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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 27, 1967

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SUMMARY AND OUTLOOK

Outlook for economic activity

Recent information gives further support to the estimate of a $15 billion increase in GNP in the third quarter. The fourth quarter rise in GNP is still projected to be larger than in the third quarter--probably $20 billion or so. The real rate of growth is likely to accelerate from about 5 per cent to 6.5 per cent and the rate of advance in prices to be somewhat higher than in the third quarter.

The accelerated growth of income and product is being accompanied by a general trend toward larger wage increases, a somewhat tighter labor market, and numerous increases in basic materials and finished goods prices. Our projection for the fourth quarter assumes a continuation of these trends and also is premised on the assumption that a tax surcharge will not be in effect before the end of the year--a prospect that seems increasingly likely--and that auto strikes will not be prolonged beyond the end of October.

Rapid growth in consumer expenditures is providing much of the impetus for the expanding economy, with large gains in personal income recorded in the third quarter and an even more rapid increase expected in the fourth quarter. In the third quarter, outlays for nondurable goods apparently rose faster than had been anticipated last month. While a low level of auto stocks occasioned a sharp drop in unit sales, demands for autos were sufficiently strong to prevent the usual summer decline in new auto prices. The rate of expenditure for total consumer durable goods as a whole was maintained at the second quarter level.

Fourth quarter consumer spending should be buoyed by the effected step-up in gains in income, as well as by a spill-over of new car demand from the third quarter. If work stoppages in the auto industry are over by the end of October, production of cars should be sufficient to support a sharp rise in the rate of unit sales for the quarter. A further brisk rise in nondurable goods outlays is also likely. High levels of consumer outlays could be attained without cutting into the relatively high saving rates of recent quarters.

Residential construction is responding to the enlarged flow of mortgage funds thus far this year, although mortgage interest rates are high and have recently turned up. The annual rate of housing starts in the fourth quarter should be around 1.4 million, 500,000 above a year ago.

Durable goods orders have declined substantially in the last two months, but this has resulted mainly from a sharp fall-off in defense ordering, which had been very high in May and June, and which have fluctuated over a wide range. New orders for machinery and equipment, on the other hand, continued the substantial recovery underway since the February low. This lends some credence to reports from private surveys indicating increases in plant and equipment outlays next year.

Resource use and prices

Following a rapid rise in July and August, industrial production is probably declining moderately this month because of the Ford strike and a reversal of the summer's sharp run-up in crude oil output. Resumption of an upward movement is production--and in over-all manufacturing capacity utilization--must wait on settlement of the auto strike. Renewed high levels of auto output to make up for strike losses and to meet expected consumer demands for 1968 models will itself provide a major fillip to industrial production. Moreover, with the inventory adjustment (apart from autos) apparently over, continuation of recent rising sales trends for other consumer goods, for residential construction materials and equipment, and for defense products should provide basic expansive thrust to industrial production.

The over-all productivity and labor cost picture in the weeks ahead will be muddied for the duration of the auto strike, and the expected large auto wage settlement may accelerate further the upward trend in wage rates. But, resumption of rapid expansion in industrial production--within the context of generally ample capacity at least for some months--will undoubtedly be accompanied by large productivity gains, such as accompanied the upturn in output in July and August.

Price increases for industrial materials and products continue to be widespread. Price increases at wholesale to date may have reflected mainly a "catch up" bulge to cover large cost increases from late 1966 through mid-1967 when over-all demand pressures were slack. Industrial capacity remains generally ample and expanding and import competition strong, but with domestic demands moving up a permissive atmosphere for price increases has prevailed since midyear. As recent increases in prices of materials are passed through to finished commodities at wholesale and then, perhaps with some widening of margins, to retail prices, continued sizable gains in average prices of industrial commodities seems likely--at least until upward pressures on unit labor costs slacken appreciably. Generally stable farm and food prices, however, are likely to provide some moderation to the upward movement of the over-all price indexes.

Capital markets outlook

Bond yields have come under renewed upward pressure recently, reflecting more an investor hesitancy rather than extraordinary supply. Investor attitudes have been influenced by the recent rise in short-term rates and by continuing concern about inflationary price movements and the prospects for fiscal and monetary policies. In such an environment, capital market rates may continue to drift somewhat further upwards, particularly municipal yields in view of the still sizable overhang of new issues. Announcement in late October of the Treasury's mid-November refunding may be the occasion for further rate adjustments in the U.S. Government securities market.

While financing demands of State and local governments have risen recently, corporate borrowing demands in capital markets have tapered off. The volume of publicly-offered corporate bonds is expected to total about $1 billion in September--$700 million less than the monthly average for the preceding three months--and may drop somewhat lower in October. And the monthly volume of corporate offerings is generally expected to remain relatively moderate, on balance, over the rest of the year.

With other long-term market rates remaining high, mortgage yields are likely to remain near current levels or, as may be suggested by the current unusually narrow spread of mortgages over other bond yields, advance further. Moreover, the recent advance of short- and intermediate-term rates raises the question whether net savings flows to depositary-type institutions and to the mortgage market can continue in the near-record volume that prevailed through August.

Currently, rates on short- and intermediate-term Treasury securities are showing spreads over the rates paid on claims at thrift institutions nearly as wide as those that prevailed in mid-1966. However, yields on Federal Agency issues and other short-term market instruments show a substantially smaller spread above savings rates than in the earlier period. And commercial banks are competing much less aggressively for consumer-type accounts than they were in the second and third quarter periods of major difficulty during 1966 when the ceiling interest rate for banks was higher. Thus, a substantial drop in net savings inflows in October is not likely, although some tapering off may develop. Savings and loan associations are reportedly adhering to a rather cautious policy on forward loan commitments; many S&L's are reportedly committing expected flows only a few weeks ahead and are seeking to avoid reliance on the Federal Home Loan Banks.

Outlook for banking

A number of factors may contribute to continued expansion in bank credit over the balance of the year, though at a slower pace than during most of the summer. A substantial bulge is likely to be associated with the Treasury's $4.5 billion tax bill financing to be paid for on October 9 with 75 per cent tax and loan credit. Moreover, business loans, which declined almost continuously from late July through mid-September, are likely to show a moderate rise in the weeks ahead. Payments of withheld taxes in October are expected to be somewhat in excess of last year's accelerated pace, and as the fourth quarter progresses a modest inventory restocking may add to loan demands. Also, in view of the reduced volume of capital market financing in recent weeks, repayments of bank loans probably will fall off.

With loan demands picking up but still remaining moderate, banks are not likely to make an aggressive effort to add to outstanding CD's, although they can be expected at least to replace their September run-offs. Longer-term bill rates have risen recently, and banks will find it more difficult to attract longer maturity CD's at the 5-1/2 per cent ceiling, and virtually impossible if bill rates rise significantly further. Consequently, they may have to shorten maturities in the process of maintaining, or further increasing, CD's outstanding.

Inflows of consumer savings, which appear to have slackened somewhat over the past few weeks, may edge off slightly further as yields on market instruments begin to exercise some attraction. Demand deposits are likely to grow more rapidly than in recent weeks--in the near term mainly in the form of U.S. Government deposits derived from payment of the new tax bill through tax and loan crediting and from payments to the Treasury of withheld income taxes.

The balance of payments

The payments deficit on the published liquidity basis now appears to have changed little from the second quarter to the third, remaining at an annual rate of roughly $2 billion. If the balance is struck before crediting placements of foreign official funds in U.S. time deposits maturing in more than one year--which were large in the second quarter but have been negligible so far in the third--there was a considerable quarter-to-quarter improvement. However, this modified balance was as large for the four quarters through September as for the four quarters through June--roughly $3 billion.

The trade surplus increased from the second quarter to July-August as imports fell off. Also, there was probably some reduction in two items that had bulged adversely in the second quarter--remittances to Israel, and net unidentified payments. Travel payments to Canada probably remained high.

The balance on the official reserve transactions basis swung even more sharply, from large deficit in the second quarter to large surplus in the third, as U.S. banks obtained a greatly increased volume of liquid funds from their foreign branches, especially in July-August. For this balance too, however, there was about as large a deficit in the latest four quarters as during the four quarters through June--roughly $2 billion.

Thus, there does not appear to have been any fundamental change in the over-all payments position, and none is yet in view. Industrial production in Germany and Britain turned up in July, and cyclical recovery in Europe is expected to contribute renewed strength to U.S. exports during the remainder of the year. But imports are also likely to be rising, in line with domestic expansion. Also, net outflows of U.S. direct investment capital will be somewhat larger during the second half year than in the first, according to projections submitted by corporations to the Commerce Department.

Sterling has continued under pressure in foreign exchange markets. During the first half year, Britain's basic payments balance on current and long-term capital transactions failed to show the hoped-for surplus, and merchandise trade continued somewhat disappointing in July-August. With demand from Continental Europe and the United States now expanding again, U.K. exports may soon turn up. But the extent of any prospective improvement in the basic balance remains uncertain, since imports are also likely to be rising. Market confidence in the future prospects for sterling remains at a low ebb.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest Period	Amount			Per Cent Change	
		Latest Period	Preced'g Period	Year Ago	Year Ago*	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	8.4
Manufacturing	"	19.4	19.2	19.4	- 0.1	6.5
Other industrial	"	8.1	8.1	8.0	1.1	3.3
Nonindustrial	"	38.8	38.6	36.9	5.0	0.5
Industrial production (57-59=100)	"	158.0	156.7	158.0	0.0	9.0
Final products	"	158.3	157.4	156.4	1.2	10.7
Materials	"	157.7	156.3	159.6	- 1.2	7.6
Wholesale prices (57-59=100)1/	"	106.1	106.5	106.8	- 0.7	3.1
Industrial commodities (FR)	"	105.4	105.2	104.5	0.9	3.0
Sensitive materials (FR)	"	100.2	100.0	103.9	- 3.6	- 2.8
Farm products, foods & feeds	"	105.2	107.3	111.3	- 5.5	1.8
Consumer prices (57-59=100)1/	"	116.9	116.5	113.8	2.7	6.3
Commodities except food	"	109.4	109.1	106.6	2.6	4.5
Food	"	116.5	116.0	115.8	0.6	5.8
Services	"	128.3	127.9	123.0	4.3	8.8
Hourly earnings, mfg. ($)	"	2.85	2.83	2.73	4.4	8.8
Weekly earnings, mfg. ($)	"	115.76	114.16	113.02	2.4	7.6
Personal income ($ bil.)2/	"	631.2	626.7	589.1	7.1	16.8
Corporate profits before tax ($ bil.)2/	QII'67	78.9	79.0	83.6	- 5.6	4.4
Retail sales, total ($ bil.)	Aug'67	27.0	26.6	25.6	5.6	14.5
Autos (million units)2/	"	7.5	8.4	8.5	-12.0	-15.6
GAF ($ bil.)	"	6.5	6.3	6.1	6.1	19.7
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	"	1,381	1,362	1,108	24.6	- 1.3
Factory workweek (hours)	"	40.6	40.5	41.4	- 1.9	- 1.2
New orders, dur. goods ($ bil.)	"	22.8	23.4	23.5	- 2.8	6.2
New orders, nonel. mach. ($ bil.)	"	3.9	3.5	3.8	2.9	17.1
Common stock prices (1941-43=10)	"	94.49	93.01	80.65	17.2	9.2
Inventories, book val. ($ bil.)	July'67	137.1	137.1	128.7	6.5	17.5
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. 22, 1967.	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent)	4.00	3.90	4.70	3.45
U.S. Treas. bills, 3-mo., yield (per cent)	4.54	4.41	4.54	3.41
U.S. Treas. bills, 1-yr., yield (per cent)	5.15	5.08	5.15	3.84
Net free reserves 2/ ($ millions)	336	288	574	81
Member bank borrowirgs 2/ ($ millions)	106	75	353	43
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	545	537	545	441
20-year U.S. Treas. bonds 1/	518	514	518	453
Corporate new bond issues, Aaa 1/	5.82	5.90	5.99	5.21
Corporate seasoned bonds, Aaa 1/	5.64	5.66	5.68	5.11
Municipal seasoned bonds, Aaa 1/	3.82	3.81	3.87	3.46
FHA home mortgages, 30-year 3/	6.60	--	6.60	6.29
Common stocks, S&P composite series 4/				
Prices, closing (1941-43=10)	97.00	95.33	97.00	89.36
Dividend yield (per cent)	3.03	3.08	3.29	3.03

	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	Oct. '67e/	1,800	2,000	977	709
State & local govt. public offerings	Oct. '67e/	1,050	1,058	295	210
Comm. & fin. co. paper (net change in outstandings)	July '67	835	245	-579	-70

	Latest month	Out-standings Latest month	Change: Latest month	Change: 3-month average	Annual rate of change from: Pre-ceding month	Annual rate of change from: 3 months ago	Annual rate of change from: 12 months ago
Banking (S.A.)		($ billions)			(per cent)		
Total reserves 1/	Aug. '67	24.10	0.25	0.22	12.8	11.1	6.9
Credit proxy 1/	"	266.1	3.7	2.9	16.9	13.8	8.3
Bank credit, total 5/ 7/	"	337.1	4.9	4.3	17.7	15.8	8.8
Business loans	"	82.9	-0.2	0.4	-2.9	5.4	6.7
Other loans	"	134.8	1.4	1.2	12.6	10.7	5.2
U.S. Govt. sec.	"	61.9	3.0	1.9	61.1	40.6	10.5
Other securities	"	57.5	0.8	0.8	16.9	17.4	19.8
Total liquid assets 1/ 5/	"	635.2	6.4	5.1	12.2	9.9	6.6
Demand dep. & currency 1/	"	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/	"	179.7	1.4	1.5	9.4	10.5	8.8
Other 5/ 6/	"	99.1	1.1	-0.5	13.5	-6.0	-4.6

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 Sept.20 . 3/ Latest figure is for Aug. 4/ End of week closing prices.
5/ Month-end data. 6/ U.S. savings bonds and U.S. Government securities maturing within 1 year. 7/ Revised series, see special article in Appendix to this Greenbook.

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

	1967					1966		
	Aug.	July	June	QII	QI	QIV	QIII	QII
				Seasonally adjusted				
Current account balance				910	1,085	838	873	1,108
Trade balance 1/	420	330	325	1,136	999	722	802	956
Exports 1/	2,540	2,570	2,560	7,723	7,691	7,402	7,382	7,181
Imports 1/	-2,120	-2,240	-2,235	-6,587	-6,692	-6,680	-6,580	-6,225
Services, etc., net				-226	86	116	71	152
Capital account balance				-846	-1,339	-1,109	-1,315	-1,032
Govt. grants & capital 2/				-931	-1,205	-724	-759	-988
U.S. private direct investment				-684	-622	-1,003	-900	-1,006
U.S. priv. long-term portfolio				-161	-180	69	-5	-69
U.S. priv. short-term				-285	-156	-231	-27	-60
Foreign nonliquid				1,215	824	780	376	1,091
Errors and omissions				-576	-284	-148	277	-198
Balances, with and without seasonal adjustment (- = deficit)								
Liquidity bal., S.A.				-512	-538	-419	-165	-122
Seasonal component				319	303	-47	-530	-27
Balance, N.S.A.	-375	-483	317	-193	-235	-466	-695	-149
Official settlements bal.				-814	-1,827	-18	861	-175
Seasonal component				132	545	-180	-456	-210
Balance, N.S.A. 3/	451	-185	168	-682	-1,282	-198	405	-385
Memo items:								
Monetary reserves (decrease -)	381	-50	331	419	-1,027	6	-82	-68
Gold purchases or sales (-)	-61	-33	-45	-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. In the absence of fiscal restraint, the speed-up in the economy we projected last month appears to be underway. The increase in the GNP is still expected to accelerate to an annual rate of $15 billion in the third quarter and then up to $20 billion in the fourth, and the real rate of growth is likely to climb to 6.5 per cent next quarter, the fastest rate of expansion since the first quarter of 1966. The more rapid thrust comes mainly from larger increases in consumer spending. A resumption of investment in inventories and higher levels of government outlays are expected to contribute to the anticipated strong showing in the fourth quarter. Prices also are expected to rise more rapidly, with anticipated Federal pay increases contributing to the sharp rise in the GNP deflator.

Underlying the forward impetus in the economy is the accelerating rise in personal income. The drop in hours and employment in the industrial sector has been reversed, and wage rates are gaining at therate of over 5 per cent a year. The rise in personal income in the third quarter is expected to be $12 billion, almost half again as large as the average quarterly rise in the first half of the year. By the fourth quarter, the rate of income expansion, bolstered by the expected Federal pay raise, should increase even faster. A prolongation of the auto strike into November, or its extension to other producers, would of course, slow the expansion. However, we have no reason as yet to change our assumption that settlements will be worked out by the end of October.

Compared with income gains of this magnitude the substantial rise in consumer spending shown in the projection for next quarter is moderate--$10 billion for the quarter. Durable goods expenditures are expected to rise sharply, as supplies of autos are replenished, while the rise in nondurable goods purchases is expected to approach the large increase of the third quarter.

Sales of autos fell sharply in the third quarter (from an annual rate of 7.8 million in the second quarter to an estimated 7.4 million) mainly as a result of supply shortages. However, expenditures were maintained at the earlier levels because the normal seasonal decline in prices did not occur. In the fourth quarter, sales are expected to rise to an annual rate of 8.25 million units and prices per unit to increase by about $125 dollars on the average. (Part of this increase represents quality improvement and will not result in a rise in the deflator.)

Sales of furniture and appliances, which appeared to be strengthening last month, have proved weaker than expected, but they are likely to rise in the fourth quarter in response to higher incomes and a rising rate of home completions.

In the nondurable goods sector, the third quarter increase now appears to have been much stronger than anticipated last month, with higher prices for apparel, gasoline, and other items apparently playing a considerable role. In the fourth quarter, the rate of rise, while still large, is projected to be somewhat below that in the third quarter. Food prices, which have risen sharply recently, are expected to show little further increase.

The saving rate is assumed to show little change in the fourth quarter at its current relatively high level. In the past, a sharp rise in disposable income usually has been associated with a constant or increasing saving rate.[1/] Since our projection shows a rapid rate of advance in income from the second to fourth quarters, a rise in the saving rate would have been a reasonable expectation. However, in view of the large rise in auto sales, with an expected accompanying increase in instalment credit, we now look for little change in the saving rate.

Defense spending is still contributing strongly to GNP growth, although the rate of advance in the third quarter has been slower than in the first half of the year. This trend is in line with the Budget plus the $4 billion supplemental which indicate a moderating rise in defense outlays over this fiscal year. However, in the fourth quarter, an expected pay raise for civilian personnel in the defense department and military personnel will add well over a billion dollars (annual rate) to expenditures, pushing the rate of increase back up to the earlier pace. Federal nondefense spending is estimated to be rising in both the third and fourth quarters largely because inventories of the CCC are growing. But in the fourth quarter about half a billion dollars will be added by the anticipated civilian pay increase.

1/ In the 58 quarters since 1952, an acceleration in the quarterly rate of rise in personal income of 0.5 per cent has occurred twelve times, and in ten of these times the rate of saving has increased or remained at the level of the previous quarter.

The Federal deficit on income and product account rose sharply in the second quarter to a seasonally adjusted annual rate of almost $15 billion, as expenditures rose and receipts from personal taxes declined somewhat. The third and fourth quarters are expected to show only a slightly reduced deficit. Although corporate profits may rebound breaking a projected rate of $84.5 billion at year end and personal income is estimated to rise at a faster pace, the increase in Federal spending is likely to offset most of the resulting growth in receipts. For the calendar year 1967, the deficit may be close to $13.5 billion.

In the State and local area, increased services, pay increases comparable with those in private industry, and a high level of public works account for the rapid expansion in expenditures. Receipts, from old and new tax sources, together with Federal grants-in-aid, are approximately matching the expansion in spending.

The demand for housing, coupled with the enlarged flow of mortgage funds, is resulting in a rise in new home starts in line with earlier expectations. Starts in August maintained the advanced July rate, indicating that the third quarter average rate of 1.35 million units will almost certainly rise to 1.4 million or so in the fourth quarter. The rise in starts has been gradual but fairly steady since the fourth quarter of last year, with the result that work-put-in-place accelerated in the third quarter by an estimated $2.3 billion. Owing to a higher proportion of multi-family units, the increase in unit outlays and in aggregate dollar expenditures is expected to be somewhat smaller next quarter than in the period just ended.

Although the data are still inconclusive, we estimate that there was little growth in nonfarm inventories in the third quarter. Dealer's auto stocks fell to minimum levels, and over-all, movements in manufacturer's and distributor's stocks are believed to be largely offsetting. At present, total distributor's inventories generally appear to be in line with sales. The manufacturer's stock-sales ratio, while apparently having passed a peak, is still high by historical standards, in large part, however, because of defense-related inventories.

Manufacturers generally appear to be relying on sales increases to reduce swollen stocks. With prices rising and output expanding, the time appears to be approaching when business generally may again attempt to increase inventories. The small accumulation we show in the fourth quarter indicates a turn-around toward inventory-building. Farm inventories also are again increasing.

