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CONFIDENTIAL (FR)

CURRENT ECONOMIC
and
FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

September 7, 1967

CONFIDENTIAL (FR)

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SUMMARY AND OUTLOOK

Outlook for economic activity

Economic activity continues to strengthen. We are still projecting the increase in GNP this quarter to be much larger than in the second quarter when the continued drop in inventory accumulation was still exerting a considerable down drag. Assuming no tax increase effective before the end of the year, the fourth quarter rise is likely to be even larger. After allowing for sharper price increases, the rise in real GNP could be at an annual rate of over 6 per cent in the final quarter. The auto strike has introduced a new dimension of uncertainty into the outlook. If settled before the end of October, however, and if work-stoppages are limited to one producer at a time the impact on GNP would be relatively small in either the third or fourth quarters.

Recent evidence of expansive strength includes further increases in industrial output, employment and retail sales and a further decline in unemployment. While manufacturer's new orders declined in July, after several months of rise, most of the drop was in the highly volatile aircraft sector; order backlogs in manufacturing increased further. Personal income has been rising at a considerably faster rate than in the first half year, reflecting sharper gains in employment and wage rates. In view of the rise in income, a generous expansion in consumer spending seems likely in the coming quarter. A drop in the rate of new car sales in August was attributed by the industry largely to inadequate stocks of 1967 models. Spending for household durables is beginning to rise and the introduction of new model cars also seems likely to give a fillip to consumer outlays.

Despite the recent survey affirming that business capital outlays will be rising only modestly over the balance of the year, final sales will continue to be strongly supported by further advances in defense expenditures. The recent rate of housing starts and the volume of forward commitments seem to guarantee continued increase in construction expenditures for the rest of the year. Moreover, if the auto strike is not too prolonged, accumulation of inventories should be underway before year-end.

Outlook for resource use and prices

Industrial production in August apparently continued to rise at about the July rate--recouping, in the two months, half of the moderate downdrift over the first six months of the year. The production rise from June to August (0.6 per cent a month) about kept pace with the estimated rise in capacity and the rate of manufacturing capacity utilization stabilized at 84 per cent.

The strike now underway in the auto industry, of course, will act as a depressant on industrial activity until settled, while the subsequent "make-up" for strike losses will stimulate a sharp gain in the over-all index. By year-end, given our over-all demand projection, we are estimating that industrial production will be up at about 3 per cent from August and the rate of manufacturing utilization will rise to 85 or 86 per cent, still well below the peak rates reached in 1966.

The acceleration in industrial output now foreseen over the last half of the year, coupled with continued expansion in the construction, service, and government sectors, should lead to a rapid pace of growth in nonfarm employment and a tighter labor market in the fourth quarter. But, in contrast to earlier this year, the labor force has grown briskly in the past few months and further increases should permit a large employment increase with only a small further decline in unemployment. Continued strong pressure on wages is likely, but rising productivity associated with the pick-up in real output will act as a countervailing influence on unit labor costs.

Price increases for industrial commodities have been widespread since mid-July. The unusual concentration of price increases announced over the past two months represent a major effort to catch up on cost increases at a time when demands have begun to strengthen. Given demand prospects as we now see them, industrial prices are likely to continue to move upward, although the pace of advance may moderate if the rise in unit labor costs slows with resumption of large productivity gains. The recent weakening in farm prices and prospects for increased supplies may serve to temper further increases in consumer prices.

Capital markets outlook

While some areas of the capital market may be subject to pressure over the next few weeks, a marked increase in long-term rates does not appear likely, and some reduction in yields, especially on U.S. Government and corporate issues, cannot be ruled out. Unsold corporate and municipal securities currently in dealer positions do not appear unmanageable. Moreover, U.S. Government security dealers' holdings of long-term Government securities remain near minimal levels, and there is little evidence of strong investor desires to sell such securities. The recent Treasury financing involving a 3-1/2 year note resulted in an upward yield adjustment in the intermediate area but these securities appear to be in relatively firm hands, and dealer positions are not unusually large.

In August, corporate and municipal bond yields advanced to levels near or exceeding the peaks reached earlier in the summer, with the upward yield pressure stemming mostly from the continued heavy security offerings from private borrowers and the Federal Government. Yields have declined somewhat recently in the corporate bond market, however, as the volume of such new issues in September is running below the summer level. But even so, the September calendar is relatively large.

Current credit demand pressures appear relatively most persistent in the municipal market. In contrast to the corporate market, the new issue volume of state and local government bonds in September is estimated to be substantially greater than in July and August. Moreover, there has been a slackening in institutional demand for such securities over recent months.

Mortgage yields have adjusted upwards since spring, in response to developments in other sectors of the capital market, but upward pressures moderated in recent months as net savings inflows to major lenders in the market continued at relatively high levels.

Outlook for banking

Most economic factors suggest only moderate business loan demands this fall. The impact of accelerated tax payments is largely past for now. And with the forward thrust of GNP in the final months of the year expected to be centered on consumption, residential construction, and Government outlays--and only to a relatively minor extent on business inventories and fixed investment--there is little reason to expect a surge in business demands for short-term funds. With respect to the auto strike, a limited work stoppage of the scope presently assumed is likely to be quite minor in its effect on bank credit demands, probably tempering business loans to auto suppliers, loans to finance companies, and consumer credit.

The large inflows of negotiable CD's and Euro-dollars to banks since midyear has probably been mainly related to bankers' preparation for fall loan demands. Thus, if these demands do not come up to banker expectations, banks are likely to become less active in these markets. The weakness in business loans during recent weeks has apparently caused some major banks to reappraise at least their immediate needs for funds, and rates paid on short-term CD's have edged downwards. Banks are likely to continue receiving sizable inflow of other time and savings deposits, as market interest rates are not expected to be under renewed upward pressure in the period immediately ahead.

Demand deposits may be only a minor source of funds to banks over the coming weeks. U.S. Government deposits may rise some on average, reflecting the effect of tax collection after mid-September, while private demand deposits may remain about unchanged.

Balance of payments

The liquidity deficit appears to have been at a somewhat lower rate in July-August than in the first half year--perhaps $1-3/4 billion annual rate instead of $2-1/4 billion--even though receipts from special transactions were smaller. However, there is no evidence to suggest that the improvement will be maintained. Some of the improvement may reflect net flows out of sterling into dollars that are not directly measurable and will show up instead--as during the summer of 1966--as part of errors and omissions.

On the official reserve transactions basis, there was a substantial surplus in July-August. Most of the difference between the two measures stems from an increase of nearly $1 billion between June 30 and August 30 in the liabilities of U. S. banks to their foreign branches. Euro-dollar deposit rates during this period were unusually low relative to rates offered by U. S. banks on domestic CD's. Hence the U. S. banks were willing to absorb an increasing supply of Euro-dollar deposits and did not have to bid aggressively to obtain them. Meanwhile, Euro-dollar rates have appeared attractive to foreign investors relative to yields on money market instruments denominated in sterling and in most Continental European currencies. This explains the large supply of Euro-dollar deposits, which has doubtless been augmented by market uncertainties about the prospects for sterling.

The U. S. merchandise trade balance remained in July at the $3.9 billion annual rate of June, well below the April-May rate. Exports were little changed; a bulge in petroleum shipments was about matched by a drop in exports to Arab countries. Imports failed to show the hoped-for decline. Slack demand in Europe has held exports down and may also have helped to sustain imports by producing more vigorous European efforts to sell here. Probably no significant improvement in the trade balance is to be expected until Europe--and especially Germany--experiences a decisive economic upturn, and the available evidence suggests that that may not come for several months. Meanwhile, the trade balance could worsen if vigorous domestic expansion leads to a renewed expansion of imports.

Information on recent capital movements is very incomplete, with data on direct investments in the second quarter not yet available. Outstanding U.S. bank credit to foreigners declined in July, as would be expected on seasonal grounds. U.S. purchases of foreign securities were relatively large, but sales to foreigners of U.S. corporate stocks, and of bonds intended to finance direct foreign investments, were also sizable.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest Period	Amount Latest Period	Amount Preced'g Period	Amount Year Ago	Per Cent Change Year Ago*	Per Cent Change 2 Yrs. Ago*
Civilian labor force (mil.)	Aug'67	77.7	77.5	76.1	2.1	4.2
Unemployment (mil.)	"	3.0	3.0	2.9	1.9	- 8.9
Unemployment (per cent)	"	3.8	3.9	3.8	--	--
Nonfarm employment, payroll (mil.)	"	66.3	65.9	64.3	3.0	n.a.
Manufacturing	"	19.4	19.2	19.4	- 0.1	n.a.
Other industrial	"	8.1	8.1	8.0	1.1	n.a.
Nonindustrial	"	38.8	38.6	36.9	5.0	n.a.
Industrial production (57-59=100)	July'67	156.3	155.3	157.2	- 0.6	8.3
Final products	"	156.7	155.9	155.3	0.9	10.3
Materials	"	156.2	154.9	158.8	- 1.6	6.7
Wholesale prices (57-59=100)1/	"	106.5	106.3	106.4	0.1	3.5
Industrial commodities (FR)	"	105.2	105.2	104.6	0.6	3.0
Sensitive materials (FR)	"	100.0	100.1	106.3	- 5.9	- 2.2
Farm products, foods & feeds	"	107.3	106.8	109.9	- 2.4	3.5
Consumer prices (57-59=100)1/	"	116.5	116.0	113.3	2.8	5.7
Commodities except food	"	109.1	108.9	106.7	2.2	4.2
Food	"	116.0	115.1	114.3	1.5	4.6
Services	"	127.9	127.4	122.6	4.3	8.6
Hourly earnings, mfg. ($)	Aug'67	2.85	2.83	2.73	4.4	n.a.
Weekly earnings, mfg. ($)	"	115.76	114.16	113.02	2.4	n.a.
Personal income ($ bil.)2/	July'67	627.1	622.6	584.7	7.3	16.5
Corporate profits before tax ($ bil.)2/	QII'67	79.2	79.0	83.6	- 5.3	4.8
Retail sales, total ($ bil.)	July'67	26.7	26.5	25.4	5.4	13.0
Autos (million units)2/	"	8.4	8.4	8.3	1.9	- 5.4
GAF ($ bil.)	"	6.5	6.4	6.1	6.6	20.3
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	"	1,360	1,227	1,079	26.0	- 9.8
Factory workweek (hours)	Aug'67	40.6	40.5	41.4	- 1.9	n.a.
New orders, dur. goods ($ bil.)	July'67	23.4	24.3	24.4	- 4.1	5.3
New orders, nonel. mach. ($ bil.)	"	3.5	3.6	3.4	1.0	10.2
Common stock prices (1941-43=10)	Aug'67	94.49	93.01	80.65	17.2	9.2
Manufacturers' Inventories, book value ($ bil.)	"	80.7	80.4	73.0	10.6	23.4
Gross national product ($ bil.)2/	QII'67	775.1	766.3	736.7	5.2	14.8
Real GNP ($ bil., 1958 prices)2/	"	664.7	660.7	649.3	2.4	9.0

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

SELECTED DOMESTIC FINANCIAL DATA

	Week ended Sept. 2, 1967	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent)	3.60	3.90	4.70	3.45
U.S. Treas. bills, 3-mo., yield (per cent)	4.41	4.28	4.47	3.41
U.S. Treas. bills, 1-yr., yield (per cent)	5.05	5.04	5.10	3.84
Net free reserves 2/ ($ millions)	182	281	411	81
Member bank borrowings 2/ ($ millions)	46	78	353	46
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	5.33	5.33	5.33	4.41
20-year U.S. Treas. bonds 1/	5.14	5.13	5.14	4.53
Corporate new bond issues, Aaa 1/	5.97	5.93	5.99	5.21
Corporate seasoned bonds, Aaa 1/	5.68	5.63	5.68	5.11
Municipal seasoned bonds, Aaa 1/	3.80	3.79	3.87	3.46
FHA home mortgages, 30-year 3/	6.53	6.53	6.62	6.29
Common stocks, S&P corporate series 4/				
Prices, closing (1941-43=10)	93.68	94.08	95.83	88.29
Dividend yield (per cent)	3.16	3.12	3.34	3.06

	Latest month	Amount	3-month average	Change from year earlier: Latest month	Change from year earlier: 3-month average
New Security Issues (N.S.A., $ millions)					
Corporate public offerings	Sept. '67 e	1,750	2,158	368	795
State & local govt. public offerings	"	1,050	975	30	144
Comm. & fin. co. paper (net change in outstandings)	July'67	835	245	-579	-70

	Latest month	Outstandings Latest month	Change: Latest month	Change: 3-month average	Annual rate of change from: Preceding month	Annual rate of change from: 3 months ago	Annual rate of change from: 12 months ago
		($ billions)			(per cent)		
Banking (S.A.)							
Total reserves 1/	Aug.'67	24.09	0.25	0.21	12.6	10.9	6.9
Credit proxy 1/	"	266.2	3.8	3.0	17.4	14.0	8.4
Bank credit, total 5/	July '67	334.1	7.4	3.4	27.2	12.3	8.1
Business loans	"	83.8	1.2	0.7	17.4	10.3	8.0
Other loans	"	134.6	2.9	0.8	26.4	7.6	4.5
U.S. Govt. sec.	"	59.1	2.6	0.8	55.2	17.7	8.6
Other securities	"	56.7	0.8	1.0	17.2	22.3	16.9
Total liquid assets 1/ 5/	"	629.6	6.7	4.1	12.9	8.0	6.1
Demand dep. & currency 1/	Aug.'67	179.2	1.3	1.6	8.8	10.8	5.3
Time & sav. dep., comm. banks 1/	"	177.2	2.6	2.4	17.9	16.9	12.9
Savings, other thrift instit. 5/	July'67	178.3	1.7	1.5	11.5	10.1	8.5
Other 5/ 6/	"	98.8	1.1	-1.2	13.5	-14.4	-4.5

N.S.A. -- not seasonally adjusted. S.A. -- seasonally adjusted.
e. Estimated by F.R.B. 1/ Average of daily figures. 2/ Average for statement week ending August 30. 3/ Latest figure is for July. 4/ End of week closing prices.
5/ Month-end data. 6/ U.S. savings bonds and U.S. Government securities maturing within 1 year.

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

	1967					1966		
	July	June	May	QIIp	QI	QIV	QIII	QII
				Seasonally adjusted				
Current account balance				920	1,085	838	873	1,108
Trade balance 1/	320	320	390	1,136	999	722	802	956
Exports 1/	2,555	2,550	2,510	7,723	7,691	7,402	7,382	7,181
Imports 1/	-2,235	-2,230	-2,120	-6,587	-6,692	-6,680	-6,580	-6,225
Services, etc., net				-216	86	116	71	152
Capital account balance					-1,416	-1,028	-1,315	-1,032
Govt. grants & capital 2/				-931	-1,205	-724	-759	-988
U.S. private direct investment					-695	-922	-900	-1,006
U.S. priv. long-term portfolio					-154	69	-5	-69
U.S. priv. short-term					-157	-231	-27	-60
Foreign nonliquid					795	780	376	1,091
Errors and omissions					-206	-229	277	-198
Balances, with and without seasonal adjustment (- = deficit)								
Liquidity bal., S.A.				-511	-535	-419	-165	-122
Seasonal component				318	300	-47	-530	-27
Balance, N.S.A.	-483	317	-172	-193	-235	-466	-695	-149
Official settlements bal.				-813	-1,824	-18	861	-175
Seasonal component				131	542	-180	-456	-210
Balance, N.S.A. 3/	-185	168	-251	-682	-1,282	-198	405	-385
Memo items:								
Monetary reserves (decrease -)	-50	331	37	419	-1,027	6	-82	-68
Gold purchases or sales (-)	-33	-45	-20	-15	-51	-121	-173	-209

1/ Balance of payments basis which differs a little from Census basis.
2/ Net of loan repayments.
3/ Differs from liquidity balance by counting as receipts (+) increases in liquid liabilities to commercial banks, private nonbanks, and international institutions (except IMF) and by not counting as receipts (+) increases in certain nonliquid liabilities to foreign official institutions.

THE ECONOMIC PICTURE IN DETAIL

The Nonfinancial Scene

Gross national product. The assumptions underlying the staff projections of GNP have been modified in two major respects from those of last month: we have assumed that no surcharge on personal taxes will be effective before the end of the year, rather than on October 1, and the effects of the automobile strike on consumption and inventories in both the third and fourth quarters have been more explicitly taken into account.

The effects of the auto strike on GNP, under our assumptions, are rather small. We have assumed that the strike will be confined largely to the Ford Motor Company, that full operations in the industry will be resumed before the end of October and that shut-downs in the other companies, if any, will be of short duration. Since much of the impact of the strike under these assumptions takes place in the third quarter, the effects on production and sales in the fourth quarter should be limited. Obviously, if lengthy strikes also affect GM and Chrysler, the effects on GNP in the fourth quarter would be more damaging.

On the other hand, the assumed postponement of the effective date of the surcharge on personal taxes has a substantial impact in raising fourth quarter gross national product both in current and constant dollars, not to mention the probable ensuing carry-over effects on the economy. Besides raising the real growth rate to a clearly unsustainable pace, it would likely reinforce existing wage-price pressures.

Our current GNP projection has slightly larger gains in the third quarter in both current and constant dollars than the previous projection. Real GNP is now projected to grow at an annual rate of over 4-1/2 per cent.

Although auto sales have weakened recently, largely as a result of inadequate inventories, there have been compensating increases in other expenditures. For example, sales of appliances and furniture have shown greater strength than anticipated. Outlays for residential construction in the third quarter are also expected to rise more sharply than projected previously, partly as a result of the effects of data revisions.

In contrast, the projection for the fourth quarter has been modified substantially, largely because of the assumed deferral of the tax increase. GNP is now assumed to increase at an annual rate of $20 billion--$5 billion above our previous estimate. The annual rate of real growth is over 6 per cent, even though the GNP deflator is expected to rise at an annual rate of 3.7 per cent from the third to fourth quarters.

About half of the rise in the GNP from the third to the fourth quarter is in consumer spending for goods and services. This large advance stems mainly from accelerated gains in personal income. A rather high rate of auto purchases is projected, arising partly from deferred demand. The growth in the consumer sector next quarter is supplemented by a further large increase in government spending, a moderate rise in residential construction outlays, and a switch from inventory decumulation to some inventory rebuilding.

Personal income is rising rapidly, reflecting both sizable employment gains and a stepped-up pace of increase in wage rates. The workweek in manufacturing has also lengthened somewhat in recent months. Under these conditions, a steady rise has been occurring in retail sales. Thus, weekly retail sales data suggest a sizable advance in spending for nondurable goods in August. On the other hand, as a result of the sharp drop in the rate of auto sales in August and a possible decline in September because of the auto strike, we are estimating domestic sales of 7.5 million units, annual rate, in the present quarter, down from 7.8 million in the second quarter. In the rebound, about 8.2 million, perhaps more, new cars are expected to be sold in the fourth quarter, and at higher prices. This, along with further expansion in sales of other consumer durable goods, results in a projection of a sizable rise in consumer durable goods sales (about $2.5 billion, annual rate).

The substantial rise in consumer spending normally would be expected to be associated with a drop in the rate of consumer saving. However, owing to the prospective sharp rise in income in the fourth quarter, the saving rate is maintained at about 6.7 per cent, making for an unusually high rate for over a year.

