the breakdown of the Fair Trade Laws and the development of discount houses--there has been considerable competition and prices have been reduced on many of the items currently subject to Federal manufacturers' excises. It seems reasonable to assume that there would be some price reduction. However, because of the small number of producers in the industries now subject to tax, the price reduction might not be equal to the full amount of the tax reduction unless, again, the relationship between tax reduction and price reduction is publicly emphasized.

In comparing the economic impact of excise tax reductions with the recent reduction in individual and corporate profits taxes, the second stage of which is scheduled for next year, two points should be kept in mind. First, even if all the available excise taxes were repealed, and this is unlikely, the total size of the reduction would be smaller than the reduction in liability in either stage of the 1964 Revenue Act. And second, uncertainties about the incidence of the excise tax cut--i.e., the extent to which it would be passed on to consumers in the form of lower prices or absorbed into profits--make it more difficult to evaluate its economic impact.

Table 1

FEDERAL EXCISE TAX COLLECTION: 1959--1963
(In millions of dollars)

Calendar Years	1955	1959	1960	1961	1962	1963
Total Sumptuary	8,133	8,677	8,963	8,979	9,577	9,900
Alcoholic Beverages	2,814	3,105	3,176	3,283	3,393	3,443
Tobacco Products	1,598	1,859	1,955	2,018	2,029	2,078
Gambling and Gaming Taxes 1/	24	29	33	33	31	33
Retail Excises 2/	303	367	393	404	434	444
Manufacturers' Excises						
Automotive 3/	1,516	1,619	1,648	1,437	1,799	2,038
Other Manufacturers' 4/	489	558	583	551	579	588
Service Excises						
Entertainment 5/	189	153*	144**	141	149	155
Telephone 6/	525	729	761	835	886	880
Transportation 7/	670	251**	263	270	270*	234**
Miscellaneous 8/	5	7	7	7	7	7
Total User Fees	1,387	2,406	3,021	3,088	3,314	3,298
Highway Trust Fund						
Gasoline 9/	1,022	1,807*	2,417**	2,476	2,558	2,611
Other Highway Taxes 10/	256	472	476	481*	619**	546
Fish and Wildlife Trust Fund 11/	27	36	38	37	40	41
Sugar Act	82	91	90	94	97	100
Total Regulatory 12/	135	146	137	159	151	146
Total Federal Excises	9,655	11,223	12,124	12,224	13,042	13,343

Includes Federal Excise Taxes on: *Tax Change. **Full Year Effect.

1/
coin operated amusement devices
coin operated gaming devices
wagers and wagering
bowling alleys

2/
furs
jewlery
luggage
toilet articles

3/
automobiles, chassies, bodies
1/2 of tax on trucks, buses etc.
parts and accessories

4/
radio & TV
phonographs & components
phonograph records
refrigerators, freezers
air-conditioners
electric, gas & oil appliances
pistols & revolvers
musical instruments

4/(cont.)
cameras, lenses
film, projectors
light bulbs & tubes
mechanical pencils
pens & lighters
matches
lubricating oil

5/
admissions to:
concerts cabarets
roof gardens
club dues
initiation fees

6/
toll telephone
cable, radio
telegraph
wire mileage service
general telephone service

7/
transportation of:
property by oil line
property (repealed 8/1/58)
persons

8/
playing cards
use of safety deposit boxes
silver bullion transfer
processed coconut oil

9/
gasoline
most diesel fuel

10/
1/2 tax on trucks, buses, chassies, bodies
tires, tubes, tread rubber
vehicles over 26,000 lbs.

11/
sporting goods
fishing rods,
creels
firearms,
shells,
cartridges

12/
firearm transfer
narcotics
marihuana
documentary stamps
adulterated & processed butter and filled cheese

Table 2

FEDERAL EXCISE TAX COLLECTION: 1959--1963
(as a per cent of GNP)