GNP is projected to show little change in fixed nonresidential investment in the fourth quarter. However, recent private surveys of intentions to invest in plant and equipment indicate that spending next year may rise 4 per cent or more above 1967. Another indication of strength is the continued substantial recovery in new orders for machinery and equipment in August from the February low. (Defense orders, in contrast, fell in July and again in August, with the first substantial

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 III	1966 IV	1967 I	1967 II	1967 Projected III	1967 Projected IV
Gross National Product	743.3	785.4	748.8	762.1	766.3	775.1	790.0	810.0
Final sales	729.9	783.2	737.4	743.6	759.2	774.6	790.3	808.5
Private	575.6	605.4	579.7	581.9	588.8	599.6	610.5	622.5
Personal consumption expenditures	465.9	493.8	470.1	473.8	480.2	489.7	497.7	507.7
Durable goods	70.3	72.4	70.9	70.6	69.4	72.5	72.5	75.0
Nondurable goods	207.5	219.7	209.5	210.3	214.2	217.2	221.7	225.7
Services	188.1	201.7	189.8	192.9	196.6	200.0	203.5	207.0
Gross private domestic investment	118.0	108.6	116.4	122.2	110.4	105.1	107.5	111.3
Residential construction	24.4	24.2	23.7	20.9	21.4	23.1	25.4	26.8
Business fixed investment	80.2	82.2	81.2	82.8	81.9	81.5	82.4	83.0
Change in business inventories	13.4	2.2	11.4	18.5	7.1	.5	-.3	1.5
Nonfarm	13.7	2.1	12.0	19.0	7.3	.6	-.5	1.0
Net Exports	5.1	5.2	4.6	4.3	5.3	5.3	5.0	5.0
Gov't. purchases of goods & services	154.3	177.8	157.7	161.7	170.4	175.0	179.8	186.0
Federal	77.0	91.2	79.5	81.5	87.1	89.5	92.1	96.0
Defense	60.5	73.6	63.0	65.6	70.2	72.5	74.5	77.0
Other	16.5	17.6	16.6	15.9	16.8	17.0	17.6	19.0
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	672.8	683.6
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	623.0	589.3	601.6	612.9	619.1	631.0	645.0
Wage and salaries	394.6	424.1	399.6	407.4	414.7	418.3	426.5	437.0
Disposable income	508.8	545.2	512.4	522.0	532.7	540.0	548.5	559.5
Personal saving	29.8	37.2	29.2	34.6	38.8	36.0	36.5	37.4
Saving rate (per cent)	5.9	6.8	5.7	6.6	7.3	6.7	6.7	6.7
Corporate profits before tax	83.8	80.7	84.0	83.9	79.0	78.9	80.5	84.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	143.2	151.7	145.6	148.6	149.1	148.1	152.4	157.3
Expenditures	142.9	165.1	146.3	151.9	160.9	162.8	166.0	170.7
Surplus or deficit (-)	.3	-13.4	-.7	-3.3	-11.9	-14.7	-13.6	-13.4
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)	64.0	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	157.0	155.7	157.3	160.7
Capacity utilization, manufacturing (per cent)	90.5	85.3	90.6	89.8	87.0	85.0	84.2	84.8
Housing starts, private (millions A. R.)	1.17	1.27	1.08	.92	1.12	1.21	1.35	1.39
Sales new U.S.-made autos (millions, A. R.)	8.38	7.70	8.47	8.13	7.33	7.83	7.37	8.25

* 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 II	1967 Projected III	1967 Projected IV
	---------------- In Billions of Dollars --------------							
Gross National Product	59.4	42.1	12.1	13.3	4.2	8.8	14.9	20.0
Final sales	55.4	53.3	14.7	6.2	15.6	15.4	15.7	18.2
Private	37.5	29.8	8.2	2.2	6.9	10.8	10.9	12.0
GNP in constant (1958) dollars	35.9	17.9	5.5	6.3	-.4	4.0	8.1	10.8
Final sales	32.1	28.6	8.3	-0.3	10.1	10.3	8.9	9.1
Private	21.9	12.8	4.4	-2.8	3.7	7.1	5.5	6.6
	--- In Per Cent; Quarterly Changes are at Annual Rates -							
Gross National Product	8.7	5.7	6.6	7.1	2.2	4.6	7.7	10.1
Final sales	8.2	7.3	8.1	3.4	8.4	8.1	8.1	9.2
Private	7.0	5.2	5.7	1.5	4.7	7.3	7.3	7.9
Personal consumption expenditures	7.6	6.0	7.4	3.1	5.4	7.9	6.5	8.0
Durable goods	6.5	3.0	15.8	-1.7	-6.8	17.9	0.0	13.8
Nondurable goods	8.5	5.9	4.6	1.5	7.4	5.6	8.3	7.2
Services	6.9	7.2	7.5	6.5	7.7	6.9	7.0	6.9
Gross private domestic investment	9.9	-8.0	-7.1	19.9	-38.6	-19.2	9.1	14.1
Residential construction	-9.6	-0.8	-32.6	-47.3	9.6	31.8	39.8	22.0
Business fixed investment	12.8	2.5	12.7	7.9	-4.3	-2.0	4.4	2.9
Gov't purchases of goods & services	13.1	15.2	17.2	10.1	21.5	10.8	11.0	13.8
Federal	15.3	18.4	24.6	10.1	27.5	11.0	11.6	16.9
Defense	20.8	21.7	31.5	16.5	28.0	13.1	11.0	13.4
Other	-1.2	6.7	0.0	-16.9	22.6	4.8	14.1	31.8
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	4.9	6.4
Final sales	5.3	4.5	5.2	-0.2	6.3	6.3	5.4	5.4
Private	4.4	2.5	3.4	-2.2	2.9	5.5	4.2	5.0
GNP Implicit deflator	2.7	2.8	3.2	3.1	2.4	2.1	2.7	3.7*
Personal income	8.6	7.4	8.3	8.3	7.5	4.0	7.7	8.9
Wage and salaries	9.9	7.5	9.6	7.8	7.2	3.5	7.8	9.8
Disposable income	7.8	7.2	7.2	7.5	8.2	5.5	6.2	8.0
Corporate profits before tax	9.5	-3.7	1.9	-.5	-23.4	-0.5	18.1	19.9
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.7	5.9	11.3	8.2	1.3	-2.7	11.6	11.8
Expenditures	15.8	15.5	22.8	15.3	23.7	4.7	7.9	11.3
Nonfarm payroll employment	5.3	3.4	3.8	4.4	4.3	0.0	3.0	4.8
Manufacturing	6.1	0.5	4.2	4.1	0.0	-4.1	0.0	6.2
Industrial production	9.0	0.9	6.2	3.0	-4.5	-3.3	4.1	8.1
Housing starts, private	-20.4	8.5	-62.5	-59.3	87.0	32.1	46.3	11.8
Sales new U.S.-made autos	-4.4	-8.1	33.6	-15.8	-39.6	27.3	-23.5	47.8

* 3.1 per cent without Federal pay increase.

reduction in the backlog since the Vietnam build-up began.) However, owing to the tendency toward bunching of orders for long-lead time items and the consequent wide fluctuations in this series, the two months decline in defense orders may not signal any significant change in trend.

Industrial production. The 2.5 point (1.6 per cent) rise in industrial production from June to August raised the total index to 158.0 per cent, the same as a year earlier, but one point below the December 1966 high. While increases in output occurred in both final products and materials, they reflected mainly special situations (see table).

CHANGES IN INDUSTRIAL PRODUCTION
JUNE TO AUGUST

	Points in total index
Total index, increase	2.5
Special situations	2.3
Recovery from strikes-rubber, electrical machinery	1.3
Threat of strike - motor vehicles, steel*	.4
Mid-East crisis - crude oil	.6
Other gains and losses	.2
Household appliances	.1
Business equipment	.1
Defense equipment	.2
Copper strike	-.2

* Steel output was indirectly affected because of the earlier than usual demand for steel by the auto industry.

After adjusting roughly for output losses from strikes, subsequent increases from returns to work, and the effect of the Mid-East crisis on crude oil, the total index apparently shows only a little rise from February through August. Declines in output in some industries, in response to top-heavy inventories, would have been just about canceled out by increased production in some other industries where inventory adjustments had been largely completed or over-done in some cases.

So far in September, available output data are too skimpy to accurately judge the underlying trend in industrial production. We are again faced with two "special" situations: crude oil output is beginning to drop as rapidly as it rose in July and August and the strike at Ford continues. If the strike is not settled by the end of the month, the loss in the total index due to this factor and the decline in crede oil would amount to about 1.5 points. Output of steel ingots rose in early September but trade reports indicate some curtailment in production of steel mill products because of a truck strike.

Manufacturing utilization rate. The August rate of manufacturing capacity utilization was estimated at 84.5 per cent, up slightly from an upward revised 84.2 per cent in July. This is still well below the high of 91.0 reached in June of last year. Spare capacity exists in a wide range of industries and is especially noticeable in such materials-producing industries as textiles, paper, chemicals, steel, and stone, clay and glass. Aircraft manufacturers continue to operate at unusually high rates.

UTILIZATION RATES

Industry	May	June	July	August
Manufacturing	84.7	84.1	84.2	84.5
Primary processing industries	82.6	82.0	82.1	82.3
Advanced processing industries	86.2	85.6	85.8	86.0

Unit auto sales and inventories. Sales of new domestic autos in the first twenty days of September were down almost one-fourth from the previous month and 18 per cent from a year earlier. The total stock of new cars, including unintroduced 1968 models, increased 8 per cent in the first ten days of September but was one-tenth below a year earlier. The stock of 1967 models alone was estimated at about 575,000 on September 10, 30 per cent below the stock of 1966 models on September 10, 1967.

It is estimated that on September 22, Ford's introduction date, Ford dealers held about 124,000 1967 models and 67,000 1968 models, The low stock of 1968 models should affect Ford Motor Company's sales almost immediately and the pinch will be acute if the strike extends into October.

Franchised dealer sales of used cars in the first ten days of September were down almost one-fifth from last month. A large decline is usual around introduction dates for new models. However, early September sales were 7 per cent below a year earlier. In fact, since August 1 sales have been running below the corresponding period for every year since 1962. Trade sources report that this year's lower sales level has been caused mainly by a shortage of clean late-model cars, as suggested by the strength of used car prices. However, strength in the used car market appears to be limited to late models. The stock-sales ratios for all used autos held by franchised dealers for the period between August 1 and September 10 averaged higher this year than in any corresponding period of the past decade.

Consumer credit. The proportion of disposable personal income committed to consumer instalment debt repayment has reversed the downtrend that began in mid-1966. Latest figures--for the second quarter of 1967--show the repayments-to-income ratio to be near earlier high levels, as repayments increased at a faster pace, while the rise in disposable income slowed.

CONSUMER INSTALMENT CREDIT

	Extensions	Repayments	Net increase in outstandings	Ratio of repayments to disposable income
	(Seasonally adjusted annual rate--billions of dollars)			(per cent)
1965				
Q1	72.5	65.1	7.4	14.3
Q2	74.4	66.4	8.0	14.3
Q3	76.8	68.5	8.3	14.3
Q4	77.8	70.0	7.8	14.3
1966				
Q1	78.8	71.7	7.1	14.4
Q2	78.6	72.3	6.3	14.4
Q3	80.0	73.4	6.6	14.3
Q4	78.4	73.9	4.6	14.2
1967				
Q1	78.0	75.0	3.0	14.1
Q2	79.9	77.1	2.8	14.3
July	81.3	78.6	2.7	n.a.

After a year of approximate stability, the volume of instalment credit extensions rebounded in June to a new high level, and July was higher than any previous month except June. However, this rise in credit extended was not matched by an equal growth in the total amount of consumer instalment credit outstanding. The change in outstandings is unlikely to return to the high levels of 1965 for some time, even if extensions continue to grow rapidly. This is because outstandings change with the difference between current extensions and repayments on loans contracted earlier, typically two to three years. Thus, during extended periods of loan expansion, the rise in repayments may lag substantially behind current lending. However, the stable level of extensions from mid-1966 to mid-1967 which was accompanied by rising repayments sharply reduced the amount of rise in outstandings.

Retail sales. Retail sales rose nearly 1.5 per cent in August, according to advance estimates based on a partial sample, and were 5.6 per cent above a year earlier. Sales at nondurable goods stores were up 2 per cent, with especially large increases at apparel and general merchandise stores. Sales in the automotive group and at furniture and appliance outlets edged off further in August, but total durable goods sales were unchanged as gains were registered for materials and miscellaneous durable goods.

Retail sales in July and August averaged 2.8 per cent above the second quarter average, with sales up at all major groupings of stores except furniture and appliance stores. Nondurables as a group registered a gain of nearly 2 per cent with an even larger rise at general merchandise stores.

Weekly sales data through mid-September suggest continuation this month of a moderate to large rise in nondurables, particularly general merchandise, and a further decline at furniture and appliance stores.

Business inventories. With data (still preliminary) for all major sectors now in, the book value of business inventories showed only a slight further decline in July $43 million as compared with a revised June decrease of $274 million. The June decline is much smaller than was indicated earlier because of a large upward revision in wholesale inventories (which now show accumulation rather than liquidation). Preliminary July figures for wholesalers, however, indicate sizable liquidation and this, coupled with a moderate further decline in retail inventories, more than offset accumulation totaling $277 million by manufacturers.

The table below shows recent monthly changes in total business inventories, with details for major sectors. As was indicated in the last Green Book the July rise in manufacturers' inventories was exaggerated by the spurt in auto producer stocks which apparently reflected inadequate seasonal allowances. As evidenced by the recent June revision, the preliminary wholesale figure for July must be taken with several grains of salt, but the trend of wholesale inventories appears to have been downward in recent months. This characterization also applies to retail stocks, with the downward thrust concentrated at auto dealers. In August and also in September, auto dealer stocks have apparently continued to decline.

MONTHLY CHANGES IN BOOK VALUE OF BUSINESS INVENTORIES
(Seasonally adjusted;in millions of dollars)

	1967			
	April	May	June	July(p)
Manufacturing & trade, total,1/	257	80	-274	-43
Manufacturing	622	248	-188	277
Durable goods	377	191	25	405
Business & defense equipment	253	159	208	266
Auto producers	-79	-56	-96	146
Other durables	203	88	-87	-7
Nondurable goods	245	57	-213	-128
Trade	-365	-168	- 86	-320
Wholesale	-75	-195	90	-230
Retail	-290	27	-176	-90
Auto dealers	-106	-94	-161	-188
Other	-184	121	-15	98

p -- preliminary

1/ The inventory change was as follows in terms of seasonally adjusted annual rates (in billions of dollars): April, 3.1; May 1.0; June, -3.3; and July -0.5.

Orders for durables. New orders for durable goods declined 2.3 per cent in August. This marked the second consecutive monthly decline and brought orders down to a point only 3.5 per cent above the low of last March. The decline was again centered in the volatile aircraft sector, which was off 32 per cent. Irregular fluctuations in aircraft orders have tended to dominate movements in durable goods orders in recent months.

New orders for primary metals were down, while fabricated metals, machinery and other durable goods showed increases. The special machinery and equipment grouping showed a rise of 4 per cent, bringing the total increase from the low of last February to 15 per cent.

Unfilled orders for durable goods edged downward 0.5 per cent in August. This decline followed three consecutive increases. The main factor was a decrease in order backlogs for aircraft caused mainly by the sharp drop in new orders. When aircraft are excluded from the total, the durable backlog was up 0.5 per cent in August, for the fourth consecutive increase.

Shipments of durable goods edged up 0.4 per cent in August, with aircraft shipments up 5 per cent and fabricated metals, non-electrical machinery, and other durable goods showing small increases. Shipments of primary metals and electrical machinery were down.

Residential construction. Private housing starts, which had expanded sharply in July, edged upward further in August to the highest rate since March of 1966. Based on the further improvement already achieved so far in the third quarter, even if (as seems likely for technical reasons) some decline develops in September, starts in the third quarter as a whole will probably average 1.35 million, more than a tenth higher than in the second quarter of this year. This would be in addition to an 8 per cent rise from the first to the second quarter.

Multifamily starts, which--unlike single family--had soared nearly to the 1965 average in July matched that average in August as they continued upward. As had been expected, the July surge in the Northeast states turned out to be much too great to be sustained in August. However, advances in all other regions--most notably the West--more than offset this development, as shown in the table.

Seasonally adjusted building permits continued little changed in August, though at a rate substantially above a year earlier, when they were still declining. Permits for single family homes increased moderately in August, while those for multifamily units again edged off.

PRIVATE HOUSING STARTS AND PERMITS

	August 1967 (Thousands of units) 1/	Per cent change from	
		July 1967	August 1966
Starts	1,381	+ 1	+ 25
1 - family	871	+ 1	+ 21
2 - or more-family	510	+ 1	+ 31
Northeast	168	-45	-36
North Central	365	+ 9	+27
South	559	+14	+37
West	289	+22	+55
Permits	1,100	+ 1	+29
1 - family	643	+ 3	+31
2 - or more-family	457	- 2	+26

1/ Seasonally adjusted annual rates; preliminary.

Some slowing in the rate of expansion in housing starts may develop in the fourth quarter, partly reflecting the extent of recovery earlier and partly reflecting pressures on mortgage markets from other capital market sectors. However, the unusually high level of inflows of loanable funds which has prevailed so far this year together with the improved flow of commitments continue to suggest at least some further uptrend in starts. Also in the case of single family starts, the still relatively low rate reached in the incomplete recovery thus far lends further support to the propsect of continued gradual expansion despite higher mortgage and other costs. And in the case of multifamily starts, given the underlying strength of demands for rental properties and the momentum achieved so far this year, further near-term increases are also likely.

Personal income. Personal income in August rose $4.5 billion to a seasonally adjusted annual rate of $631 billion, 2 per cent above the second quarter average and more than 7 per cent above a year earlier.

Increases in wages and salaries in August, which totaled $3.5 billion, accounted for the bulk of the rise in total personal income, as is usual, manufacturing payrolls advanced by $2 billion, the largest rise in more than five years. The cessation of work stoppages accounted for some of this large rise in factory payrolls, but increases in employment other than the return to work of strikers, a longer workweek and higher pay rates also contributed to the advance.

A relatively large rise also occurred in farm proprietor's income, mainly as a result of a step-up in the volume of farm marketings. August was the second consecutive month of large gain in farm income and followed several months of little change after a substantial decline in began almost a year ago. Interest income rose in line with its recent trend, while other types of income showed little change.

Wage and salary income. The following table shows the large gains in total wages and salaries since the spring low in nonfarm employment, and separates the gain between its employment and earnings per employee components.

CHANGES IN EMPLOYMENT AND WAGES
AND SALARIES
MAY TO AUGUST, 1967
(Per cent changes in annual rates)

	Wages and Salaries	Employment	Wages and Salaries per Employee
Nonfarm, total 1/	9.4	3.7	5.7
Private	8.9	3.1	5.7
Manufacturing	8.2	2.5	5.6
Mining & Construction	6.8	0.8	6.0
Distributive	10.4	2.2	8.2
Service	8.8	5.8	2.9
Government	11.6	6.7	4.9

1/ Excludes military.

Rapid employment growth was the most important factor in expanding wage and salary disbursements in the private service and government sectors; in the goods-producing and distribution industries, there were relatively small employment gains, but these were augmented by rapid increases in wage rates, and lengthening of the average workweek. As a result, nonfarm wages and salaries increased by $38 billion, annual rate, between May and August as compared with $12 billion in the previous three months.

With continued rapid increases in wage rates, plus an accelerated growth of nonfarm employment, wage and salary income should grow at an even faster rate in the next quarter. Our projections for the fourth quarter assume a rate of increase of wages and salaries per employee of about 5-1/2 per cent. In conjunction with an expected increase in nonfarm jobs of almost 5 per cent, annual rate--barring protracted auto strikes--this should expand total wages and salaries at an annual rate of about 10 per cent, or over $40 billion, between the third and fourth quarters.

Productivity and unit labor costs. Some easing of pressure on unit labor costs in manufacturing has been evident in the past several months. The sharp rise in unit labor costs earlier this year had been a function both of an accelerated rise in wage rates and fringe costs, and a deterioration in productivity growth which had accompanied the decline in manufacturing output. Although compensation per manhour in manufacturing continues to rise at a brisk rate, the increase since May has been somewhat more moderate than earlier. But this slowdown is probably temporary and may reflect no more than difficulties with seasonal adjustment in manufacturing during the period of auto model changeover. More significant, the rebound of manufacturing output in July and August has out-paced the increase in employment and hours, and productivity in manufacturing picked-up after June. As a result, unit labor costs in manufacturing in August, at 106.7 per cent of their 1957-59 average, were at about the same as in June. The average over-the-year increase of 5 per cent for July-August was down somewhat from over 5-1/2 per cent earlier this year.

UNIT LABOR COSTS
All Employees in Manufacturing
(Per cent change from a year earlier)

	Unit Labor Costs
1966 - 1Q	0.9
2Q	2.1
3Q	2.5
4Q	3.1
1967 - 1Q	5.6
2Q	5.4
July-August	5.0

With wage settlements in manufacturngg continuing in the 5-6 per cent range, sharp increases in compensation per manhour may be anticipated in the months ahead. Manufacturing output is projected to increase in the fourth quarter--despite the auto strike--and some increase in overtime at premium pay is likely. But, a recovery in productivity should be associated with expanding output, and this could dampen the rate of increase of unit labor costs somewhat, but is not likely--for the time being--to reverse its upward trend.