Defense spending continues to be a strong expansionary force. Orders have been sustained at high levels and a military pay raise of over $1 billion seems likely in the fourth quarter. The recent request for a $4 billion supplemental appropriation for Vietnam costs has not allayed the suspicion that January may see yet another request to spend more, although obviously major uncertainties remain in this area. The projected increases in defense outlays of about $2.5 billion a quarter are consistent with the Budget plus the supplemental of $4 billion; it should be stressed, however, that this implies a marked slowing of the rise in military outlays in the first half of 1968.

Federal non-defense purchases are moving up faster than expected, largely because of CCC outlays. The expected Federal pay raise for civilian workers will also add to outlays in the fourth quarter. In the State and local sector, wage rates and employment are both rising rapidly, contributing to a steady rise in outlays.

Residential construction activity has risen substantially in this quarter as the higher rate of starts in the first half of the year has been translated into activity. New home starts are also rising from an annual rate translated into activity. New home starts are also rising from an annual rate of 1.2 million units in the second quarter to about 1.3 million in the present quarter, judging from advance commitments, permits, and July data. Multifamily starts, which have been lagging, are beginning to show more strength, and the unsold inventory of new homes is low. A further moderate rise in residential construction activity in the fourth quarter seems assured both by the third quarter increase in starts and by the assumed higher level of starts in the fourth quarter. This prospect seems likely despite high mortgage rates, and recent uncertainty in financial markets.

The downward drag on GNP from the inventory adjustment is no longer expected to be an important factor limiting growth. Although manufacturer's inventories are still high relative to sales, excessive stocks are expected to be brought into more sustainable relationships to sales by increases in shipments rather than by further production cuts. In fact, distributor's stocks, which are no longer high, could be drawn down unintentionally and temporarily by any sharp and unexpected increase in sales, although this possibility has not been incorporated in our projection. In fact, apart from autos, we assume only small offsetting changes in inventories in this quarter.

The outlook for automobile stocks is difficult to assess. Because of the early changeover to 1968 models, the build-up of new models in dealers' show rooms has thus far been larger than ususal but, with the strike now underway, this advantage may be reversed by the end of the month. Meanwhile, stocks of 1967 model cars have been run down to very low levels. The net inventory decumulation attributable to autos may be $1 billion or more in this quarter. In the fourth quarter, the projection incorporates the resumption of intended net inventory accumulation on a modest scale, even though auto stocks may show a smaller than seasonal rise as sales are stimulated by deferred demands.

The expectation that business plant and equipment expenditures will remain essentially on a high plateau this year has been supported by the results of the most recent survey of investment intentions by Commerce-SEC. This survey indicates that outlays for this year as a whole will be slightly below those predicted earlier, with a small rise in the second half of the year. Increased business purchases of autos in the fourth quarter and a further rise in farm equipment outlays and private institutional building, account for the larger rise in fixed investment in the projection than in the plant and equipment survey.

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September 7, 1967

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarterly figures at annual rates)

	1966	1967 Proj.	1966		1967			
							Projected	
			III	IV	I	IIp	III	IV
Gross National Product	743.3	785.3	748.8	762.1	766.3	775.1	789.8	810.0
Final sales	729.9	783.2	737.4	743.6	759.2	774.6	790.6	808.5
Private	575.6	605.2	579.7	581.9	588.8	599.6	610.4	622.0
Personal consumption expenditures	465.9	493.2	470.1	473.8	480.2	489.7	496.7	506.3
Durable goods	70.3	72.5	70.9	70.6	69.4	72.5	72.7	75.3
Nondurable goods	207.5	219.0	209.5	210.3	214.2	217.2	220.5	224.0
Services	188.1	201.7	189.8	192.9	196.6	200.0	203.5	207.0
Gross Private domestic investment	118.0	108.7	116.4	122.2	110.4	105.1	107.5	111.7
Residential construction	24.4	24.2	23.7	20.9	21.4	23.1	25.6	26.8
Business fixed investment	80.2	82.4	81.2	82.8	81.9	81.5	82.7	83.4
Change in business inventories	13.4	2.1	11.4	18.5	7.1	.5	-.8	1.5
Nonfarm	13.7	2.0	12.0	19.0	7.3	.6	-1.0	1.0
Net Exports	5.1	5.4	4.6	4.3	5.3	5.3	5.4	5.5
Gov't. purchases of goods & services	154.3	178.0	157.7	161.7	170.4	175.0	180.2	186.5
Federal	77.0	91.4	79.5	81.5	87.1	89.5	92.5	96.5
Defense	60.5	73.9	63.0	65.6	70.2	72.5	75.0	77.9
Other	16.5	17.5	16.6	15.9	16.8	17.0	17.5	18.6
State & local	77.2	86.6	78.1	80.2	83.3	85.4	87.7	90.0
Gross National product in								
Constant (1958) dollars	652.6	670.5	654.8	661.1	660.7	664.7	672.7	683.5
GNP Implicit deflator (1958=100)	113.9	117.1	114.4	115.3	116.0	116.6	117.4	118.5**
Personal income	584.0	626.4	589.3	601.6	612.9	619.1	629.5	644.0
Wage and salaries	394.6	424.0	399.6	407.4	414.7	418.3	426.0	437.0
Disposable income	508.8	544.5	512.4	522.0	532.7	540.0	546.9	558.4
Personal saving	29.8	37.1	29.2	34.6	38.8	36.0	35.9	37.6
Saving rate (per cent)	5.9	6.8	5.7	6.6	7.3	6.7	6.6	6.7
Corporate profits before tax	83.8	80.9	84.0	83.9	79.0	79.2	81.0	84.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	143.2	151.6	145.6	148.6	149.1	148.2	152.2	156.7
Expenditures	142.9	165.6	146.3	151.9	160.9	162.8	166.9	171.6
Surplus or deficit (-)	.3	-14.0	-.7	-3.3	-11.9	-14.6	-14.7	-14.9
Total labor force (millions)	78.9	80.8	79.1	79.8	80.3	80.2	81.1	81.6
Armed forces "	3.1	3.5	3.2	3.3	3.4	3.5	3.5	3.5
Civilian labor force "	75.8	77.3	76.0	76.5	76.9	76.7	77.6	78.1
Unemployment rate (per cent)	3.8	3.7	3.8	3.7	3.7	3.8	3.8	3.6
Nonfarm payroll employment (millions)*	64.3	66.2	64.3	65.0	65.7	65.7	66.2	67.0
Manufacturing*	19.2	19.3	19.3	19.5	19.5	19.3	19.3	19.6
Industrial production (1957-59=100)	156.3	157.7	157.6	158.8	157.[illegible]	155.7	157.0	161.0
Capacity utilization, manufacturing (per cent)	90.5	85.3	90.6	89.8	87.0	[illegible]5.0	84.0	85.0
Housing starts, private (millions A. R.)	1.17	1.26	1.08	.92	1.12	1.2[illegible]	1.33	1.39
Sales new U.S.-made autos (millions, A. R.)	8.38	7.73	8.47	8.13	7.33	7.83	[illegible]50	8.25

* Revised data.
** 118.3 without Federal pay increase

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Quarterly changes are at annual rates)

	1966	1967 Proj.	1966 III	1966 IV	1967 I	1967 IIp	1967 Projected III	1967 Projected IV
	In Billions of Dollars							
Gross National Product	59.4	42.0	12.1	13.3	4.2	8.8	14.7	20.2
Final sales	55.4	53.3	14.7	6.2	15.6	15.4	16.0	17.9
Private	37.5	29.6	8.2	2.2	6.9	10.8	10.8	11.6
GNP in constant (1958) dollars	35.9	17.9	5.5	6.3	-.4	4.0	8.0	10.8
Final sales	32.1	28.8	8.3	-0.3	10.1	10.3	9.7	8.5
Private	21.9	12.9	4.4	-2.8	3.7	7.1	6.2	5.6
	In Per Cent Per Year							
Gross National Product	8.7	5.7	6.6	7.1	2.2	4.6	7.6	10.2
Final sales	8.2	7.3	8.1	3.4	8.4	8.1	8.3	9.1
Private	7.0	5.1	5.7	1.5	4.7	7.3	7.2	7.6
Personal consumption expenditures	7.6	5.9	7.4	3.1	5.4	7.9	5.7	7.7
Durable goods	6.5	3.1	15.8	-1.7	-6.8	17.9	1.1	14.3
Nondurable goods	8.5	5.5	4.6	1.5	7.4	5.6	6.1	6.3
Services	6.9	7.2	7.5	6.5	7.7	6.9	7.0	6.9
Gross private domestic investment	9.9	-7.9	-7.1	19.9	-38.6	-19.2	9.1	15.6
Residential construction	-9.6	-.8	-32.6	-47.3	9.6	31.8	43.3	18.7
Business fixed investment	12.8	2.7	12.7	7.9	-4.3	-2.0	5.9	3.4
Gov't purchases of goods & services	13.1	15.4	17.2	10.1	21.5	10.8	11.9	14.0
Federal	15.3	18.7	24.6	10.1	27.5	11.0	13.4	17.3
Defense	20.8	22.1	31.5	16.5	28.0	13.1	13.8	15.5
Other	-1.2	6.1	0.0	-16.9	22.6	4.8	11.8	25.1
State & local	10.9	12.2	10.0	10.8	15.5	10.1	10.8	10.5
GNP in constant (1958) dollars	5.8	2.7	3.4	3.8	-.2	2.4	4.8	6.4
Final sales	5.3	4.5	5.2	-0.2	6.3	6.3	5.8	5.0
Private	4.4	2.5	3.4	-2.2	2.9	5.5	4.7	4.2
GNP Implicit deflator	2.7	2.8	3.2	3.1	2.4	2.1	2.7	3.7*
Personal income	8.6	7.3	8.3	8.3	7.5	4.0	6.7	9.2
Wage and salaries	9.9	7.5	9.6	7.8	7.2	3.5	7.4	10.3
Disposable income	7.8	7.0	7.2	7.5	8.2	5.5	5.1	8.4
Corporate profits before tax	9.5	-3.5	1.9	-.5	-23.4	1.0	9.1	17.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.7	5.9	11.3	8.2	1.3	-2.4	10.8	11.8
Expenditures	15.8	15.9	22.8	15.3	23.7	4.7	10.1	11.3
Nonfarm payroll employment	n.a.	3.0	n.a.	4.4	4.3	0.0	3.0	4.8
Manufacturing	n.a.	.5	n.a.	4.1	0.0	-4.1	0.0	6.2
Industrial production	9.0	.9	6.2	3.0	-4.5	-3.3	3.3	10.2
Housing starts, private	-20.4	7.7	-62.5	-59.3	87.0	32.1	39.7	18.0
Sales new U.S.-made autos	-4.4	-7.8	33.6	-15.8	-39.6	27.3	-16.9	40.0

* 3.1 per cent without Federal pay increase.

Industrial production. Industrial production is estimated to have increased again about one point or more in August from the preliminary July level of 156.3. At an estimated 157.3, the total index would be one per cent below the December peak and up one per cent from the June low.

Auto assemblies in August, after allowance for the early and relatively short model changeover period, rose about 3 per cent. If the strike against Ford is not settled before the end of September, the direct loss in the total index will be slightly over 1 point. (A strike against GM would have resulted in a direct loss of about 2 points in the total index.)

Among other consumer goods, output of television sets rose sharply in August partially in response to the reduction in inventories by the month-long RCA strike and partially because of the introduction of new models. Output of some household appliances, however, apparently declined further.

Preliminary data indicate a rise in production of nonelectrical machinery but a decline in electrical equipment. Output of commercial and military aircraft and defense equipment increased further.

Output of iron and steel, reflecting mainly demands from the auto industry, increased. (When the figures are in, it may be necessary to adjust the seasonal factors to allow for the impact of the early auto model changeover on steel production.) Output of nonferrous metals declined further in August as the copper strike continued. Production of crude oil rose 3.5 per cent further following an 8 per cent increase from June to July.

Despite the increases in the total index in July and probably in August, it is still not certain that an upward trend in industrial production has set in. Output in some industries has declined further and in others has shown little or no improvement. Recent increases in production of some products such as autos, television sets, and crude oil, have been in response to special supply stiuations and not necessarily to a broad upswing in demand. Retail inventories, however are no longer excessive and sales have increased substantially in the last three months. If this improvement continues it will undoubtedly be reflected in a broadening increase in production.

Manufacturing utilization rate. The July rate of manufacturing capacity utilization remained unchanged from the June level of 83.9 per cent. An increase in the operating rate of the advanced product sector was offset by a further decline in the primary products industries. Prior to July the operating rate had fallen steadily from a peak of 91.0 per cent in June of last year. The utilization rate for August is expected to be little changed from July.

UTILIZATION RATES

Industry	April	May	June	July
Manufacturing	85.7	84.6	83.9	83.9
Primary products	83.9	82.4	81.7	81.4
Advanced products	86.9	86.1	85.5	85.7

Unit auto sales and inventories. Sales of new domestic automobiles in August were at a seasonally adjusted annual rate of 7.5 million units, compared with 8.4 million in July. The stock of new autos (including unintroduced 1968 models) dropped one-fifth during August and was 13 per cent below last year.

The sharp drop in sales of new cars has been caused by supply shortages, according to industry sources. The table below gives the salable stock (new unintroduced models subtracted from total stock figures) for July and August since 1964. The figures show that stocks at the beginning of this August were considerably below 1965 and 1966, when inventories were high, but were only a little smaller than in August 1964.

SALABLE STOCKS OF NEW DOMESTIC AUTOS
(Thousands of units)

	1964	1965	1966	1967
July 31	1,254	1,390	1,559	1,183
August 10	1,081	1,356	1,369	1,001
August 20	874	1,147	1,170	859
August 31	683	932	951	669

The scheduled introduction dates for new autos begin September 14 with Chrysler, followed by General Motors on September 21, Ford on September 22, and American Motors on September 26. These dates average about 10 days earlier than last year.

Used car sales eased slightly in the first 20 days of August from last month and were off about one-tenth from a year ago. The stock of used cars dropped 5 per cent during the 20 days but remained at the year ago level. Prices of used cars reported in the CPI increased almost 2 per cent from June to July.

Sales of imported cars in the first six months were up 15 per cent from last year but are expected to slow somewhat in the second half. For the year, the import share of the auto market is expected to rise to 9 per cent from 8 per cent last year.

Consumer credit. Expansion in outstanding consumer instalment credit, which had spurted in June, fell back somewhat in July. The July increase, however, was still larger than in either of the late spring months.

The slackened rate of expansion was evident for all major types of credit, but experience varied amont institutions. Commercial bank credit was well maintained, not only through regular activities but also through the expanding use of credit card, check-credit and other special facilities.

In the automobile market in July, commercial banks placed customary emphasis on direct lending to purchasers prior to new model introduction. Finance companies, on the other hand, experienced more than the usual reduction in auto credit holdings. One contributing factor here has been the change in relative importance of the credit buyer at the end of this model year. Last year, price concessions attributable to heavy inventories brought marginal buyers into the credit market near the end of the model year. In contrast, the inventory situation this year has not produced the same buyers' market. Thus, credit purchases have been relatively less important and the average note per car has not increased as it did at this time last year.

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

Period	Extensions	Repayments	Net Increase in Outstandings
1966-- June	80.1	73.5	6.6
July	80.8	74.0	6.8
August	80.3	73.0	7.2
September	78.9	73.2	5.7
October	78.3	73.7	4.6
November	79.9	74.6	5.3
December	77.2	73.3	3.9
1967-- January	78.0	74.7	3.4
February	78.0	75.4	2.6
March	78.1	75.0	3.2
April	79.3	76.7	2.6
May	78.6	76.3	2.3
June	81.9	78.4	3.5
July	81.3	78.6	2.7

Residential construction. Seasonally adjusted private housing starts, which had edged off in June, spurted upward again in July, based on the recently reconstituted series now available from the Census Bureau. Most of the rise in July stemmed from the extremely volatile multifamily sector, however, and regionally most of that was apparently concentrated in the Northeast, where starts soared to the highest rate since late 1965.

PRIVATE HOUSING STARTS AND PERMITS

	July 1967 (Thousands of units)1/	Per cent change from	
		June 1967	July 1966
Starts	1,360	+11	+26
1 - family	868	+ 2	+20
2- or more-family	492	+30	+39
Northeast	284	+52	+35
North Central	349	+15	+38
South	484	- 4	+ 9
East	243	+ 6	+41
Permits	1,089	- 2	+18
1 - family	626	- 1	+15
2- or more-family	463	- 3	+22

1/ Seasonally adjusted annual rates; preliminary.

Because of the pause in permit activity shown in the table the volatility of the starts series and other factors, the short-run sustainability of the July rate of starts is open to question. Nevertheless, the strength displayed in July clearly points to the probability of a better than 1.3 million annual rate of starts for the third quarter as a whole. This would be in line with earlier expectations and would compare with a rate of 1.2 million in the second quarter and somewhat less than that in all of 1966. Further improvement--which still seems a good possibility this year--will depend on the extent to which the relatively advanced rate of multifamily starts can at least be maintained and that for single family structures can be raised further.

Although the basic demand potential for both types of structures has continued to grow, only multifamily starts have thus far even temporarily approached the average prevailing as recently as 1965. While activity in single family starts has also risen further, the pace has been slowed in part by renewed caution by speculative builders in a situation where interest rate movements, the return of steep discounts on Government-underwritten mortgages and other factors, including rising building costs, have tended to revive uncertainty about potential-buyer reactions in the market for both new and existing properties over the period ahead. In June, the latest month for which data are available, seasonally adjusted inventories of new homes available for sale--including those under construction--by speculative builders were still below their end-of-1966 level, even though the rate of sales had advanced substantially. As a result, the ratio of available stocks of houses to sales was still one of the lowest in the history of the series, which began in late 1962.

Business fixed investment. Business spending for new plant and equipment will be nearly 2 per cent higher in the fourth quarter of this year than in the second quarter, according to the Commerce-SEC August survey of business plans. August plans indicate an increase in spending for new plant and equipment in the current quarter not much smaller than was planned in May ($1.0 billion as compared $1.25 billion, annual rates) but a considerably smaller increase in the following quarter ($.2 billion as compared with $.8 billion annual rates). Outlays in the fourth quarter would be slightly less than a year earlier. The August survey also confirms the small second quarter decline in fixed capital outlays indicated in the May survey, following the relatively large decline in the first quarter.

If August investment plans are realized, nonfarm business fixed capital outlays this year would total $62.0 billion, 2.3 per cent more than last year in terms of current prices. The May survey had shown a rise of 2.9 per cent, and the February survey 3.9 per cent. The 2.3 per cent increaee now indicated for 1967 compares with increases of about 15 per cent or more in each of the three preceding years.

Manufacturers have reduced planned outlays for the year by 2 per cent since May, with a downward revision in durable goods industries of nearly 3 per cent. On the other hand, nonmanufacturing businesses as a whole have raised their plans a trifle, with upward revisions of around 3 per cent by railroads, other transportation industries and public utilities. Other nonmanufacturing industries have reduced earlier plans.