Calendar Years	1955	1959	1960	1961	1962	1963
Total Sumptuary	2.096	1.826	1.796	1.791	1.746	1.720
Alcoholic Beverages	.725	.653	.636	.644	.618	.599
Tobacco Products	.412	.391	.392	.396	.370	.367
Gambling and Gaming Taxes 1/	.006	.008	.007	.006	.006	.006
Retail Excises 2/	.078	.077	.079	.079	.079	.077
Manufacturers' Excises						
Automotive 3/	.391	.340	.330	.282	.328	.354
Other Manufacturers' 4/	.126	.118	.117	.108	.106	.102
Service Excises						
Entertainment 5/	.049	.032*	.029**	.028	.027	.027
Telephone 6/	.135	.153	.153	.164	.162	.153
Transportation 7/	.173	.053**	.053	.053	.049*	.041**
Miscellaneous 8/	.001	.001	.001	.001	.001	.001
Total User Fees	.358	.506	.605	.606	.604	.573
Highway Trust Fund						
Gasoline 9/	.263	.380*	.484**	.485	.466	.453
Other Highway Taxes 10/	.066	.099	.095	.094*	.113**	.095
Fish and Wildlife Trust Fund 11/	.007	.008	.008	.007	.007	.007
Sugar Act	.021	.019	.018	.018	.018	.017
Total Regulatory 12/	.035	.031	.027	.031	.028	.025
Total Federal Excises	2.489	2.359	2.429	2.397	2.377	2.317

Includes Federal Excise Taxes on:

*Tax Change. **Full Year Effect.

1/
coin operated amusement devices
coin operated gaming devices
wagers and wagering
bowling alleys

2/
furs
jewlery
luggage
toilet articles

3/
automobiles, chassies, bodies
1/2 of tax on trucks, buses etc.
parts and accessories

4/
radio & TV
phonographs & components
phonograph records
refrigerators, freezers
air-conditioners
electric, gas & oil appliances
pistols & revolvers
musical instruments

4/ (cont)
cameras, lenses
film, projectors
light bulbs & tubes
mechanical pencils
pens & lighters
matches
lubricating oil

5/
admissions to:
concerts
cabarets
roof gardens
club dues
initiation fees

6/
toll telephone
cable, radio
telegraph
wire mileage service
general telephone
service

7/
transportation of:
property by oil line
property
(repealed 8/1/58)
persons

8/
playing cards
use of safety
deposit boxes
silver bullion
transfer
processed coconut
oil

9/
gasoline
most diesel fuel

10/
1/2 tax on trucks,
buses, chassies,
bodies
tires, tubes, tread
rubber
vehicles over 26,000 lbs.

12/
firearm
transfer
narcotics
marihuana
documentary
stamps
adulterated
& processed butter
and filled
cheese

Table 3

Cash Receipts by Type of Tax: 1955; 1959--1963

Fiscal Years	1955	1959	1960	1961	1962	1963	1964	1965
				Billions of dollars				
Individual income	28.7	36.7	40.7	41.3	45.6	47.6	48.6	47.0
Corporate profits	17.9	17.3	21.5	21.0	20.5	21.6	23.5	26.0
Employment taxes 1/	7.3	10.5	13.2	14.8	15.2	17.9	19.9	20.1
Excise taxes	9.1	10.6	11.7	11.9	12.5	13.2	13.7	14.5
Other 2/	4.8	6.6	8.0	8.2	8.1	9.4	9.7	11.2
Total receipts	67.8	81.7	95.1	97.2	101.9	109.7	115.4	118.8
				As a Per Cent of Total Receipts				
Individual income	42.3	44.9	42.8	42.5	44.7	43.4	42.1	39.6
Corporate profits	26.4	21.2	22.6	21.6	20.1	19.7	20.4	21.9
Employment taxes 1/	10.8	12.9	13.8	15.2	14.9	16.3	17.3	16.9
Excise taxes	13.4	13.0	12.3	12.2	12.3	12.0	11.9	12.2
Other	7.1	8.1	8.4	8.4	7.9	8.6	8.4	9.4
Total receipts	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
				As a Per Cent of GNP				
Individual income	7.6	7.9	8.2	8.2	8.5	8.4	8.1	7.3
Corporate profits	4.7	3.7	4.4	4.2	3.8	3.8	3.9	4.0
Employment taxes 1/	1.9	2.3	2.7	2.9	2.8	3.2	3.3	3.1
Excise taxes	2.4	2.3	2.4	2.4	2.3	2.3	2.3	2.3
Other 2/	1.3	1.4	1.6	1.6	1.5	1.7	1.6	1.7
Total receipts	18.0	17.5	19.2	19.2	18.9	19.4	19.1	18.4

e estimated.

1/ Includes employment taxes and deposits by States to the Unemployment Trust Fund.

2/ Includes estate and gift, customs, veterans life insurance premimums and other budget and trust receipts.

3/ Based on fiscal year GNP.