<u>Wholesale prices.</u> The BLS index of wholesale prices of industrial commodities rose 0.3 per cent from mid-July to mid-August, as had been estimated a month ago, and increased another 0.2 per cent by mid-September according to their preliminary estimate. This pronounced upturn followed 5 months of no change (from February to July) and a relatively moderate upcreep from mid-1966 to last February.

The August rise was dominated by increased prices for petroleum and products under the special impetus of the Mid-East situation, the large boost for rubber products following the wage settlement in late July, and widespread increases for building materials and equipment--together these categories accounted for roughly 3/4 of the rise. Since mid-August, price increases have spread to a wider variety of materials--steel mill products, copper and brass mill products, nickel, aluminum container sheet, a number of basic chemicals, and corrugated boxes--and products, particularly consumer goods (autos, appliances, color T.V., carpets). A number of the price increases announced over the past several weeks were to take effect in late September (after the BLS index pricing date, September 12) and in October, thus presumably assuring a further rise in the industrial price index next month. Price increases for the 1968 model autos, for example, will appear first in the October indexes (WPI and CPI).

Despite the relative concentration by commodity type in the August increase, all the special FR groupings of the BLS industrial commodity aggregate showed increases. Thus, average prices of sensitive industrial materials, which had been drifting down, rose 0.2 per cent, with increases in lumber and plywood (the major gain), steel and copper scrap, silver, and textile fibers more than offsetting further decreases in hides and rubber. Gains in crude petroleum, miscellaneous "unfinished" rubber products, and various building materials and equipment other than lumber and plywood were mainly responsible for the slight rise for "other" materials, average prices of which had been stable for 3 months. Among the special groupings, the largest August increase (0.4 per cent) was for consumer nonfood products, and this rise represented a distinct acceleration of the upward movement in other recent months. The boosts in prices for gasoline and consumer rubber products were major influences on the August increase for this category; in addition there were increases for apparel, some household durable goods, and photographic equipment (stemming from the sharp silver price increase). The price increase for producers' equipment also showed some step-up in August from the rate prevailing since late winter, but it remained well below the increases throughout 1966.

SPECIAL FR GROUPINGS OF WHOLESALE PRICES OF INDUSTRIAL COMMODITIES
(Percentage changes)

	July 1966 to July 1967	July 1967 to August 1967
Industrial Materials	-0.5	0.2
Sensitive	-5.9	0.2
Other	1.4	0.1
Industrial Products	2.1	0.3
Consumer nonfoods	1.7	0.4
Producers' Equipment	3.0	0.2

Wholesale prices of farm products and processed foods and feeds declined about 2 per cent (and the overall wholesale price index 0.4 per cent) in August, as was estimated earlier. There was a substantial further decline in fresh produce, prices of which had run up sharply during the late cold, wet spring, bringing them back to year-earlier levels. Prices of poultry and eggs were also down considerably, and livestock and meat prices were off slightly. Grain prices continued to recede under the impact of prospective record crops.

In mid-September, according to the BLS preliminary estimate, the average of farm and food prices was about unchanged from August, and the rise in industrial prices resulted in a slight (0.1 per cent) increase in the total wholesale price index.

Consumer prices. In August the consumer price index increased 0.3 per cent, to 116.9 per cent of the 1957-59 average. Food prices rose contraseasonally, after showing less than the usual large seasonal rise in July. On an unadjusted basis, food prices increased 1.2 per cent from June to August and in August--at 116.5 per cent of the 1957-59 average--they were 0.6 per cent above the high reached a year earlier; on a seasonally adjusted basis the June to August rise amounted to 0.4 per cent. Prices of non-food commodities continued to rise at a sizable pace in August, reflecting in part further strength in used car prices and increased prices (and taxes) for tobacco products. Services also continued to rise.

Department of Agriculture Budget in 1967.

Department of Agriculture spending in the past two fiscal years has been a fourth below 1964 and 1965, largely because favorable foreign and domestic demands for farm products enabled the Commodity Credit Corporation to reduce net outlays on income and price stabilization. Net outlays of the USDA amounted to $5.8 billion in fiscal 1967, $3.5 billion of it spent by the CCC for income stabilization and for the Food for Peace and other special programs which it operates under delegated authority. As recently as 1964, the USDA net budget expenditure was $7.9 billion and the CCC component was $5.2 billion. The Farmers Home Administration also helped to reduce the net outlays of the USDA in 1967 by selling participation certificates to private investors and by pushing programs for insuring loans made by private lenders rather than their direct loan programs. The ease thus achieved in USDA's budget permitted some expansion in other agricultural activities, notably research, conservation of land and water resources, and programs to increase domestic food consumption. However, it appears that CCC expenditures will show a rising trend in fiscal 1968, reflecting rebuilding of stocks of grains and soybeans from the record 1967 harvests.

Commodity Credit Corporation net expenditure.

In both fiscal 1966 and 1967, strong foreign and domestic demands not only reduced the need for price support by the CCC but also enabled it to recoup outlays of earlier years by means of sales of accumulated stocks. In the two years ending on June 30, 1967, the value of inventories owned by the CCC, mainly grains, was reduced from $3.9

billion to $1.9 billion, and commodities under price support loans were reduced from $2.5 billion to $1.5 billion.

NET BUDGET EXPENDITURES OF THE CCC
Fiscal Year 1967
(Millions of dollars)

	Price Support & Related Activities			Foreign Assistance and Other Special Programs 2/	Grand Total
	Net expenditures on Commodity Operations 1/	Direct Payments	Total		
Major commodity	-932	2458 3/	1526	1690	3216
Feed grains	-513	1304	827	335	1162
Wheat	-258	305 3/	47	724	770
Cotton	-595	813	218	147	365
Oil and Oilseeds	188	--	189	61	249
Other commodities	247	--	247	423	670
Unallocated by commodity	466		466	-210	256
Change in Lending Agency Loans	-167		-167		-167
Interest, Admin. expense, etc.	337		337	6	343
Other expenditures	296		296	-216	80
Grand Total	-466	2458 3/	1992	1481	3472

Note: Minus sign represents a net receipt.

1/ Sum of (1) net gain or loss on inventory operations (2) export payments (3) change in price support loans and (4) change in inventory during the year.

2/ Programs operated under specific statutory authority for separate reimbursement.

3/ Does not include payments to producers of $376 million from proceeds of users' tax on wheat which are not reflected in the Federal Budget.

Substantial net receipts earned on grain and cotton operations in 1967 are shown in column 1 of the table. These receipts cushioned the effect of a boost of nearly a billion dollars, to $2.5 billion, in direct payments for price support and for acreage diversion.

The 1967 budget expenditure is the first to reflect the full effect of the new farm policy provided by the Act of 1965 concerning the crop years, 1966-70. Under this policy, commodity loan and inventory operations are de-emphasized as a means of price and income support. Instead, producers of feed grains, wheat, and cotton are offered payments to divert a specified part of their allotted acreages from production in any year. Price support is available to cooperating producers in a combination of loans and payments with loan rates low enough to be consistent with world prices supplemented by payments. This move toward supply-management, with acreage diversion and price support payments as principal tools and loan and inventory operations in a less vital role, was authorized in 1965, but it has been tested in the feed grain programs since 1961, and in wheat since 1964. It was applied to cotton for the first time in 1966.

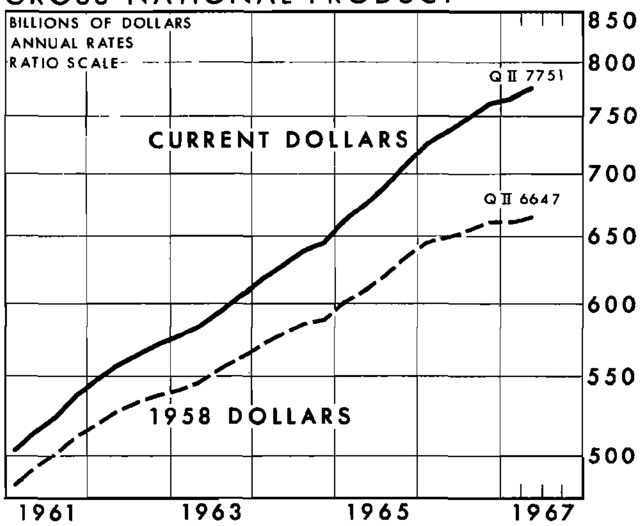
The new Food for Peace legislation enacted in November 1966 completes the move in national food policy away from one oriented to surplus disposal to one more nearly oriented to planned production. The Act now requires the under-developed countries to undertake specified measures to increase their own agricultural production. It also stresses development of cash markets and seeks to encourage countries buying our products with foreign currencies to switch to dollar purchases by 1971. An enlarged and more flexible long-term credit program is provided to assist them. Larger provisions are made for donations.

Obviously, the new program could have accounted for only a small part of the 12 per cent decline in the fiscal 1967 budget expenditures from a year earlier. Reduced export availabilities of dairy products and wheat affected the 1967 budget more. Wheat, the most important commodity exported under Food for peace programs, was a smaller proportion in 1967 than in preceding years. Other grains were substituted for wheat where possible in 1967. India accepted sorghum grain and corn for feeding portions of her population accustomed to using these grains for food.

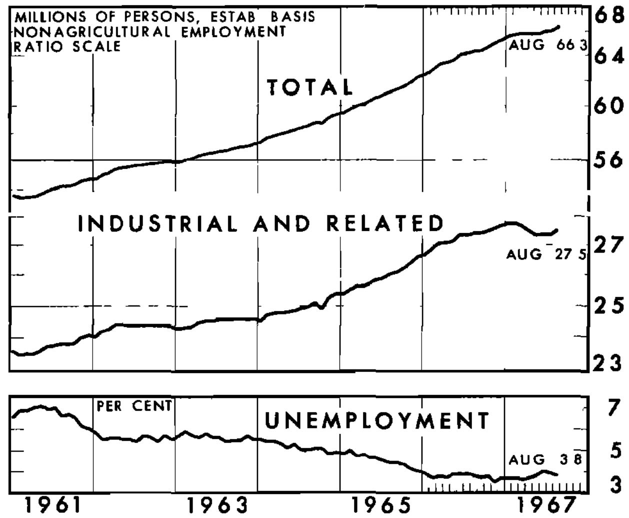
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

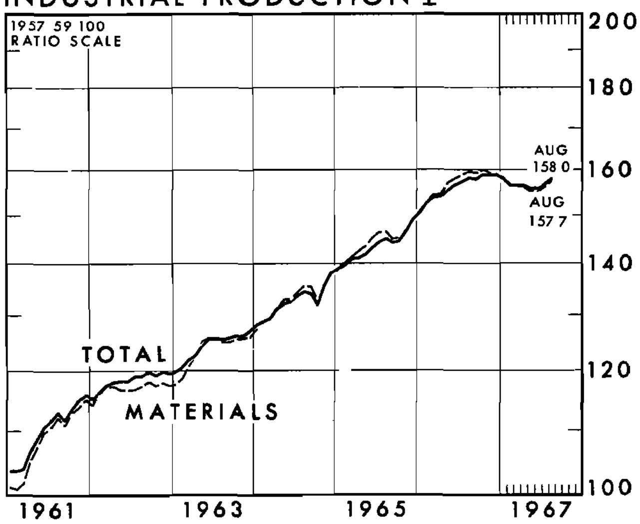
GROSS NATIONAL PRODUCT



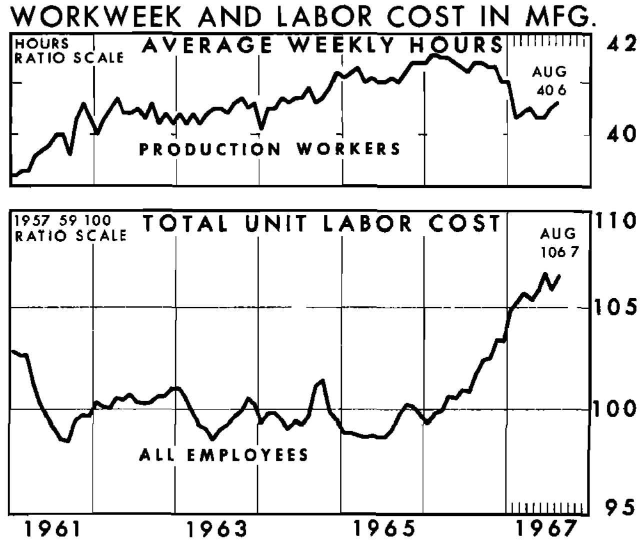
EMPLOYMENT AND UNEMPLOYMENT



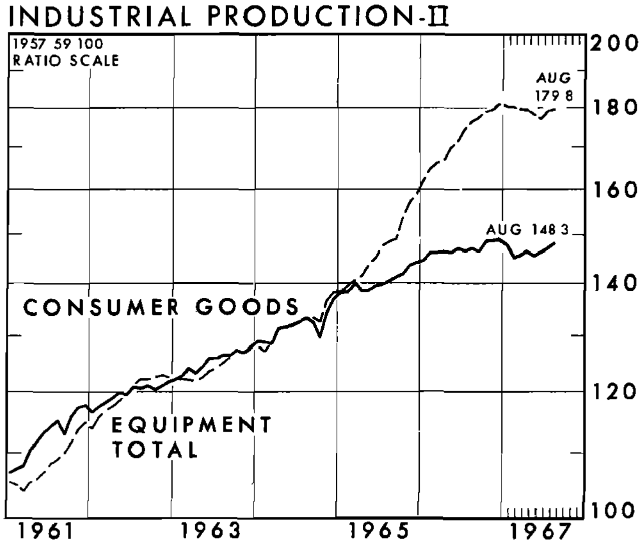
INDUSTRIAL PRODUCTION-I



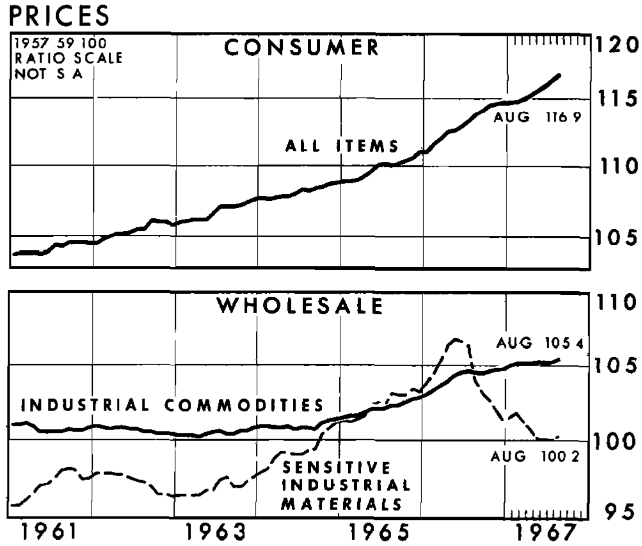
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



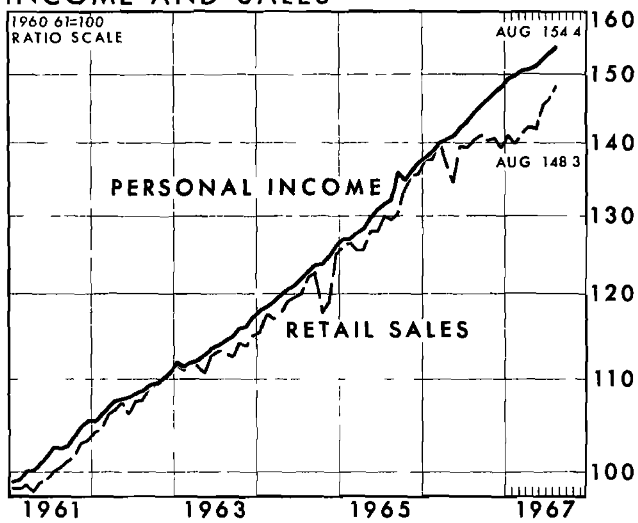
PRICES



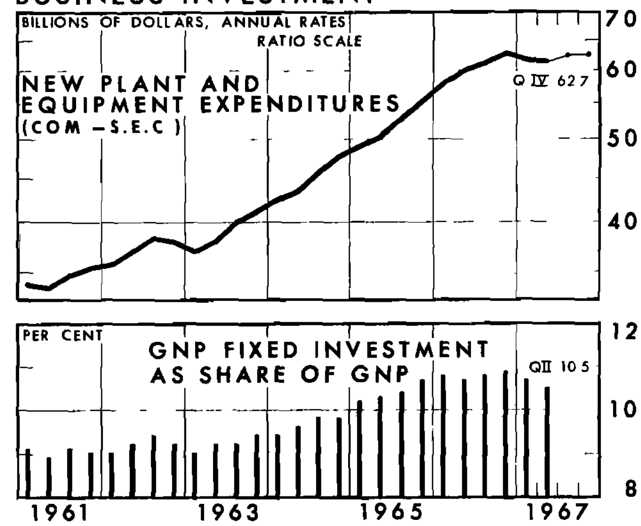
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

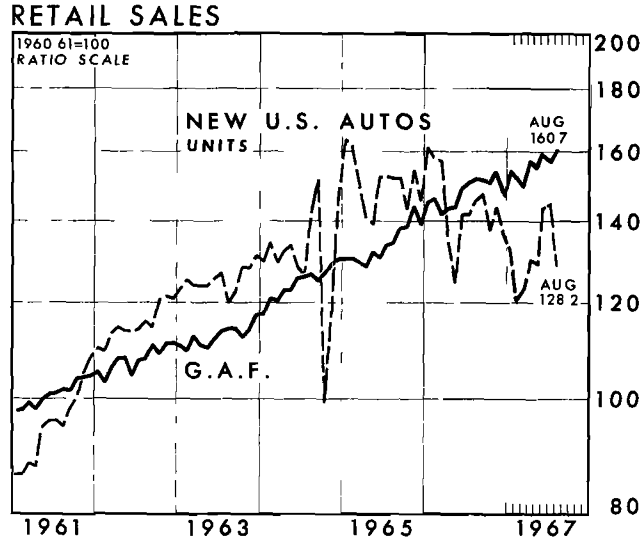
INCOME AND SALES



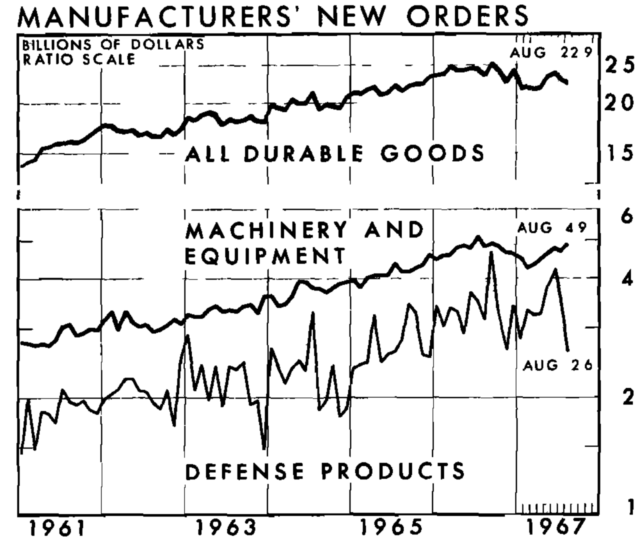
BUSINESS INVESTMENT



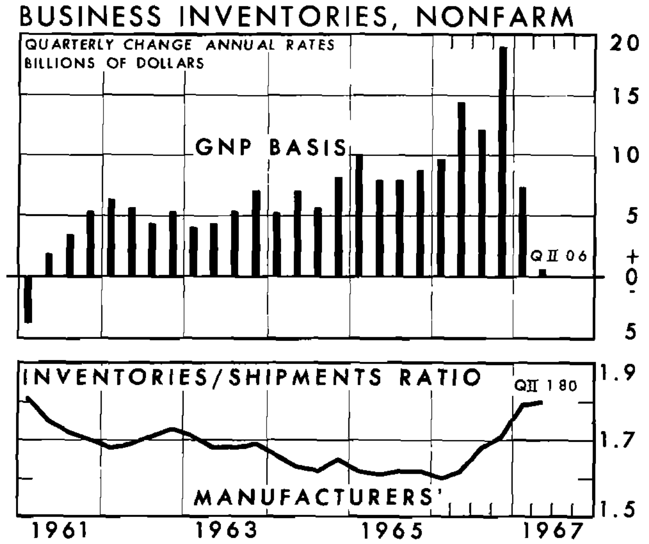
RETAIL SALES



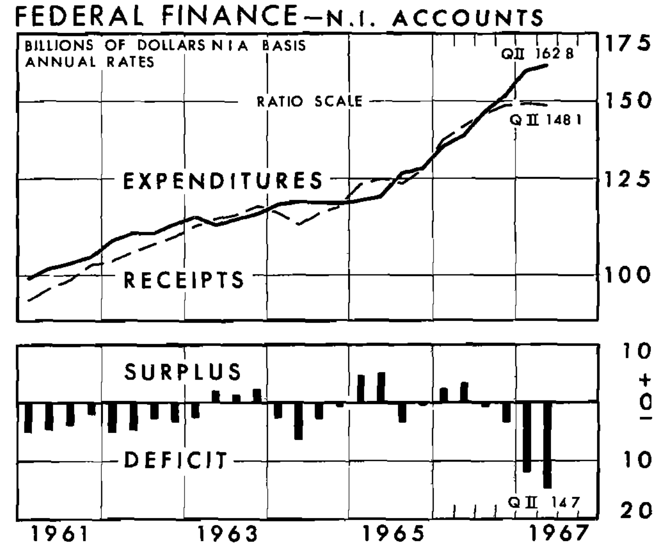
MANUFACTURERS' NEW ORDERS



BUSINESS INVENTORIES, NONFARM



FEDERAL FINANCE—N.I. ACCOUNTS



DOMESTIC FINANCIAL SITUATION

Bank credit. Outstanding bank credit appears to have expanded only moderately in early September, following a sharp jump at the end of August associated with the Treasury's $2.5 billion note financing. Mainly in response to this financing, the credit proxy rose sharply in the week ending September 6, and then declined slightly, both before and after adjustment for foreign branch borrowing, in the ensuing two weeks. Credit at weekly reporting banks, after allowance for usual seasonal movements, showed little net change in the two weeks ending September 13. At nonweekly reporting banks, however, total loans and investments rose more in the first half of September than in the comparable period of any other recent year, with the increased growth mainly in Government securities.

