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Content last modified 6/05/2009.

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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

November 20, 1968

SUMMARY AND OUTLOOK

Outlook for economic activity

Most recent indicators suggest a continuing high rate of economic activity in the fourth quarter. The labor market remains tight; production and employment levels have risen and, in view of the high rate of housing starts earlier, residential construction outlays are expected to rise. As a result of recent strengthening of activity and prospects for continued--although less rapid--increases, businessmen have apparently stepped up their plans for plant and equipment expenditures next year.

Nevertheless, some indications of slowing in the rate of expansion have also become apparent. Retail sales have shown little gain since August, and personal income in October rose only half as much as in other recent months.

On balance, expected smaller increases in both consumer expenditures and government spending in the fourth quarter are likely to result in a rise in GNP somewhat less than in the preceding quarter. This would mean some further slackening in growth in real GNP, but at the same time with price pressures continuing strong.

The outlook still appears to suggest a further moderation of expansion in the first half of 1969, assuming no sudden change in the Vietnam situation. Growth in consumer expenditures should be dampened by a slower growth of disposable income as a result of higher social security taxes and retroactive payments on the surtax in the first half of the year. The advance in total outlays by the Federal Government is expected to be very slow; from now until mid-1969, the rise will be largely in transfer payments, grants to States and CCC support operations. Further expansion in residential construction outlays is likely to be constrained by availability of funds.

While there is now some evidence of increasing strength in the capital goods sector--which has shown little expansion in real terms for over a year--there seems little likelihood of a renewed capital goods boom if growth in other sectors of demand soften, the capacity utilization rate remains low, and profits level off or decline as now projected.

Outlook for prices and resource use

At retail, the rise in average consumer prices slowed for the third quarter as a whole, in large part because of a leveling off in food prices; prices of most non-food commodities continued to rise, with especially sharp increases for some major items in September. In October prices of new model autos were boosted.

At wholesale, the price rise for industrial commodities accelerated somewhat further in October. While the auto price increase accounted for the major share of the rise, the diffusion of price increases widened further, reaching nearly as large a proportion as last January and February when industrial prices were showing their peak rate of increase. Since mid-October, the major price development has been an unusually sharp cut in prices of a major steel product, in part to meet import competition.

The rate of rise in the average level of prices in private sectors of the economy--as measured by the GNP deflator exclusive of the Federal pay increase--is expected to rebound somewhat in the fourth quarter, after slowing in the third.

The projected easing of demand pressures should limit the price rise, however, and the further slowing in GNP projected in the first half of 1969, should contribute to a modest decleration in the advance of the GNP deflator.

By early next year a little easing of wage pressures may be anticipated from the demand side of the labor market. Some easing in demand for labor--and a gradual drift-up in the unemployment rate--is expected to accompany any moderation in employment growth associated with the expected slowing of expansion in aggregate demands in the first half of 1969.

Industrial production began to move up again in September, instead of declining somewhat further. The October level was still slightly below the peaks reached at midyear at the climax of the steel hedge-buying boom, and the rate of manufacturing capacity utilization is down somewhat from the rate prevailing from late 1967 through July. Production expansion from here on may lag, slightly, the ongoing expansion in capacity, with the result that the over-all capacity margin will remain ample.

Outlook for credit demands

Credit demands are expected to taper off in the early months of next year, although remaining sizable between now and the end of

1968. Corporate borrowing from banks is likely to be rather large around mid-December, when income tax payments will be about a third more than a year ago. Some tax payments may be made through use of maturing CD's, but the amount of CD's maturing on the tax date appears to be less than a year ago. And with the cost of commercial paper financing only an eighth of a percentage point below the prime rate, corporations do not have any great incentive to use that market for very temporary borrowing. Once the tax period is past, however, the slower growth in the economy anticipated for the first quarter of the next year would tend to hold down business loan demands.

So far as can be discerned from offerings on the docket and underwriters' views as to potential offerings, the prospective volume of corporate and municipal bond issues is likely to moderate from the recent pace. But in both markets, the near-term calendar is heavy, with nearly all of the December volume scheduled in the first half of the month. The December municipal volume could be enlarged further by a surge of industrial revenue bond offerings before the year-end cut-off date, but there are currently reports that some such issues may have to be held off the market because market rates have moved beyond the interest rate ceilings of some States. And in the municipal market in particular, the distribution of new issues is complicated by the large volume of dealer inventories that still overhangs the market.

U.S. Government security dealers have made reasonable progress in distributing the new notes offered in the mid-November refinancing. With respect to the 6-year note, dealers sold out nearly one-third of their holdings by payment date. Total dealer holdings of coupon issues maturing in more than five years--including fairly sizable holdings of the 7-year note issued in the mid-August refunding--would not be described as unusually large, but they are large enough to be a source of market discomfort, particularly so should expectations about bond prices become more bearish.

Apart from the $2 billion tax bill financing announced to be auctioned on November 26, with payment on December 2, the next scheduled Treasury financing would be the mid-February refunding, to be announced at the end of January. It also appears likely that some further new cash will have to be raised during the first quarter, given the relatively low level of the cash balance expected at year-end; there is a possibility that some of this cash might have to be raised in January.

Supply of funds

The inflow of time and savings deposits to banks is expected to be at a diminished rate over the balance of 1968, as banks' flexibility under Regulation Q ceilings has been sharply curtailed. The current level of short-term market rates has recently forced banks to move up to Regulation Q ceiling rates for large negotiable CD's around the 3-month area to keep offerings competitive; even at ceiling rates, banks do not appear to be able to obtain funds in volume. Net inflows of consumer-type time and savings deposits are also expected to be somewhat lower over the remainder of the year than the rapid October pace; the growth surge at city banks that occurred in early October apparently reflected in part one-shot transfers of savings. Given the over-all time deposit outlook, banks may be expected to take a more cautious attitude toward further investments in securities.

This attitude, coupled with heavy near-term credit demands, is likely to lead to upward pressures on longer-term interest rates between now and year end, or at least sustain the rates at recent high levels. The extent of such upward pressures would tend to be moderated if the market still anticipated an easing of credit conditions next year, when Federal credit needs are projected to slacken. They may also be moderated if any rise in short-term interest rates which may develop in the period immediately ahead can be interpreted as no greater than seasonal, or if exchange markets settle down.

The pick-up in net savings flows to the thrift institutions during October and early November suggests that the rate of inflow during the fourth quarter as a whole may somewhat exceed the depressed pace of the preceding few quarters. Although demands for mortgage credit seem likely to continue strong, new mortgage lending commitments may increase only modestly at best, in view of the large backlog of outstanding commitments scheduled for takedown by year end. Lender caution in granting new commitments will undoubtedly be enhanced by the usual uncertainties about the year-end dividend reinvestment period applicable to all outstanding savings accounts. These considerations, together with recent advances in the level of corporate bond yields, suggest no further decline in mortgage yields within either the primary market or the secondary market, and possibly some short-run rise. With a high level of mortgage yields, banks and other lenders not normally active in mortgage markets might show an increased willingness to undertake mortgage lending.