BUSINESS PLANS FOR NEW PLANT AND
EQUIPMENT EXPENDITURES

	1967		1967 II*	1967 III	1967 IV
	Billions of Dollars	Per Cent change From '66	(Billions of dollars, SAAR)		
All industries	62.03	2.3	61.50	62.50	62.65
Manufacturing	27.31	1.2	27.00	27.10	27.35
Durable goods	14.10	.8	13.75	13.95	14.50
Nondurable goods	13.21	1.6	13.25	13.15	12.90
Nonmanufacturing	34.72	3.2	34.50	35.40	35.30
Mining	1.48	.7	1.30	1.55	1.60
Railroad	1.57	-20.7	1.55	1.45	1.45
Other transportation	3.92	14.0	3.90	4.40	4.35
Public utilities	9.41	11.9	9.70	9.65	9.10
Communication, commercial and other	18.34	-.11	18.05	18.30	18.70

* Actual outlays

The National Industrial Conference Board survey of second quarter capital appropriations by the 1,000 largest manufacturers indicates a 4 per cent decline in new approvals with a slightly larger decline by durable goods producers. Capital expenditures exceeded new appropriations by nearly 6 per cent (by more than 10 per cent for nondurable goods firms) and backlogs of unspent appropriations declined to the lowest level in more than a year (in more than eighteen months for nondurable goods producers). Nevertheless, the second quarter closing backlogs appear to be sufficient to support expenditures at the second quarter rate well into next year.

New and unfilled orders. New orders received by manufacturers were off 1.5 per cent in July from the June level. This downturn followed five consecutive monthly increases. Durable goods orders declined 3.6 per cent while nondurables were up 0.9 per cent. Reductions were concentrated in the aircraft, nonelectrical machinery and fabricated metal products industries. Almost all the decline in the total and three-fourths of the decline in durables was accounted for by the volatile aircraft sector, where orders were off 22 per cent. New orders for the machinery and equipment grouping were down 2.5 per cent, following strong increases in each of the four previous months.

Unfilled orders for manufactured goods were up 0.4 per cent. This marked the third consecutive monthly increase, but the rise was smaller than in the two previous months.

Business inventories. Following liquidation at a sizable pace in June, total business inventories may have shown little change or increased moderately in July. Manufacturers shifted from liquidation totaling $190 million in June to accumulation of about $275 million in July. According to confidential figures (still preliminary) to be released next week, the book value of retail inventories continued to decline in July, but by less than $100 million--only a third as much as in June; auto stocks were reduced sharply further but other durable goods lines and nondurable goods stores showed some, partly offsetting, increases. Wholesale trade figures are not yet available for July; in the preceding three months wholesale stocks declined (at an average of $135 million per month) but these figures sometimes fluctuate abruptly and changes are difficult to anticipate.

The July rise in factory stocks reflected an abrupt step-up in accumulation in the durable goods sector--from a nominal $25 million in June to $405 million in July. Inventory liquidation continued in nondurable goods industries.

The significance of the sharp July spurt in durable goods industries as the beginning of a longer run upward movement is debatable because a very large part of the rise was accounted for by a shift in the motor vehicle industry from liquidation totaling $100 million in June to accumulation of almost $150 million in July. This sort of June-July shift occurred in this industry in both 1966 and 1965, and it appears to be a quasi-seasonal phenomenon associated with the beginning, or approach, of the model changeover, which may not have been completely taken into account in seasonal adjustment of the figures.

Nevertheless, apart from this auto industry development, the rate of inventory accumulation was stepped up considerably in the defense products industries--to the highest rate since last December. This step-up followed a large increase in new orders and a renewed rapid increase in unfilled orders during the first half of the year following a period of stability in late 1966. As in the case of the auto industry, the bulk of the July accumulation in defense industries was apparently in work-in-process stocks.

Shipments by manufacturers edged up in July--with small gains for both durable and nondurable goods industries--and the stock-sales ratio was unchanged at 1.79, as compared with 1.65 a year earlier.

Labor market. The employment situation showed general firmness in August. Nonfarm payroll employment rose sharply, by 300,000, from July, but about half of the gain was due to a seasonal employment pick-up in autos after the model changeover and the return to work of striking rubber workers. As has been the case in most recent months, significant employment increases were concentrated in government--largely State and local--and in the private services. However, the labor market remained fairly tight, and the unemployment rate edged down by one-tenth of a point for the second successive month, to 3.8 per cent.

The anticipated acceleration of output later this year will make increasing demands on available manpower. With continued expansion in services and government probable, along with the beginning of recovery in manufacturing and increased construction activity, nonfarm employment should show a rapid pace of growth for the rest of the year, assuming an auto strike of only limited extent and duration. This picture suggests a tighter labor market ahead, with unemployment declining somewhat further in the fourth quarter.

Labor supply should be adequate to meet the increased demands, for the time being at least. Some slack exists. Manufacturing employment in August remained below its January peak, and unemployment of blue collar workers (especially the less skilled) was somewhat above the lowest levels of 1966. In additicn, the workweek in manufacturing remained some three quarters of an hour below a year ago. In contrast to earlier this year, the labor force has grown briskly in the past few months; the civilian labor force was up by 200,000 in August, and was 1.6 million above its level a year earlier. The adult male labor force should grow at a more rapid rate, and the armed forces should be absorbing fewer men. Since easing of demands earlier this year had reduced the labor force participation of adult women somewhat from late 1966, an acceleration of output could also result in additional numbers entering the labor market. But the outlook does suggest developing shortages of skilled labor by year-end, and continued strong pressure on wages. Increased labor compensation should be offset somewhat, however, by rising productivity associated with the rapid recovery of real output.

Nonfarm employment. The nonfarm payroll employment figures were subject to unusually large revisions this past month as the regular monthly adjustment of preliminary data was augmented by the annual revision of seasonals and adjustment to new benchmarks. (See Appendix A). The result was to raise the nonfarm employment level slightly, but to reduce what had been a 200,000 June-to-July increase in total nonfarm employment to only 45,000. But with the August increase of 300,000, the revised figures show that nonfarm jobs have shown a large increase since May; in August, nonfarm employment was 600,000 above the May trough and 1.9 million above August 1966.

In manufacturing, employment rose by 185,000 in August, to more than make up the 115,000 (revised) dip in July. Although the increase reflected largely the seasonal recovery of employment in autos after the model changeover (up 100,000) and the return from strike of rubber workers (up 50,000), there were also smaller, but significant employment gains in the electrical equipment and machinery industries. Manufacturing employment as a whole, however, still remains some 200,000 below the January peak, with most of the decline in the primary and fabricated metals (partly the result of the copper strike), and electrical equipment industries.

Strength has been evident in the manufacturing workweek which, at 40.6 hours, is up three-tenths of an hour from the May-June level; the rise in August was only one-tenth, but the workweek in durable goods industries rose by three-tenths. The pick-up in employment and hours combined to raise manufacturing manhours by 1-1/2 per cent in August. Increases in average hours were general among durable goods industries, with rises of more than two-tenths in machinery, transportation equipment (reflecting the model changeover in autos) and in instruments. However, the workweek in manufacturing as a whole remains well below its year-ago level of 41.4 hours.

Among nonmanufacturing industries, the August employment changes continued the recent pattern of growth. The government (mainly State and local) and service and finance sectors continued to dominate the picture, with increases of about 40,000 and 80,000, respectively. In addition, trade picked up with a 30,000 job gain. On the other hand, contract construction dipped slightly, after rising by over 40,000 (revised) in July.

Earnings. The substantial wage settlements of recent months are beginning to be reflected more clearly in the earnings figures. Average hourly earnings of production workers in all private nonfarm industries remained unchanged in August at $2.67, but they were 4.7 per cent above the August 1966 level. Despite reduced overtime at premium pay, manufacturing hourly earnings--which showed no change over the month--now average 4.4 per cent above August a year ago. Hourly earnings were up more than 5 per cent over the year in every major nonmanufacturing industry for which data are available.

Industrial relations. Negotiations in the automobile industry dominate the industrial relations scene, and the possibility of an extensive and protracted strike has raised serious questions concerning the economic outlook for the remainder of this year. The over-all impact of any walkout will depend, of course, both on which companies are struck, and the length of the strikes. The UAW chose Ford as the target company for negotiations and Ford workers went out on strike September 7. If the 1964 experience is repeated other firms could also face a walkout. Chrysler was the target company in the 1964 negotiations, and settled on national issues without a strike; on the other hand, General Motors and Ford's production was severely affected by strikes over local issues.

Union and management are now relatively far apart: the UAW demand is for a wage and fringe package costing about 90-cents over a three-year period, or over 6 per cent a year, not counting cost-of-living adjustments; management has countered with a package estimated at about 60-cents, or over 4 per cent. The companies' offer in general meets many of the union's fringe demands and most of the difference is in wages; (average hourly cost of wages and fringes combined is estimated to be about $4.68).

The Union's basic wage demands appear to be generally in line with recent wage settlements in manufacturing. The recently negotiated rubber contract, which is viewed as something of a pattern for autos, provided about 80-cents per hour over three years for most rubber workers. These figures are not entirely comparable, however, since the contracts in the rubber industry exclude cost-of-living adjustments and about 15-cents of the settlement included a catch-up for past price increases. The auto workers on the other hand have received 11-cents extra in escalator adjustments in 1966 alone, and a total of 18-cents under the past three-year contract, an average of almost 2 per cent a year, in addition to the 2.8 per cent per year in deferred wage increases. Thus, the companies argue, a lower wage increase for the auto workers would be comparable, since they do not have to "catch up" with rising prices.

A major problem in the current negotiations is the demand for a substantial pay differential by skilled workers, who have been given veto power over the contract. The companies have indicated their willingness to bargain on this matter, but no specific amounts have been mentioned so far. Granting a wage differential may not be too costly to the companies, since skilled workers comprise less than a fifth of the employment total, but the companies may be reluctant to grant a substantial increase, because large differentials send to create presuure for further wage adjustments.

In addition to the issue of wage rates, the negotiators face a number of thorny issues that may hold up settlement; including the UAW demand for a guaranteed monthly wage, a more generous supplemental unemployment benefits (SUB) plan, equal pay for Canadian workers, and increased pensions for retired as well as current workers, tied to the consumer price index.

The companies have so far offered, in addition to wage increases, to raise monthly pension benefits by 24 per cent, and to provide additional medical and disability benefits. They will probably also go along with an increase in SUB payments from 65 to 80 per cent of wages--which was provided in the rubber contract. A management proposal to limit the benefits from the cost of living escalator is hardly likely to be received with favor by the UAW. Equal pay for Canadian workers was not mentioned in the management proposal.

The UAW demands suggest an increased emphasis on wage rate increases; nonwage items took priority in the 1964 settlement. The attention to wages at this time reflects both the pressure of rising consumer prices and the special concern for current income on the part of the large number of young union members who have entered the industry in the past several years of employment expansion. At the same time, the Union has not given up its interest in improving the position of older and retired workers, and in providing for production workers some of the prerequisites and job security generally associated with white collar employment.

Wholesale prices. The wholesale price index, which declined from last September to April and then rose to July, declined again in August according to the BLS preliminary estimate. Farm and food prices declined nearly two per cent in August, reversing half the run-up over the preceding three months, and the total wholesale price index decreased 0.4 per cent despite a pronounced rise in prices of industrial commodities. Fluctuations in the total index over the past year--within a relatively moderate range around 106 per cent of the 1957-59 average--have reflected primarily sharp movements in prices of farm products and foods.

BLS WHOLESALE PRICE INDEXES

	1957-59 = 100			Per cent change To Aug. 1967 from	
	Aug. 1966	July 1967	Aug. 1967 1/	Month Ago	Year Ago
All commodities	106.8	106.5	106.1	-0.4	-0.7
Farm Prod. & proc. foods and feeds	111.3	107.3	105.4	-1.8	-5.3
Industrial commodities	105.2	106.0	106.3	0.3	1.0

1/ Preliminary estimate.

The August increase in prices of industrial commodities represents an abrupt break out of the pattern of stability prevailing from February to mid-July and of relatively slow uptrend from mid-1966 to February. As a preliminary estimate its amount may be somewhat suspect: the advance July estimate of a 0.1 per cent rise in industrial prices did not hold in the final figure, which was unchanged from June. With the pricing date unusually late in August (the 15th) the sample was cut off sooner than usual in making the August estimate. However, that an appreciable increase in average wholesale prices of industrial commodities occurred between July 11th (the July pricing date) and August 15th appears amply confirmed by a proliferation of producer announcements of price increases, which, moreover, showed little let-up in late August and early September.

Since mid-July, price increases have been effected--or, in a few cases, announced to be effective later this month or in October--for crude petroleum and gasoline; copper scrap and some copper products;

steep scrap, tin-plate, steel plate and steel bars; lumber, plywood, flat glass, gypsum products and various other building materials; tires and other rubber products; silver, silverware, and photographic film; carpet yarns and carpets; some television sets and appliances; trucks and autos (in the form of suggested, or estimated, increases in list prices for 1958 models--part of which may reflect quality improvement); and metal working machinery.

The stability in average prices of industrial commodities from February through early July (the latest date for which BLS index components are available) resulted from an offset between a downward drift in prices of industrial materials and a moderate rise in prices of industrial products. The table below shows the progressive slackening of the over-all industrial price increase after the period of sharp rise in the first half of 1966, in terms of the behavior of materials and products (the special FR groupings of BLS index components):

PER CENT CHANGES AT ANNUAL RATES

	Dec. 1965 to July 1966	July 1966 to Feb. 1967	Feb. 1967 to July 1967
Industrial Commodities	3.3	1.4	0
Industrial Materials	3.6	-0.4	-0.7
Sensitive	5.2	-7.1	-4.5
Other	2.9	1.9	0.7
Industrial Products	2.4	2.6	1.4
Consumer Nonfoods	1.7	2.1	1.4
Producers' Equipment	3.5	4.1	1.2

Recent reported price increases, however, cover a wide array of industrial materials (lumber and other building materials, copper, and various steel mill products) as well as industrial products; thus, it seems likely that the apparent large increase in average prices of industrial commodities since mid-July has reflected some reversal of the earlier decline in material prices as well as a pick-up in the rate of increase in prices of products.

The August increase in industrial prices estimated by the BLS literally returns to the high rate of increase prevailing during the first half of 1966, and, as suggested above, a further appreciable increase is possible this month. The price increases of the past two months reflect efforts to pass on cost increases accumulated over the past year--including major wage settlements and freight rate increases--at a time when business and consumer demands appear to be pulling out of a protracted period of a slackness and despite relatively low current rates of capacity utilization (as, e.g., in the steel industry).

Consumer prices. In July the Consumer Price Index rose 0.4 per cent, to 116.5 per cent of the 1957-59 average, as prices of foods, other commodities, and services all increased further. The rise in food prices, however, was apparently less than seasonal and if food prices are included on a seasonally adjusted basis, the July increase in the CPI would amount to only 0.2 per cent. According to the BLS, July is the only month of the year in which there is a clear--or measurable-- seasonal component in the total index, throughout the rest of the year seasonal fluctuations among individual commodities tend to be roughly offsetting and without net effect on the total index.

After allowance for seasonal developments, then the sharp run-up in food prices in May and June ended in July and the rise in the total CPI was, if anything, somewhat less than in the two preceding months. Given the uncertainties of measurement of seasonal fluctuations during this period of unusual volability in farm and food prices, it may be premature to declare the food price rise over, but any rise over the last half from the June-July level now appears likely to be small.

Retail prices of non-food commodities in July rose at about the average rate of other recent months, with used car prices strenghtening substantially again after a less than seasonal rise in June and with new car prices edging up contrary to the decline expected near the end of the model year. Prices of appliances and other household durables were also reported up. Summer clearance sales brought a decline--but apparently less than seasonal--in apparel prices.

From January to July 1967, average prices of non-food commodities as measured in the CPI increased at an annual rate of nearly 3-1/2 per cent, as compared with 2 per cent during 1966. The bulk of this step-up resulted from an 11 per cent increase in used car prices (triple the usual seasonal rise), bringing them in July to the highest level since the initiation of this used car price series in 1953. While used car prices are likely to remain high during the current period of new car shortages, a further appreciable gain over the last half of the year does not seem likely. Apart from used cars, average retail prices of non-food commodities have been increasing only moderately faster than in 1966, and while the current step-up in price increases at wholesale may well be passed through to retail prices, the gain in the CPI total non-food commodity component in the last half does not seem likely to exceed the first half (3-1/2 per cent) rate and may fall below it.

Price increases for services continued to be widespread in July and, in part because of a reversal of the earlier downtrend in mortgage interest rates, the service component of the CPI showed some step-up from the 3.5 per cent annual rate of increase during the first half of the year.

Farm production and price prospects. Farm output in 1967 bids to be the highest on record with both livestock and crop output exceeding that of any other year. These prospects have varied implications for farm and food prices, mostly on the down side. On the basis of August 1 conditions, crop output is expected to be 5 per cent above last year and 2 per cent above 1965. Gross production of livestock is predicted to be a little higher than 1966, an estimate that is probably too low. Although weather throughout August has been soggy in the Southeast and very dry in the West, it has been favorable for development of crops and pastures in the great central farming areas.

Crops of food grains, feed grains, and soybeans promise to be bigger than ever before but the cotton crop will be the smallest since 1921. The 14 per cent larger food grain output, with rice up 3 per cent and wheat up 15 per cent, will be about equal to expected 1967-68 requirements: prices have drifted to a seventh below last August. Record corn and sorghum grain crops and below-average oat and barley crops total 174.5 million tons of feed grains, 11 per cent above 1966, and somewhat larger than utilization now in sight. However, lower prices already in evidence may stimulate feeding of livestock and encourage exports, as well. The soybean crop is 7 per cent larger than last year and supplies for 1967-68 are 14 per cent larger. Prices will probably average near the price-support loan level, a tenth below last year, in the 1967-68 season. These large supplies will compensate for sharply reduced crops of cottonseed and flaxseed.

The cotton crop of 8.3 million bales is 13 per cent below 1966, reflecting larger grower participation in the 1967 cotton program and above average abandonment of planted acreage. This is the second crop grown under the surplus-cutting cotton acreage diversion program. A draft on stocks of 5 to 6 million bales, required to meet projected 1967-68 use, is expected to reduce August 1, 1968 carryover to 7 million bales, 10 million below the peak of August 1, 1966. Off-color and short staples are in surplus supply. Incipient shortages of longer staples have prompted some mill-buying in the fields at prices a fifth or more above the loan rate. The seasonal average prices of all grades is expected to exceed the average loan rate.

Projected gross production of livestock and products is 1 per cent larger than 1966, with meat animal and dairy products unchanged and poultry and eggs up 5 per cent. The meat animal index, though it differs in concept from slaughter data, is suspect for it is too much below other meat output estimates to be attributed to conceptual differences alone. Commercial meat production through August has been 8 per cent above last year's low January-August production but the margin is expected to narrow and disappear by the end of the year. For the year as a whole, meat production is expected to average at least 3 to 4 per cent above 1966. Despite 8 per cent higher prices received for milk this year, milk cow numbers have continued to decline and production has been maintained by higher output per cow. Commercial utilization is down and CCC purchases of dairy products to support prices so far in 1967 have equalled 9 per cent of milk production. Purchases were negligible last year.

Farm prices. Crop prices have been under downward pressure as a result of large production in prospect and larger-than-expected carryover stocks of grains and soybeans into the 1967-68 marketing year. In mid-August, average prices of these crops were 15 per cent under a year earlier, but August 1966 was the mid-point in our "feed-the-world" speculative boom in grains and soybeans, a point often ignored in farmers' complaints. August prices of grains and oilseed had eased 3 per cent from July and further declines toward loan levels are expected as harvest approaches. Supply prospects suggest that the divergent trends in meat animal prices will continue, with cattle maintaining the strength shown in recent weeks and hogs declining this fall, although less than seasonally.