A slackening in credit growth is not an unusual development in periods immediately following a Treasury financing, when participants in the underwriting are redistributing some of their acquisitions of the new securities. Continued moderation in loan demand at city banks also tended to limit their credit expansion, and at the same time, contributed to some further increase in holdings of investments, mainly in Treasury bills and short-term municipals. Some of this increase may have been in response to the favorable spread in recent weeks between the Federal funds rate and other short-term yields.

During the first two weeks of September, outstanding business loans at city banks, after allowance for usual seasonal changes, declined substantially further. The cumulative decline in these loans from the beginning of the liquidation in late July through mid-September totaled about $1-3/4 billion, offsetting most of the June-July increase. A weaker trend has been evident in virtually every industry category. Earlier, it had been most evident in the metals, petroleum, chemicals and mining groups; more recently, it has been more pronounced in the seasonally oriented industries. In early September, outstanding loans to food processors and trade concerns declined contraseasonally and those to commodity dealers rose less than usual.

Business demands for bank financing continued light over the mid-September tax and dividend period. At New York City banks, total financing associated directly and indirectly with tax and dividend payments was lower than in any other recent year, as shown in the table.

CHANGES IN SELECTED BALANCE SHEET ITEMS AT NEW YORK CITY BANKS
OVER THE SEPTEMBER TAX AND DIVIDEND PERIOD 1/
(millions of dollars)

Item	1964	1965	1966	1967
Business loans	349	392	599	221
Government security dealer loans	435	319	- 6	25
Finance company loans	220	311	166	166
Treasury bill holdings of banks	193	113	51	283
Negotiable CD's outstanding	-250	-514	-329	-330
Total	1,447	1,649	1,139	1,025
Corporate income tax payments (1967 estimated)	4,000	4,200	4,500	4,100
Bank financing as a percentage of tax payments	36	39	25	25

1/ Reporting week or weeks including September 10 and 15.

Bank deposits. Net inflows of time and savings deposits at commercial banks slackened considerably in early September after expanding at an average annual rate of about 16 per cent in July and August. The major factor accounting for this abrupt change in pace was the sizable September run-off in CD's following sharp expansion over July and August. The $300 million decline at all weekly reporting banks in the 2 weeks ending September 13, while only three-fifths as large as last year's forced run-off, was in contrast with increases in the comparable weeks of other recent years, and was followed by a sizable tax-related run-off at New York and Chicago banks in the week ending September 20. This change in trend probably reflects reduced bank interest in expanding CD's, in view of recent weakness in loan demand and the resulting moderation of expected demands over the remainder of the year. In addition, acceleration of some withheld tax payments into the early-September period may have reduced the volume of corporate funds available for purchase of money market instruments.

Another factor influencing the trend in time and savings deposit growth over the past two months has been a slackening in growth of consumer-type savings at city banks. Following reversal of the downtrend early in February, savings deposits expanded rapidly until July. Between mid-July and mid-September, however, the average weekly rise fell to less than half the volume in the preceding 6-1/2 months, as shown in the table. The inflow of other consumer-type deposits also slackened somewhat recently, but less than passbook savings.

AVERAGE WEEKLY CHANGE IN TIME AND SAVINGS DEPOSITS
AT WEEKLY REPORTING BANKS
(Millions of dollars)

	Early February to mid-July	Mid-July to mid-September
Total time and savings deposits	283	253
Savings	57	26
Other time, IPC (excluding CD's)	138	119
Total, IPC (excluding CD's)	195	145
Other time	88	108
Memo: Negotiable CD's	58	114

The recent slowdown in savings deposits probably has been associated in part with increases in rates and promotional activity on consumer-type CD's at city banks over the summer months, as well as with the substantial rise in yields on short- and intermediate-term market securities. At country banks, where depositors generally are less interest-sensitive and where rates on consumer-type time instruments have changed little, inflows of passbook savings continue large.

The growth surge in the money stock, which had been at an annual rate of 11 per cent from April through August, came to an abrupt halt in September. It now appears that the September average will show little change from August. So far this year, growth has been at an annual rate of close to 7 per cent.

A relatively large share of the recent monetary expansion was in demand deposits at city banks, and presumably reflected a major adjustment in holdings of cash balances by large corporations as well as growth in those of individuals. In part, this adjustment appears to have been associated with expanding income and increased transactions needs, since debits to demand deposits at banks outside New York City rose at an annual rate of 30 per cent between May and August. It also may have reflected upward adjustment of balances by some corporations, either in response to increased banker pressure to maintain balances that compensate for services rendered or voluntarily to improve bank relations in view of growing expectations that availability of funds might become restricted again next year.

U. S. Government securities market. Yields have risen in all sectors of the U. S. Government securities market since early September and have reached new highs for the year in the intermediate and long-term maturity areas. Bill rates have risen on balance but most recently have receded from their peaks.

YIELDS ON U. S. GOVERNMENT SECURITIES

(Closing bids)	1967 Lows	1967 Highs	Sept. 5	Sept. 26
Bills				
3-months	3.33 (6/23)	4.60 (9/22)	4.29	4.54
6-months	3.71 (5/22)	5.10 (9/25)	4.79	5.06
1-year	3.80 (4/24)	5.22 (7/24)	5.02	5.11
Coupon issues				
3-years	4.27 (4/10)	5.48 (9/25)	5.32	5.47
5-years	4.38 (4/10)	5.48 (9/25)	5.29	5.47
10-years	4.45 (3/20)	5.38 (9/26)	5.22	5.38
20-years	4.44 (1/16)	5.23 (9/26)	5.11	5.23

In the bill market, yield advances in large part reflected market anticipation of sizable new bill issues to finance the Treasury's large fourth quarter cash needs. On September 22, the Treasury announced the sale of $4.5 billion of April and June tax bills, and also a further cycle of $100 million additions to the weekly 3-month bill auction, which would raise $1.3 billion of new cash beginning in early October.

Net demand for bills was tempered in this period not only by prospective additions to supply, but also by business needs to make September dividend and tax payments. In addition, the market had to absorb sizable bill sales by a Federal Agency. Most recently, bill rates have edged off their peaks, reflecting in part the re-entry of the System in the market as a large seasonal buyer of bills.

On balance, bill yields have risen 10 to 25 basis points since the Labor Day week-end. The 3-month bill reached a new peak for the year of 4.60 per cent at the time of the Treasury's cash financing announcement, and the 1-year bill rose to 5.19 per cent. With pressures developing in the bill market, other short-term rates also rose. Although increases have not yet spread to all sectors of the short-term market, yields on negotiable certificates of deposit, bankers' acceptances, and 6-month Federal Agency issues have risen 10 to 15 basis points as the table shows.

SELECTED SHORT-TERM INTEREST RATES

	1967		
	Low	Sept. 1	Sept. 26
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)	4.75	4.88
Certificates of deposit (prime NYC)			
Most often quoted new issue:			
3-months	4.13 (5/5)	4.88	5.00
6-months	4.13 (4/28)	5.13	5.25
1-year	4.13 (4/14)	5.25	5.38
Secondary market:			
3-months	4.35 (4/28)	4.90	5.00
6-months	4.35 (4/14)	5.30	5.40
Federal Agencies (secondary market)			
3-months	3.82 (5/26)	4.45	4.45*
6-months	4.11 (5/19)	5.25	5.41*
1-year	4.18 (4/7)	5.40	5.45*
Prime 1-year Municipals	2.40 (4/14)	3.20	3.20*

N.B. Latest dates on which low rates occurred are shown in parentheses.
* Yields on September 22.

Yields on Treasury notes and bonds have also risen, bringing them to new highs for the year in all maturity areas, and in the long-term area to levels above the 1966 peaks. For the most part these increases appear to have represented a sympathetic reaction to the bill market. Customer activity has generally been light, although there were scattered reports of some selling of longer-term issues on swaps into relatively high-yielding corporate issues. However, dealers were able to lighten their holdings of 1-5 year issues further, though at declining prices. Such positions were reduced by $250 million to $125 million over the past three weeks. Dealer holdings of bonds due in more than 5 years have declined slightly since the first week of September and currently total about $30 million. In this period the System bought $75 million of coupon issues.

The upward yield adjustments in the Government market led to the recent $400 million 3-year FNMA debentures being priced to yield 5.82 per cent. While some Agency yields have risen recently, the yield spread of Agency issues over comparable maturities of direct Treasury debt has remained within a normal range, as banks and other institutional investors have thus far continued to have an ample supply of investible funds.

Federal budgets and finance. The upward interest rate pressures in the U. S. Government securities market are basically the result of the very large deficit in the Federal budget (no matter what the concept) that has developed for fiscal 1968. As the figures in column 4 of Table A show, the Administrative budget deficit was estimated at only around $8 billion at the time of the January budget document, and smaller deficits were projected for the cash and national accounts budget. These earlier projections included the effect on receipts of a 6 per cent tax surcharge assumed effective mid-1967. Since that time, official forecasts of the budget deficit have ballooned, in part because the original tax program was not enacted, in part because the original receipts estimates proved too optimistic even with the existing tax structure, and in part because spending is headed for higher levels.

Principally because of uncertainties about spending, a number of budget forecasts for fiscal 1968 were shown or implicit in the Budget Bureau's "Summer Review of the 1968 Budget." Under the existing tax structure, one budget forecast based on the figures in the Summer Review would indicate an Administrative budget deficit of $23 billion, as shown in column 3 of Table A. On the spending side such a deficit assumes spending of $139 billion, or $4 billion in excess of expenditures projected in the January document. This figure in turn assumes that defense spending will be $4 billion over its January projections, but that civilian expenditures will be unchanged from the level expected in January. Since some relatively predetermined civilian expenditures are now estimated to be $1.5 billion above the January level, this contingency requires a discretionary cut in other civilian expenditures of the same amount.

The proposed tax program would reduce the budget deficits by $6 or $7 billion, depending on the particular budget measure. It would reduce the Administrative deficit to $16.5 billion, the cash deficit to $14 billion, and the national accounts deficit to $9 billion--all still substantially higher than the original January projection for fiscal 1968. All deficits would also be above fiscal 1967 levels, but only slightly so in case of the national accounts measure.

The prospects of obtaining a 10 per cent tax surcharge effective July 1 for corporations and October 1 for individuals now appear slight. The quarterly budget figures shown through the fourth quarter of calendar year 1967 in Table B assume no tax increase affecting receipts in the fourth quarter and show expenditures over the short run as they appear to the staff at the moment.

These figures indicate an enlarged cash deficit in the fourth quarter. For the second half of calendar 1967, they indicate net cash to be raised by the Treasury of around $19 billion, including P.C. sales if the necessary legislation is passed. This implies that there will be a slight amount of Treasury borrowing in the first half of 1968 if taxes are not increased--which compares with net cash repayment of $11 billion in the corresponding half of 1967. Thus far, net cash borrowing of about $14 billion has taken place or been announced.

Table A

FEDERAL BUDGETS, BY FISCAL YEARS (Billions of dollars)
Based on Summer Review of the 1968 Budget

	Actual		1968		
	1966	1967	Existing taxes1/	January Budget Document2/	Proposed Tax Program2/
	(1)	(2)	(3)	(4)	(5)
Administrative Budget					
Receipts	104.7	115.3	116.2	126.9	122.5
Expenditures	107.0	125.8	139.0	135.0	139.0
(National Defense)	(57.7)	(70.7)	(79.5)	(75.5)	(79.5)
Surplus	- 2.3	-10.5	-22.8	- 8.1	-16.5
Cash Budget and Borrowing					
Receipts	134.5	153.5	157.7	168.1	164.0
Payments	137.8	155.3	178.0	172.4	178.0
Surplus	- 3.3	- 1.8	-20.3	- 4.3	-14.0
Change in Cash Balance	- .6	- 5.2	--	--	--
Net Cash Borrowing	2.6	- 3.8	20.3	4.3	14.0
National Accounts Budget					
Receipts	132.6	148.0	157.0	167.1	164.0
Expenditures	132.3	155.6	173.0	169.2	173.0
Surplus	.3	- 7.6	-16.0	- 2.1	- 9.0

1/ Assumes no tax increase, defense spending $4 billion in excess of January budget document, and about a $2 billion saving in civilian spending from projections in the report, "Summer Review of the 1968 Budget."

2/ Includes the 6 per cent surcharge that was supposed to be effective July 1, 1967.

3/ Assumes a surcharge of 10 per cent on corporations effective July 1, 1967, and 10 per cent on individuals effective October 1, 1968.

Table B

VARIOUS FEDERAL BUDGETS, QUARTERLY
(In billions of dollars)

	1966		1967			
	III	IV	I	II	III^e	IV^e
Quarterly data, unadjusted						
Cash surplus/deficit (-)	- 6.7	- 7.7	1.4	11.3	- 7.5	-11.8
Cash receipts	34.6	31.1	38.0	49.8	36.4	32.0
Cash payments	41.3	38.8	36.7	38.6	43.9	43.8
Change in total cash balance	- 4.1	- 2.5	.7	1.2	1.0	- 2.2
Net Cash borrowing (+)	2.4	5.1	- .9	-10.3	8.5	9.6
(Pool sales to public) 1/	- .5	--	1.1	1.8	--	1.0
Seasonally adjusted annual rate						
Federal surplus/deficit (-) in national income accounts	- .7	- 3.3	-11.9	-14.7	-13.6	-13.4
Receipts	145.6	148.6	149.1	148.1	152.4	157.3
Expenditures	146.3	151.9	160.9	162.8	166.0	170.7
High employment surplus/ deficit (-) 2/	- .4	- 3.3	-10.5	-13.0	-12.6	-12.9

e - Staff projections. Based on existing tax rates.
1/ Not included in net cash borrowing.
2/ Uses 1966 IVQ as a high employment base.

Corporate and municipal bond markets. Yields on new and recently offered corporate bonds are still slightly below their forty-year highs reached near the end of August. But the yield series for new bonds, shown in the yield table, overstates the extent of the decline due to a changing mix in the types of issues averaged. Moreover, some recent new corporate issues initially offered at reduced yields have since adjusted higher in the secondary market, following the termination of unsuccessful syndicates. While municipal yields have changed little on balance since late August, most recently they too have shown some tendency to edge higher.

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
September 1	5.92*	5.68	3.80	4.06
15	5.88*	5.65	3.80	4.07
22	5.82*	5.64	3.82	4.14

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.

Uncertainty over the future course of fiscal and monetary policies continues to be a dominant factor in the bond markets, and this uncertainty has led to a notable lack of success on the part of underwriters who attempted to lead the market down in the first half of September. Several corporate issues priced aggressively in September either remain in syndicate with sizable unsold balances or have adjusted upward in yield after the termination of syndicate price restrictions. One such issue, the $75 million Aaa-rated New York Telephone and Telegraph Company bonds with 5-year call protection, was offered on September 6 at 5.95 per cent. With only about 40 per cent sold, the bonds were released to free market trading and adjusted upward to 6.04 per cent. This yield compares with a 6.10 per cent yield reached on a similar telephone bond when it was released from syndicate in late August. Municipal underwriters have experienced similar investor resistance to aggressive pricing.

The significant recent cut-back in the forward calendar of new corporate offerings, first evident early in September, accounted for the relative optimism that developed among corporate underwriters at the time. It now appears that public bonds offered in September will total slightly less than $1 billion, little more than half of the August total. Over-all bond and stock volume, estimated at $1.8 billion for September including private placements, is some $700 million below August.

The reduced volume of publicly offered bonds is expected to continue in October, since recent additions to the calendar have declined both in frequency and average size. Thus, the $500 million or so now definitely scheduled for October may build up to no more than $900 million, by month end. And an increase in stock offerings is expected to offset much of the reduced volume of bonds. Thus, the total volume of bonds and stocks may remain at or about the $1.8 billion September level.

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	4,648e	2,256	1,646e	1,627	6,898e	4,197
August	1,810e	1,140	500e	435	2,500e	1,712
September	950e	676	650e	657	1,800e	1,400
October	900e	499	600e	256	1,800e	892

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

State and local government security offerings in September are ultimately expected to aggregate more than $1.3 billion, or nearly 30 per cent above September 1966. Many of the issues offered so far have not sold well; consequently, underwriters' advertised and unadvertised inventories have advanced since the beginning of the month. October offerings are currently estimated at about $1 billion--still well in excess of the year ago experience, but if yields on municipal bonds were to rise further, some of this prospective volume might be cut back or deferred.

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

	1967	1966
1st Quarter	4,115	2,964
2nd Quarter	3,807	3,256
3rd Quarter	3,050e	2,510
August	800e	775
September	1,325e	1,032
October	1,050e	759

1/ Data are for principal amounts of new issues.

Corporate finance. More complete data on second quarter corporate profits confirm earlier staff estimates of a further decline in manufacturing profits and profit margins. According to FTC-SEC estimates, total profits before taxes of manufacturing corporations were 10 per cent smaller than in the second quarter of 1966, following a year-to-year decline of 8 per cent in the first quarter. However, the Department of Commerce estimate of profits of all corporations shows almost no change, seasonally adjusted, from the first to the second quarter, because the decline for manufacturing companies was offset by an estimated increase in the profits of "all other" industries. ("All other" includes construction, mining, services, and--the largest component by far--retail and wholesale trade.)

CORPORATE PROFITS
(SAAR, billions of dollars)

	1966				1967	
	I	II	III	IV	I	II
Corporate profits before tax	83.7	83.6	84.0	83.9	79.0	78.9
Profits & inventory valuation adjustment	81.1	81.3	81.9	84.6	78.1	78.3
Financial institutions	8.9	9.0	9.5	9.6	9.6	9.5
Manufacturing	42.7	42.5	42.7	44.4	39.6	38.9
Durable goods	24.3	24.0	23.9	25.3	21.1	21.1
Nondurable goods	18.3	18.5	18.8	19.2	18.4	17.8
Transportation, commercial & public utilities	11.7	12.0	11.8	12.0	11.7	11.9
Rest of the world	3.0	3.3	3.2	3.4	3.3	3.1
All other	14.8	14.5	14.7	15.2	14.0	14.9

Data on current assets and liabilities of corporations at the end of the second quarter, which have also just become available, show little increase in corporate net working capital over the quarter and a further decline in corporate liquidity (as measured by the ratio of cash, deposits and U.S. Government securities to total current liabilities). The slowdown in economic activity and accelerated income tax payments contributed to these developments. With growth in accounts receivable much smaller than usual, inventory accumulation moderate, and reduction in liquid assets exceptionally large, total current assets rose less than one-tenth as much as in the second quarter of last year. Total current liabilities, which have increased on the average about $5 billion in other second quarters, declined slightly this year because of the large drop in accrued tax liabilities.

CORPORATE WORKING CAPITAL
(Not seasonally adjusted)

	1964	1965	1966	1967
	(First-to-second quarter change, $ billion)			
Accounts receivable	4.1	5.2	6.1	2.6
Inventories	1.0	2.4	4.3	1.2
Cash, deposits & U.S. Gov'ts.	.9	-.9	-.8	-2.5
Other current assets	.4	1.3	.3	- .4
Total current assets	6.3	7.9	9.8	.9
Short-term bank loans	.7	2.1	3.6	2.4
Other accounts payable	2.2	2.7	2.4	1.7
Accrued income taxes	-.4	-.7	-2.4	-6.0
Other current liabilities	1.3	1.3	1.9	1.6
Total current liabilities	3.8	5.4	5.4	- .3
Net working capital	2.5	2.5	4.4	1.2
	(End of second quarter, per cent)			
Liquidity ratio	33.8	29.7	27.0	23.7

Though it may not be readily apparent in the unusually large reduction in liquid assets and the continued decline in the conventional liquidity ratio, working capital changes in the second quarter lend support to the view that the large volume of long-term financing undertaken by corporations in the period bolstered their liquidity. The decline in liquid assets, while substantial by historical standards, was much smaller than the drop in accrued tax liabilities; that is, liquid asset holdings--net of accrued tax liabilities--actually increased considerably. In effect, corporations paid accelerated tax liabilities out of long-term financing. Had corporations relied less heavily on long-term funds and more heavily on liquid assets or short-term bank loans, net working capital would have contracted and the conventional liquidity ratio would have been even lower.