While the interaction of supply and demand forces suggest continued upward over-all market interest rate pressures in the short-run, or at least maintenance of high yield levels, interest rates may be under downward pressure in early 1969 in view of the expected moderation of credit demands. Over the whole period, rates of expansion in time deposits and the money supply may be relatively moderate in view of the projected slower growth in GNP and assuming any interest rate declines that might develop are comparatively limited.

International developments. In the past seven days the French franc-German mark exchange crisis has spread far enough to infect the market for sterling. Whether or not an early resolution of this crisis is achieved, increasing public attention is now likely to be directed at the underlying state of the U.S. balance of payments. A new Administration will soon be reviewing the position in the merchandise trade and private capital accounts, in considering the need for continuation of the controls on capital movements.

It remains probable that the moderate net improvement that has occurred over the past year on balance in the current and private capital accounts--apart from the huge inflows through the Euro-dollar market--will be extended further in coming months. However, part of the September gain in the merchandise trade balance, due to the port strike threat, will have been at the expense of October. Further distortions of the export trend may occur before and after the Taft-Hartley injunction expires.

By the third quarter the balance of private capital movements was probably as favorable as can be achieved. It is unlikely that foreign purchases of U.S. securities will rise further next year beyond recent high levels. Slackening or reversal of U.S. bank credit repayment flows has already set in, and further changes in this sector will not be large, assuming the VFCR is continued. Information on direct investment capital and income flows always lags, but indirect indications suggest a substantial improvement from the second to the third quarter in this sector; if so, here again a further marked improvement next year could hardly be looked for.

Repercussions of the French franc crisis during the third quarter were in general favorable for the U.S. payments and reserve positions. The major impact was through increasing the supply of funds in the Euro-dollar market. Possibly also the temporary--and largely unexplained--improvement in the underlying balance in May, June, and July owed something to movements out of the franc. Since mid-September liquid capital flows in Europe have been going increasingly toward the German mark rather than toward the Euro-dollar, interest rates in the Euro-dollar market have risen considerably, and there has been no net inflow to the United States through U.S. bank branches. There are no strong reasons at present to expect either a large inflow or a large outflow next year.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest Period	Amount: Latest Period	Amount: Preced'g Period	Amount: Year Ago	Per Cent Change: Year Ago*	Per Cent Change: 2 Yrs. Ago*
Civilian labor force (mil.)	Oct'68	78.8	78.8	78.1	0.9	3.4
Unemployment (mil.)	"	2.9	2.9	3.3	-14.5	-0.9
Unemployment (per cent)	"	3.6	3.6	4.3	--	--
Nonfarm employment, payroll (mil.)	"	68.5	68.4	66.3	3.4	5.8
Manufacturing	"	19.8	19.8	19.3	2.6	1.6
Other industrial	"	8.2	8.3	8.1	2.1	2.2
Nonindustrial	"	40.5	40.4	38.9	4.0	8.7
Industrial production (57-59=100)	"	165.0	164.4	157.2	5.0	3.5
Final products	"	165.8	164.9	157.0	5.6	4.5
Materials	"	163.9	164.3	157.7	3.9	2.6
Wholesale prices (57-59=100)1/	"	109.1	109.1	106.1	2.8	2.7
Industrial commodities (FR)	"	e108.9	108.4	105.9	2.8	4.1
Sensitive materials (FR)	"	e107.9	107.4	101.1	6.7	5.2
Farm products, foods & feeds	"	107.4	108.6	104.1	3.2	-1.3
Consumer prices (57-59=100)1/	Sept'68	122.2	121.9	117.1	4.4	7.1
Commodities except food	"	113.9	113.5	110.0	3.5	6.4
Food	"	120.4	120.5	115.9	3.9	4.2
Services	"	136.6	135.5	128.7	6.1	10.6
Hourly earnings, mfg. ($)	Oct'68	3.06	3.04	2.86	7.0	10.9
Weekly earnings, mfg. ($)	"	125.23	124.63	116.13	7.8	10.2
Personal income ($ bil.)2/	"	702.2	699.7	638.0	10.1	16.8
Corporate profits before tax ($ bil.)2/	QIII'68	92.2	91.8	80.8	14.1	6.3
Retail sales, total ($ bil.)	Oct'68	28.8	28.9	26.1	10.3	12.5
Autos (million units)2/	"	9.1	9.0	7.6	20.2	8.3
GAF ($ bil.)	"	7.7	7.5	7.0	9.4	n.a.
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	"	1,548	1,592	1,496	3.5	83.2
Factory workweek (hours)	"	41.0	41.1	40.7	0.7	-0.7
New orders, dur. goods ($ bil.)	Sept'68	28.3	27.2	25.2	12.2	4.4
New orders, nonel. mach. ($ bil.)	"	5.2	4.8	4.4	17.4	18.0
Common stock prices (1941-43=10)	Oct'68	103.76	101.34	95.66	8.5	34.5
Inventories, book val. ($ bil.)	Sept'68	150.4	149.9	141.2	6.5	13.5
Gross national product ($ bil.)2/	QIII'68	871.0	852.9	795.3	9.5	15.6
Real GNP ($ bil., 1958 prices)2/	"	712.3	703.4	675.6	5.4	8.0

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

n.a. Not available. e Estimated.

SELECTED DOMESTIC FINANCIAL DATA

	Week ended Nov. 16	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent) 9/	5.81	5.94	6.42	5.58
U.S. Treas. bills, 3-mo., yield (per cent)	5.42	5.45	5.82	4.96
U.S. Treas. bills, 1-yr., yield (per cent)	5.49	5.44	5.99	5.10
Net free reserves 2/ ($ millions)	-259	-244	21	-551
Member bank borrowings 2/ ($ millions)	675	475	759	335
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	5.62	5.59	6.15	5.45
20-year U.S. Treas. bonds 1/	5.52	5.47	5.65	5.18
Corporate new bond issues, Aaa adj. 8/	6.54	6.55	6.83	6.13
Corporate seasoned bonds, Aaa 1/	6.15	6.15	6.29	5.95
Municipal seasoned bonds, Aaa 1/	4.35	4.27	4.42	3.80
FHA home mortgages, 30-year 3/	--	7.28	7.52	6.94
Common stocks, S&P composite series 4/				
Prices, closing (1941-43=10)	105.78	104.25	105.78	96.63
Dividend yield (per cent)	2.90	2.93	3.13	2.90