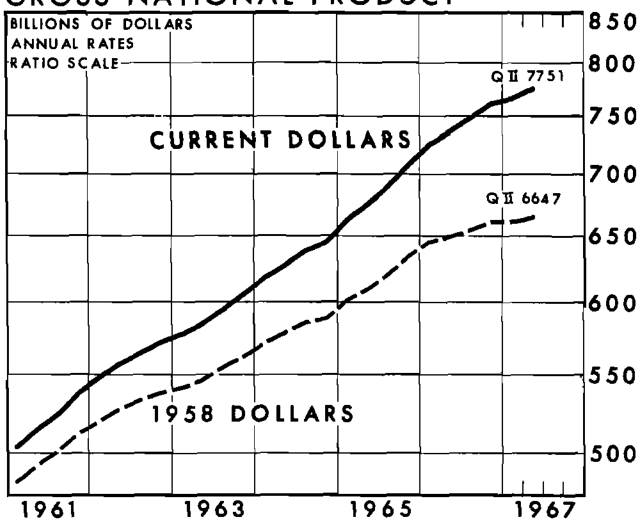
FARM OUTPUT
Index Numbers of Total Output, and
Gross Production of Livestock and Crops
(1957-59 = 100)

	1967	Per cent change from	
		1966	1965
Farm output	117	3.5	1.7
Livestock	115	.9	3.6
Meat animals	116	0	4.5
Dairy products	100	0	- 2.9
Poultry and eggs	137	4.6	10.5
Crops	117	4.5	1.7
Feed grains	123	10.8	10.8
Food grains	133	12.7	13.7
Cotton	67	-14.1	-44.6
Oil crops	175	6.1	14.4
Vegetables	111	.9	.9
Crop yields (28 crops)	122	0	- 1.6

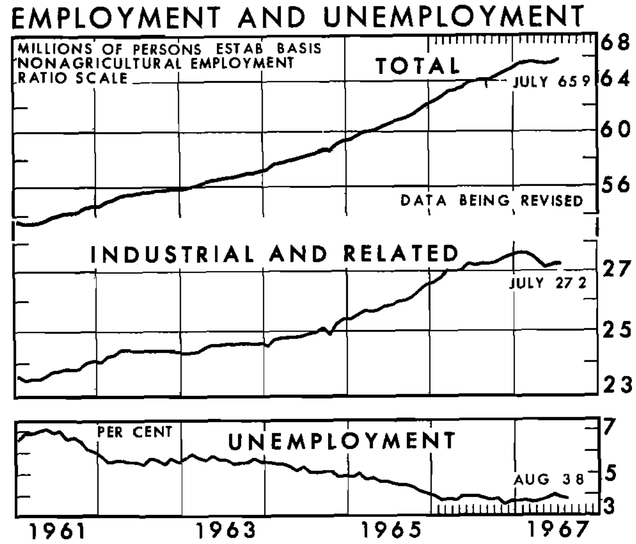
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

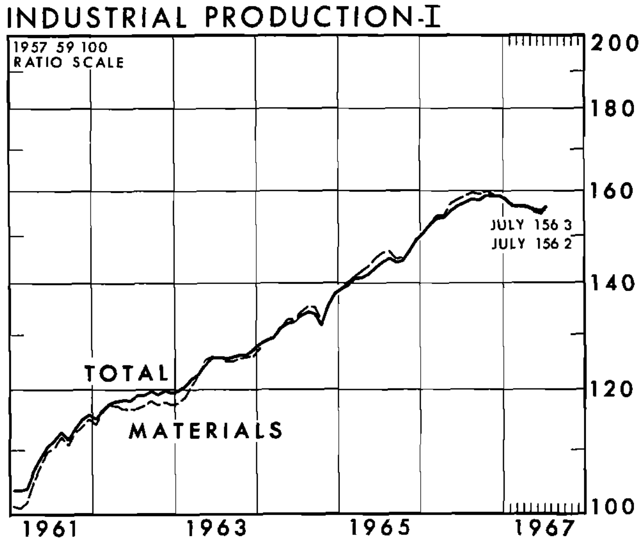
GROSS NATIONAL PRODUCT



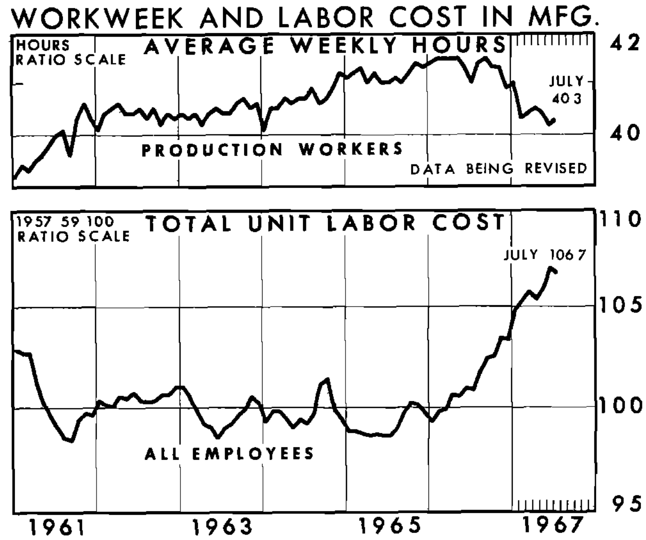
EMPLOYMENT AND UNEMPLOYMENT



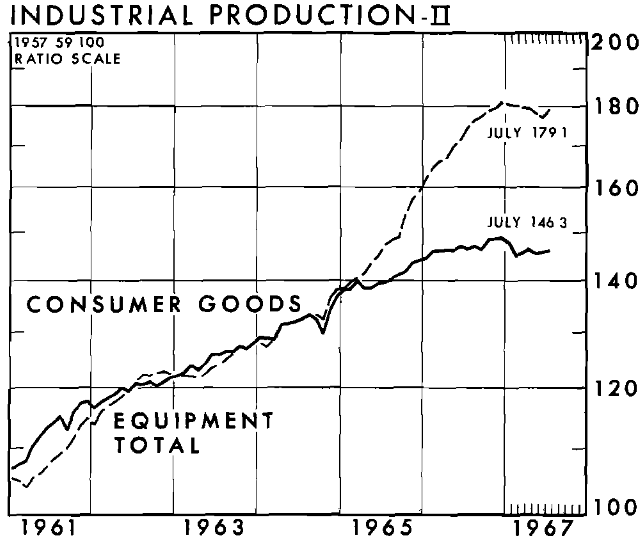
INDUSTRIAL PRODUCTION-I



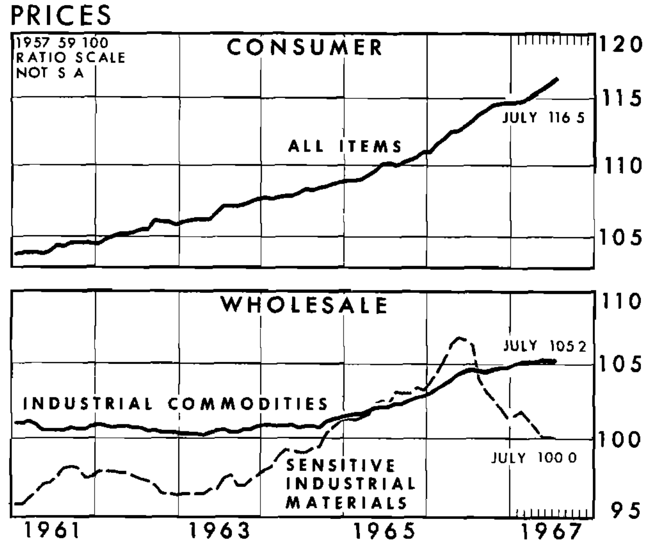
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



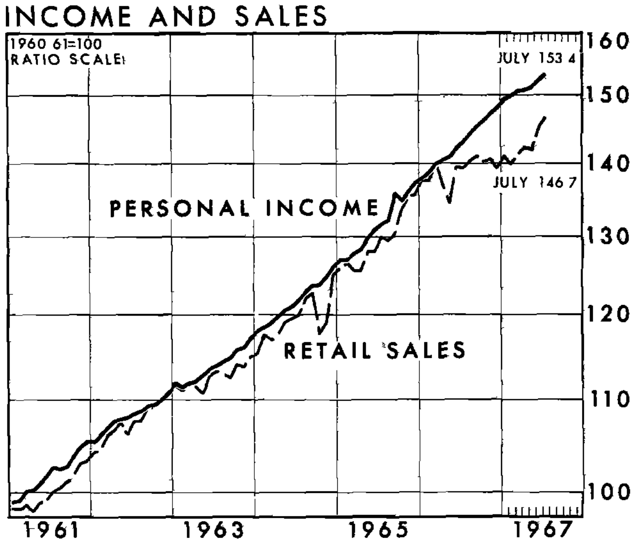
PRICES



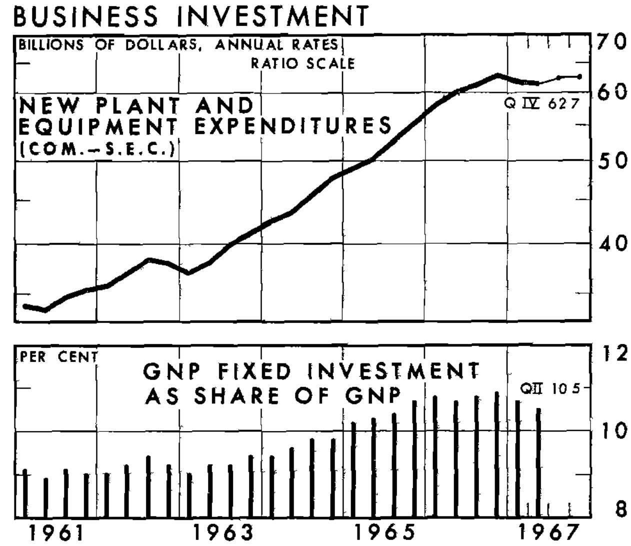
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

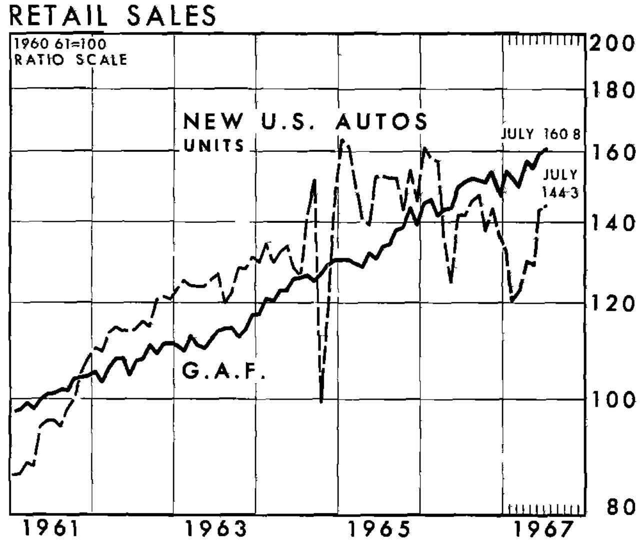
INCOME AND SALES



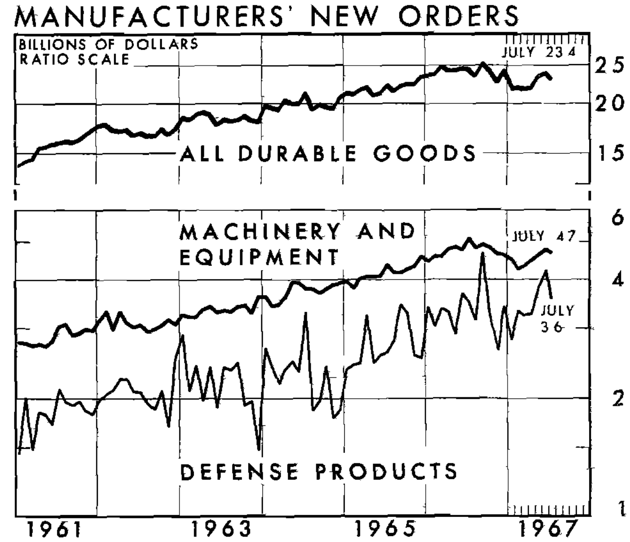
BUSINESS INVESTMENT



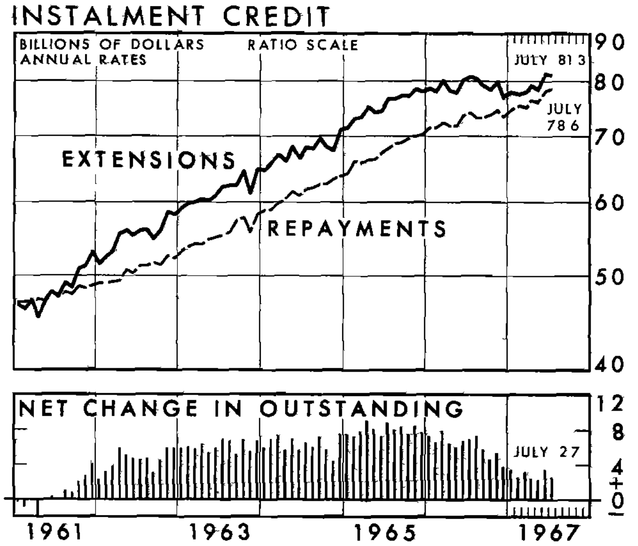
RETAIL SALES



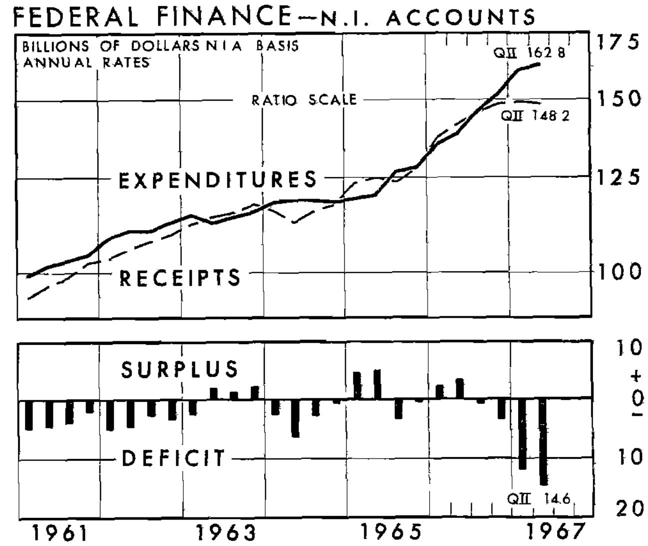
MANUFACTURERS' NEW ORDERS



INSTALMENT CREDIT



FEDERAL FINANCE—N.I. ACCOUNTS



DOMESTIC FINANCIAL SITUATION

Bank credit. Preliminary month-end estimates suggest that credit at all commercial banks rose at an annual rate of about 10 per cent in August, with acquisitions of new Treasury issues and the financing of Government security dealer positions accounting for most of the increase. Since midyear, bank credit has risen, on the basis of preliminary estimates, by more than $10 billion, with acquisitions of Treasury securities and dealer loans accounting for about three-fifths of total loans and investments made by banks.

RECENT INCREASE IN COMMERCIAL BANK CREDIT BY TYPE
(Billions of dollars, seasonally adjusted)

	Preliminary July and August	May and June
Total loans and investments 1/	+10.2	+2.6
U.S. Governments and security loans	+ 6.5	-0.8
U.S. Government securities	+ 4.6	-0.1
Security loans 2/	+ 1.9	-0.7
Other securities	+ 1.3	+2.2
Business loans	+ 0.2	+0.9

1/ Components do not add to total because not all of them are shown in table.
2/ Includes loans on other securities which cannot be separated in the seasonally adjusted data.
NOTE: August data are preliminary estimates subject to revision.

In August, banks are estimated to have acquired about $400 million additional Treasury securities in the August 15 refunding and were allotted $1.9 billion of the new 3-1/2 year Treasury note issued the last statement day of the month. Many of the largest commercial banks apparently did not bid actively for the most recent new issue, but country banks made sizable acquisitions. This difference in behavior apparently reflects a greater premium placed on liquidity recently by the larger banks. Indeed, while acquisitions of other securities in August continued at the reduced pace that began in June, New York City banks acquired only short-term issues, but other weekly reporters acquired mainly issues longer than 1 year.

The table below shows annual rates of increase in bank credit over a somewhat longer period. All measures of bank credit indicate a more rapid rate of growth since midyear, reflecting Treasury financings. As compared with the first half of 1967, the growth rate of holdings of Governments was considerably higher, while banks reduced the rate at which they acquired other securities, and the rate of increase of business loans declined sharply with the diminution of accelerated tax payments.

GROWTH RATES IN BANK CREDIT, 1967
Seasonally adjusted annual rate
(per cent)

	August	July	July-August	1st Half	1st 8 months
Adjusted credit proxy--daily average 1/	18.9	16.0	17.6	11.1	12.9
Adjusted credit proxy--last week of month 1/	10.6	23.7	18.0	10.6	12.8
All commercial banks--end of month	10.1	27.2	18.7	10.6	12.9
U.S. Gov't. sec.	40.6	55.2	48.9	8.1	18.8
Other securities	10.6	17.2	14.0	29.6	26.2
Total loans	1.1	23.0	12.0	6.9	8.3
Business loans	-14.3	17.4	1.5	18.5	9.0

1/ Includes borrowing from foreign branches.
NOTE: The August all bank series is preliminary and subject to revision.

Businesses began to reduce outstanding bank loans in late July, and during August it is estimated--on a preliminary basis--that such loans at all banks declined by about $1 billion. This contraction in business loans probably reflects, in large part, loan repayments in August that had been delayed from July as the result of financing needs related to acceleration of withholding tax payments. The August decline in business loans reduced the average annual rate of growth of such credit over July and August to about 1 to 2 per cent, and for the year to date to about 9.0 per cent. Liquidation occurred in virtually every industry category, and was particularly sharp for the machinery, textile, petroleum, chemical and rubber, and mining industries--all of which had been large borrowers earlier in the summer when accelerated tax payments had been inflating loan demands.

Among other loan categories, those to finance companies declined further while those to consumers continued to expand at a modest rate. Real estate loans, on the other hand, showed some additional strength.

Bank deposits. Net inflows of time and savings deposits at all commercial banks in August accelerated to an over 18 per cent annual rate on a daily average basis. A large part of this growth reflected an increase of almost $950 million in outstanding negotiable CD's (on a month-end basis), bringing the total of net new issues of these deposits since midyear to about $1.5 billion after essentially no growth in the second quarter. The sharp increase in outstanding CD's reflects not only the continued relative rate attractiveness of these instruments, but also the increased supply of corporate funds seeking short-term investment following essential completion of the program of corporate income tax payment acceleration for the year while inflows from capital market financings remained large.

At weekly reporting banks, inflows of other forms of interest-bearing deposits--shown in the next table--also remained large, as has been the case all summer. From fragmentary evidence--and adjusting for the shift from passbook savings to time deposits in 1966--it does not appear that inflows have been retarded to any noticeable extent by either the increase in market yields since midyear or the recent new issues of Treasury securities.