Stock market, Since the end of August, and especially since Labor Day, both stock prices and stock volume have risen sharply, reactivating the general concern about speculative activity that was evident at mid-summer. Prices on both the New York and American Stock Exchanges are currently at their all-time highs. Compared with the previous peak in early August, the New York Stock Exchange and Standard and Poor's 500 indexes are up about 2 per cent, and the American Exchange index is up 5 per cent. Trading activity on the New York Exchange, which had dropped from 12.1 million shares per day in the first week of August to 7.2 million shares per day by month end, was up again last week to an average of 11.3 million shares per day. On the American Stock Exchange recent increases in activity have been even more pronounced; while the ratio of AMEX to NYSE volume had dropped to a temporary low of 44 per cent early in September, by last week it had advanced again to 51 per cent.

An examination of industry stock price movements since the end of July shows that the New York Exchange's recent advance has been fairly broad based; it has not centered on the so-called "glamour" stocks. Rather, if anything, it would appear that investors have put special stress on what are regarded as relatively "under-valued" issues--issues which did not fully participate in the earlier advance. A distribution of issues on the American Exchange by price-earnings ratios would suggest a similar conclusion. The number selling at multiples from 0 to 10 declined from 116 in July to 91 in August while the number selling at multiples of 10 to 30 increased from 531 to 554. The number selling at 30 times earnings or more remained constant.

Although stock market credit advanced again in August to a new high, its rate of growth moderated slightly further. Debt in margin accounts had expanded $260 million in June, but it rose only half that much in July (following a downward revision of $50 million in the initial estimate), and in August the increase was $100 million. Over the somewhat longer period since January, when the series reached a temporary seasonal low, margin debt has grown $810 million. A decline of about $150 million in credit balances held in special miscellaneous accounts during August suggests that existing margin customers recommitted some reserve purchasing power to the market while prices were declining.

Mortgage markets. Secondary market yields on FHA-insured home mortgages increased further in August. But because yields on new issues of high-grade corporate bonds increased even more, the already small yield margin of FHA loans over bonds was reduced to one of the narrowest differentials--only 71 basis points--of the postwar period. The margin in August was 55 basis points below its recent high in February. The narrow margin since this winter accounts in part for the heavy continued investment by savings banks in corporate bonds and also for the unusual volatility of FHA mortgage yields.

In contrast to the record inflows of savings to mortgage lenders since spring, borrower demands have apparently remained more moderate, and as a result the rise in mortgage yields has been limited. One factor that has apparently restrained credit demands has been the increase in discounts on FHA (and VA) loans; these exceeded 5 points in August. Such discounts have continued to deter some would-be sellers from offering houses which require this liberal type of financing, inasmuch as home sellers by regulation must absorb all but 1.0 point of the discount. This, in turn, has contributed to hesitancy on the part of some builders to undertake production for sale with Government underwritten mortgages, and to a shortage in some areas of local listings of existing homes for sale.

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)	Discount (Points)
1966					
November	6.70	0	6.81	n.a.	6.8
December	6.65	- 5	6.77	- 4	6.5
1967					
January	6.60	- 5	6.62	-15	5.3
February	6.50	-10	6.46	-16	4.0
March	6.45	- 5	6.35	-11	3.0
April	6.40	- 5	6.29	- 6	2.5
May	6.45	5	6.44	15	3.8
June	6.50	5	6.51	7	4.4
July	6.50	0	6.53	2	4.6
August	6.55	5	6.60	7	5.2

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 and discounts are for certain 6 per cent FHA-insured Sec. 203 loans.

During August, interest rates on conventional home mortgages (FHA series) also edged higher for new homes but remained unchanged at their higher July level for existing homes (not shown in the table). While both types of rates were close to year earlier levels, average loan-to-value ratios and maturities on conventional first mortgage loans continued to be made on more liberal terms than in August 1966, and average loan amounts were again sharply higher on both new and existing homes. Prices of conventionally financed homes have increased over the past year even more in absolute terms than average loan size and, thus, implied downpayments (price minus amount of first mortgage) also rose further in August. Such downpayments averaged $6,100 on existing houses and $7,000 on new ones.

For savings and loan associations--which have regained their dominant position in the mortgage market--the tempo of lending picked up further in August as net savings inflows continued strong. In August for the first time this year, S&L mortgage closings nearly matched the volume during the same month of 1965, which was a relatively normal year. S&L outstanding mortgage commitments also rose further and by the end of August slightly exceeded their 1965 level. (All comparisons include an allowance for changes in loans in process.)

The number of nonfarm mortgage foreclosures during the second quarter of 1967 increased only about seasonally--after changing little during 1966. In other recent years, foreclosures had been rising relatively sharply although at a declining pace. The foreclosure rate, which remained virtually unchanged, was the lowest for this quarter since 1963.

NONFARM MORTGAGE FORECLOSURES

Second Quarter	Number		Rate per thousand mortgaged structures
	(In thousands at annual rate)	Per cent increase over year earlier	
1960	49.7	7	2.6
1961	74.4	50	3.8
1962	86.7	16	4.2
1963	102.5	18	4.7
1964	113.5	11	5.1
1965	120.3	6	5.2
1966	123.2	2	5.1
1967	118.9	- 4	4.8

Source: Federal Home Loan Bank Board.

Savings flows to depositary-type intermediaries. During August savings accounts at the nation's savings and loan associations and mutual savings banks continued to grow nearly as much as in earlier peak years, as the table shows. When these data are adjusted roughly for seasonal influences, however, they suggest some moderation in the rate of savings growth relative to earlier months this year.

Only fragmentary data are available thus far on September savings flows. But in the first half of the month, net flows to the 15 largest savings banks in New York City were a new record. Moreover, for the month as a whole, net savings growth at both mutuals and S&L's will be augmented because these institutions will be crediting third quarter interest payments at higher average rates than previously and on a larger volume of savings than has ever existed before.

DEPOSITARY-TYPE SAVINGS FLOWS, BY INSTITUTIONS
(Millions of dollars)

Date	Total	S&L's	Savings Banks	Commercial 1/ Banks
August				
1963	1,905 2/	664	167	1,074
1964	1,952	787	345	820
1965	2,062	554	210	1,298
1966	1,099	124	160	815
1967	2,534	647	320	1,568
Year to Date				
1963	18,599 2/	6,796	1,840	9,963 2/
1964	15,577	6,230	2,563	6,784
1965	16,723	4,312	2,106	10,305
1966	11,774	704	1,139	9,931
1967	24,139	6,683	3,371	14,105

1/ Excludes negotiable CD's at weekly reporting banks.

2/ Data for 1963 includes all time and savings deposits.

The recent further advance of short-term market rates has significantly increased rate spreads favoring market securities over claims at thrift institutions. As a result, spreads favoring rates on short- and intermediate-term Government securities are now about as large as in June 1966, as the table shows. On the other hand, spreads favoring rates on commercial paper and short-term agency issues--which had been so much more attractive than those on Treasury issues in mid-1966--are still considerably smaller.

SPREADS BETWEEN SELECTED MARKET RATES
AND
RATES PAID BY THRIFT INSTITUTIONS
(Basis Points)

	Rates Paid By							
	S&L's below				Savings Banks below			
	6 month bills	3-5 year Govt's	Comm'l Paper	6 month Agencies	6 month bills	3-5 year Govt's	Comm'l Paper	6 month Agencies
Date								
1959								
June	27	85	28	27	60	118	61	60
Dec.	110	120	113	125	141	151	144	156
1966								
June	25	61	123	113	27	63	125	115
Sept.	114	97	124	125	109	92	119	120
Dec.	29	38	131	53	24	33	126	48
1967								
June	-84	24	-7	8	-89	19	-12	3
Sept. 22	29	68	25	66	24	63	20	61

Despite the currently higher short-term rates, members of the thrift industry do not seem to anticipate any serious problems with their savings inflows during October. In part, this probably reflects the generally smaller current spreads of short-term market rates over savings rates relative to 1966, as well as the less aggressive competition of commercial banks for consumer-type savings accounts this year. In addition, it may reflect a judgment that accounts outstanding today may be less interest sensitive than those outstanding last year.

Much of the interest sensitive money which left non-bank intermediaries last year has apparently not returned. Among New York State savings banks alone, accounts of $50,000 or more due to charitable and religious organizations fell from $433 million in December 1965 to about $150 million in mid-summer 1966, when the deposit rate was raised to 5 per cent. Since then, this balance has shown little change. While comparable data are not available for S&L's, the proportion of out-of-state share capital of State-chartered California S&L's did decrease during 1966 and has remained fairly stable thus far in 1967, suggesting that the same type of behavior may be present.

COMPARISON OF RATES ON CLAIMS AT THRIFT INSTITUTIONS
AND
SELECTED SHORT AND MEDIUM TERM MARKET SECURITIES
(Per Cent)

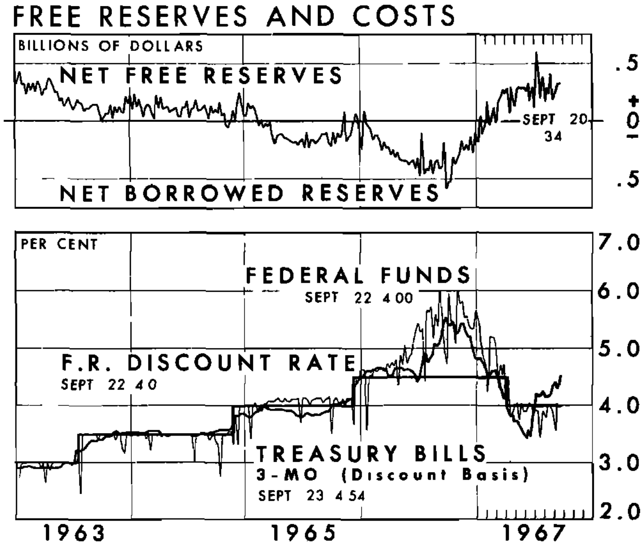
	Rates Paid By		Market Rates On			
	S&L's	Savings Banks	6 Month Bills	Comm'l Paper	6 Month Agencies	3-5 year Govt's
Date						
1959						
June	3.55	3.22	3.82	3.83	3.82	4.40
Dec.	3.75	3.44	4.85	4.88	5.00	4.95
1966						
June	4.40	4.38	4.65	5.63	5.53	5.01
Sept.	4.65	4.70	5.79	5.89	5.90	5.62
Dec.	4.69	4.74	4.98	6.00	5.22	5.07
1967						
June	4.72	4.77	3.88	4.65	4.80	4.96
Sept.	4.75	4.80	5.04	5.00	5.41	5.43

NOTE: Yields on Government securities are monthly averages except for September 1967. Rates paid by S&L's are from the Federal Home Loan Bank Board; rates paid by Savings banks are from the National Association of Mutual Savings Banks; and series on agency rates is from Solomon Bros. & Hutzler. September savings institution rates are estimates of the Federal Reserve.

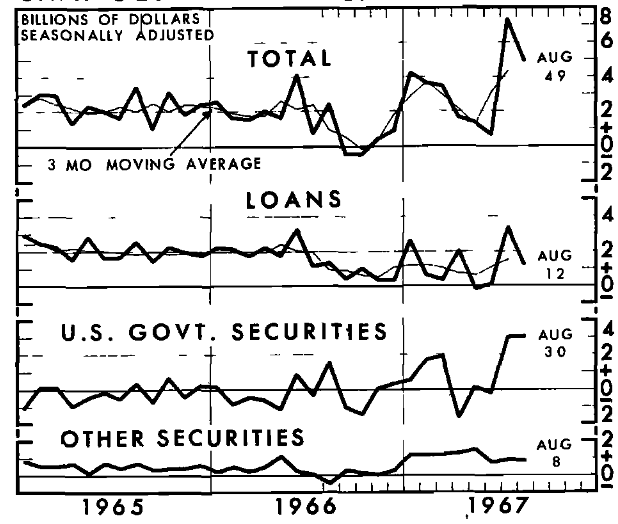
During the first three weeks of September, S&L's resumed repayments of outstanding advances to the Home Loan Banks and have now reduced their total indebtedness to $4.2 billion, a decline of $3.3 billion since the July 1966 peak and the lowest level of indebtedness in well over three years. Over the same period, the Home Loan Bank System has reduced its own outstanding indebtedness by $2.4 billion and added more than $800 million to its reserve funds. As a result, reserve funds held by the System now total nearly $2.0 billion. These are available to meet either new demands for advances from S&L's, or to reduce the $1.2 billion of System obligations dated to mature in the fourth quarter, should market circumstances suggest the desirability of some repayment.

FINANCIAL DEVELOPMENTS - UNITED STATES

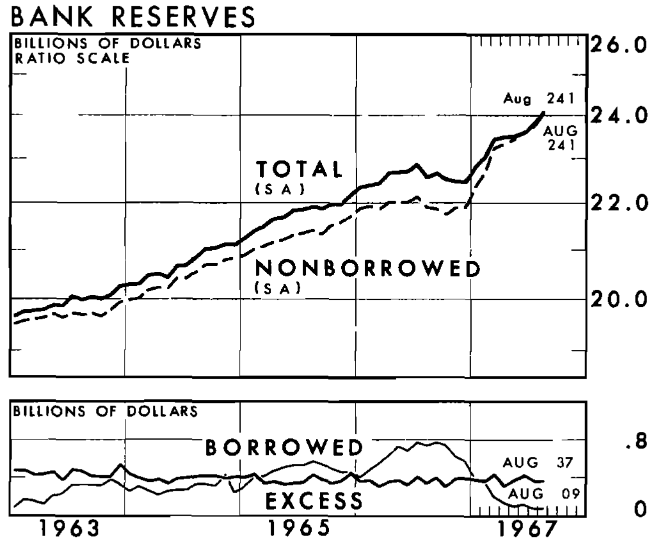
FREE RESERVES AND COSTS



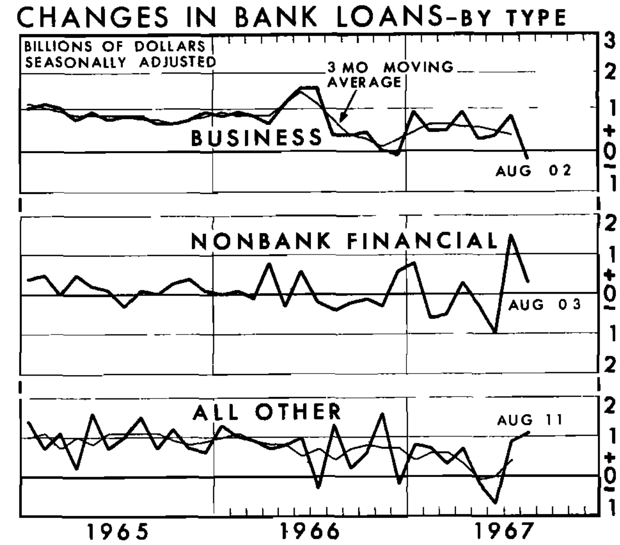
CHANGES IN BANK CREDIT



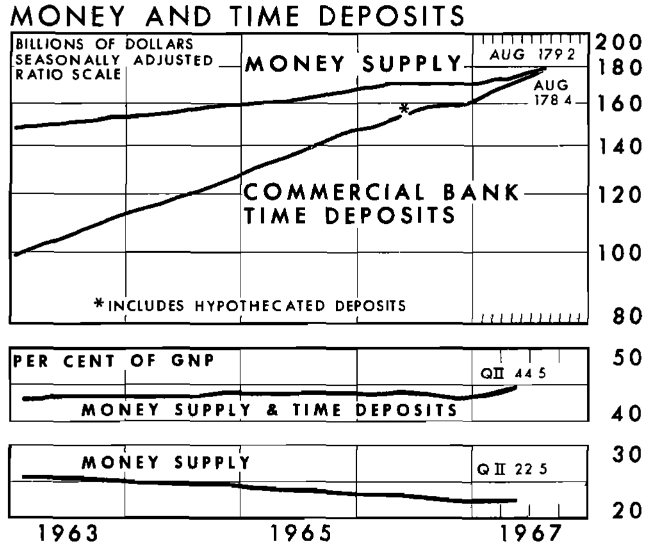
BANK RESERVES



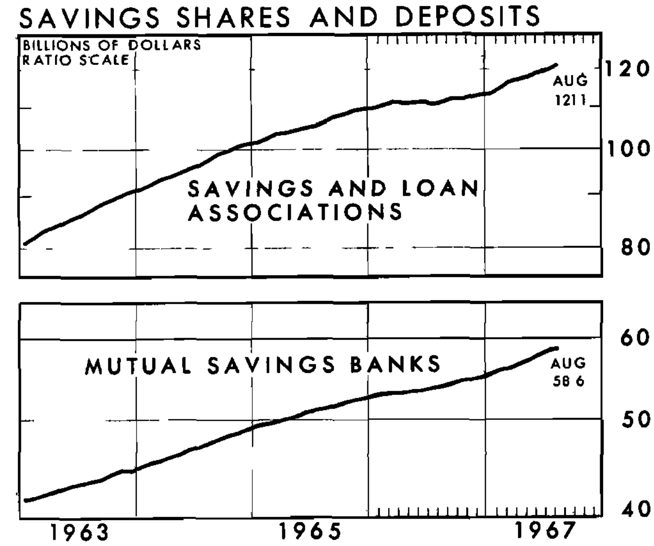
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