	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 5/	Dec. '68 e/	900	1,155	-465	-231
State & local govt. public offerings	Dec. '68 e/	1,200	1,533	- 18	347
Comm. & fin. co. paper (net change in outstandings) 6/	Sept.'68	- 470	+ 489	+126	+466

	Latest month	Out-standings Latest month	Change: Latest month	Change: 3-month average	Annual rate of change from: Preceding month	3 months ago	12 months ago
Banking (S.A.)		($ billions)			(per cent)		
Total reserves 1/	Oct. 30, '68	26.64	0.25	0.24	11.0	11.1	6.0
Credit proxy 1/	"	290.9	3.0	3.3	12.5	14.2	7.4
Bank credit, total 6/	"	379.6	4.8	4.6	15.4	15.0	11.0
Business loans	"	92.7	0.8	0.7	10.4	8.8	9.6
Other loans	"	154.2	2.3	2.2	18.2	17.6	12.7
U.S. Govt. sec.	"	64.2	0.2	0.4	3.8	7.0	3.7
Other securities	"	68.5	1.5	1.4	26.9	25.5	16.9
Total liquid assets 1/ 6/	"	697.0	9.1	6.2	15.9	10.9	8.4
Demand dep. & currency 1/	"	190.3	0.8	0.3	5.1	1.9	5.6
Time & sav. dep., comm. banks 1/	"	199.6	3.0	3.1	18.3	19.3	10.5
Savings, other thrift instit. 6/	"	193.8	0.9	1.3	5.6	8.2	6.2
Other 6/ 7/	"	113.3	4.4	1.5	48.5	16.5	13.6

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 Nov. 13. 3/ Latest figure is monthly average for Sept. 4/ End of week closing prices; yields are for Friday. 5/ Corporate security offerings include both bonds and stocks. 6/ Month-end data. 7/ U.S. savings bonds and U.S. Government securities maturing within 1 year. 8/ Adjusted to Aaa basis. 9/ Federal funds data are 7-day averages for week ending Sunday; latest figure is for week ending Nov. 17. In prior reports, data were 5-day averages for week ending Friday.

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

	1967				1968			
	I	II	III	IV	I	II	III[p]	Oct.[p]
				Seasonally adjusted				
Goods and services, net 1/	1,293	1,269	1,359	848	356	492		
Trade balance 2/	975	1,098	1,085	319	87	9	270	
Exports 2/	7,661	7,703	7,626	7,478	7,924	8,302	8,845	
Imports 2/	-6,686	-6,605	-6,541	-7,159	-7,837	-8,293	-8,575	
Services balance	318	171	274	529	269	483		
Remittances and pensions	-262	-392	-358	-263	-266	-280		
Govt. grants & capital 3/	-1,176	-1,039	-988	-1,008	-1,164	-1,101		
U.S. private capital	-975	-1,104	-1,788	-1,638	-646	-1,230		
Direct investment	-653	-651	-902	-815	-374	-1,034		
Foreign securities	-259	-199	-476	-332	-385	-81	-296	
Banking claims	79	-198	-435	95	364	204	-197	
Other	-141	-56	24	-586	-251	-319		
Foreign capital, nonliq.	865	1,202	766	353	1,365	2,171		
Official foreign accts.	382	724	18	150	331	923		
Long-term deposits	304	584	-215	147	119	160	115	
U.S. Govt. liab.	78	140	233	3	212	763		
Int'l. institutions 4/	70	97	117	30	-92	-19	49	113
Other 5/	413	381	631	173	1,126	1,267		
Errors and omissions	-250	-458	207	-34	-305	-222		
			Balances, with and without seasonal adjustment (- deficit)					
Liquidity balance, S.A.	-505	-522	-802	-1,742	-680[r]	-160[r]	35	
Seasonal component	267	302	-410	-159	428[r]	236[r]	-489	
Balance, N.S.A.	-238	-220	-1,212	-1,901	-252[r]	76[r]	-454	-533
Official settlements balance, S.A.	-1,764	-806	247	-1,082	-552[r]	1,523[r]	439	
Seasonal component	485	101	-272	-314	646[r]	35[r]	-351	
Balance, N.S.A. 6/	-1,279	-705	-25	-1,396	94[r]	1,558[r]	88	
			Reserve changes, N.S.A. (decrease -)					
Total monetary reserves	-1,027	419	375	181	-904	137	571	-207
Gold stock	-51	-15	-92	-1,012	-1,362	-22	74	33
Convertible currencies	-1,007	424	462	1,145	401	-267	474	-250
IMF gold tranche	31	10	5	48	57	426	23	10

1/ Equals "net exports" in the GNP.
2/ Balance of payments basis which differs a little from Census basis.
3/ Net of scheduled and non-scheduled repayments.
4/ Long-term deposits and Agency securities.
5/ Includes some foreign official transactions in securities.
6/ Differs from liquidity balance by counting as receipts (+) increase in liquid liabilities to commercial banks, private nonbanks, and international institutions (except IMF) and by not counting as receipts (+) increases in certain nonliquid liabilities to foreign official institutions.

THE ECONOMIC PICTURE IN DETAIL

The Nonfinancial Scene

Gross national product. The rise in GNP this quarter will probably be slower than in the third quarter, but nevertheless October data on production and employment confirm the view that business activity remains strong. Current dollar GNP is expected to rise at the rate of about $15 billion, $3 billion less than in the third quarter. Consumer expenditures are expected to rise at a much slower rate than last quarter, largely as a result of a leveling-off of purchases of durable goods. Small increases in Government spending and in business fixed investment will contribute most of the remaining growth in GNP this quarter. One major imponderable, as usual, is the extent of inventory build-up. We have projected a larger build-up than last quarter--outside of steel--because of high levels of current production, generally favorable business expectations, and a slackening increase in final sales. The rate of growth in real GNP is expected to fall from 5 per cent to about 3.5 per cent.

Gains in current dollar GNP are expected to slow moderately further in the first half of 1969, if Federal government purchases of goods and services continue to be held in sharp check, and there is little expansion in the supply of mortgage funds for residential construction. The more moderate growth in final demand projected for the first half of next year reflects mainly smaller rates of increase in consumer expenditures, residential construction, and State and local government outlays. For the first half, the rate of real growth as indicated by the deflated GNP is likely to average about 2.5 per cent.

Moderate easing in price-wage pressures may reasonably be expected to develop as demands on resources are reduced somewhat. The annual rate of increase in the GNP deflator is expected to dip to about 3 per cent in the first half of 1969 from an estimated 3.5 per cent at present. This appraisal of first half developments rests on the assumption that the international situation and Budget prospects do not alter substantially.