TIME AND SAVINGS DEPOSIT INFLOWS, WEEKLY REPORTING BANKS
(Millions of dollars, not seasonally adjusted)

	August 1/		
	1967	1966	1965
Total time and savings deposits	+1,562	+ 319	+1,136
Negotiable CD's	+ 941	- 100	+ 402
Other time 2/	+ 484	+ 234	+ 336
Savings	+ 137	- 215	+ 398
Memo: Other time 2/ plus savings	+ 621	+ 419	+ 734
	July and August 3/		
Total time and savings deposits	+2,914	+1,071	+2,078
Negotiable CD's	+1,484	- 109	+ 904
Other time 2/	+1,215	+2,364	+ 476
Savings	+ 215	-1,184	+ 698
Memo: Other time 2/ plus savings	+1,430	+1,180	+1,174

1/ Five weeks ended August 30, 1967; August 31, 1966, and September 1, 1965.
2/ Other than negotiable CD's.
3/ Nine weeks ended same dates as footnote 1.

In addition to the large inflow of time deposits, banks continued to acquire Euro-dollars at a rapid rate. Borrowing from foreign branches increased by $600 million in August, bringing the increase in such borrowing to $800 million since midyear. Reflecting this increased supply of Euro-dollars along with the repayment of business loans, weekly reporting banks--especially those in New York and Chicago--became less aggressive in soliciting CD's late in August and a few banks reported modest reductions in CD rates--mostly on short-term issues.

The increased use of Euro-dollars reflects two major factors. On the one hand, since mid-July these funds have been readily available, apparently mainly in reflection of increased supplies of Euro-dollars from funds leaving the sterling area and funds from Germany seeking higher yields. On the other hand, as indicated in Appendix B, banks have been expecting increased loan demands over coming months and apparently have been taking the opportunity to obtain CD's and Euro-dollars now--while they are available--in order to be in a position to meet those expected demands. The emerging structure of CD rates would suggest that banks may also be attempting to lengthen their liability structure so as to be in a better position to meet fall and winter demands. No information is yet availabile on the maturity structure of CD sales in August, however. Meanwhile, there are reports that some Euro-dollar borrowing has been in the 3- and 6-month areas. While banks may still be expecting greater loan demand, business loans have been declining recently, and a good share of these funds were used to acquire short-term municipals, to make dealer loans at New York and Chicago banks, and at the end of August to acquire bills.

The money stock in August increased at an 8.8 per cent annual rate, but growth leveled off in the later part of August--despite a reduction in Treasury deposits--as bank credit demands abated. So far in 1967 the money stock has increased at a 7.7 per cent annual rate, and is currently 5.2 per cent above the year-ago level. As will be recalled, at this time last year the money stock had not increased for several months. Over the two years ending August, the money stock as increased at a 4.8 per cent annual rate.

U.S. Government securities market. Yields on U.S. Government securities have changed little on balance since mid-August except for moderate increases in the 3-month bill area and in the maturities surrounding the Treasury's new 3-1/2 year note.

YIELDS ON U.S. GOVERNMENT SECURITIES

(Closing bids)	1967			
	Lows	Highs	Aug. 15	Sept. 5
Bills				
3-months	3.33 (6/23)	4.45 (8/28)	4.20	4.29
6-months	3.71 (5/22)	5.04 (7/24)	4.79	4.79
1-year	3.80 (4/24)	5.22 (7/24)	4.99	5.02
Coupon issues				
3-years	4.27 (4/10)	5.37 (8/20)	5.19	5.32
5-years	4.38 (4/10)	5.40 (8/23)	5.31	5.29
10-years	4.45 (3/20)	5.23 (8/25)	5.29	5.22
20-years	4.44 (1/16)	5.15 (8/25)	5.13	5.11

In the Treasury note and bond sector, activity has been dominated in recent weeks by Treasury financing operations. Shortly following the mid-August payment date for the regular quarterly refunding (involving a new 15-month note), the Treasury announced a new 3-1/2 year note to raise $2-1/2 billion of new money. Despite the relatively attractive 5.40 per cent yield on this issue and full tax and loan account privileges, the market response was modest and the allotment ratio on subscriptions above $100,000 was set at a moderately high 38 per cent. Subscriptions from major city banks, in particular, were relatively light, but smaller banks showed an active interest. The new note traded slightly below its issue price through the August 30 payment date and yields adjusted up on outstanding issues of comparable maturity.

In recent trading sessions, however, the market for Treasury notes and bonds has displayed a somewhat improved atmosphere, buoyed in part by the good receptions accorded some major new corporate issues (at new high yields) and by System purchases of coupon issues on August 31, totaling $52 million. Moreover, selling of outstanding issues on switches into the new 3-1/2 year notes and of the new notes themselves by banks proved to be lighter than had been anticipated by many dealers. In fact, it appears that the new note may be in fairly permanent hands. Most recently it has been quoted on the bid side slightly above its issue price.

Treasury bill rates have fluctuated over a fairly wide range in recent weeks, with rates rising on balance in the 3-month maturity area. With positions slightly enlarged and demand light late in August, dealers became aggressive sellers of bills, but most recently demand from investors, supplemented by System purchases, has been strong and rates have receded from their peaks. The recent fluctuations in bill yields is illustrated by the 3-month bill which was auctioned at an average rate of 4.19 per cent on August 14, 4.49 per cent on August 28, and 4.32 per cent on September 1.

Yields on short-term debt market instruments other than Treasury bills have shown small mixed changes since mid-August, as the table shows.

SELECTED SHORT-TERM INTEREST RATES

	1967		
	Low	Aug. 14	Sept. 5
Commercial paper 4-6 months	4.63 (6/26)	5.00	5.00
Finance company paper 30-89 days	4.25 (5/24)	4.75	4.75
Bankers' Acceptances 90 days	4.25 (6/6)	4.88	4.75
Certificates of deposit (prime NYC).			
Most often quoted new issue:			
3-months	4.13 (5/5)	5.00	4.75
6-months	4.13 (4/28)	5.12	5.12
1-year	4.13 (4/14)	5.25	5.25
Secondary market:			
3-months	4.35 (4/28)	5.00	4.80
6-months	4.36 (4/14)	5.25	5.20
Federal Agencies (secondary market)			
3-months	3.82 (5/26)	4.55	4.45
6-months	4.11 (5/19)	5.20	5.25
1-year	4.18 (4/7)	5.20	5.40
Prime 1-year Municipals	2.40 (4/14)	2.95	3.20

N.B. Latest dates on which low rates occurred are shown in parentheses.

Forthcoming Treasury finance. With the completion of its late August cash financing, the Treasury should be out of the market until October, apart from $100 million additions to weekly and monthly bill auctions. The Treasury has indicated that it may need to raise some $6-1/2 to $7 billion of new money in the fourth quarter, not counting an additional amount that might be raised through sales of participation certificates. The Treasury's financing requirements through direct debt issues will be increased to the extent that it is not able to sell participation certificates.

Corporate and municipal bond markets. Yields on new and seasoned corporate bonds, after declining earlier this summer, have advanced since mid-August to new 1967 highs. While yields on municipal bonds have also advanced over the same period, they have only matched their earlier 1967 highs.

BOND YIELDS
(Weekly averages, per cent per annum)

	Corporate Aaa		State and local Government	
	New	Seasoned		
	With call protection		Moody's Aaa	Bond Buyer's (mixed qualities)
1965				
End of July 1/	4.58	4.48	3.16	3.25
Early December 2/	4.79	4.60	3.37	3.50
1966				
Late summer high	5.98*	5.44	4.04	4.24
Weeks ending:				
February 3 3/	--	5.02	3.25	3.40
August 4	5.82*	5.59	3.75	3.91
August 25	5.99	5.65	3.80	4.04
September 1	5.92*	5.67	3.80	4.06

1/ Week prior to President's announcement of increased U.S. involvement in Vietnam.
2/ Week preceding Federal Reserve discount rate increase.
3/ 1967 lows.
* Some issues included carry 10-year call protection.

The most recent new corporate issues--some carrying all-time high yields--have been accorded a better response from investors, following lacklustre receptions registered in preceding weeks. For example, an Aa-rated public utility issue (carrying 5-year call protection) was an immediate sell-out last week at a reoffering yield of a record 6.20 per cent, 3 and 6 basis points above the yields on two directly comparable issues offered, but largely unsold, during the preceding week.

While the earlier weak demand for securities resulted in a build-up of unsold syndicate balances with both corporate and municipal underwriters, the recent yield mark-up has stimulated renewed investor interest, and the supply of unsold bonds has been trimmed. For example, the large unsold balances of the two utility issues mentioned above were fully distributed after they were released to free market trading. And other corporate and several municipal issues have also been cut in price to reduce inventories. As a result, underwriters are presently in a reasonably good technical position.

A primary factor in the corporate market during August was the continued pressure of a large volume of public bond offerings, which aggregated an estimated $1,810 million. August offerings were more than 50 per cent above the August volume a year ago--previously a record August--and only about $50 million below the July peak. Total bond and stock offerings in August were $2,500 million, also slightly below the June and July volume, with stock offerings and estimated private placements little changed from earlier months.

The volume of public offerings now scheduled for September totals only about $700 million. While further additions to the calendar are expected, total monthly volume may be no more than $1 billion for the first time since May. This would still be one-fourth again as large as September 1966, but it would represent some respite from the unusually high June through August volume. Moreover, the composition of the corporate bond calendar by type continues to show an increasing share of convertible issues, on which net interest costs are lower. The total September bond and stock volume is expected to aggregate $1.8 billion, about three-fourths of the August total.

CORPORATE SECURITY OFFERINGS 1/
(Millions of dollars)

	Bonds				Total Bonds and Stocks	
	Public Offerings 2/		Private Placements			
	1967	1966	1967	1966	1967	1966
1st Quarter	3,263	1,774	1,811	2,586	5,464	5,094
2nd Quarter	4,017	1,941	1,465	2,083	6,208	5,115
3rd Quarter	4,670e	2,256	1,600e	1,627	6,810e	4,197
July	1,860e	440	450e	535	2,510e	1,085
August	1,810e	1,140	500e	435	2,500e	1,712
September	1,000e	786	650e	657	1,800e	1,400

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

State and local government security offerings in August fell to about $725 million, the lowest volume in more than a year. This was less than estimated earlier due primarily to the rescheduling of the

$120 million Kentucky Turnpike issue for later in the year and to the indefinite postponement of several smaller issues. The calendar for September, on the other hand, continues to expand rapidly, with offerings presently estimated at $1,250 million, about $200 million more than in September 1966. In fact, final volume may ultimately prove to be still larger, since there are rumors of additional large offerings forthcoming.

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

	1967	1966
1st Quarter	4,112	2,964
2nd Quarter	3,807	3,256
3rd Quarter	2,900e	2,510
June	1,443	1,143
July	925e	702
August	725e	775
September	1,250e	1,032

1/ Data are for principal amounts of new issues.

Mortgage markets. Mortgage interest costs which, on the basis of data reported by the Federal Housing Administration, had abruptly reversed direction this spring, showed little further advance in July, the latest month for which data are available.

AVERAGE RATES AND YIELDS ON SELECTED NEW-HOME MORTGAGES

	Primary Market: Conventional loans		Secondary Market: FHA-insured loans	
	Level (Per cent)	Change (Basis points)	Level (Per cent)	Change (Basis points)
1966				
November	6.70	0	6.81	n.a.
December	6.65	- 5	6.77	- 4
1967				
January	6.60	- 5	6.62	-15
February	6.50	-10	6.46	-16
March	6.45	- 5	6.35	-11
April	6.40	- 5	6.29	- 6
May	6.45	5	6.44	15
June	6.50	5	6.51	7
July	6.50	0	6.53	2

NOTE: FHA series; interest rates on conventional first mortgages (excluding additional fees and charges) are rounded to the nearest 5 basis points; secondary market yields are for certain 6 per cent FHA-insured Sec. 203 loans.

Rates on conventional first mortgages for existing homes, not shown in the table, rose again in July to 6.55 per cent, but this followed a pause in May and June. And although the FHLBB series on interest rates for conventional home mortgages, which have recently been revised, also showed some rise for both new and existing home loans in July, these were the first instances of an advance this year, and these series tend to lag the more sensitive FHA indicators.

A factor in the moderation of the recent upturn in mortgage yield requirements has been the still relatively limited volume of new mortgages being generated and the unusually high level of inflows of loanable funds to the savings and loan associations, the major mortgage lenders, and to others with broader investment options. In addition, reluctance to use Government-underwritten mortgages has also been a factor as secondary market prices have dropped and a return to discounts averaging in excess of 4 per cent--a resistance point for lenders and sellers alike--has again been required to produce competitive yields in recent months.

Trade expectations are that, at the worst, mortgage rates over the remainder of the year will stay below last winter's peaks. But because of the narrow spreads now prevailing between bond and mortgage yields, the outlook for the mortgage market will continue to depend primarily on pressures in other financial markets.

To bring its secondary market prices more closely into line with those now being paid by private investors, the Federal National Mortgage Association, effective August 26, lowered its prices on eligible home mortgages for purchase in the secondary market by an average of 1.5 per cent. This was the first price change since a 1 per cent upward adjustment had been made in early March, when the dominant trend in mortgage yields, particularly for Government-underwritten mortgages, had appeared to be clearly downward. Partly, because of the more favorable prices being offered by FNMA, mortgage offerings by private holders to FNMA, which had tended to level off at the relatively advanced weekly rate reached in the latter part of June, had begun to move higher by mid-August. Such offerings lead purchases by about two months on the average.

Despite the competition for loanable funds from other types of investments, mortgage commitments generally have continued to rise, and net additions to mortgage portfolios by major lenders as a group have continued to move above year-earlier levels in recent months. Underscoring the vastly improved position of the savings and loan associations in the market so far this year, the S&L advance in net mortgage holdings this July rather closely approximated the volume in July of 1965 and more than offset the year-to-year short-fall for other groups, including the mutual savings banks and FNMA.

INCREASES IN MORTGAGE DEBT IN JULY - SELECTED HOLDERS
(Millions of dollars)

	1965	1966	1967
Total	2,282	1,518	1,651
Financial institutions	2,277	1,282	1,552
Commercial Banks	700	500	400
Mutual Savings Banks	413	280	239
Savings and Loan Assns.	842	80	713
Life Insurance Companies	322	422	200e
FNMA	5	236	99

<u>Stock market</u>. Common stock prices on both the New York and the American Exchanges are currently 1 to 2 per cent below the record highs reached in early August. At this level, NYSE prices--as measured by both the Standard & Poor's and the NYSE composite indexes--are still near their 1966 peak. The AMEX index remains about 26 per cent above its peak level of last year.

The speculative activity evident in July and early August apparently abated in the latter half of August. The volume of trading declined sharply in August, even after normal trading hours were resumed. By the end of the month, NYSE volume was averaging about 7.0 million shares a day (vs. 12.1 million at the beginning of the month) and on the American Exchange, volume was only somewhat over 3.0 million (vs. 6.0 million at the beginning of August). As a result, AMEX volume as a per cent of NYSE volume was down from the 50 per cent level of early August to 46 per cent by the end of the month.

Furthermore, the quality of the AMEX stocks trading in heavy volume has apparently improved. Since August 23, on the average, only 4 of the 10 most actively traded AMEX stocks have been priced at $10 or less. This figure compares favorably with the average of 7 during July and 8 during the first two weeks in August. Also, American Exchange officials have considered it appropriate to lift 100 per cent initial margin requirements from 15 stocks since August 8, 9 of these since August 23, leaving only a more normal 13 under such restrictions. The New York Stock Exchange, meanwhile, has lifted such restrictions from 8 of the record 13 issues on which it had, by early August, imposed 100 per cent initial margin requirements.

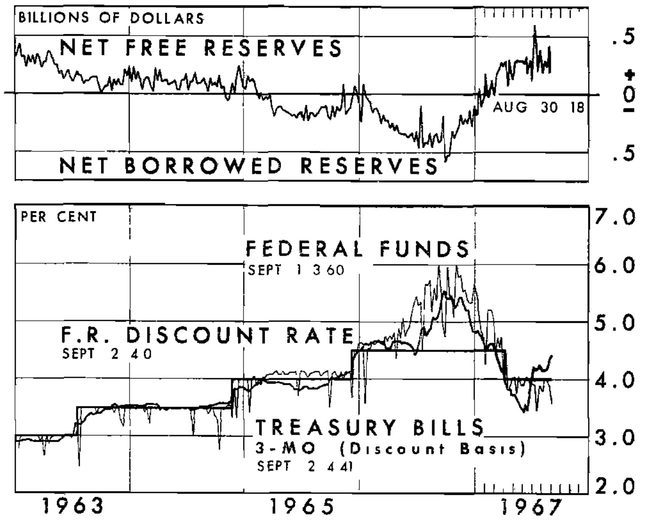
In July, margin debt--as measured by the New York Stock Exchange margin panel--rose $180 million, or 3.3 per cent to $5,580.[1/]

1/ The more spectacular July increase of $436 million in customers' net debit balances included a sharp rise in clearing balances and thus considerably overstated the expansion in margin debt. Some rise in clearing balances was to be expected with the increase in trading volume. In addition, the backlog of "paperwork" caused by the sheer size of trading volume late in July was reflected in a doubling of clearings taking more than four days to settle.

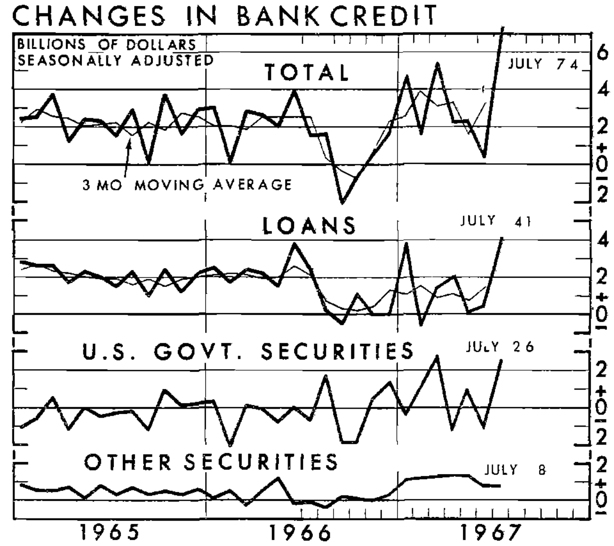
Over the longer period from the January low, margin debt has increased $730 million or 15 per cent. Growth in July, though substantial, was considerably less than the revised growth rate of 5.1 per cent in June, and again took place in accounts with relatively strong equity positions. The number of margin accounts increased by 15,000 in July, also a much smaller increase than occurred in June when 25,000 additional accounts were opened.