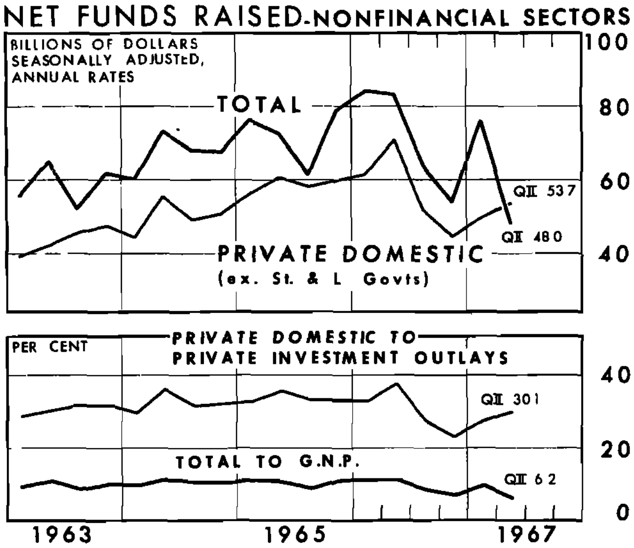


SAVINGS SHARES AND DEPOSITS

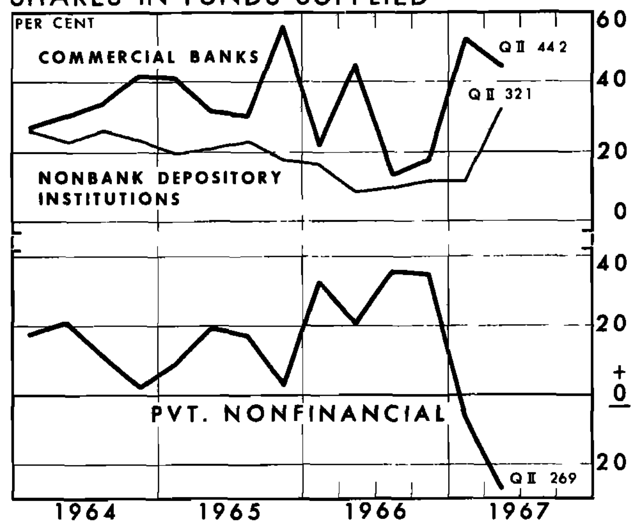


FINANCIAL DEVELOPMENTS - UNITED STATES

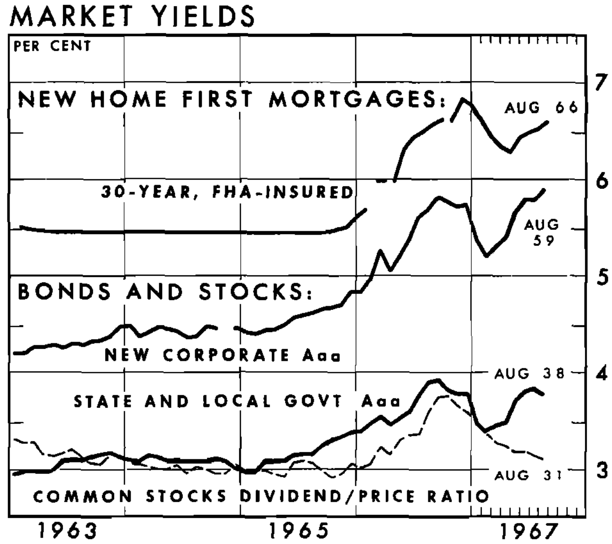
NET FUNDS RAISED-NONFINANCIAL SECTORS



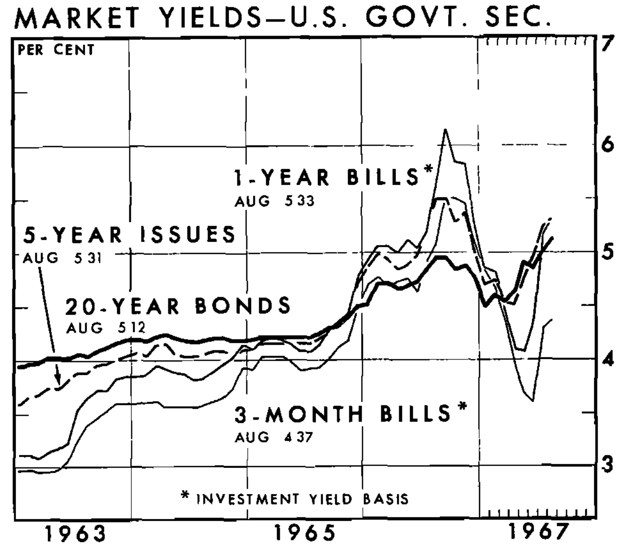
SHARES IN FUNDS SUPPLIED



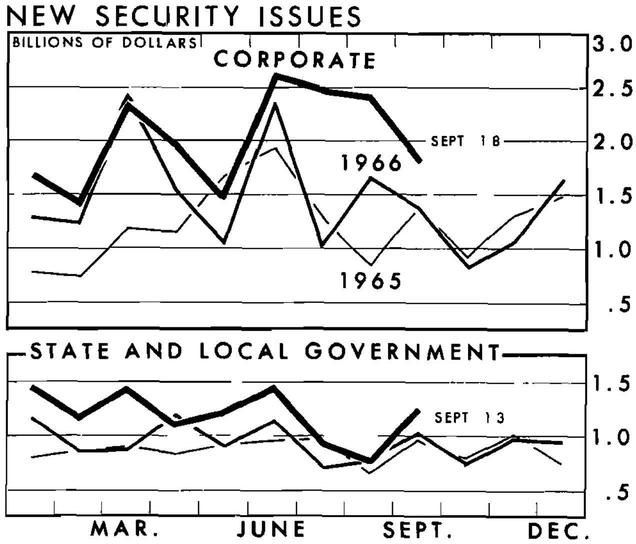
MARKET YIELDS



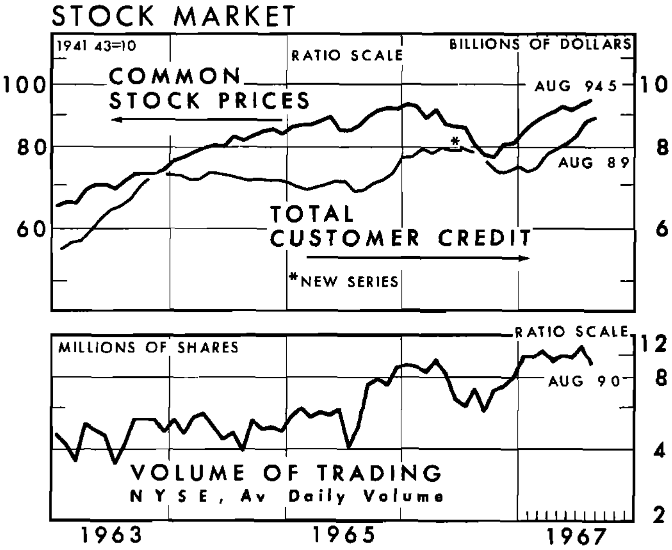
MARKET YIELDS—U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. Recent reports indicate that the third quarter liquidity deficit will be somewhat larger than indicated by earlier preliminary data, so that the change from the second quarter results may not be significant. The deficit for July and August taken together, before seasonal adjustment, was about $860 million, and after an estimated allowance for seasonal factors this would be reduced to perhaps $360 million. The earlier weeks of September showed modest surpluses, but these were more than offset by a large deficit in the week ended September 20. If there is also a deficit in the remainder of the month, the outcome for the quarter would be similar to the published deficit of somewhat over $1/2 billion per quarter in the first half.

As discussed below, the second quarter was adversely affected by temporary factors that may have amounted, on balance, to $400 million. Such factors were probably very much smaller in the third quarter as the Middle East disturbances abated. However, the high second quarter deficit was reduced by the placement of $605 million of foreign official dollar holdings into deposits with a maturity of over one year (line 21 of the Appendix B table) while similar investments so far in the third quarter have been negligible. On the other hand, the third quarter recorded deficit probably benefited from the pressures on sterling. Taking such special or temporary factors into account there probably has not been a significant shift from the underlying deficit rate of about $3.0 billion since the middle of last year.

Measured on the official reserve transactions basis a surplus of over $1/2 billion (after rough seasonal adjustment) was achieved in July-August as U.S. banks increased their liabilities to their foreign branches. This balance may therefore show a sizable surplus for the quarter as a whole, even though liabilities to branches have moved irregularly since the end of August, first being reduced and then tending to rise after the middle of September.

Banking claims. In August banks reported a net increase of about $100 million in claims on foreigners, equally divided between short-term and long-term claims. However, much of this activity reflected repurchases of loans from foreign branches and there may also have been some temporary placing of funds abroad at the end of the month. There was some seasonal reduction in claims on Japan.

Merchandise trade. The U.S. foreign trade surplus increased substantially in August as imports fell sharply. For the two months of July and August combined, the surplus, on a balance of payments basis, was at an annual rate of $4.5 billion, about the same as in the second quarter.

August exports may be understated by about $50 million because of the omission of certain export documents. If adjusted for this, exports in August would show a moderate increase both over July and over the high rate of the first six months of the year, and the trade surplus in July-August would rise to an annual rate of $4.7 billion.

The pattern of exports in July-August varied only slightly from that of the second quarter. Shipments of agricultural products remained low, and sales of nonagricultural commodities continued strong. Exports to Japan and Western Europe held at the second quarter rate, but shipments to Canada and Asian countries drifted downward. Exports to Latin America were somewhat above those of the second quarter.

The effects of the Arab-Israeli war were still evident in the August trade data. U.S. exports of crude petroleum were still high. Shipments to the United Kingdom expanded further but deliveries to other Western European countries and Canada, also high in July, were virtually nil in August. Imports of crude oil from Canada continued high in August while those from Venezuela were considerably below last year's rate. U.S. total exports to the Arab countries in August were slightly greater than the low July value, as shipments to Libya returned to previous rates.

Imports dropped by about 5 per cent from July to August. However, after a similar drop from April to May imports recovered to their previous high level. For July and August combined, imports were at an annual rate of $26.2 billion, slightly below the second quarter rate. Recent increases in industrial production and personal income can be expected to strengthen demands for imported products in the months ahead.

Imports of foods, automotive products and other nonfood consumer goods in July-August stabilized at the second quarter rates, while the downtrend in industrial materials continued, particularly in nonferrous metals, and, as described above, crude petroleum.

With the improvement in housing starts and the firming in domestic textile production, imports of building supplies and textile materials grew moderately in July-August. Arrivals of iron and steel-mill products expanded further, approaching the record value of the third quarter of 1966.

Imports of machinery, which had slipped in the second quarter, recovered sharply in July-August. Japan and the Common Market countries were the principal suppliers of these expanded deliveries.

Second quarter accounts. More complete accounts for the second quarter balance of payments (see appendix B) identify several causes for that quarter's large deficit, most of them temporary: larger than normal net travel expenditures were connected with Expo 67 in Canada (perhaps $150 million, including an allowance for some reduction in U.S. tourist receipts), remittances and bond sales proceeds to Israel ($150 million), and a total of unidentified net payments that seems to be at least $300 million higher than the quarterly average of recent years. There were also some temporary plus factors that helped the second quarter balance, including (1) special debt repayments by Canada ($30 million) and earlier than scheduled repayments in local currency of loans to Viet Nam, which were then used to pay for some current military expenditures in that country, and (2) cash received from the liquidation of direct foreign investments (about \$45 million) and a return flow of over \$50 million from a Canadian subsidiary of a short-term advance made by the U.S. parent company near the end of 1966. On balance, such temporary factors may have worsened the second quarter balance by some \$400 million.

The principal new information on the second quarter balance of payments relates to direct investment outflows; these are reported at \$684 million in the second quarter (seasonally adjusted), only slightly above the first quarter total. The first half outflow this year is about \$300 million lower than the amount in the same period of 1966. Most of this difference is associated with a few large transactions, however, rather than with a generalized decline. In the second quarter this year there were the cash inflows from liquidations mentioned above, and in addition there were recorded inflows of \$145 million from Latin America (Chile and Mexico) representing the sale of properties against payments in notes. The notes appear as a major item of long-term portfolio outflow in the quarter. In the case of Chilean properties, the notes received from the Government of that country will be reinvested in Chilean copper production as needed for that purpose. Without these receipts, the second quarter outflow would have been at an annual rate of about \$3.5 billion, about the same as the rate in 1965 or 1966.

Other features of the second quarter accounts were an unusually small increase in military expenditures abroad raising the total to an annual rate of about \$4.2 billion, some slippage of income from direct investments to an annual rate of $3.9 billion compared to an average of $4.1 billion in the previous four quarters, and a sizable drop in net Government grants and credits from the temporarily inflated rate of the first quarter. Some of the reduction in Government outlays was in AID programs for Pakistan and Viet Nam, and the net outflow was also reduced by the repayment from Viet Nam noted above. Net credit extensions by the Export-Import Bank were higher, partly to finance exports of aircraft.

U.K. balance of payments. Britain failed to achieve the hoped-for surplus in its basic balance--on current and long-term capital transactions--during the first half of 1967. Instead, there was a recorded deficit of £57 million, and only a small surplus even if one allows for the possibility that some part of the exceptionally large positive errors and omissions item of £243 million may have represented unidentified current earnings. (Most of that time is thought to have represented unrecorded short-term capital inflows.)

The surplus on service transactions increased substantially during the first half year, as earlier special tax payments to oil countries and insurance payments for hurricane damage in North America ceased, and as the U.K. restrictions on travel spending imposed in July 1966 took increasing effect. On long-term capital, there was a small net inflow (even apart from credits received from the U.S. Export-Import Bank to finance imports of military aircraft), in contrast to earlier outflows. Thus, the major disappointment occurred in merchandise trade. The trade deficit was about £150 million, seasonally adjusted, in the first half of 1967; most of this was incurred in the second quarter, when the deficit was the largest since the second quarter of 1965.

The trend of U.K. foreign trade has been unusually difficult to analyze during the past year because of the dock strike of May-June 1966, the removal--announced in advance--of import surcharges at the end of November 1966, and the Middle East crisis of mid-1967. However, trade data for the latest four months combined--May through August--appear to be relatively free from erratic disturbances apart from some curtailment of fuel imports, and these are compared in the table below with data for January-April 1966--the period just before the 1966 dock strike--in order to provide some appraisal of trends.

It will be seen that merchandise imports rose less than 2 per cent in value from January-April 1966 to May-August 1967 (and by about the same amount at constant prices), and would have risen by only about 3 per cent if fuel imports had not been curtailed by the Middle East crisis in the latter period. This advance is modest, about equal to that in real GNP, and includes the effect of the removal of import surcharges on manufactured goods, where the import increase has since been concentrated.

Thus, it appears that the main disappointment with the trade performance should be focused on exports. These were up only 3-1/2 per cent over the period, having first risen and then declined. Exports to Western Europe--particularly to EEC countries--and to North America were actually lower in the latest four-month period than in early 1966. Exports to sterling area countries, though still higher than in early 1966, have fallen off recently. Some portion of these declines was attributable to cyclical weakness

United Kingdom: Foreign Trade
(In millions of pounds sterling per month, seasonally adjusted)

	Jan.-April 1966	May 1966 to Apr. 1967	May-Aug. 1967	Change Jan.-April 1966 to May-August 1967[a/] £m	Change Jan.-April 1966 to May-August 1967[a/] percent
Exports of U.K. produce, f.o.b.	415	431	439	+14	+3.4
Re-exports, f.o.b.	16	16	15	-1	-4.4
Exports, including re-exports, f.o.b.	431	446	444	+13	+3.1
Imports, c.i.f. c/	506	504	515[b/]	+9[b/]	+1.8[b/]
Trade balance:					
From above (imports c.i.f.)	-75	-58	-71	+4	---
Balance-of-payments basis (f.o.b.)	-23	-12	-23	0	
Exports of U.K. produce by area:					
Sterling area	130	137	136	+6	+5.0
Western Europe	162	159	159	-3	-1.7
(EEC)	(82)	(80)	(79)	(-3)	(-3.6)
(EFTA)	(63)	(63)	(64)	(+1)	(+1.3)
North America	69	71	68	-1	-1.4
All other (residual)	54	64	65	+11	+20.9
Imports, c.i.f., by commodity group:					
Food, drink, and tobacco	144	146	148	+4	+2.8
Fuels	54	54	51[b/]	-3[b/]	-5.2[b/]
Industrial materials	216	214	215	-1	-0.5
Finished manufactures c/	85	85	97	+12	+14
All other (residual)	8	6	5	-3	---

a/ Changes computed from unrounded data.

b/ Fuel imports in May-August 1967 were reduced by about $5 million per month by the effects of the Middle East crisis.

c/ Excludes imports of U.S. military aircraft, etc., financed by credits from U.S. Export-Import Bank.

of demand in the United States and in major European countries. Thus, Britain's most recent export difficulties have included a temporary element.

On the other hand, however, domestic demand in Britain has also been cyclically weak, helping to hold down imports. There are now signs that a recovery is getting under way. Manufacturing output increased in both June and July; by July it had regained about three-fourths of the 5 per cent drop that took place between July 1966 and November 1966, the low point. Unemployment, seasonally adjusted, did not change much in September, after rising steadily earlier.

Further recovery in demand and output is to be expected, particularly in light of recent and prospective Government efforts to give some stimulus to economic activity. Installment credit restrictions were eased in June and in August. The payment of regional employment premiums, of accelerated investment grants, and of larger social welfare benefits, will be added to the spending stream starting this fall. The stimulus intended is only moderate. The Government's goal is a 3 per cent rate of growth in real GNP (as compared with the 4 per cent target announced in 1965); that is all the Government feels it can allow and still give adequate priority to the balance of payments. But even moderate domestic growth is likely to start imports rising again. Hence, very substantial recovery and growth in exports is needed if the basic payments balance is to generate a sufficient surplus to pay off the short- and medium-term foreign debts that fall due from now through 1970. This will require not only a sharp pick-up in foreign demand, but also an ending of the gradual decline in Britain's share of world exports, which continued at least through 1966.

Prices and wages in industrial countries. The economic slowdown experienced by most industrial countries since mid-1966 has been reflected in price and wage movements. Price and wage increases have been slowed by an easing of demand pressures and by deliberate government policies to hold the line on such increases.

Wholesale prices have increased less during the past year than a year earlier in every industrial country, as shown in the table below. In several countries--France, Germany, Italy, and Switzerland--wholesale prices have in fact declined thus far in 1967.

Changes in Wholesale Prices of Non-food Manufactures

	Per cent change in year to:	
	July 1966	July 1967
Common Market countries:		
Germany a/	+2.0	-1.4
France b/	+3.5	-1.5
Italy c/	+1.6	-0.6
Belgium	+2.1	+1.5
Netherlands	+4.5d/	+0.9d/
United Kingdom	+3.0	+0.3
Sweden	+2.5	+0.8
Switzerland e/	+2.5	+0.3
Japan	+3.0	+1.6
Canada	+2.9	+1.6
United States f/	+2.6	+0.8

a/ Includes foods. b/ Intermediate goods. c/ Investment goods only. d/ Year to May. e/ All commodities. f/ Industrial commodities.

As is typical, consumer prices have risen more than wholesale prices. However, in several countries--the United Kingdom, Germany, the Netherlands, and Japan--consumer price advances have been smaller this year than earlier (see table). Only Italy and Canada have experienced a significant acceleration. For all countries, price increases for food have been smaller than for non-food items, and also smaller than a year earlier, thereby moderating somewhat the advance in total consumer prices. In several large countries Germany, Britain, and Japan--consumer price increases have been smaller than in the United States.

Increases in Consumer Prices
(In per cent)

	Total, Including Food Year to:		Non-food Year to:	
	July 1966	July 1967	July 1966	July 1967
Slower in latest period:				
United Kingdom	3.5	2.2	4.1	2.3
Germany	2.9	1.6	4.5	2.3
Netherlands	4.9	2.4	5.8	4.1
Japan	6.2	2.0	7.0	2.9
Little changed:				
United States	2.8	2.8	2.7	3.1
France	2.4	2.4	2.4	3.3
Sweden	4.6	4.7	5.6	5.0
Switzerland	4.6	4.6	n.a.	n.a.
Belgium a/	2.4	2.8	n.a.	n.a.
Faster in latest period:				
Italy	1.9	3.5	2.4	5.7
Canada	3.4	4.1	2.7	5.6

n.a. - Not available.
a/ Excludes rent.

Slackened economic activity has not had as clear an impact on wages as on prices. This is partly because of lags in implementing new labor contracts and partly the result of cost-of-living adjustments. For Germany and the United Kingdom, for which the recent economic slowdown was most pronounced, as well as for the Netherlands and Belgium, the rate of increase in wage rates has diminished significantly. In Canada, Italy, and Sweden, on the other hand, wage increases have accelerated in 1967.

Price and wage advances in the United Kingdom thus far in 1967 have been much smaller than for the comparable 1966 period. The change reflects the restrictive government program introduced in July 1966, although the reduction of demand pressures also has had some effect. With the expiration of a period of "severe restraint" at the end of June, wage rates jumped sharply in July, as increases that had been deferred earlier were put into effect. The wholesale price index has shown no significant change since mid-1966.

In Germany, the recession has brought an easing of price and wage increases. In fact, wholesale prices of industrial products have declined; in July they were 1-1/2 per cent lower than a year earlier. Also, consumer prices have risen more slowly this year than before, increasing only 1-1/2 per cent during the year to July partly as a result of higher indirect taxes. Wage rate increases have been somewhat lower thus far in 1967 than last year, kept down both by smaller negotiated increases and by postponement of new wage negotiations by some unions. But with the government's anti-recession policies now taking effect, more rapid wage and price increases may be forthcoming.

In France, wholesale prices appear to have responded to the slack in the economy, having shown a sizable decline of 1-1/2 per cent in the year to July. Consumer prices for non-food items have, on the other hand, shown a somewhat more rapid rate of increase this year than last, partly because of statutory price increases authorized by the government in July 1967, including increases in transportation fares in the Paris region, gas and electricity charges, and rents. Despite reduced demand pressures and increasing unemployment, wage rate increases have continued this year at about last year's rate of nearly 6 per cent.

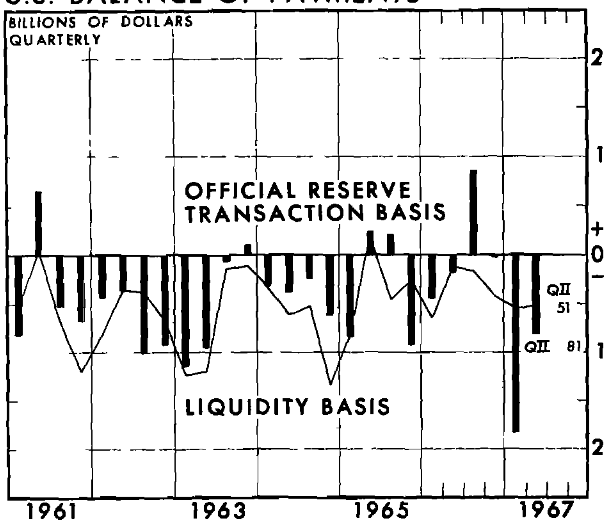
Italy, in contrast to other European countries, has continued to experience rapid economic expansion this year, and increases in consumer prices and in wage rates have accelerated, although wholesale prices have declined. The rise in consumer prices for non-food items was 5.7 per cent in the year to July 1967, more than in any other industrial country. This rise has contributed to an acceleration of wage increases through sliding scale arrangements. But also, union wage demands have been stronger.

In Canada, despite some slackening in activity, consumer prices and wage rates have been rising at an increasing rate during the past year, although the rise in wholesale prices has slowed. Cost-push factors at work in the economy include efforts by some unions to lift wages to U.S. levels.