This longer-term outlook is generally consistent with our projections incorporated in the Chart Show of October 29, since no data have become available since then which appear to alter the outlook appreciably. A minor exception is the McGraw-Hill survey of business intentions to invest in plant and equipment in 1969, which indicates a moderately stronger outlook for capital spending than we had anticipated.

The fourth quarter slowdown rests heavily on the assumption that the surge in consumer buying which occurred last quarter has subsided. October data indicate that retail sales were no higher than in August. Although unit domestic auto sales increased in October to slightly above the 9 million rate of last quarter (early November auto sales showed some easing), furniture and appliance sales have declined moderately in the last two months. Nondurable goods sales account for all the rise projected in expenditures for consumer goods in the fourth quarter. Expenditures for services, of course, continue to expand rapidly.

Although the rise in personal income in the current quarter should be less than in the third (October data show a significantly smaller increase), the major impact of the surcharge is over. Income-after-taxes thus is resuming a faster rate of increase--although at a pace likely to be sharply below that of the first half of the year. It now seems likely that the growth in consumer expenditures this quarter will more or less parallel the rise in disposable income, so that personal saving will not vary appreciably from the sharply reduced third quarter rate of 6.3 per cent.

The impact of the surcharge has thus far appeared small because of the willingness of consumers and business to reduce their rates of saving. For consumers, however, no comparable reduction in saving can be expected next year, although, as we have suggested, there may be a further edging down. Thus, with the rise in income already moderating, growth in consumer expenditures in the first half of 1969 seems likely to slow substantially further.

Residential construction expenditures are expected to rise somewhat this quarter as a result of an increase in the volume of housing starts in the third quarter to a rate of 1.55 million. Demographic factors and an accumulated deficiency of housing suggest that the rate of starts will remain as high as available financing sources permit. However, inflows into mortgage institutions have not improved, and this development will probably limit further advances in the volume of starts. Thus, little further expansion is anticipated in the dollar value of residential construction activity in next year's first half.

Business investment in plant and equipment this quarter is projected to rise somewhat faster than was indicated by the August Commerce-SEC intentions survey, partly because of the recent rise in both machinery orders and in the output of machinery.

Despite the relatively large increase in business inventories in the second and third quarters, inventory-sales ratios at the end of September were relatively low even though durable goods inventories were inflated by excessive steel stocks. The ratio for both durables and nondurables was somewhat below that prevailing last year, although the durables ratio was still well above that in 1966. Thus, with the current optimism about sales prospects and continued strong price movements, it seems reasonable to expect a large accumulation in this quarter. Steel stocks are projected to drop by over $2 billion in the quarter, which implies an expansion in other sectors at an annual rate of about $10 billion.

Growth in Federal expenditures for goods and services are expected to slow further this quarter, and for the remainder of the fiscal year. The major exception is CCC purchases of farm commodities, which began to rise last quarter, and may well amount to over one billion dollars at an annual rate this quarter and next, but should then shrink sharply. Defense spending is expected to expand moderately further through the first quarter, and then to level off, the year's average being somewhat above that shown in the Midyear Budget Review. The total rise in Federal expenditures (NIA basis) over the fiscal year (measured from the second quarter 1968 to the second quarter 1969) is expected to be less than half the increase occurring in each of the preceding two years.

The Federal deficit is expected to dip from a rate of $9.5 billion in the first half of calendar 1968 to about $3.5 billion in the second half, followed by a surplus in the second quarter of next year. Corporate profits have performed better than expected, so that profits taxes are exceeding estimates, and collections on individual income taxes are also running high. Nevertheless, extra payments owing to the surtax are estimated to average $3 billion at an annual rate in each of the first two quarters of 1969, further slowing the rise in the after-tax income of consumers.

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)

	1967	1968 Proj.	1968 I	1968 II	1968 III	Projected 1968 IV	Projected 1969 I	Projected 1969 II
Gross National Product	789.7	860.3	831.2	852.9	871.0	886.0	898.0	911.0
Final sales	783.6	853.1	829.1	842.1	863.5	877.8	891.3	903.3
Private	605.2	656.1	638.6	646.4	663.9	675.3	685.3	695.8
Personal consumption expenditures	492.2	534.5	519.4	527.9	541.1	549.7	558.0	565.5
Durable goods	72.6	82.6	79.0	81.0	85.1	85.3	85.0	84.0
Nondurable goods	215.8	231.0	226.5	228.2	232.7	236.4	240.7	245.2
Services	203.8	221.0	213.9	218.7	223.4	228.0	232.3	236.3
Gross private domestic investment	114.3	126.2	119.7	127.3	127.1	130.5	130.7	134.0
Residential construction	24.6	29.8	29.1	29.5	29.5	31.2	31.4	31.7
Business fixed investment	83.6	89.3	88.6	87.0	90.1	91.1	92.6	94.6
Change in business inventories	6.1	7.2	2.1	10.8	7.5	8.2	6.7	7.7
Nonfarm	5.6	6.8	1.6	10.4	7.3	7.7	6.7	8.2
Net Exports	4.8	2.5	1.5	2.0	3.3	3.3	3.3	4.0
Gov't. purchases of goods & services	178.4	197.1	190.5	195.7	199.6	202.5	206.0	207.5
Federal	90.6	100.1	97.1	100.0	101.2	101.9	103.3	102.8
Defense	72.4	78.8	76.8	79.0	79.6	79.9	80.8	80.8
Other	18.2	21.2	20.3	21.0	21.5	22.0	22.5	22.0
State & local	87.8	97.0	93.4	95.6	98.4	100.6	102.7	104.7
Gross national product in constant (1958) dollars	673.1	706.7	692.7	703.4	712.3	718.3	722.0	727.0
GNP implicit deflator (1958=100)	117.3	121.7	120.0	121.2	122.3	123.4	124.4	125.3
Personal income	628.8	685.7	662.7	678.1	694.3	707.8	717.5	728.8
Wages and salaries	423.4	463.5	448.3	457.6	469.0	478.9	487.0	495.7
Disposable income	546.3	589.0	574.4	586.3	592.7	602.5	607.5	614.8
Personal saving	40.2	40.0	40.8	44.0	37.1	38.1	34.6	34.2
Saving rate (per cent)	7.4	6.8	7.1	7.5	6.3	6.3	5.7	5.6
Corporate profits before tax	81.6	91.3	88.9	91.8	92.2	92.2	89.0	88.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	151.2	176.5	166.6	171.8	181.9	185.6	191.8	195.1
Expenditures	163.6	182.4	175.1	181.9	184.9	187.6	190.2	190.5
Surplus or deficit (-)	-12.4	-5.9	-8.6	-10.2	-3.0	-2.0	1.6	4.6
Total labor force (millions)	80.8	82.3	81.9	82.2	82.4	82.8	83.1	83.4
Armed forces "	3.4	3.6	3.5	3.5	3.6	3.6	3.6	3.6
Civilian labor force "	77.3	78.8	78.4	78.7	78.8	79.2	79.5	79.8
Unemployment rate (per cent)	3.8	3.6	3.6	3.6	3.6	3.7	3.9	4.1
Nonfarm payroll employment (millions)	66.0	68.1	67.4	67.8	68.3	68.7	69.0	69.2
Manufacturing	19.4	19.7	19.6	19.7	19.8	19.8	19.8	19.7
Industrial production (1957-59=100)	158.1	164.1	162.1	164.0	164.6	165.8	166.6	168.3
Capacity utilization, manufacturing (per cent)	85.3	84.1	84.9	84.8	83.6	83.2	82.5	82.3
Housing starts, private (millions A.R.)	1.29	1.50	1.50	1.44	1.55	1.52	1.55	1.61
Sales new domestic autos (millions, A.R.)	7.57	8.60	8.19	8.44	9.01	8.75	8.75	8.50