FINANCIAL DEVELOPMENTS - UNITED STATES

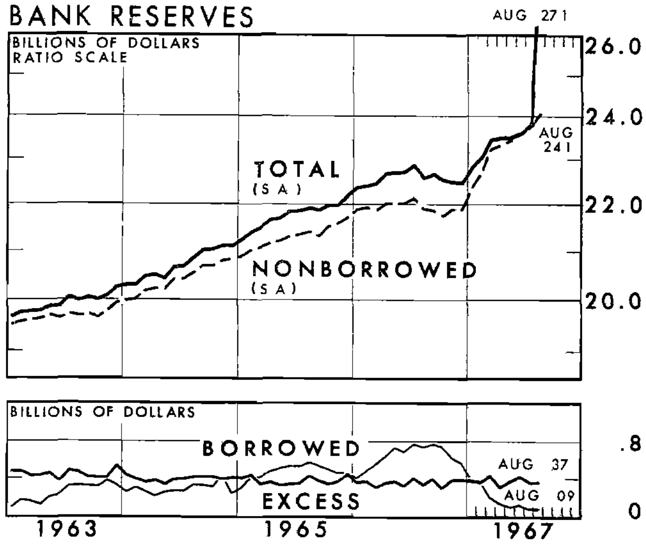
FREE RESERVES AND COSTS



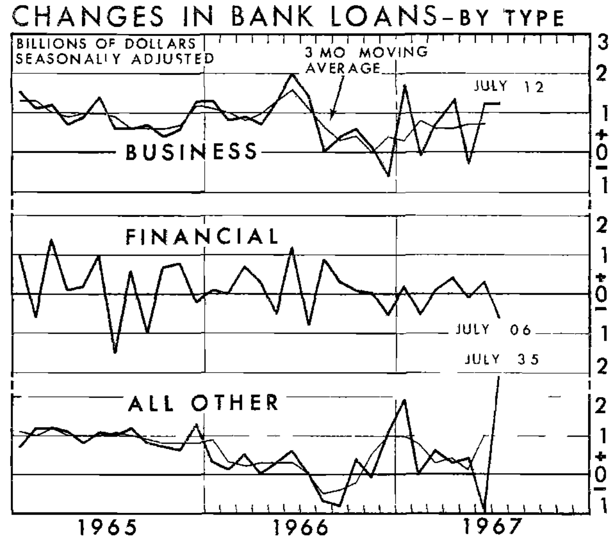
CHANGES IN BANK CREDIT



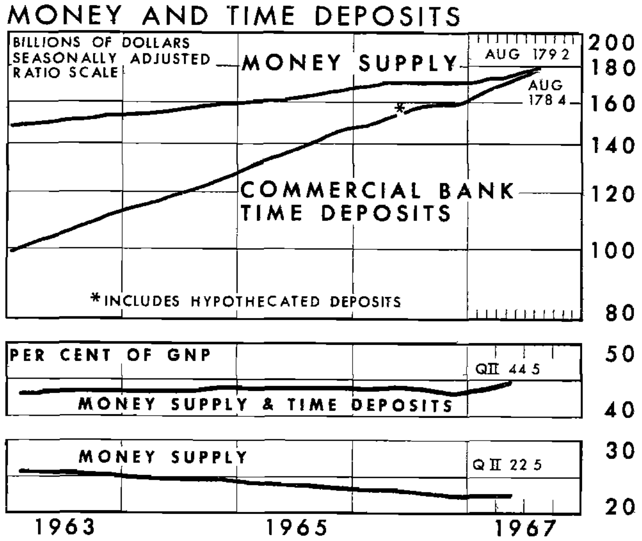
BANK RESERVES



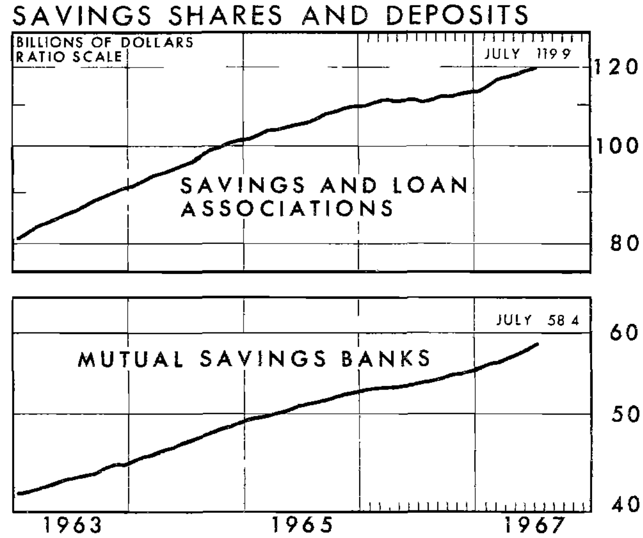
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

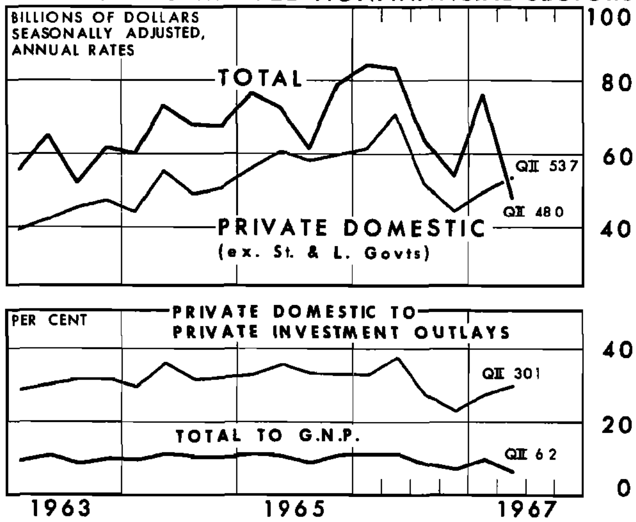


SAVINGS SHARES AND DEPOSITS

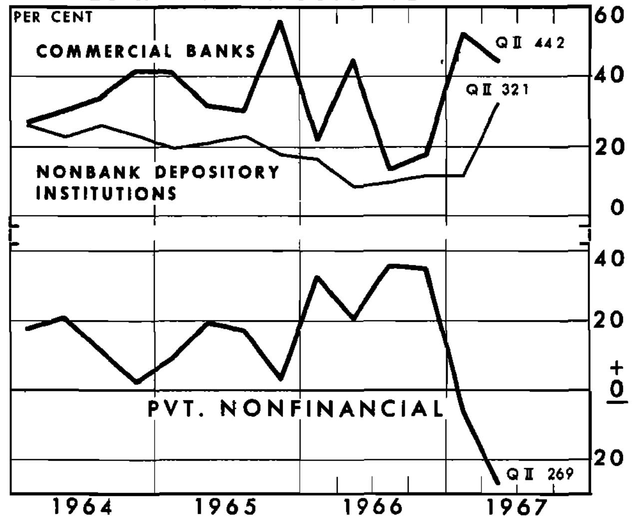


FINANCIAL DEVELOPMENTS - UNITED STATES

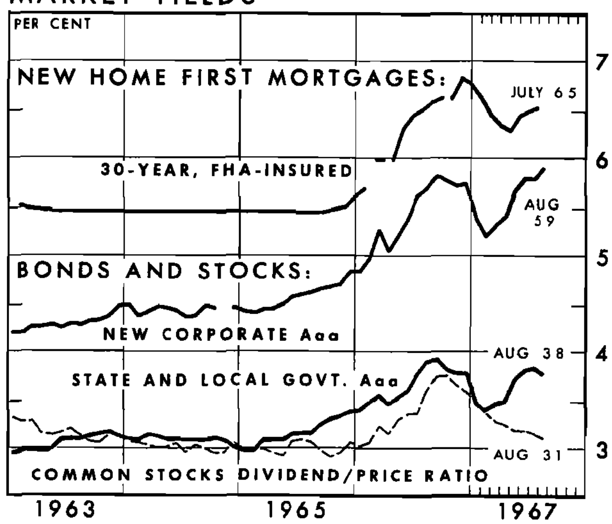
NET FUNDS RAISED-NONFINANCIAL SECTORS



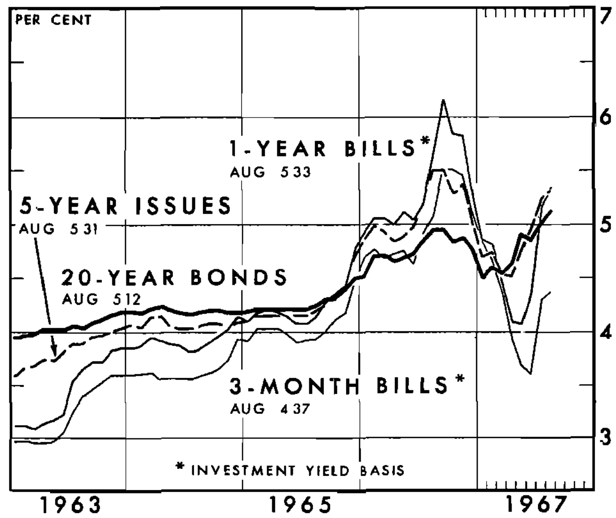
SHARES IN FUNDS SUPPLIED



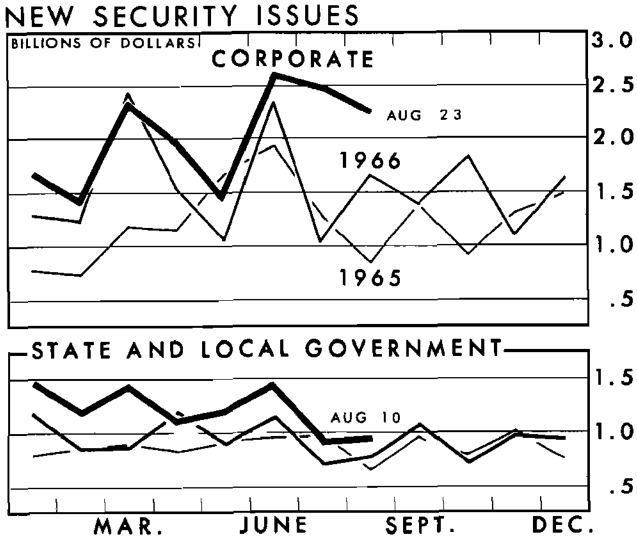
MARKET YIELDS



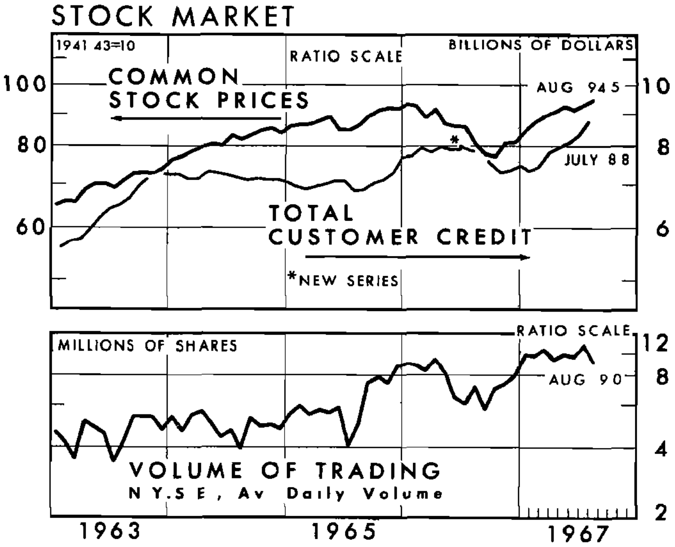
MARKET YIELDS—U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. Measured on the liquidity basis, the rate of the balance of payments deficit for July and August was somewhat lower than the rate of the first two quarters, but it still remained uncomfortably large. Evaluation of the recent course of events is complicated by the wide seasonal movements in trade, tourism and capital accounts during the summer months, and by more than usual uncertainties in some of the second quarter balance of payments data. In that quarter the balance was apparently considerably affected by large remittances to Israel and tourist expenditures in Canada. Data for direct investments are still incomplete, and a large part of the increase in net payments remains unexplained.

For July, the liquidity deficit, unadjusted, amounted to about $485 million, and weekly figures for August indicate a further deficit of perhaps $300 million in that month. Seasonal factors tend to worsen the third quarter as a whole by nearly $600 million, and most of this probably occurs early in the quarter. The seasonally adjusted deficit for the two months may thus have been less than $300 million, compared to quarterly rates of slightly over $1/2 billion in the first two quarters.

Special receipts improving the balance in July amounted to $92 million, largely representing the sale to Germany of a $125 million equivalent nonconvertible 4-1/2 year mark-denominated Treasury note, partly offset by a liquidation of $33 million of long-term official deposits. This was much below the amounts of receipts from special transactions in the earlier months of the year which benefitted the figures as published.

Measured on the official reserve transactions basis, there was a deficit of $185 million in July -- about offsetting the June surplus (both figures unadjusted) -- and weekly indicators for August suggest a surplus of more than $400 million for the month. After adjustment for adverse seasonal factors, the balance on official settlements in July-August was in surplus by more than $1/2 billion.

The markedly favorable shift in the balance on official settlements that began in June was related to a substantial pick-up in Euro-dollar inflows to the foreign branches of U.S. banks. Most of these inflows are reflected in increased liabilities of U.S. banks to their foreign branches, which rose $1.2 billion between May 31 and August 30. But the foreign branches also used Euro-dollars in June to purchase foreign loans from the portfolios of U.S. head offices, reselling only some of the loans back to the head offices in July. Thus, use of Euro-dollars obtained by the foreign branches to supplement head office liquidity positions is understated by the change in liabilities to branches in June, and overstated by a lesser amount by the change in liabilities in July.

LIABILITIES OF U.S. BANKS TO THEIR FOREIGN BRANCHES
(Millions of dollars)

Dec. 30, 1966	$3,381*	June 30, 1967	$3,012*
Mar. 31, 1967	3,144*	July 26, 1967	3,660
May 30, 1967	2,776*	Aug. 30, 1967	3,976

*End-of-month dates. Liabilities typically drop sharply at end of month.

The increased level of Euro-dollar borrowing by the foreign branches in June was accompanied by increased Euro-dollar rates. (This phenomenon, at least in part seasonal, was moderated by BIS placements of funds in the market over mid-year.) But the rise of almost $1 billion in outstanding Euro-dollar borrowings by the branches since mid-year has occurred in a period of declining Euro-dollar rates (in part seasonal), and during the past two months these rates have frequently been below rates offered by U.S. banks for time deposits, after allowance for costs arising from reserve requirements and FDIC insurance on domestic deposits. Thus, while this summer U.S. banks have absorbed an increased supply of Euro-dollars as it came on to the market (probably in good part as a result of market uncertainties about sterling), they have apparently not been bidding aggressively for funds, as was the case a year earlier.

Merchandise trade. The merchandise surplus in July shows no improvement over June -- in both months the surplus was about $3.9 billion at an annual rate, slightly below the first quarter, and considerably below the April-May rate. Exports have been nearly level at an annual rate of $30.7 billion in the first seven months of the year and give no indication of moving higher. Imports were back at the relatively high first quarter rate in June and July and have not responded as yet to the easing in over-all U.S. demand pressures.

The unexpectedly high rate of imports this year may be related to the greater expansion in recent years in imports of finished manufactures than in imports of crude and semifinished products. Imports of several types of finished manufactures have been growing as a proportion of total domestic consumption, and they are not as responsive to domestic cyclical changes as imports of industrial materials. This imparts greater stability to the import-GNP relationship than has been the case in the past. (See Appendix C for additional information on trends in U.S. imports.)

Changes in U.S. foreign trade as a result of the Arab-Israeli war probably added about $25 million to our trade surplus in July. Exports of crude petroleum to Canada, the United Kingdom and other Western European countries, which are ordinarily negligible, expanded sharply to $30 million in July as tanker fleets were redeployed and the world trade pattern in petroleum was reshuffled.

Oil shipments are reported heavy through August but are expected to decline in September as the embargo by the Arab countries ends and other arrangements made by Canada and the European countries to obtain oil from non-U.S. suppliers become effective.

The customary sources of crude petroleum for U.S. consumption were also modified as a result of the Mid-East war. Canadian oil was shunted to the West Coast of the U.S. and some Venezuelan oil ordinarily imported by the U.S. was diverted to Europe. U.S. domestic production was stepped up to replace the diverted Venezuelan crude. The July trade pattern for oil imports were also expected to be short-lived and the pre-war marketing relationships are expected to be resumed in September.

U.S. exports to the Arab countries declined from May to July by about $40 million, or by more than the reduction in imports from those countries during the same period.

Capital accounts. Transactions in foreign securities resulted in a net capital outflow of about $150 million in July. This relatively large amount included gross purchases of about $130 million of new Canadian bonds, $22 million of IBRD issues, and purchases of about $50 million of Israeli issues. In August, sales of new foreign bonds in the U.S. were probably considerably lower, as Canadian issues dropped off sharply. Foreigners continued to buy substantial amounts of U.S. securities in July, including nearly $90 million, net, of corporate stocks, and $133 million of bonds. A large part of the purchases of bonds represents issues sold to foreigners by U.S. companies for the purpose of financing their direct foreign investments.

Outstanding bank loans and acceptance credits to foreigners fell about $50 million in July, with small net declines in both short- and long-term credits. In the month there was an inflow of over $100 million from Australia as bank financing was replaced with the proceeds of a bond issue, but this was nearly offset by reported additions to bank credits that represented repurchases from foreign branches of loans sold to them in June. New commitments on long-term loans have picked up since April and are running at a rate of $100 million a month, compared to $75 million a month in 1966. At the current rate of commitment, gross disbursements on new loans may about match gross repayments on outstandings -- thus ending the net reflow of long-term bank credits. Most of the stepped-up new commitments are to LDC's, and commitments to developed countries are apparently largely for financing of U.S. exports.

Cyclical Developments Abroad

The combined industrial output of Western Europe has been on a plateau since the spring of 1966. For the fifth consecutive quarter there was little change in the second quarter of 1967 as seen in the table below. During the last three of these quarters, industrial output in the United States and in Canada was also level or declining. Thus, this has been a period of general stagnation in major industrial countries--the first such period since 1958. Only in Japan and Italy has vigorous expansion continued.

QUARTERLY CHANGES IN INDUSTRIAL PRODUCTION, 1966-67
(Seasonally adjusted, in per cent)

	1960 Weights	1966 Q-1	1966 Q-2	1966 Q-3	1966 Q-4	1967 Q-1	1967 Q-2
OECD -- Total	100.0	+2.9	+1.4	+1.4	+0.7	-0.7	(0) e/
OECD -- Europe	39.0	+2.3	+0.4	0	0	0	(0) e/
Germany	10.8	+1.5	+0.7	-2.2	-1.5	-1.5	0 e/
United Kingdom	10.7	+1.7	-0.8	0	-1.7	0	-1.0
France	5.2	+0.8	+1.5	+2.2	+0.7	0	-1.4
Italy	3.9	+4.1	+2.0	+2.6	+2.5	+2.5	+3.0 e/
Netherlands	1.4	+1.5	+1.4	+0.7	+2.8	0	-1.4 1/
Sweden	1.3	+1.3	0	0	+2.0	0	+2.4 e/
Belgium	1.3	0	-0.7	-0.7	0	+2.2	-0.7 1/
Switzerland	1.1	+2.3	0	0	+2.3	+0.7	n.a.
Austria	0.5	+3.0	+0.8	-0.9	+2.2	-2.9	+1.9 1/
Denmark	0.5	-7.9	+5.4	0	+7.4	-7.5	n.a.
Canada	3.5	+2.5	+1.1	+0.1	+2.1	-0.9	+1.0 e/
Japan	5.5	+3.8	+4.4	+4.2	+5.6	+4.3	+4.3
United States	52.00	+3.8	+2.0	+1.5	+0.7	-1.1	-0.8

1/ April-May only.
e/ Partly estimated by Board staff.
Sources: OECD and official national publications

The European slowdown started in Germany and the United Kingdom in the second quarter of 1966, and spread--with varying time lags and intensities--to most other European countries. French industrial production leveled off in the last quarter of 1966. Thus, by that time industrial output in all three of the largest economies of Western Europe had ceased to rise. By the second quarter of 1967, declines from earlier peak quarters amounted to 5 per cent for Germany, 3-1/2 per cent for Britain, and 1-1/2 per cent for France, where, however, several major strikes took place in April and May. A number of the smaller countries in Europe were also experiencing either slow-downs or actual declines.