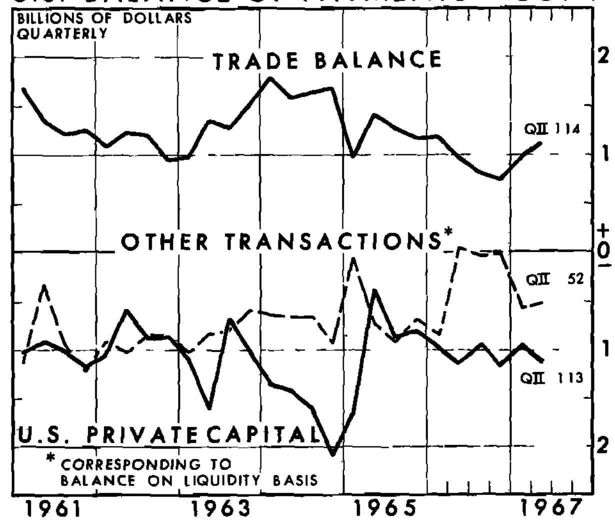
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

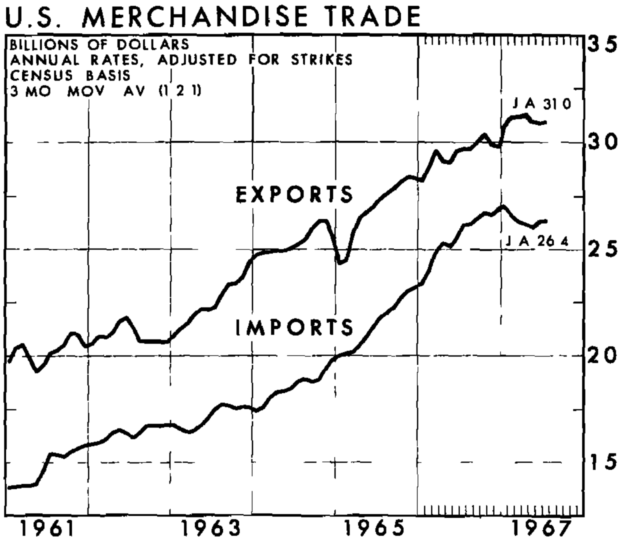
U.S. BALANCE OF PAYMENTS



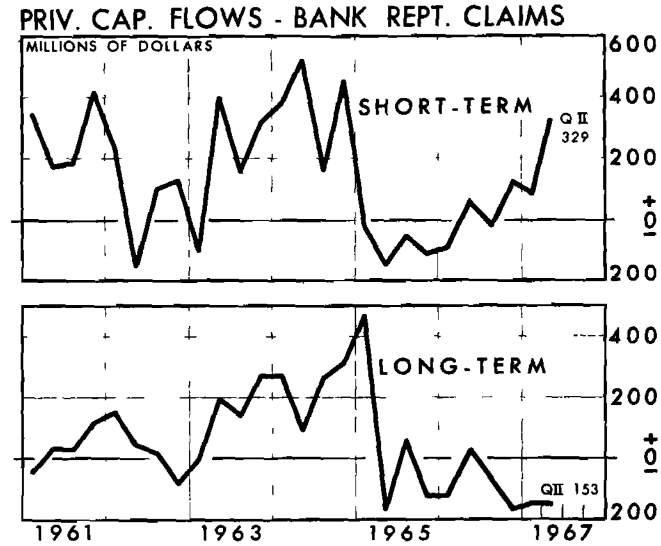
U.S. BALANCE OF PAYMENTS - CONT.



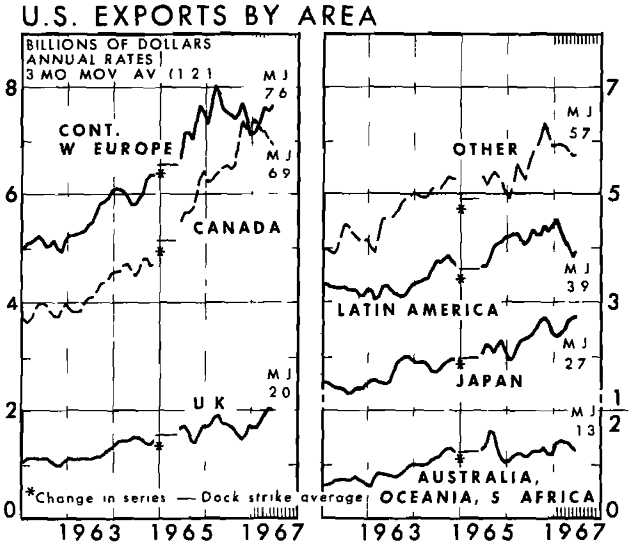
U.S. MERCHANDISE TRADE



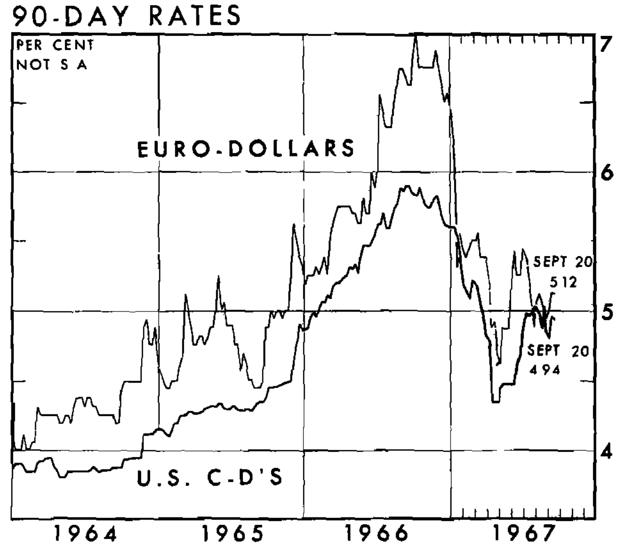
PRIV. CAP. FLOWS - BANK REPT. CLAIMS



U.S. EXPORTS BY AREA



90-DAY RATES



APPENDIX A: REVISIONS IN BANK CREDIT SERIES*

The seasonally adjusted series for total bank credit and its major components have been revised to reflect changes in seasonal factors for recent years. In addition to these changes which have smoothed the month-to-month fluctuations in the series, benchmark adjustments have reduced somewhat the levels of total loans and of total loans and investments in 1966 and in the first half of 1967.1/

Revisions in seasonal factors reflect primarily the changing behavior of bank loans and investments associated with shifts in the pattern of tax payments to the Treasury.2/ These shifts have had their greatest impact on bank credit movements over only the past year and a half, a period too short to justify much confidence in current seasonal factors computed by the usual procedures. However, in view of the fact that the Treasury's various programs for accelerating tax payments to a pay-as-you-go basis are substantially changing seasonal demands for bank credit, an attempt has been made to take account of the observed changes in bank credit that appear to be related to the repetitive aspects of these shifts.

While the acceleration of corporate income tax payments initially resulted in a nonseasonal doubling up of payments in the March-June period, completion of this program establishes 5 major corporate income tax payment dates--the 15th of March, April, June, September, and December--around which seasonal demands for bank credit should be large. April 15 replaces March 15 as a major payment date for the estimated first quarter tax liability. June 15 remains a regular payment date for second quarter liabilities, and additional payments due on unpaid liabilities accrued in the prior year make the

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* Prepared by Edward R. Fry and Mary F. Weaver, Banking Section, Division of Research and Statistics.

1/ The December 1966 call report indicated that interbank loans, which are excluded from total loans adjusted, were larger than estimated earlier, so the estimated monthly levels of loans adjusted were reduced accordingly.

2/ Changes in Treasury financing patterns, such as the shift from quarterly to monthly auctions of 1-year bills in 1963 and the addition of a 9-month bill cycle in 1966, also account for part of the change in bank credit seasonal factors. Further changes in Treasury financing operations may be induced by the changing pattern of tax payments, but the extent to which recent financings reflect this is not yet ascertainable.

June payment the largest under the new schedule. March 15 will continue to be a major payment date, with 1/2 of the unpaid liability for the prior year due at that time. The proportion of current-year tax liabilities that can be carried over to the next year (payment in March and June) probably will be reduced in pending tax legislation, so the relative importance of the March and June tax dates probably will be reduced somewhat in the future.

Remittances of employee tax withholdings also are shifting to an even pattern of semimonthly payments to the Treasury. Formerly, there was an intraquarter pattern to these remittances, with no payment due in the first month, 2/3 of the quarterly total due in the middle month, and 1/3 due in the final month, the latter coinciding with quarterly payments of corporation income taxes. Thus far, all corporations with total withholdings of $2,500 or more per month have been required to shift to the new semimonthly schedule of payments. This program of acceleration will be completed next Friday.

These changes in tax payments are reflected in generally higher bank credit seasonal factors for the 5 months April through August and in lower factors for most other months. Table I compares the former and revised seasonal factors. The increases in seasonal bank financing for tax payments in the spring and summer months are reflected both directly in loans to nonfinancial businesses and indirectly through loans to nonbank financial institutions and securities dealers, as well as in increases in bank holdings of U.S. Government securities. Revisions in seasonal factors for bank holdings of other securities followed a pattern similar to those for loans and U.S. Government securities, although the changes were much less pronounced.

The revised seasonal factors also include adjustments on a more extensive basis than in the past for calendar variations of last-Wednesday reporting dates. Formerly, such adjustments were made only in the series for total bank credit and U.S. Government security holdings to reflect the temporary shift of taxable bank balances into securities as the Cook County, Illinois property tax date (April 1) approached. In the current revision, this type of calendar date adjustment was introduced for other months except June and December for which data always refer to the last day of the month. The estimated effects of last-Wednesday variation on seasonal factors for 1966-67 are shown in parenthesis in Table I.

In general, the pattern of these adjustments reflects a tendency for bank credit to rise at the end of the month. Thus, when Wednesday falls on the last day of the month, bank credit tends to be noticeably higher than when Wednesday falls a few days earlier. For example, the May 1967 seasonal factor for total bank credit was raised 0.2 of one per cent ($650 million equivalent) to adjust for Wednesday falling on the last day of the month. The exception to this pattern, as mentioned above, is the end-of-March decline in bank holdings of U.S. Government securities, which results in lower seasonal factors for that month the later the Wednesday date falls. The seasonal factor for March 1966, for example, was lowered by 0.3 of a percentage point ($900 million equivalent) reflecting the estimated effect of the relatively late March 30 Wednesday date.

Table II compares the movements of the former and revised series over the last 2-1/2 years, the period in which the largest revisions were concentrated. As indicated by the half yearly annual rates of growth, the over-all pattern of expansion was altered only slightly by the revision. Growth rates were reduced slightly in the first half of each year and increased in the second half.

The revised seasonally adjusted data for total bank credit, loans adjusted, U.S. Government securities, and other securities are shown in Table III for the period 1965 to date. Data for earlier years back to 1948 will be available in the September <u>Bulletin</u>.

TABLE I

FORMER AND REVISED SEASONAL FACTORS FOR BANK CREDIT SERIES
(In per cent)

	Loans and investments		Loans adjusted		Other securities	
	Former	Revised	Former	Revised	Former	Revised
1966--Jan. 26	99.8	99.9 (+.1)	99.0	99.0	99.0	98.8
Feb. 23	99.5	99.1 (-.1)	98.7	98.4 (-.1)	99.3	99.2
Mar. 30	99.4 (-.3)	99.4 (-.3)	99.5	99.5 (+.1)	99.5	99.5
Apr. 27	99.6	99.8	99.4	99.5 (-.1)	100.5	100.5
May 25	99.2	99.5	99.7	99.6 (-.1)	99.5	99.7 (+.1)
June 30	100.8	101.1	101.9	102.2	100.4	100.6
July 27	99.3	99.8	99.7	100.5	100.3	100.3
Aug. 31	99.0	99.2 (+.2)	99.5	99.7 (+.1)	100.7	100.8
Sept.28	100.2	99.8 (-.1)	100.4	100.1 (-.1)	101.0	101.0
Oct. 26	100.1	99.7 (-.1)	99.5	99.3 (-.1)	100.5	100.6 (+.1)
Nov. 30	100.3	99.9 (+.1)	100.0	99.6 (+.1)	99.1	99.1 (+.1)
Dec. 31	102.5	102.5	102.8	102.5	100.2	100.2
1967--Jan. 25	99.8	99.8	99.0	99.1	99.0	98.9 (+.1)
Feb. 22	99.5	98.9 (-.1)	98.7	98.2 (-.1)	99.3	99.2 (-.1)
Mar. 29	99.6 (-.1)	99.6 (-.1)	99.5	99.5 (+.1)	99.5	99.5
Apr. 26	99.6	99.8 (-.1)	99.5	99.5 (-.1)	100.5	100.6 (+.1)
May 31	99.2	99.7 (+.2)	99.7	99.8 (+.1)	99.5	99.5 (-.1)
June 39	100.8	101.2	101.9	102.2	100.4	100.6
July 26	99.3	99.8	99.7	100.4 (-.1)	100.3	100.3
Aug. 39	99.0	99.1 (+.1)	99.5	99.6	100.7	100.8
Sept.27	100.2	99.8 (-.1)	100.4	100.1 (-.1)	101.0	101.0
Oct. 25	100.1	99.7 (-.1)	99.5	99.3 (-.1)	100.5	100.7 (+.2)
Nov. 29	100.3	99.9 (+.1)	100.0	99.6 (+.1)	99.1	99.1 (+.1)
Dec. 27	102.5	102.5	102.8	102.5	100.2	100.2

NOTE: Figures in parentheses show effect of last-Wednesday adjustment on seasonal factor.

TABLE II

COMPARISON OF FORMER AND REVISED SERIES
(Seasonally adjusted annual rates of change, in per cent)

Period	Loans and investments		Loans adjusted		Govt. securities		Other securities	
	Former series	Revised series	Former series	Revised series	Former series	Revised series	Former series	Revised series
Semiannual								
1965 1st Half	+10.9	+10.4	+16.7	+16.0	- 9.5	- 8.6	+17.6	+17.1
2nd Half	+ 9.0	+ 9.5	+11.7	+12.5	- 1.7	- 2.8	+12.8	+13.3
1966 1st Half	+ 9.8	+ 9.2	+14.7	+13.6	- 9.0	- 8.4	+12.5	+12.1
2nd Half	+ 1.6	+ 2.2	+ 3.1	+ 4.3	- 2.9	- 4.4	+ 0.4	+ 0.8
1967 1st Half	+10.6	+ 9.5	+ 6.8	+ 5.2	+ 8.1	+ 8.2	+30.2	+29.2
Quarterly								
1966 I	+ 8.0	+ 7.7	+13.8	+12.5	-11.8	- 9.1	+ 8.0	+ 8.0
II	+11.3	+10.4	+15.1	+14.3	- 6.4	- 7.9	+16.6	+15.8
III	+ 1.3	+ 3.4	+ 4.1	+ 5.5	- 5.8	--	- 2.5	- 1.7
IV	+ 1.9	+ 1.0	+ 2.1	+ 3.1	--	- 8.7	+ 3.4	+ 3.3
1967 I	+15.0	+14.4	+ 8.8	+ 6.7	+25.8	+30.5	+30.2	+29.6
II	+ 5.9	+ 4.4	+ 4.7	+ 3.6	- 9.0	-13.2	+28.1	+26.8
July - August	+20.0	+22.5	+10.8	+12.7	+57.3	+64.4	+17.5	+18.3

TABLE III

LOANS AND INVESTMENTS AT COMMERCIAL BANKS
Revised seasonally adjusted, in billions of dollars

Period	Loans and investments 1/	Loans 1/ 2/	Securities: U.S. Govt.	Securities: Other 2/
1965--Jan. 27	269.6	170.6	59.6	39.5
Feb. 24	272.6	173.0	59.7	40.0
Mar. 31	275.5	175.2	59.8	40.5
Apr. 28	276.8	176.7	58.8	41.2
May 26	279.1	179.5	58.3	41.3
June 30	281.1	181.1	58.1	42.0
July 28	282.7	182.7	57.5	42.4
Aug. 25	286.1	185.2	57.8	43.1
Sept. 29	287.1	186.6	57.0	43.4
Oct. 27	290.2	188.8	57.6	43.8
Nov. 24	292.0	190.7	57.1	44.2
Dec. 29	294.4	192.4	57.3	44.8
1966--Jan. 26	297.0	194.6	57.4	45.0
Feb. 23	298.6	196.7	56.5	45.5
Mar. 30	300.1	198.4	56.0	45.7
Apr. 27	302.1	200.6	55.3	46.2
May 25	303.7	202.3	54.1	47.3
June 30	306.8	203.4	54.9	48.5
July 27	307.5	204.5	54.5	48.5
Aug. 31	309.9	205.8	56.0	48.0
Sept. 28	309.4	206.2	54.9	48.3
Oct. 26	308.9	207.2	53.4	48.4
Nov. 30	309.3	207.5	53.4	48.4
Dec. 31	310.2	207.8	53.7	48.7
1967--Jan. 25	314.4	210.4	54.2	49.9
Feb. 22	318.0	211.0	55.9	51.1
Mar. 29	321.4	211.3	57.8	52.3
Apr. 26	323.0	213.3	56.1	53.6
May 31	324.3	213.1	56.2	55.1
June 30 3/	324.9	213.2	55.9	55.8
July 26	332.2	216.5	58.9	56.7
Aug. 30	337.1	217.7	61.9	57.5

1/ Adjusted to exclude interbank loans.
2/ Beginning June 9, 1966, about $1.1 billion of balances accumulated for payment of personal loans were deducted as a result of a change in Federal Reserve regulations.

Beginning June 30, 1966, CCC certificates of interest and Export-Import Bank portfolio fund participation certificates totaling an estimated $1 billion are included in "Other securities" rather than "Other loans."

3/ June 30, 1967 estimated.

NOTE: Data are for last Wednesday of month except for June 30 and December 31; data are partly or wholly estimated except when June 30 and December 31 are call dates. For back data, see September 1967 Bulletin.

APPENDIX B

Balance of Payments Accounts

Arranged to show alternative measures of balance

(millions of dollars, seasonally adjusted)

	1966 I	1966 II	1966 III	1966 IV	1967 I	1967 II
1. Exports of goods and services	10,511	10,618	10,913	10,997	11,383	11,338
2. Merchandise	7,203	7,181	7,382	7,402	7,691	7,723
3. Investment income	1,469	1,535	1,587	1,654	1,585	1,550
4. Other current receipts	1,839	1,902	1,944	1,941	2,107	2,065
5. Imports of goods and services	8,997	9,265	9,762	9,913	10,034	10,038
6. Merchandise	6,025	6,225	6,580	6,680	6,692	6,587
7. Military expenditures	861	911	953	969	1,045	1,052
8. Other current payments	2,111	2,129	2,229	2,264	2,297	2,399
9. Balance on goods and services	1,514	1,353	1,151	1,084	1,349	1,300
10. Pensions and pvt. remittances	-241	-245	-278	-246	-264	-390
11. U.S. private capital	-981	-1,135	-932	-1,165	-958	-1,130
12. U.S. Govt. credits and grants	-1,185	-1,194	-1,177	-1,124	-1,419	-1,237
13. Scheduled repayments on credits	207	199	192	208	214	306
14. Foreign private capital, except liquid (net inflow, +) 1/	219	493	166	340	363	361
15. Nonliquid Govt. liabilities to nonmonetary foreign agencies	-57	42	69	-1	67	183
16. Errors and omissions (net)	-233	-198	277	-148	-284	-576
17. Balance of lines 1 to 16	-757	-685	-532	-1,052	-932	-1,183
18. Nonscheduled repayments on U.S. Govt. credits	3	7	226	192	--	*
19. Balance of lines 17 and 18	-754	-678	-306	-860	-932	-1,183
Plus:						
20. Int'l. Organ.: long-term deposits and Agency securities	86	300	38	15	64	95
21. Foreign official accounts: long-term deposits	43	284	88	373	309	605
22. Nonliquid Govt. liabilities to foreign monetary authorities	-26	-28	15	53	21	-29
23. Balance on liquidity basis	-651	-122	-165	-419	-538	-512
24. Balance of lines 17 and 18	-754	-678	-306	-860	-932	-1,183
Plus:						
U.S. liquid liabilities to:						
25. Foreign nonbank private	109	66	91	-54	80	13
26. Commercial banks	154	492	1,062	989	-1,003	341
27. U.S. liquid and nonliquid liab. to International organizations	48	-55	14	-93	28	15
28. Balance on official reserve transaction basis	-443	-175	861	-18	-1,827	-814

1/ Includes borrowing by U.S. corporations to finance direct investments. Also includes U.K. official transactions in U.S. securities other than Treasury issues.

* Less than $500,000.

APPENDIX C: HISTORICAL TABLES FOR GROSS NATIONAL PRODUCT AND RELATED ITEMS*

Historical data for the items in the "Gross National And Related Items" tables regularly included in each issue of the Greenbook are provided in the following tables. Annual data, and changes in the annual data, are shown for the period 1960 to 1966. Quarterly data, and quarterly changes, are shown for the period 1963-I to 1966-IV.

*Prepared by the National Income Section, Division of Research and Statistics.