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967	1968 Proj.	1968 I	1968 II	1968 III	1968 IV	1969 Projected I	1969 Projected II
	-In billions of dollars-							
Gross National Product	42.1	70.6	20.2	21.7	18.1	15.0	12.0	13.0
Final sales	50.8	69.5	26.4	13.0	21.4	14.3	13.5	12.0
Private	28.6	50.9	19.4	7.8	17.5	11.4	10.0	10.5
GNP in constant (1958) dollars	16.0	33.6	10.9	10.7	8.9	6.0	3.7	5.0
Final sales	24.0	32.9	16.9	2.8	12.0	5.3	5.0	4.3
Private	9.8	24.5	12.4	0.1	11.1	4.7	3.7	4.5
	-In Per Cent Per Year-							
Gross National Product	5.6	8.9	10.0	10.4	8.5	6.9	5.4	5.8
Final sales	6.9	8.9	13.2	6.3	10.2	6.6	6.1	5.4
Private	5.0	8.4	12.5	4.9	10.8	6.9	5.9	6.1
Personal consumption expenditures	5.7	8.6	13.7	6.5	10.0	6.4	6.0	5.4
Durable goods	3.0	13.8	25.9	10.1	20.2	0.9	-1.4	-4.7
Nondurable goods	4.4	7.0	14.8	3.0	7.9	6.4	7.3	7.5
Services	8.2	8.4	8.2	9.0	8.6	8.2	7.5	6.9
Gross private domestic investment	-5.4	10.4	-6.9	25.4	-0.6	10.7	0.6	10.1
Residential construction	-0.8	21.1	8.4	5.5	0.0	23.0	2.6	3.8
Business fixed investment	2.8	6.7	16.9	-7.2	14.3	4.4	6.6	8.6
Gov't. purchases of goods & services	14.2	10.5	15.3	10.9	8.0	5.8	6.9	2.9
Federal	17.1	10.5	15.4	11.9	4.8	2.8	5.5	-1.9
Defense	19.5	8.8	11.8	11.5	3.0	1.5	4.5	0.0
Other	8.3	16.5	27.4	13.8	9.5	9.3	9.1	-8.9
State & local	11.4	10.5	15.1	9.4	11.7	8.9	8.3	7.8
GNP in constant (1958) dollars	2.4	5.0	6.4	6.2	5.0	3.4	2.1	2.8
Final sales	3.7	4.9	10.0	1.6	6.9	3.0	2.8	2.4
Private	1.9	4.7	9.3	0.1	8.2	3.4	2.6	3.2
GNP implicit deflator	3.1	3.8	3.5	4.2	3.4*	3.5	3.3	3.0
Personal income	7.2	9.0	10.8	9.3	9.6	7.8	5.5	6.3
Wages and salaries	7.3	9.4	10.9	8.3	10.0	8.4	6.8	7.1
Disposable income	6.8	7.8	10.6	8.3	4.4	6.6	3.3	4.9
Corporate profits before tax	-4.7	11.9	16.4	13.0	1.7	0.0	-13.9	-2.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	5.7	16.7	26.1	12.5	23.5	8.1	13.4	6.9
Expenditures	14.9	11.5	15.4	15.5	6.6	5.8	5.5	0.6
Nonfarm payroll employment	3.1	3.2	4.2	2.4	2.9	2.3	1.7	1.2
Manufacturing	1.0	1.5	2.0	2.0	2.0	0.0	0.0	-2.0
Industrial production	1.2	3.8	6.5	4.7	1.5	2.9	1.9	4.1
Housing starts, private	10.9	16.3	15.5	-16.3	29.7	-6.2	7.1	16.0
Sales new domestic autos	-9.7	13.6	40.6	12.0	27.3	-11.7	0.0	-11.4

* Excluding Federal pay increase, 2.8 per cent.

Industrial production. Industrial production increased further in October to 165.0 per cent of the 1957-59 average from the revised September level of 164.4. The index for September was revised upwards by one percentage point as a result of revisions in the BLS production worker manhour figures and in physical output data for selected industries, especially paper and products. Output gains were widespread in October among final products and materials, but total production was held down by strikes in the coal industry early in the month which represented a downdrag of .4 of a point in the total index.

Auto assemblies recovered from the slight dip in September and were at an annual rate of 9.2 million units. November and December production schedules are presently set at the October rate. Output of household appliances rose sharply in September (the latest month for which data are available) and production of television sets increased further in October. Output of most other home goods was maintained at advanced levels and production of consumer staples continued to rise.

The revised employment data for September and the preliminary October data indicate some strengthening in output of business equipment, as shown in the table. All lines except commercial equipment have shared in the September and October gains. Production of defense equipment, however, has declined 2.3 per cent from the August peak.

BUSINESS EQUIPMENT
(1957-59 = 100, seasonally adjusted)

1966 December 1/	1967 September 2/	1968 August	1968 September	1968 October
188.9	179.8	181.9	183.2	184.7

1/ Previous high.
2/ The recent low point, except for the strike-reduced level of October 1967.

Output of iron and steel rose about 3.5 per cent in October, and in early November production of raw steel continued to increase. Output of most other industrial materials also rose in October.

If the trends in industrial production which developed in September and October continue, the total index in November could rise by one percentage point or more, including the effect of ending the coal strike. The edging off of total retail sales in recent months and the drop in unit sales of new domestic autos in early November will probably not dampen production this month.

Capacity utilization. The October rate of manufacturing capacity utilization was estimated to be 83.3 per cent, slightly above the upward-revised 83.1 per cent for September. At its present level, the operating rate is still 1.5 points below its second quarter average, but almost all of this decline is accounted for by reduced steel production.

Since the middle of 1967, estimated growth rates of manufacturing output and capacity have been very evenly balanced and the operating rate has fluctuated narrowly within an 83 to 85 per cent range. Most of the movements that have occurred in the series can be largely explained by strikes or threats of strikes.