The use of <u>expansionary policies</u> has been restrained in many countries by concern over actual or anticipated price and cost developments, and in some by external payments difficulties (e.g. Britain) and budgetary problems (e.g. Germany). Germany, and more recently France, have instituted some moderate fiscal and monetary measures, and the German recession appears to have bottomed out while the French industrial production may soon begin to rise slowly. In Britain, only very cautious policy stimulants have seemed appropriate, given the persisting balance of payments difficulties.

The general slowdown has caused fairly sharp rises in <u>unemployment</u> in most European countries. The rate of unemployment, though still low by American standards, is becoming especially worrisome politically in the United Kingdom, where it reached 2.4 per cent, seasonally adjusted, in August, the highest since early 1963.

In Germany, the umemployment rate in July was only 2 per cent, but nearly 300 thousand fewer foreign workers were employed in that country in June than a year earlier, while total industrial employment had declined by 7 per cent over approximately the same period.

The effects of the slowdown in Europe are clearly reflected in the foreign trade figures as seen in the table on the following page. Growth in imports of OECD European countries combined has slowed down markedly, and large declines have been registered by Germany since early 1966 and by France since early 1967. These declines, together with a decline in U.S. imports, have in turn adversely affected the exports of many countries. Exports have in most cases not actually fallen, but their rate of advance has slowed down. Italy has been the major exception; Italian exports advanced sharply further during the first half of 1967, thanks partly to buoyant shipments to less developed countries and Eastern Europe, but also to increases in exports to Western Europe and North America, where Italian exporters have increased their market shares.

The European slowdown has significantly affected U.S. exports. In the first quarter of 1967, only 32 per cent of U.S. exports went to Western Europe compared with 36 per cent a year earlier. The U.S. market share in EEC imports declined to 10.5 per cent in the first quarter of 1967 from 11.4 per cent a year earlier.

The continuing stagnation of economic activity has caused widespread downward revisions in the expected rates of real national income growth in 1967. The real gross domestic product (GDP) in

Quarterly Changes in Foreign Trade, 1966-67
(Seasonally adjusted, in per cent)

	Weight 1/	1966 Q. 1	1966 Q. 2	1966 Q. 3	1966 Q. 4	1967 Q. 1	1967 Q. 2
IMPORTS							
OECD - Total	100.0	+2.3	+1.1	+3.2	+1.1	-1.4	n.a.
OECD - Europe	68.2	+2.0	+0.2	+2.3	+0.1	+1.0	n.a.
Germany	13.0	+0.9	-1.1	-1.7	+0.2	-5.0	-0.3
United Kingdom	12.0	+3.7	-2.4	+3.6	-8.4	+11.3	+1.3
France	8.6	+2.2	+3.5	+4.9	+2.2	+1.3	-6.7
Italy	6.2	+4.4	+0.6	+4.8	+5.0	+3.6	n.a.
Netherlands	5.8	-3.6	+0.3	+2.3	-1.6	+1.8	+1.2
Belgium - Luxembourg	5.2	-3.7	+5.9	+5.4	-0.3	-3.6	n.a.
Canada	6.6	+1.9	+1.1	+0.4	+9.2	+2.0	n.a.
Japan	6.9	+7.5	+2.8	+5.2	+7.7	+5.0	+4.3
United States	18.3	+1.9	+3.9	+6.8	-4.5	+1.0	-1.7
EXPORTS							
OECD - Total	100.0	+2.4	+2.6	+2.0	+2.1	+2.6	n.a.
OECD - Europe	63.1	+0.9	+3.1	+1.6	+2.2	+2.5	n.a.
Germany	15.1	+2.8	+3.3	+4.2	+2.2	+1.5	+1.0
United Kingdom	11.0	+1.0	-5.0	+7.8	+4.2	+1.4	-3.6
France	8.2	+0.6	+4.6	-0.6	-1.8	+3.2	+1.4
Italy	6.0	+4.7	+6.4	-2.6	+3.2	+6.8	n.a.
Netherlands	5.1	-5.0	+8.3	-1.4	+1.4	+5.4	-2.0
Belgium-Luxembourg	5.1	-5.4	+5.0	-0.5	+4.8	-1.7	n.a.
Canada	7.2	+7.7	+0.4	+3.9	+2.2	+7.9	n.a.
Japan	7.3	+12.7	+0.3	+3.4	+4.8	-0.1	+0.5
United States	22.4	+1.6	+2.6	+1.9	+1.1	+2.0	0

1/ Share in total OECD exports-imports in 1966.
Source: OECD and official national publications.

Britain may be only 1-1/2 per cent larger this year than in 1966. The real French GDP, originally projected by the government in the fall of 1966 to increase 5 per cent this year, may not grow by more than 2-1/2 per cent. The German GDP seems likely to be down by about 2 per cent in real terms--the first year-to-year decline for any major Continental European country since World War II. On the other hand, the real Italian GDP is expected to be 5-1/2 per cent higher this year, as much as the growth in 1966.

The combined GDP of European members of the OECD may increase by only 1-1/2 to 2 per cent in real terms from 1966 to 1967, even assuming some moderate upturn in the second half of this year. This rate of growth would be below that of 2.1 per cent recorded in 1958, and would, in fact, be the lowest since at least 1951, the first year for which a combined figure has been calculated.

In Germany the recession--now more than a year old--seems to have bottomed out. Over the past two months there has been some improvement in business confidence, as indicated by a 19 per cent rise in the stock market, and recovery may even have begun. The Bundesbank reports signs of inventory rebuilding by producers; outstanding bank loans in June, although still below 1966 levels, increased more than seasonally over May; domestic new orders in June were 2-1/2 per cent above the April level, and seasonally adjusted unemployment declined a total of 9.2 per cent in June and July from the May level. However, these encouraging signs are too scattered as yet to enable us to expect a strong upturn in the German economy in the near future.

Reflecting weakness in domestic demand, German imports in 1967 are expected to be about 5 to 6 per cent below their 1966 level, as opposed to an 8 per cent increase which might have been expected under conditions of full employment.

Real GDP in the United Kingdom appears on balance to have shown no real growth in the first half of the year. Very recently, however, some signs of a possible upturn have been visible: industrial production rose in June, exports increased in July, and bank loans registered sharp gains in both months. Mounting unemployment is exerting strong political pressure on the government, but the recent assumption of economic "tsardom" by the Prime Minister is not expected to lead to a very sharp reflationary policy. Relaxations of restrictions on installment buying, announced August 31, are not expected to have a large effect on the economy.

In France industrial production has continued to stagnate and unemployment through August 1 was rising steadily, if slowly. However, several moderately expansionary government moves and the results of the mid-July INSEE business survey, which showed a somewhat less gloomy business outlook, lead us to expect some slight revival in the second half of 1967.

The slowdown in Belgium, in contrast with other European countries, started early in 1965 and, since then, the growth of real GDP has tended to decelerate. Stagnant exports this year have further weakened aggregate demand. At the same time, the rise of both private and public domestic consumption spending has probably continued to decelerate as well. Real GNP may grow this year by only 2 per cent, compared with an estimated real growth of 3 per cent in 1966.

Economic activity in the Netherlands largely reflects the efforts taken in previous years by the authorities to curb inflationary pressures, as well as weak demand in neighboring countries. Most affected was business investment spending, which this year is expected to be no larger in real terms than in 1966. As in Belgium, exports this year trended downward and domestic consumption has increased less vigorously than in previous years. The original official forecast of 3.5 per cent real growth in 1967 has now been scaled down to 3.0 per cent. This may be compared with actual growth of 4.5 per cent in 1966 and 5.4 per cent in 1965.

In Sweden, after virtual stagnation for nearly a year, economic activity picked up sharply in the second quarter of this year with industrial production rising by 2-1/2 per cent in that quarter. Exports have been rising satisfactorily and imports have remained steady. With reported increases in new orders, the general outlook is now much more optimistic. In Denmark, the economy is still overheated, and fiscal and monetary policies of restraint will probably be maintained. The Austrian economy, while not in a state of actual recession, appears to be stabilizing at a level well below capacity. In Switzerland, several signs of leveling off appeared in the second quarter of 1967, with several key industries reporting distinct slowdowns.

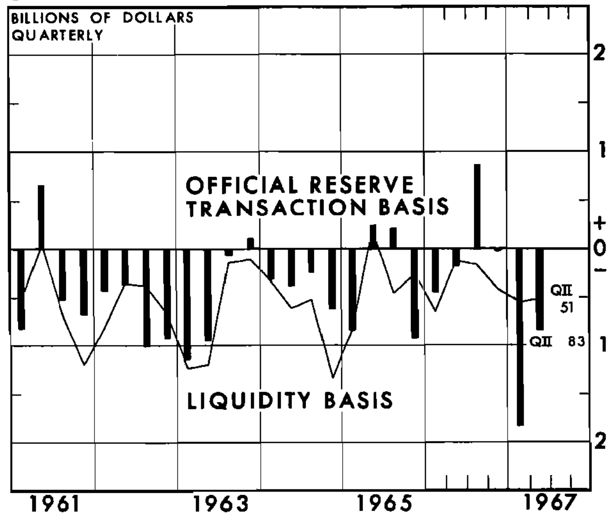
The first half of 1967 saw little change in industrial activity in Canada. With continuing improvement in Canadian exports, the slowdown appears to be due to the ending of the long investment boom. Unemployment has continued to increase and in July it stood at 4.3 per cent of the labor force, up from the low of 3.3 per cent reached in April 1966. The growth of the labor force has been bolstered by a rapid increase in immigration, which has recently been running 35 per cent ahead of a year earlier. As of now, signs of the expected upturn in the second half of the year are lacking, and we expect the real Canadian GNP to grow by no more than 3 per cent this year.

In Japan industrial production increased 8.8 per cent during the first half of the year, and the underlying demand situation remains strong. Rapidly expanding imports and slackening exports have led to a large trade deficit, and in order to restrain the rapidly expanding economy, the Bank of Japan increased its basic discount rate from 5.48 per cent to 5.85 per cent on September 1. In addition, it is planned to reduce government public works expenditures and to tighten quantitative informal restraints on commercial bank lending. For the current fiscal year, ending next March, the Government in May forecast an increase of 9 per cent in real GNP; we now expect this increase to be slightly larger. In the last fiscal year, real GNP increased by an estimated 10.8 per cent.

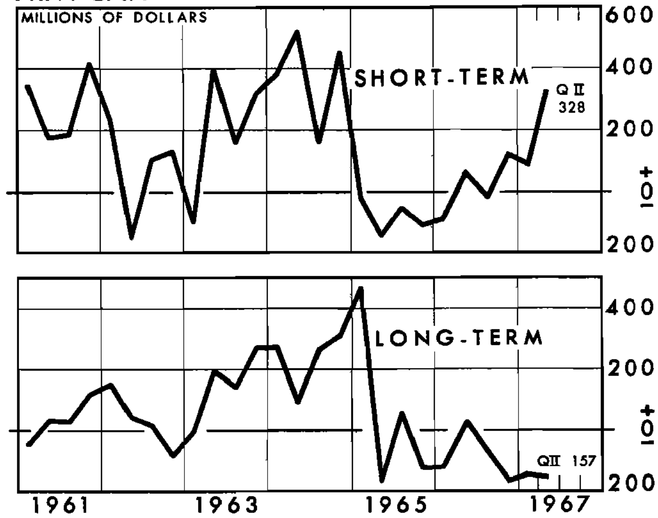
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

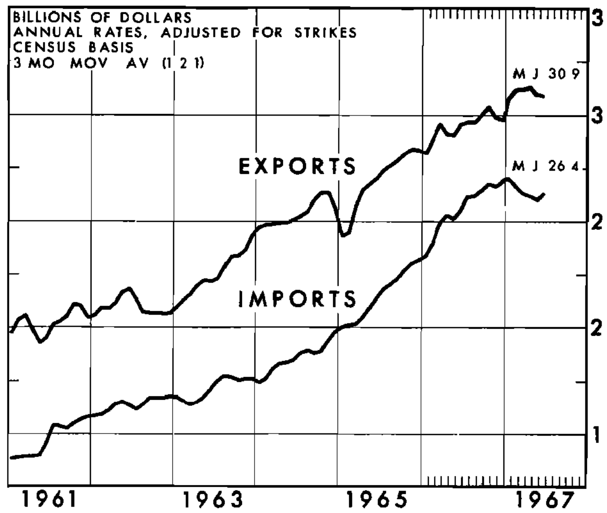
U.S. BALANCE OF PAYMENTS



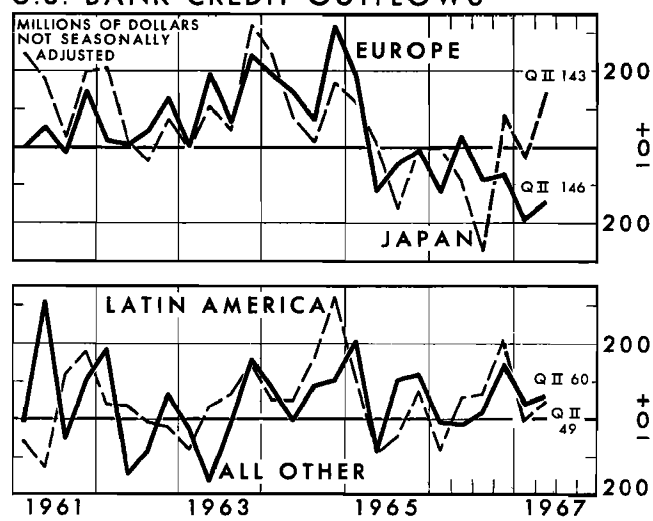
PRIV. CAP. FLOWS - BANK REPT. CLAIMS



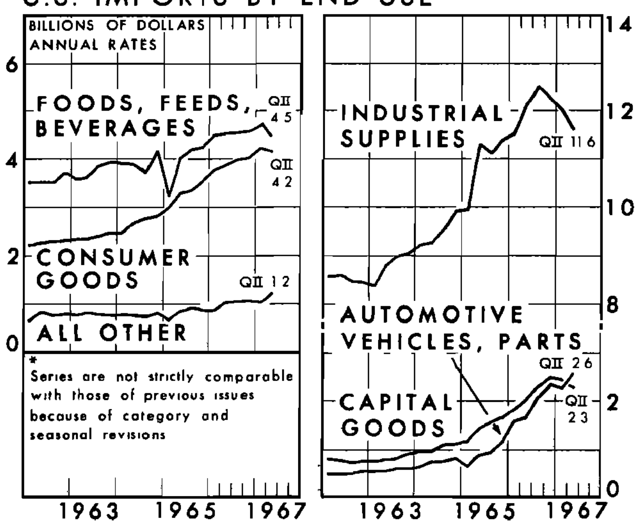
U.S. MERCHANDISE TRADE



U.S. BANK CREDIT OUTFLOWS

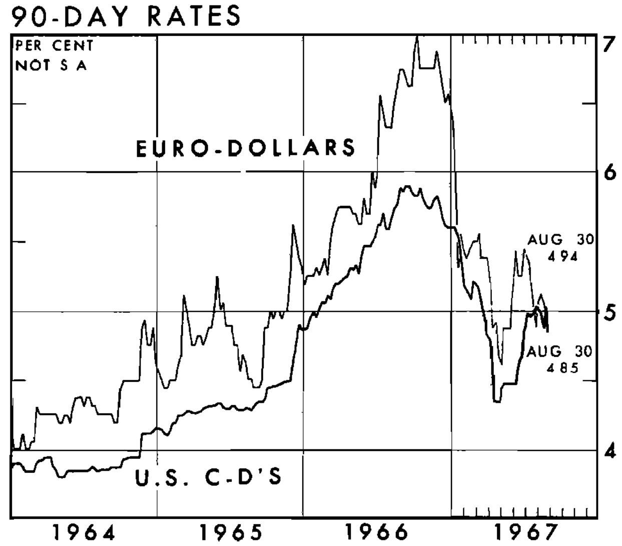


U.S. IMPORTS BY END USE *



* Series are not strictly comparable with those of previous issues because of category and seasonal revisions

90-DAY RATES



APPENDIX A: REVISION OF NONFARM PAYROLL DATA*

August data on employment, hours and earnings reflect both the BLS revision to March 1966 benchmark levels and a recalculation of seasonal factors. Unadjusted data on average hours and earnings in manufacturing were little changed by the revision. The revision to benchmark levels was carried back to March 1965 for most series and to March 1964 for a few manufacturing series because of changes in classification. The seasonally adjusted series have been revised beginning with January 1956.

REVISED NONFARM EMPLOYMENT COMPARED WITH UNREVISED
(Seasonally adjusted, quarterly averages, in thousands)

	II Quarter 1967		Difference
	Revised	Unrevised	
Nonfarm, total	65,732	65,530	202
Manufacturing	19,285	19,180	105
Durable	11,297	11,222	75
Nondurable	7,988	7,958	30
Mining	619	622	- 3
Construction	3,218	3,195	23
Trans. & public util.	4,248	4,222	26
Trade	13,610	13,599	11
Wholesale	3,550	3,569	-19
Retail	10,060	10,030	30
Finance	3,209	3,189	20
Service	9,998	10,025	-27
Government	11,545	11,499	46
Federal	2,711	2,712	- 1
State & local	8,834	8,787	47

The revised level of total nonfarm employment, seasonally adjusted, was 200,000 higher in the second quarter this year than the unrevised. About one-half of the relatively small revision occurred in manufacturing. Most of the 105,000 upward adjustment of the

* Prepared by Jane Moore, Economist, National Income and Labor Section, Division of Research and Statistics.

manufacturing total occurred in the machinery (except electrical) industry (up 54,000) and in primary metals (up 34,000). Revisions in nonmanufacturing industries were relatively small and generally upward. State and local government, retail trade, construction, finance, transportation and public utilities were revised upward; while in wholesale trade and services, employment was revised down slightly. The revisions in the seasonally adjusted series on average weekly hours of production workers in manufacturing produce a somewhat smoother series, but one little changed in the level from the unrevised data.

APPENDIX B: SURVEY OF BANK LENDING PRACTICES, AUGUST 1967*

On August 15 about one-third of the 125 respondents in the Bank Lending Practices Survey reported increased loan demand between mid-May and mid-August, as compared to the previous three months (see Table 1). While about the same proportion of banks had indicated stronger loan demands in the previous survey, a smaller number in August indicated weaker demands--only about 11 per cent as compared to 21 per cent in May. Stronger loan demand was again reported mainly at banks with total deposits less than $1 billion (compare Tables 2 and 3), and was particularly noticeable at banks in the Northeast excluding New York City.

Lending Terms, Conditions, and Availability

While most respondents did not change either their price or nonprice terms and conditions of lending to nonfinancial businesses from May to August, the number of banks reporting somewhat firmer conditions increased. A little over one-fifth of respondents indicated that they had moderately firmed their interest rate policies over the summer, and none indicated easing. Many of these had reported a more relaxed policy in May. About the same proportion also reported increased attention to compensating balances, and slightly more than one-fourth attached greater importance to the value of the deposits and collateral business of the loan customer. Approximately one-fourth of respondents indicated firmer policies regarding loans to new customers, while about one-fifth noted firmer policies toward nonlocal service area customers. Only about 13 per cent of reporting banks, however, reported that higher standards of credit worthiness were being applied, and less than 10 per cent reported firmer policies towards maturity of term loans.

Moderately firmer policies were also indicated for noncaptive finance companies, mainly with respect to enforcement of balance requirements and the establishment of new and larger credit lines.