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)

	1960	1961	1962	1963	1964	1965	1966
Gross National Product	503.7	520.1	560.3	590.5	632.4	683.9	743.3
Final sales	500.2	518.1	554.3	584.6	626.6	674.5	729.9
Private	400.6	410.5	437.2	462.1	497.9	538.1	575.6
Personal consumption expenditures	325.2	335.2	355.1	375.0	401.2	433.1	465.9
Durable goods	45.3	44.2	49.5	53.9	59.2	66.0	70.3
Nondurable goods	151.3	155.9	162.6	168.6	178.7	191.2	207.5
Services	128.7	135.1	143.0	152.4	163.3	175.9	188.1
Gross Private domestic investment	74.8	71.7	83.0	87.1	94.0	107.4	118.0
Residential construction	22.8	22.6	25.3	27.0	27.1	27.0	24.4
Business fixed investment	48.4	47.0	51.7	54.3	61.1	71.1	80.2
Change in business inventories	3.6	2.0	6.0	5.9	5.8	9.4	13.4
Nonfarm	3.3	1.7	5.3	5.1	6.4	8.4	13.7
Net Exports	4.0	5.6	5.1	5.9	8.5	6.9	5.1
Gov't. purchases of goods & services	99.6	107.6	117.1	122.5	128.7	136.4	154.3
Federal	53.5	57.4	63.4	64.2	65.2	66.8	77.0
Defense	44.9	47.8	51.6	50.8	50.0	50.1	60.5
Other	8.6	9.6	11.8	13.5	15.2	16.7	16.5
State & local	46.1	50.2	53.7	58.2	63.5	69.6	77.2
Gross National product in							
Constant (1958) dollars	487.7	497.2	529.8	551.0	581.1	616.7	652.6
GNP Implicit deflator (1958=100)	103.3	104.6	105.8	107.2	108.8	110.9	113.9
Personal income	401.0	416.8	442.6	465.5	497.5	537.8	584.0
Wage and salaries	270.8	278.1	296.1	311.1	333.7	359.1	394.6
Disposable income	350.0	364.4	385.3	404.6	438.1	472.2	508.8
Personal saving	17.0	21.2	21.6	19.9	26.2	27.2	29.8
Saving rate (per cent)	4.9	5.8	5.6	4.9	6.0	5.8	5.9
Corporate profits before tax	49.7	50.3	55.4	59.4	66.8	76.6	83.8
Federal government receipts and expenditures (N.I.A. basis)							
Receipts	96.5	98.3	106.5	114.5	115.0	124.8	143.2
Expenditures	93.0	102.1	110.3	113.9	118.1	123.4	142.9
Surplus or deficit (-)	3.5	-3.8	-3.8	.6	-3.0	1.4	.3
Total labor force (millions)	72.1	73.0	73.4	74.6	75.8	77.2	78.9
Armed forces "	2.5	2.6	2.8	2.7	2.7	2.7	3.1
Civilian labor force "	69.6	70.5	70.6	71.8	73.1	74.5	75.8
Unemployment rate (per cent)	5.5	6.7	5.5	5.7	5.2	4.5	3.8
Nonfarm payroll employment (millions)	54.2	54.0	55.6	56.7	58.3	60.8	64.0
Manufacturing	16.8	16.3	16.9	17.0	17.3	18.1	19.2
Industrial production (1957-59=100)	108.7	109.7	118.3	124.3	132.3	143.4	156.3
Capacity utilization, manufacturing (per cent)	80.6	78.5	82.1	83.3	85.7	88.5	90.5
Housing starts, private (millions A. R.)	1.23	1.28	1.44	1.58	1.53	1.45	1.14
Sales new U.S.-made autos (millions, A. R.)	6.14	5.56	6.75	7.33	7.62	8.76	8.38

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

	1960	1961	1962	1963	1964	1965	1966
	-----------In billions of dollars-----------------						
Gross National Product	20.0	16.4	40.2	30.2	41.9	51.5	59.4
Final sales	21.3	17.9	36.2	30.3	42.0	47.9	55.4
Private	18.7	9.9	26.7	24.9	35.8	40.2	37.5
GNP in constant (1958) dollars	11.8	9.5	32.6	21.2	30.1	35.6	35.9
Final sales	13.1	11.0	28.6	21.4	30.0	32.6	32.1
Private	12.9	1.9	21.6	19.3	28.4	29.5	21.9
	------------In Per Cent Per Year------------------						
Gross National Product	4.1	3.3	7.7	5.4	7.1	8.1	8.7
Final sales	4.4	3.6	7.0	5.5	7.2	7.6	8.2
Private	4.9	2.5	6.5	5.7	7.7	8.1	7.0
Personal consumption expenditures	4.5	3.1	5.9	5.6	7.0	8.0	7.6
Durable goods	2.3	-2.4	12.0	8.9	9.8	11.5	6.5
Nondurable goods	3.2	3.0	4.3	3.7	6.0	7.0	8.5
Services	7.0	5.0	5.8	6.6	7.2	7.7	6.9
Gross Private domestic investment	-0.7	-4.1	15.8	4.9	7.9	14.3	9.9
Residential construction	-10.6	-0.9	11.9	6.7	0.4	-0.4	-9.6
Business fixed investment	7.3	-2.9	10.0	5.0	12.5	16.4	12.8
Gov't. purchases of goods & services	2.7	8.0	8.8	4.6	5.1	6.0	13.1
Federal	-0.4	7.3	10.5	1.3	1.6	2.5	15.3
Defense	-2.4	6.5	7.9	-1.6	-1.6	-17.2	20.8
Other	13.2	11.6	22.9	14.4	12.6	9.9	-1.2
State & local	6.5	8.9	7.0	8.4	9.1	9.6	10.9
GNP in constant (1958) dollars	2.5	1.9	6.6	4.0	5.5	6.1	5.8
Final sales	2.8	2.3	5.8	4.1	5.5	5.7	5.3
Private	3.4	0.5	5.5	4.6	6.5	6.4	4.4
GNP Implicit deflator	1.7	1.3	1.1	1.3	1.5	1.9	2.7
Personal income	4.6	3.9	6.2	5.2	6.9	8.1	8.6
Wage and salaries	4.8	2.7	6.5	5.1	7.3	7.6	9.9
Disposable income	3.8	4.1	5.7	5.0	8.3	7.8	7.8
Corporate profits before tax	-4.6	1.2	10.1	7.2	12.5	14.7	9.4
Federal government receipts and expenditures (N.I.A. basis)							
Receipts	7.5	1.9	8.3	7.5	0.4	8.5	14.7
Expenditures	2.2	9.8	8.0	3.3	3.7	4.5	15.8
Nonfarm payroll employment	1.7	-0.4	3.0	2.0	2.8	4.3	5.3
Manufacturing	0.6	-3.0	3.7	0.6	1.8	4.6	6.1
Industrial production	2.9	0.9	7.8	5.1	6.4	8.4	9.0
Housing starts, private	-17.5	4.1	12.5	9.7	-3.2	-5.2	-21.4
Sales new U.S.-made autos	12.0	-9.4	21.4	8.6	4.0	15.0	-4.3

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)

	1963				1964			
	I	II	III	IV	I	II	III	IV
Gross National Product	577.4	584.2	594.7	605.8	617.7	628.0	638.9	645.1
Final sales	572.7	579.4	588.8	597.7	612.9	621.9	634.1	637.4
Private	450.8	458.5	465.9	473.4	486.5	492.7	504.7	507.6
Personal consumption expenditures	368.2	372.0	378.3	381.5	391.7	397.6	406.6	408.9
Durable goods	52.4	53.2	54.5	55.6	57.9	59.6	60.7	58.7
Nondurable goods	167.1	168.0	169.9	169.6	174.6	175.9	181.3	182.9
Services	148.7	150.8	153.9	156.3	159.2	162.1	164.6	167.3
Gross Private domestic investment	82.7	85.1	88.0	92.9	90.8	93.4	94.2	97.9
Residential construction	26.1	26.8	27.1	28.0	27.6	27.1	27.0	26.8
Business fixed investment	52.0	53.5	55.0	56.8	58.3	60.1	62.4	63.4
Change in business inventories	4.7	4.8	6.0	8.1	4.8	6.1	4.8	7.7
Nonfarm	4.0	4.3	5.3	7.0	5.2	7.0	5.6	8.1
Net Exports	4.6	6.2	5.6	7.1	8.9	7.8	8.7	8.5
Gov't. purchases of goods & services	121.9	120.9	122.9	124.3	126.4	129.2	129.4	129.8
Federal	65.0	63.4	64.2	64.4	65.0	66.0	65.2	64.5
Defense	51.2	50.5	51.0	50.3	50.5	50.7	49.8	48.9
Other	13.8	12.9	13.2	14.1	14.5	15.3	15.4	15.5
State & local	56.9	57.5	58.7	59.8	61.4	63.2	64.3	65.3
Gross National product in Constant (1958) dollars	541.2	546.0	554.7	562.1	571.1	578.6	585.8	588.5
GNP Implicit deflator (1958=100)	106.7	107.0	107.2	107.8	108.2	108.5	109.1	109.6
Personal income	457.0	461.3	467.8	475.8	484.6	492.7	502.1	510.5
Wage and salaries	304.5	308.5	313.0	318.5	324.2	330.4	337.4	342.8
Disposable income	396.7	400.7	406.9	414.1	423.9	435.8	443.1	449.6
Personal saving	19.3	19.2	18.8	22.5	22.0	27.7	25.6	29.5
Saving rate (per cent)	4.9	4.8	4.6	5.4	5.2	6.4	5.8	6.6
Corporate profits before tax	55.9	58.9	60.1	62.7	65.5	66.3	68.0	67.4
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	112.0	113.9	115.0	117.2	115.3	112.2	115.4	117.2
Expenditures	114.4	112.1	113.8	115.1	117.8	118.5	118.1	117.8
Surplus or deficit (-)	-2.4	1.8	1.2	2.1	-2.5	-6.3	-2.7	-0.6
Total labor force (millions)	74.0	74.4	74.7	75.0	75.4	75.9	75.9	76.1
Armed forces "	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Civilian labor force "	71.3	71.7	72.0	72.3	72.6	73.2	73.2	73.4
Unemployment rate (per cent)	5.8	5.7	5.5	5.6	5.4	5.2	5.0	5.0
Nonfarm payroll employment (millions)	56.1	56.6	56.9	57.2	57.6	58.1	58.5	59.1
Manufacturing	16.9	17.0	17.0	17.1	17.1	17.2	17.4	17.4
Industrial production (1957-59=100)	120.8	124.2	125.6	126.4	128.7	131.8	133.8	135.0
Capacity utilization, manufacturing (per cent)	82.0	83.9	83.7	83.7	84.5	85.7	86.3	86.2
Housing starts, private (millions A. R.)	1.43	1.65	1.62	1.65	1.71	1.56	1.49	1.55
Sales new U.S.-made autos (millions A. R.)	7.25	7.26	7.19	7.54	7.66	7.68	8.17	7.07

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)

	1965				1966			
	I	II	III	IV	I	II	III	IV
Gross National Product	662.7	675.4	690.0	708.4	725.9	736.7	748.8	762.1
Final sales	652.0	666.5	680.6	698.5	716.0	722.6	737.4	743.6
Private	520.7	532.6	542.5	556.2	569.5	571.4	579.7	581.9
Personal consumption expenditures	420.2	428.1	436.4	447.8	458.2	461.6	470.1	473.8
Durable goods	65.2	64.2	66.1	68.6	71.6	68.2	70.9	70.6
Nondurable goods	184.6	189.8	192.4	198.0	203.2	207.1	209.5	210.3
Services	170.4	174.2	177.8	181.2	183.5	186.3	189.8	192.9
Gross Private domestic investment	105.1	105.1	108.2	112.3	115.2	118.5	116.4	122.2
Residential construction	27.2	27.0	26.9	26.8	27.0	25.8	23.7	20.9
Business fixed investment	67.3	69.3	71.9	75.7	78.3	78.7	81.2	82.8
Change in business inventories	10.6	8.8	9.4	9.9	9.9	14.0	11.4	18.5
Nonfarm	10.1	7.9	7.9	8.7	9.6	14.4	12.0	19.0
Net Exports	6.1	8.2	7.4	6.1	6.1	5.4	4.6	4.3
Gov't. purchases of goods & services	131.3	133.9	138.1	142.3	146.5	151.2	157.7	161.7
Federal	64.3	65.4	67.6	69.8	72.1	74.9	79.5	81.5
Defense	48.4	49.2	50.3	52.4	55.1	58.4	63.0	65.6
Other	15.9	16.2	17.3	17.4	17.1	16.6	16.6	15.9
State & local	66.9	68.6	70.4	72.5	74.3	76.2	78.1	80.2
Gross National product in Constant (1958) dollars	601.5	609.7	620.7	634.4	645.4	649.3	654.8	661.1
GNP Implicit deflator (1958=100)	110.2	110.8	111.2	111.7	112.5	113.5	114.4	115.3
Personal income	520.3	530.1	544.6	556.1	567.8	577.3	589.3	601.6
Wage and salaries	347.7	354.2	362.0	372.4	381.3	390.2	399.6	407.4
Disposable income	456.0	464.0	479.4	489.4	497.5	503.3	512.4	522.0
Personal saving	24.5	24.0	30.9	29.3	26.6	28.7	29.2	34.6
Saving rate (per cent)	5.4	5.2	6.4	6.0	5.3	5.7	5.7	6.6
Corporate profits before tax	74.0	75.6	75.8	80.8	83.7	83.6	84.0	83.9
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	123.4	124.9	123.4	127.6	137.0	141.6	145.6	148.6
Expenditures	118.9	119.9	126.6	128.0	134.8	138.4	146.3	151.9
Surplus or deficit (-)	4.5	4.9	-3.2	-0.4	2.2	3.2	-0.7	-3.3
Total labor force (millions)	76.6	77.0	77.3	77.7	78.1	78.4	79.1	79.8
Armed forces "	2.7	2.7	2.7	2.8	2.9	3.1	3.2	3.3
Civilian labor force "	73.9	74.3	74.6	74.9	75.2	75.4	76.0	76.5
Unemployment rate (per cent)	4.8	4.7	4.4	4.1	3.8	3.8	3.8	3.7
Nonfarm payroll employment (millions)	59.8	60.4	61.1	61.9	62.9	63.7	64.3	65.0
Manufacturing	17.7	17.9	18.2	18.4	18.8	19.1	19.3	19.5
Industrial production (1957-59=100)	139.8	142.0	144.4	147.1	152.2	155.2	157.6	158.8
Capacity utilization, manufacturing (per cent)	88.5	88.4	88.5	88.6	90.6	90.9	90.6	89.8
Housing starts, private (millions A. R.)	1.47	1.55	1.45	1.58	1.42	1.28	1.08	0.92
Sales new U.S.-made autos (millions, A. R.)	9.25	8.42	8.89	8.62	9.26	7.81	8.47	8.13

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1963 I	1963 II	1963 III	1963 IV	1964 I	1964 II	1964 III	1964 IV
	In billions of dollars							
Gross National Product	5.4	6.8	10.5	11.1	11.9	10.3	10.9	6.2
Final sales	7.1	6.7	9.4	8.9	15.2	9.0	12.2	3.3
Private	4.5	7.7	7.4	7.5	13.1	6.2	12.0	2.9
GNP in constant (1958) dollars	2.9	4.8	8.7	7.4	9.0	7.5	7.2	2.7
Final sales	4.6	4.5	7.6	5.3	12.2	6.2	8.5	-0.1
Private	2.9	6.0	6.3	5.8	11.3	4.0	9.9	0.6
	In Per Cent Per Year							
Gross National Product	3.8	4.7	7.2	7.5	7.9	6.7	6.9	3.9
Final sales	5.0	4.7	6.5	6.0	10.2	5.9	7.8	2.1
Private	4.0	6.8	6.5	6.4	11.1	5.1	9.7	2.3
Personal consumption expenditures	5.7	4.1	6.8	3.4	10.7	6.0	9.1	2.3
Durable goods	10.2	6.1	9.8	8.1	16.5	11.7	7.4	-13.2
Nondurable goods	4.4	2.2	4.5	-0.7	11.8	3.0	12.3	3.5
Services	5.5	5.6	8.2	6.2	7.4	7.3	6.2	6.6
Gross private domestic investment	-9.4	11.6	13.6	22.3	-9.0	11.5	3.4	15.7
Residential construction	7.8	10.7	4.5	13.3	-5.8	-7.2	-1.5	-3.0
Business fixed investment	-5.3	11.5	11.2	13.1	10.6	12.3	15.3	6.4
Gov't. purchases of goods & services	8.7	-3.3	6.6	4.6	6.8	8.9	0.6	1.2
Federal	3.7	-9.8	5.0	1.2	3.7	6.2	-4.8	-4.3
Defense	2.4	-5.5	4.0	-5.5	1.6	1.6	-7.1	-7.2
Other	8.9	-26.1	9.3	27.3	11.3	22.1	2.6	2.6
State & local	13.8	4.2	8.3	7.5	10.7	11.7	7.0	6.2
GNP in constant (1958) dollars	2.2	3.5	6.4	5.3	6.4	5.3	5.0	1.8
Final sales	3.5	3.4	5.6	3.9	8.8	4.4	5.9	-0.1
Private	2.7	5.6	5.8	5.3	10.2	3.5	8.6	0.5
GNP Implicit deflator	1.5	1.1	0.7	2.2	1.5	1.1	2.2	1.8
Personal income	5.9	3.8	5.6	6.8	7.4	6.7	7.6	6.7
Wage and salaries	5.2	5.3	5.8	7.0	7.2	7.6	8.5	6.4
Disposable income	6.0	4.0	6.2	7.1	9.5	11.2	6.7	5.9
Corporate profits before tax	-4.2	21.5	8.1	17.3	17.9	4.9	10.3	-3.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	10.3	6.8	3.9	7.7	-6.5	-10.8	11.4	6.2
Expenditures	7.1	-8.0	6.1	4.6	9.4	2.4	-1.3	-1.0
Nonfarm payroll employment	0.7	3.6	2.1	2.1	2.8	3.5	2.8	4.1
Manufacturing	0.0	2.4	0.0	2.4	0.0	2.3	4.6	0.0
Industrial production	4.7	11.3	4.5	2.5	7.3	9.6	6.1	3.6
Housing starts, private	-31.0	61.5	-7.3	7.4	14.5	-35.1	-18.0	16.1
Sales new U.S.-made autos	10.2	0.5	-3.9	19.5	6.4	1.0	25.5	-53.9

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1965				1966			
	I	II	III	IV	I	II	III	IV
	In billions of dollars							
Gross National Product	17.6	12.7	14.6	18.4	17.5	10.8	12.1	13.3
Final Sales	14.6	14.5	14.1	17.9	17.5	6.6	14.8	6.2
Private	13.1	11.9	9.9	13.7	13.3	1.9	8.3	2.2
GNP in constant (1958) dollars	13.0	8.2	11.0	13.7	11.0	3.9	5.5	6.3
Final sales	11.3	9.5	10.3	13.2	10.8	-0.1	8.3	-0.3
Private	10.5	7.9	7.9	11.1	8.3	-2.9	4.4	-2.8
	In Per Cent Per Year							
Gross National Product	10.9	7.7	8.6	10.7	9.9	5.9	6.6	7.1
Final sales	9.2	8.9	8.5	10.5	10.0	3.7	8.2	3.4
Private	10.3	9.1	7.4	10.1	9.6	1.3	5.8	1.5
Personal consumption expenditures	11.1	7.6	7.8	10.4	9.3	3.0	7.4	3.1
Durable goods	44.3	-6.1	11.8	15.1	17.5	-19.0	15.8	-1.7
Nondurable goods	3.7	11.3	5.5	11.6	10.5	7.7	4.6	1.5
Services	7.4	8.9	8.3	7.6	5.1	6.1	7.5	6.5
Gross private domestic investment	29.4	0.0	11.8	15.2	10.3	11.5	-7.1	19.9
Residential construction	6.0	-2.9	-1.5	-1.5	3.0	-17.8	-32.6	-47.3
Business fixed investment	24.6	11.9	15.0	21.1	13.7	2.0	12.7	7.9
Gov't purchases of goods & services	4.6	7.9	12.5	12.2	11.8	12.8	17.2	10.1
Federal	-1.2	6.8	13.5	13.0	13.2	15.5	24.6	10.1
Defense	-4.1	6.6	8.9	16.7	20.6	24.0	31.5	16.5
Other	10.3	7.5	27.2	2.3	-6.9	-11.7	0.0	-16.9
State & local	9.8	10.2	10.5	11.9	9.9	10.2	10.0	7.8
GNP in constant (1958) dollars	8.8	5.5	7.2	8.8	6.9	2.4	3.4	3.8
Final sales	7.8	6.4	6.8	8.6	6.9	-0.1	5.2	-0.2
Private	8.9	6.6	6.5	8.9	6.5	-2.2	3.4	-2.2
GNP Implicit deflator	2.2	2.2	1.4	1.8	2.9	3.6	3.2	3.1
Personal income	7.7	7.5	10.9	8.4	8.4	6.7	8.3	8.3
Wage and salaries	5.7	7.5	8.8	11.5	9.6	9.3	9.6	7.8
Disposable income	5.7	7.0	13.3	8.3	6.6	4.7	7.2	7.5
Corporate profits before tax	39.2	8.6	1.1	26.4	14.4	-0.5	1.9	-0.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	21.2	4.9	-4.8	13.6	29.5	13.4	11.3	8.2
Expenditures	3.7	3.4	22.3	4.4	21.2	10.7	22.8	15.3
Nonfarm payroll employment	4.7	4.0	4.6	5.2	6.5	5.1	3.8	4.4
Manufacturing	6.9	4.5	6.7	4.4	8.7	6.4	4.2	4.1
Industrial production	14.2	6.3	6.8	7.5	13.9	7.9	6.2	3.0
Housing starts, private	-20.6	21.8	-25.8	35.9	-40.5	-39.4	-62.5	-59.3
Sales new U.S.-made autos	123.3	-35.9	22.3	-12.2	29.7	-62.6	33.8	-16.1