Utilization rates remain high in the motor vehicle, rubber, petroleum and aircraft industries. Unused capacity exists for the production of most other manufacturing products.

UTILIZATION RATES
(Per cent)

Industry	1967 QIII	1967 QIV	1968 QI	1968 QII	1968 QIII	1968 Sept.	1968 Oct.(e)
Manufacturing	84.3	84.7	84.9	84.8	83.6	83.1	83.3
Primary processing industries	83.0	85.3	85.5	86.4	84.1	82.9	83.4
Advanced processing industries	85.2	84.3	84.4	83.6	83.3	83.2	83.3

Retail sales. Dollar retail sales declined about 0.5 per cent in October, according to advance estimates, continuing the pattern of waning vigor evident since mid-summer. The slight October decline was almost entirely attributable to a reported 8 per cent reduction in the automotive group. The large dip in dollar sales of auto dealers is perplexing since unit sales of new domestic cars--partly in response to very large fleet sales--rose to a 9.1 million rate in October from 9.0 million the month before.[1/] Durable goods excluding autos were up 1.2 per cent in October, and nondurables increased 1.4 per cent.

Total retail sales in October were up 10 per cent from a year earlier, but sales in October last year were relatively low because of a Ford strike.

1/ Unit sales data are used in part in estimating GNP consumption expenditures.

DOLLAR RETAIL SALES AND UNIT AUTO SALES
(Per cent change, seasonally adjusted)

	1968				
	June	July	August	September	October
	Change from previous month				
Total retail sales	1.3	1.1	0.8	-0.3	-0.5
Total, excluding automotive	0.7	1.4	0.4	-1.3	1.4
Durables	2.3	1.2	1.8	1.8	-4.4
Durables, excluding automotive	0.1	3.1	0.8	-1.0	1.2
Automotive	3.8	-0.1	2.5	3.6	-7.9
Nondurables	0.8	1.1	0.3	-1.4	1.4
	Millions of cars				
Addendum:					
Level of unit sales of new domestic autos, at annual rates	8.8	9.1	8.9	9.0	9.1

Unit sales and stocks of autos. Sales of new domestic autos declined in the first 10 days of November (including election day) and were at an estimated seasonally adjusted annual rate of about 8 million units, compared with 9.1 million for the month of October. Industry projections for November sales were at a seasonally adjusted annual rate of close to 9 million units. To reach this goal sales will have to increase sharply over the balance of the month.

Auto production was at a seasonally adjusted annual rate of 9.3 million units in early November, the scheduled rate set for both

November and December. Stocks of new domestic autos increased about seasonally but represented a 54 days supply as compared to 50 days at the end of October.

Consumer credit. The resurgence of consumer instalment borrowing underway since early 1967 has been accelerating--by the third quarter of this year it was adding to consumers funds available for purchase at an annual rate of close to $9 billion (seasonally adjusted). The largest proportion of the increase, as with the decline that preceded it, was in the auto sector, but extensions also ran high in the major loan categories "other consumer goods" and personal loans.

Despite the rapid increase in the amount of auto credit outstanding and in auto credit extensions, consumers have not been using credit more intensively to finance auto purchases; in fact, credit usage actually has been decreasing in relation to sales. In 1965 extensions of automobile credit amounted to almost 50 per cent of dollar auto sales. In 1967 this proportion had declined to 47-1/2 per cent. It increased early this year but has dropped again in the last two quarters.

On the other hand, consumers have been increasing their credit usage for nonauto purchases: the proportion of instalment credit extensions for "other consumer goods" rose somewhat in relation to GAF sales. In 1965 this proportion was 33 per cent; it has averaged above this level throughout 1967 and 1968. In relation to disposable income, the use of instalment credit dipped. Instalment borrowing amounted to 16 per cent of disposable income in 1965, but declined in both 1966 and 1967. However, this measure rose again in 1968 and by the third quarter was close to the 1965 level.

Consumer buying expectations. The Census October survey suggests that household demand for durables will probably continue at a high level, despite the fact that both actual and expected income changes were less favorable than in July. The index of expected new car purchases rose to 106.4 from 102.2 a year earlier, and the index of plans to purchase household durables, at 101.5, was up sharply from 99.4 last October. These are larger over-the-year increases than were reported in the July survey, probably owing in part to some decrease in optimism between July and October last year when unemployment was rising. The index of plans to purchase used cars, on the other hand, remained unchanged from a year earlier.

The indexes of purchase plans for household durables showed little change between the July and October surveys. It is difficult to interpret this stability, however, since these quarterly surveys are subject to an unknown amount of seasonality.

The index plans to purchase houses, however, is off so sharply from July that the decline cannot be explained by seasonal factors alone. While there was a rise in October from a year ago, it is attributable to an increase in the expected purchase price of homes and a larger number of households. The mean probability of purchasing a house within 6 months or 12 months actually declined slightly over the year.

INDEXES OF EXPECTED NEW AND USED CAR PURCHASES
AND EXPECTED EXPENDITURES ON HOUSES AND HOUSEHOLD DURABLES
(Average of January and April 1967 = 100)

Date of Survey	New cars	Used cars	Houses	Household durables
July 1967	104.7	101.0	106.6	100.9
July 1968	106.4	102.0	117.9	101.7
October 1967	102.2	101.6	102.5	99.4
October 1968	106.4	101.6	106.4	101.5

Fewer households reported in the October survey that their income was higher, and more households reported that their income had stayed about the same; 38.0 per cent reported that family income was higher, compared with 40.3 per cent in July. This was still well above any quarter of 1967, and the shift was to the number reporting "about the same" income rather than "lower". The mean probability of a substantial increase in family income declined to 16.7 from 18.4 in July--a level slightly above a year ago.

Inventories. The book value of retail inventories rose by $400 million in September, seasonally adjusted--$100 million in durables and $300 million in nondurables. The nondurable increase was the largest monthly change for that group reported this year. The book value of wholesale inventories declined over $100 million, mainly in the durable sector.

For the quarter as a whole, trade inventories rose by about $2.2 billion at an annual rate, substantially below the $6.2 billion increase in the second quarter. The accumulation of manufacturing inventories was also below the high second quarter rate, and nonfarm inventory accumulation as a whole (GNP basis), at $7.3 billion, was off $3 billion from the second quarter rate.

The outlook is for a relatively high rate of accumulation of total nonfarm inventories in the fourth quarter. Dealers' stocks of new domestic autos increased sharply in October and auto production continued to outrun sales in early November, suggesting a further accumulation of these stocks for the quarter as a whole. Inventory-sales ratios in September were below 1967 average levels for both durables and nondurables, and with continuing strong upward price movements and a still generally optimistic business outlook; rates of accumulation higher than in the third quarter are anticipated in most sectors except the steel-using sector, where excess steel stocks should be absorbed at a $2 to $3 billion rate.