In general, tightening in lending terms appeared to be related to increased loan demands over the summer, but seemed even more strongly associated with anticipation of stronger loan demands over the August-November period.

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* Prepared by Rosalie T. Ruegg, Economist, Banking Section, Division of Research and Statistics.

Willingness To Make Other Types Of Loans

There was a wider range of reported willingness to make various types of loans. A number of banks reported some restraint on term loans and mortgage loans other than single family mortgages, but a few banks with good time deposit inflows relative to loans demand, and with outstanding loans of this type below their budget, indicated more willingness to make such loans.

In contradiction to the increased incidence of reports of tighter policies, between 10 and 15 per cent of respondents were more willing to make consumer installment, single-family mortgage, and participation loans. This was true of a larger percentage of banks with deposits of $1 billion or more, and was particularly evident on the West Coast. A number of the banks in this group attributed their easier policy to continuing large inflows of deposits--particularly time and savings deposits. Several commented that the higher rates payable on these deposits had caused them to seek higher yielding assets--particularly single-family mortgages and consumer loans.

Anticipated Loan Demand

About two-thirds of all respondents anticipate stronger business loan demands over the mid-August to mid-November period. Some of these with good current liquidity positions indicated that they did not ease over the summer due to these expectations. It seems clear that while some banks have recently firmed lending practices because of current liquidity positions and higher loan demands, expectations of stronger loan demands and higher interest rates played a major part in establishing recent policies. For example, some banks indicated that they were discouraging term borrowing in an effort to hedge against being locked into longer-term credits at fixed interest rates, and that they were "culling out" other types of loans that might decrease their flexibility late this year or early next year.

In interpreting the increased expectation of higher loan demands, it must be recalled that respondents have proved poor predictors of their loan demand all year. In both the May and August surveys, only about one-third of banks that had previously anticipated a rise in demand actually reported that an increase had occurred. A larger percentage of banks that had anticipated stronger loan demand this year subsequently reported demand unchanged.

It is entirely possible that bankers' expectations in mid-August were biased upward by the combination of surprise at the size of borrowing in recent months--mainly associated with accelerated tax payments, now mostly over for the year--rising market rates of interest, and growing unanimity about the acceleration of the economy. These developments might have produced inflated expectations about the size of business loan demands in coming months.

Not for quotation or publication

TABLE 1

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S. 1/
(STATUS OF POLICY ON AUGUST 15, 1967, COMPARED TO THREE MONTHS EARLIER)
(Number of banks & percent of total banks reporting)

	Total		Much Stronger		Moderately Stronger		Essentially Unchanged		Moderately Weaker		Much Weaker	
	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (after allowance for bank's usual seasonal variation) COMPARED TO THREE MONTHS AGO	124	100.0	4	3.2	35	28.2	71	57.3	14	11.3	0	0
ANTICIPATED DEMAND IN THE NEXT 3 MONTHS	125	100.0	4	3.2	79	63.2	38	30.4	4	3.2	0	0

	Answering Question		Much Firmer Policy		Moderately Firmer Policy		Essentially Unchanged Policy		Moderately Easier Policy		Much Easier Policy	
LENDING TO NONFINANCIAL BUSINESSES	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent
Term and Conditions												
Interest rates charged	125	100.0	0	0	27	21.6	98	78.4	0	0	0	0
Compensating or supporting balances	125	100.0	1	0.8	27	21.6	95	76.0	2	1.6	0	0
Standards of credit worthiness	125	100.0	1	0.8	15	12.0	108	86.4	1	0.8	0	0
Maturity of term loans	124	100.0	0	0	11	8.9	109	87.9	4	3.2	0	0
Reviewing Credit Lines or Loan Applications												
Established customers	125	100.0	0	0	5	4.0	117	93.6	3	2.4	0	0
New customers	125	100.0	3	2.4	28	22.4	84	67.2	10	8.0	0	0
Local service area customers	124	100.0	0	0	5	4.0	115	92.8	4	3.2	0	0
Nonlocal service area customers	124	100.0	7	5.7	18	14.5	94	75.8	5	4.0	0	0
Factors Relating to Applicant 2/												
Value as depositor or source of collateral business	125	100.0	5	4.0	29	23.2	89	71.2	2	1.6	0	0
Intended use of the loan	125	100.0	2	1.6	16	12.8	102	81.6	5	4.0	0	0

(Continued

1/ Survey of Lending Practices at 125 Large Banks Reporting in the Federal Reserve Quarterly Interest Rate Survey as of August 15, 1967.

2/ For these factors, firmer means the factors were considered more important in making decisions for approving credit requests, and easier means they were less important.

LENDING TO "NONCAPTIVE" FINANCE COMPANIES	Answering Question		Much Firmer Policy		Moderately Firmer Policy		Essentially Unchanged Policy		Moderately Easier Policy		Much Easier Policy	
	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent
Terms and Conditions												
Interest rate charged	125	100.0	0	0	8	6.4	117	93.6	0	0	0	0
Compensating or supporting balances	125	100.0	0	0	13	10.4	111	88.8	1	0.8	0	0
Enforcement of balance requirements	125	100.0	2	1.6	17	13.6	105	84.0	1	0.8	0	0
Establishing new or larger credit lines	124	100.0	7	5.7	21	16.9	85	68.5	11	8.9	0	0

WILLINGNESS TO MAKE OTHER TYPES OF LOANS	Answering Question		Considerably less willing		Moderately less willing		Essentially Unchanged		Moderately more willing		Considerably more willing	
	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent
Term loans to businesses	125	100.0	3	2.4	18	14.4	91	72.8	13	10.4	0	0
Consumer instalment loans	124	100.0	0	0	1	0.8	102	82.3	19	15.3	2	1.6
Single family mortgage loans	122	100.0	1	0.8	7	5.7	96	78.7	16	13.1	2	1.7
Multi-family mortgage loans	122	100.0	3	2.5	15	12.3	97	79.5	7	5.7	0	0
All other mortgage loans	122	100.0	1	0.8	20	16.4	92	75.4	9	7.4	0	0
Participation loans with correspondent banks	125	100.0	2	1.6	4	3.2	105	84.0	13	10.4	1	0.8
Loans to brokers	125	100.0	3	2.4	6	4.8	109	87.2	7	5.6	0	0

B - 4

Not for quotation or publication

TABLE 2

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT BANKS WITH DEPOSITS OF $1 BILLION OR MORE 1/

(STATUS OF POLICY ON AUGUST 15, 1967, COMPARED TO THREE MONTHS EARLIER)
(Number of banks in each column as a per cent of all banks in this size category reporting)

	Total	Much Stronger	Moderately Stronger	Essentially Unchanged	Moderately Weaker	Much Weaker
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (after allowance for banks's usual seasonal variation) COMPARED TO THREE MONTHS AGO	100.0	5.1	20.5	59.0	15.4	0
ANTICIPATED DEMAND IN THE NEXT 3 MONTHS	100.0	2.6	59.0	33.3	5.1	0

	Answering Question	Much Firmer Policy	Moderately Firmer Policy	Essentially Unchanged Policy	Moderately Easier Policy	Much Easier Policy
LENDING TO NONFINANCIAL BUSINESSES						
Terms and Conditions						
Interest rates charged	100.0	0	10.3	89.7	0	0
Compensating or supporting balances	100.0	2.6	12.8	82.0	2.6	0
Standards of credit worthiness	100.0	0	2.6	97.4	0	0
Maturity of term loans	100.0	0	2.6	92.3	5.1	0
Reviewing Credit Lines or Loan Applications						
Established customers	100.0	0	2.6	92.3	5.1	0
New customers	100.0	0	18.0	69.2	12.8	0
Local service area customers	100.0	0	2.6	92.1	5.3	0
Nonlocal service area customers	100.0	2.6	7.9	84.2	5.3	0

(continued)

1/ Survey of Lending Practices at 39 large banks reporting in the Federal Reserve Quarterly Interest Rate Survey as of August 15, 1967.

	Answering Question	Much Firmer Policy	Moderately Firmer Policy	Essentially Unchanged Policy	Moderately Easier Policy	Much Easier Policy
Factors Relating to Applicant 2/						
Value as depositor or source of collateral business	100.0	2.6	12.8	82.0	2.6	0
Intended use of the loan	100.0	0	12.8	82.1	5.1	0

LENDING TO "NONCAPTIVE" FINANCE COMPANIES

	Answering Question	Much Firmer Policy	Moderately Firmer Policy	Essentially Unchanged Policy	Moderately Easier Policy	Much Easier Policy
Terms and Conditions						
Interest rate charged	100.0	0	2.6	97.4	0	0
Compensating or supporting balances	100.0	0	5.1	94.9	0	0
Enforcement of balance requirements	100.0	2.6	7.7	89.7	0	0
Establishing new or larger credit lines	100.0	2.6	20.5	66.7	10.2	0

WILLINGNESS TO MAKE OTHER TYPES OF LOANS

	Answering Question	Considerably less willing	Moderately less willing	Essentially Unchanged	Moderately more willing	Considerably more willing
Term loans to businesses	100.0	0	10.3	79.4	10.3	0
Consumer instalment loans	100.0	0	0	81.6	18.4	0
Single family mortgage loans	100.0	2.8	0	77.8	16.6	2.8
Multi-family mortgage loans	100.0	2.8	5.5	77.8	13.9	0
All other mortgage loans	100.0	2.7	8.1	75.7	13.5	0
Participation loans with correspondent banks	100.0	2.6	2.6	82.0	10.2	2.6
Loans to brokers	100.0	2.6	2.6	87.1	7.7	0

2/ For these factors, firmer means the factors were considered more important in making decisions for approving credit requests, and easier means they were less important.

TABLE 3

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT BANKS WITH DEPOSITS LESS THAN $1 BILLION 1/
(STATUS OF POLICY ON AUGUST 15, 1967, COMPARED TO THREE MONTHS EARLIER)
(Number of banks in each column as a per cent of all banks in this size category reporting)

	Total	Much Stronger	Moderately Stronger	Essentially Unchanged	Moderately Weaker	Much Weaker
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (after allowance for banks's usual seasonal variation) COMPARED TO THREE MONTHS AGO	100.0	2.3	31.8	56.5	9.4	0
ANTICIPATED DEMAND IN THE NEXT 3 MONTHS	100.0	3.5	65.1	29.1	2.3	0

	Answering Question	Much Firmer Policy	Moderately Firmer Policy	Essentially Unchanged Policy	Moderately Easier Policy	Much Easier Policy
LENDING TO NONFINANCIAL BUSINESSES						
Terms and Conditions						
Interest rates charged	100.0	0	26.7	73.3	0	0
Compensating or supporting balances	100.0	0	25.6	73.2	1.2	0
Standards of credit worthiness	100.0	1.2	16.2	81.4	1.2	0
Maturity of term loans	100.0	0	11.8	85.9	2.3	0
Reviewing Credit Lines or Loan Applications						
Established customers	100.0	0	4.6	94.2	1.2	0
New customers	100.0	3.5	24.4	66.3	5.8	0
Local service area customers	100.0	0	4.7	93.0	2.3	0
Nonlocal service area customers	100.0	7.0	17.4	72.1	3.5	0

(continued)

1/ Survey of Lending Practices at 86 large banks reporting in the Federal Reserve Quarterly Interest Rate Survey as of August 15, 1967.

	Answering Question	Much Firmer Policy	Moderately Firmer Policy	Essentially Unchanged Policy	Moderately Easier Policy	Much Easier Policy
Factors Relating to Applicant 2/						
Value as depositor or source of collateral business	100.0	4.6	27.9	66.3	1.2	0
Intended use of the loan	100.0	2.3	12.8	81.4	3.5	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES						
Terms and Conditions						
Interest rate charged	100.0	0	8.1	91.9	0	0
Compensating or supporting balances	100.0	0	12.8	86.0	1.2	0
Enforcement of balance requirements	100.0	1.2	16.2	81.4	1.2	0
Establishing new or larger credit lines	100.0	7.1	15.3	69.4	8.2	0

WILLINGNESS TO MAKE OTHER TYPES OF LOANS	Answering Question	Considerably less willing	Moderately less willing	Essentially Unchanged	Moderately more willing	Considerably more willing
Term loans to businesses	100.0	3.5	16.3	69.7	10.5	0
Consumer instalment loans	100.0	0	1.2	82.5	14.0	2.3
Single family mortgage loans	100.0	0	8.1	79.1	11.6	1.2
Multi-family mortgage loans	100.0	2.3	15.1	80.3	2.3	0
All other mortgage loans	100.0	0	20.0	75.3	4.7	0
Participation loans with correspondent banks	100.0	1.2	3.5	84.9	10.4	0
Loans to brokers	100.0	2.3	5.8	87.2	4.7	0

2/ For these factors, firmer means the factors were considered more important in making decisions for approving credit requests, and easier means they were less important.

APPENDIX C: TRENDS IN U.S. FOREIGN TRADE*

The U.S. foreign trade surplus moved generally upward in the first five months of this year, averaging $4.3 billion, but fell to $3.9 billion in June and July.

Exports established record highs early this year, but have not gained ground since April. Imports which had receded from the near-record January value to a relatively low level in May, rebounded sharply in the next two months to equal the high values of last fall.

The leveling off in exports is not surprising in view of the sluggishness in economic activity in some of our principal markets, particularly Europe, and the relatively low shipments of agricultural products. The sustained high rate of imports, and their recent advance is more difficult to account for. It had been anticipated, based on past relationships of imports to domestic economic activity, that imports would have declined by an additional $1 billion at an annual rate, in the first half of this year. Despite the slowdown in domestic output and the general easing in supply conditions this year, the current ratio of imports to GNP is still very high -- 3.4 per cent -- only fractionally below the ratio of last year when domestic activity was proceeding at a much more rapid pace. From 1960 through 1964 this ratio was consistently below 3.0 per cent. The failure of imports to decline as expected this year suggests that some structural change may have occurred which is affecting the response of imports to domestic cyclical variations. A review of import developments in the past six years would tend to support this belief.

Since 1960 imports of finished manufactures have increased more rapidly than imports of crude and semifinished industrial materials and foodstuffs. In the first half of 1967 finished manufactures were about 45 per cent of total imports compared with 30 per cent in 1960. Conversely the share of industrial materials and foodstuffs dropped sharply during this period. The expansion in imports of capital equipment, motor vehicles and nonfood consumer goods -- the major components of finished manufactures -- has been particularly strong since 1964. These fast-growing categories of imports account for an increased proportion of total domestic expenditure on these types of goods.

Purchases of foreign capital equipment, mainly machinery but also aircraft, quadrupled from 1960 to 1967, more than twice the rate of increase in total domestic expenditures on producers' durable equipment. The ratio of imports to total expenditures for such goods has more than doubled, from 2.4 per cent in 1960 to 5.4 in the first

*Prepared by Daniel Roxon, Special Studies and Operations Section, Division of International Finance.

half of 1967. This ratio has now fallen somewhat below the peak rate of last fall, possibly reflecting the shortening of delivery schedules for domestically produced equipment.

A somewhat similar trade pattern was evident in imports of nonfood consumer goods (excluding automobiles). Purchases of such items from foreign sources, including radio and T.V. sets, motorcycles, tape recorders and sporting goods, have increased steadily since 1961, topping a $4 billion annual rate for the first time in late 1966 and in the first six months of 1967. At this rate these imports were equal in value to 3.2 per cent of total U.S. spending on nonfood consumer goods in the first half of this year, only a very slight increase over the ratio in 1966 but about one full percentage point above the 1960 ratio. At the current level of consumer expenditures on goods, a one percentage point difference in this ratio is equivalent to more than $1 billion of imports at an annual rate.

The complexion of U.S. foreign trade in motor vehicles has been completely transformed in the last few years. These changes may be attributed to two events.

1. The enactment of the U.S.-Canadian Automotive Agreement in 1965, permitting duty-free movement of motor vehicle and original equipment parts between the U.S. and Canada.

2. The resurgence of passenger car imports from non-Canadian sources, principally Europe but also more recently Japan.

As a result, imports of motor vehicles and parts more than tripled in value from 1964 to the first half of 1967. The nearly $2.5 billion (annual rate) of imports in January-June of this year is equivalent to over 5.5 per cent of total domestic manufacturers' shipments; this compares with about 2 per cent in 1964.

Exports of motor vehicles have also expanded over this period but at a much slower rate. Consequently, the export balance on such products has shrunk from over $1 billion in 1964 to about $100 million in the first half of this year.

The area distribution of our trade in these commodities has also shifted radically. Canada has now become the major supplier and market in automotive products, accounting for over 60 per cent of both exports and imports in the first six months of this year. Imports from Canada in 1964 were less than $100 million, about 10 per cent of total automotive imports. In 1967, however, arrivals from Canada are running at an annual rate of $1.5 billion. The expansion in exports of automotive products to Canada has been less marked, resulting in a reduction of about $500 million in the export balance in these commodities with Canada.

Our trade position in automotive products with other countries has also deteriorated since 1964, as imports have increased while exports have remained stable. Following the import car boom of 1959, when foreign cars accounted for about 10 per cent of total domestic sales, purchases of foreign cars fell to about 6 per cent of the total domestic car market. In 1966, however, imports of foreign cars began to rise again while sales of domestic cars declined. Imported cars were about 8.5 per cent of total car sales in the first half of 1967, the highest ratio since 1959.

In contrast to the growing importance of imported products in total domestic expenditures for the three commodity categories discussed above, imported foodstuffs continue to account for about 4 per cent of total spending on foods and imports of industrial materials account for about 2.5 per cent of final sales of goods (GNP less services and inventory changes). (Adjustment of the data for stockpile releases, which have been sizable in the past two years, would not significantly raise this latter ratio.)

Although total imports of materials have been a relatively stable proportion of final sales, some components have shown marked growth. In particular imports of iron and steel rose sharply in 1965 in anticipation of a steel strike and have stayed high through the first part of 1967. At the present time imported steel constitutes about 11 per cent of total domestic supplies, compared with between 5 and 7 per cent from 1960 to 1964. Japan has emerged as the leading foreign supplier of steel and accounted for much of the impetus for the 1965-66 boom in U.S. steel imports. In the first half of 1967, however, imports from Japan dropped, reflecting intense home demand in that country, while deliveries from Germany, Belgium and the United Kingdom increased sharply.

A consequence of the shift in the composition of imports from crude and semifinished products to finished products has been the changed area distribution of imports. The industrial countries -- Canada, Western Europe and Japan -- supplied about two-thirds of all imports in the first half of 1967 compared with about 55 per cent in 1960. The less-developed countries which produce food and crude and semifinished materials, were the source of one-third of total imports, considerably below the 45 per cent coming from these countries in 1960.

Some tentative conclusions are suggested by the trade developments outlined above.

1. If imports of those commodities which account for an increasing proportion of total domestic expenditures -- capital equipment, automobiles and nonfood consumer goods -- continue to increase their relative importance in total imports, then the ratio of total imports to GNP can be expected to increase.

2. Several of the fast-growing imports categories such as automobiles and nonfood consumer goods may not be as responsive to cyclical changes in the U.S. as industrial materials whose weight in total imports is declining. This may result in a greater stability over the cycle in the import-GNP ratio than has previously been the case.

3. With an increasing share of total imports being provided by industrial countries, imports may be more affected by cyclical changes in these countries than in the past. It is quite possible, for example, that the current high level of imports may, in part, be related to the slackening in the growth of internal demand in other industrialized countries relative to their productive capacities. The expansion in imports of steel from Germany in the first half of this year may be an illustration of this type of situation.