The table below shows changes during each of the first three quarters of 1968 (expressed as annual rates) in the book value of manufacturing and trade inventories and in unit stocks of steel mill shapes. The manufacturing series are especially regrouped to show the effects of this year's unusual fluctuations in steel stocks on the book values.

MANUFACTURING AND TRADE INVENTORIES
(Quarterly changes at seasonally adjusted annual rates)

	1968		
	QI	QII	QIII
	Billions of dollars		
Change in total book value	5.5	13.5	7.4
Manufacturing	3.8	7.3	5.2
Metal producers' products	0.4	-1.0	-0.2
Metal users' materials	0.9	2.4	-0.2
Durable products except primary metals, finished & in-process	1.7	2.9	2.9
Durable materials except metal users'	0.1	0.2	0.5
Total nondurable manufacturers	0.7	2.7	2.3
Retail trade	1.8	4.3	2.3
Durable	1.3	2.9	.7
Nondurable	.6	1.4	1.6
Wholesale trade	-.1	1.9	- .1
Durable	-.1	1.1	1.1
Nondurable	-.1	.9	-1.2
	Millions of tons		
Change in inventories of steel mill shapes:			
Producing mills	0.4	-12.4	-5.6
Users (manufacturers)	5.6	10.4	1.2

Construction and real estate. Seasonally adjusted new construction put in place, which had been revised upward to a new high in September, rose further in October. More than half the year-to-year increase was associated with higher costs. Outlays for private residential construction increased appreciably further in October, reflecting in large part the accelerated rate of housing starts during the third quarter. While private nonresidential construction expenditures have apparently leveled off in recent months, the uptrend for public construction has continued.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	October 1968 ($ billions) 1/	Per cent change from	
		September 1968	October 1967
Total	86.8	+2	+10
Private	57.8	+2	+ 8
Residential	30.2	+4	+14
Nonresidential	27.6	--	+ 2
Public	29.0	+1	+13

1/ Seasonally adjusted annual rates; preliminary. Data for the most recent month (October) are confidential Census Bureau extrapolations. In no case should public reference be made to them.

While seasonally adjusted private housing starts declined as expected in October, the decline was relatively minor and to a rate little changed from the advanced third quarter average. Moreover, the decline in October was limited to multifamily units and was mainly in the Northeast states where starts had been exceptionally high in September.

Seasonally adjusted building permits also declined in October from an advanced September rate. But, unlike starts, the decline was largely in single-family units and, though relatively slight, involved all regions except the Northeast states where there was a moderate upturn. Even if, as seems likely on technical grounds, starts decline further in November, demand pressures and other indications continue to point to the possibility that the average for the quarter as a whole will remain fairly near the advanced third quarter level.

PRIVATE HOUSING STARTS AND PERMITS

	October 1968 (Thousands of units)[1/]	Per cent change from	
		September 1968	October 1967
Starts	1,548	- 3	+ 3
1-family	948	--	+ 4
2-or-more family	600	- 7	+ 3
Northeast	211	-27	-18
North Central	398	+12	- 2
South	624	+ 2	+12
West	315	- 6	+15
Permits	1,357	- 3	+10
1-family	676	- 4	- 2
2-or-more family	681	- 1	+21

1/ Seasonally adjusted annual rates; preliminary.

Underscoring the pressure of demands this year, vacancy rates have remained unusually low. (Confidential until release this Friday.) In fact, the third quarter rental vacancy rates averaged only 5.4 per cent of all rental units available and fit for use--the lowest this year and the lowest for any third quarter since 1957. While all regions but the North Central states shared in the third quarter decline, the drop in the West was particularly sharp.

RENTAL VACANCY RATES
(Per cent)

	Average for third quarter of:					
	1957	1964	1965	1966	1967	1968 1/
All regions	5.2	7.7	7.2	6.8	6.4	5.4
Northeast	3.3	5.0	4.6	4.9	4.3	3.4
North Central	5.4	7.2	6.4	5.8	5.6	5.4
South	6.0	8.2	7.9	7.1	7.8	6.8
West	7.1	11.5	10.8	10.2	8.1	6.2

1/ Confidential until November 22.

Home-owner vacancy rates changed little in the third quarter--at an average of 1.1 per cent. This compared with an average of 1.0 per cent in the first half of the year and with a third quarter high of 1.6 per cent in 1963. With speculative builders either unable or unwilling to build ahead of the market, inventories of new homes for sale also apparently have remained comparatively low. In September--the latest month for which data are available--such inventories in all stages of construction totaled almost 200,000 units and were little changed from the level in other recent months.

In the market for existing homes, unit-sales in September averaged 16 per cent above a year earlier, according to the National Association of Real Estate Boards. The relatively low inventory of homes available for sale has been a limiting factor on transactions in some cases. However, in September, prices of homes involved in transactions continued to show the same year-to-year increase--5 per cent--as in most other months this year.

Business capital spending plans. U.S. businesses plan to increase outlays for new plants and equipment in 1969 by 7.6 per cent from this year's level, according to the recently-released results of the McGraw-Hill fall survey. The percentage increase now indicated for next year is larger than the gains indicated by Commerce-SEC in 1967 and 1968, but it is substantially smaller than the very large gains in 1964, 1965, and 1966. (See table.) In real terms, the increase fixed capital spending in 1969 is expected to be small, around 2.5 per cent, if prices of new plants and equipment rise by the 5 per cent now anticipated by businesses. In both 1967 and 1968, real fixed investment declined slightly.

BUSINESS FIXED CAPITAL SPENDING
(Per cent change from preceding year)

	Total		Manufacturing		Other	
	Commerce S.E.C. Final	McGraw-Hill Fall Survey	Commerce S.E.C. Final	McGraw-Hill Fall Survey	Commerce S.E.C. Final	McGraw-Hill Fall Survey
1963	5.1	2.7	6.9	1.3	4.0	3.5
1964	14.5	4.2	18.4	8.3	11.9	1.4
1965	15.7	4.9	20.8	7.9	12.1	2.8
1966	16.7	7.8	20.2	8.5	14.0	7.2
1967	1.7	4.9	-1.1	5.5	4.0	4.3
1968	4.4*	4.9	- .5*	3.1	8.1*	6.3
1969		7.6		10.7		5.4

* August 1968 Commerce-S.E.C. Survey.

Manufacturing industries, with forty per cent of this year's indicated total capital spending, account for nearly sixty per cent of the total increase in outlays now planned for 1969. Manufacturers' spending is expected to rise by 10.7 per cent with fairly large increases by all major industry groupings except petroleum and coal products, fabricated metals and instruments, and iron and steel.

The increase in fixed capital spending now planned by manufacturers comes at a time when their capacity utilization rate was the lowest in five years (83.6 per cent in the third quarter) and about 7 percentage points below the very high rate prevailing throughout 1966. According to the McGraw-Hill survey, manufacturers as a group anticipate a 6 per cent rise in the physical volume of their sales next year. The rise in plant and equipment spending also may reflect efforts to reduce unit output costs by modernizing productive facilities since wages are continuing to increase more rapidly than costs of equipment.

Nonmanufacturing industries now plan to increase capital spending in 1969 by 5.4 per cent. Mining and railroads anticipate declines from this year, and the other major industries except airlines (+13 per cent) are planning smaller gains than most manufacturing industries.

The McGraw-Hill fall surveys have generally indicated the right direction of change in business fixed capital spending. However, during periods of rapid economic expansion they have tended to understate the degree of increase, and in years of contraction they have tended to understate the degree of decline.

Of the companies cooperating in the survey, 57 per cent (55 per cent of the manufacturing companies) reported their 1969 plans did not take into account an expiration of the tax surcharge on corporate and personal income taxes as scheduled on June 30, 1969. Presumably the 43 per cent (45 per cent in manufacturing) would reconsider their plans if the tax surcharge is extended.

Marriages. There has been a sharp upsurge in both the number and rate of marriages this year. Several factors have been responsible for this acceleration, but foremost has been the larger numbers of persons reaching marriageable age. Sharply rising incomes and the prospect of a further reduction in draft calls also may have been contributing factors.

Data for the first eight months show an 8-1/2 per cent rise in marriages from the comparable period of 1967. This was a sharp upsurge from the 3.9 per cent average annual rate during the previous five years. A continuation of the current rate for the remainder of 1968 would suggest a total of 2,075,000 marriages for the year as a whole--the largest number since the 1946 peak of 2,291,000.

MARRIAGES

	Number (000's)	Per cent change from previous year
Annual averages		
1948-52	1,638	--
1953-57	1,534	--
1958-62	1,519	--
Annually		
1962	1,577	--
1963	1,654	4.9
1964	1,725	4.3
1965	1,800	4.3
1966	1,844	2.4
1967	1,913	3.7
1968 - projected	2,075	8.5

The age composition of the population has been the major factor in the recent increase. One million more young persons reached age 21 this year than last--those born in 1947, the first year of the postwar baby boom; they graduated from college in larger numbers than ever before; and the tight job market and sharply rising wages and salaries offer a strong economic base for marriage.

The stepped-up rate of increase in the number of young married couples will be reflected in a rise in household formation, and some increase is already evident over the past year. Net new household formation rose by 1.6 million from March 1967 to March 1968, about double the recent annual increase--with half the rise in husband-wife households. Year-to-year comparisons of these data are not very reliable but a yearly rise well above the 840,000 average annual increase from 1962 to 1967 can certainly be anticipated over the next few years and it could be as high as the 1967-68 rise. Such a step-up in net new household formation should bring substantial additional pressure for housing and related durable household goods.

Personal income. Preliminary estimates of personal income for October indicate a rise of $2.5 billion at annual rates, down by more than half from the September increase of $5.6 billion. According to these estimates, wage and salary payments rose only $1.4 billion in October, after a September spurt of $4.1 billion and an average monthly increase of $3.7 billion from January through September.

The preliminary October figures--which are subject to revision--appear to be somewhat out of line with developments as indicated by other comparable economic data. The small rise in income came after a large increase in September. Such month-to-month variations have not been too unusual. If data for the two months are averaged, as in the table, the comparison with other recent two-month periods suggests a more modest and reasonable easing in the rate of income growth.

PERSONAL INCOME AND WAGE AND SALARY PAYMENTS
Per cent change from preceding two-month average

	May-June	July-August	Sept.-Oct.
Personal income	1.4	1.6	1.3
Wage and salary disbursements	1.6	1.6	1.4

Labor market. Labor demands picked up somewhat last month and the labor market entered the seasonally active holiday period of late-November and December on a much firmer basis than had been anticipated earlier. Unemployment has averaged 3.6 per cent in recent months (including October) and is expected to continue at close to this low rate for the remainder of the year. Claims filed for unemployment benefits in mid-November were well below year-ago levels and the rate of insured unemployed as a proportion of covered workers was about as low as at any time since the end of World War II.

Employment and labor force. Nonfarm payroll employment adjusted for strike activity rose by 175,000 in October--a faster pace than in other recent months. Renewed strength in manufacturing, where employment had shown no growth from June through September, was a significant factor in the October advance. The manufacturing increase occurred largely in durables, specifically transportation equipment--reflecting strong auto demand--and fabricated metal products.

NONFARM PAYROLL EMPLOYMENT*
(Seasonally adjusted, in thousands)

	Change from Preceding Month			
	July	August	September	October
Total	108	125	45	174
Manufacturing	- 6	-35	17	48
Nonmanufacturing	114	160	28	126

* Adjusted for major strikes.

Sizable employment gains also occurred in trade, State and local government (about 50,000 each), and finance and services. Federal employment continued to decline and in October was 94,000 below its June peak.

Labor force growth continued to slow down in October. At 78.8 million, seasonally adjusted, the civilian labor force was unchanged from September and about 750,000 over October 1967--only about half of the expected "normal" increase. The abrupt slowdown in growth has been largely among adult men and women, with teenagers showing about the expected growth. This kind of slowdown is particularly unusual for adult men, whose work force participation is generally high and firm.

CHANGE IN THE CIVILIAN LABOR FORCE
FROM A YEAR EARLIER
(In thousands)

	1968				
	June	July	Aug.	Sept.	Oct.
Total	1,804	1,490	1,092	1,024	732
Men, aged 20 and over	614	501	407	339	187
Women, aged 20 and over	1,067	864	590	528	433
Teenagers	123	125	95	157	112

Early in 1967, the overall labor force actually declined between January and May, then rebounded sharply when activity picked up in the summer and fall. This year's slowdown does not appear to be linked to any perceptible changes in economic activity and may prove to be a statistical aberration. If so, the household survey data probably is understating both unemployment and employment; a comparison with payroll employment data suggests that this may be the case with respect to employment.

Hours and earnings. Average hours remained very high in manufacturing, as they have through most of this year. Both overtime and average weekly hours were 0.3 hour above the October 1967 level, with the largest year-to-year increases in industries showing large employment gains--namely, fabricated metals and transportation equipment. Outside manufacturing, however, most industries reported a lower workweek this month. Weekly hours in private nonfarm establishments were down 0.2 hour, as average hours fell in construction, trade, and mining.

Hourly earnings for private nonfarm workers rose to $2.92 in October, an increase of 7.4 per cent over the year. Wage gains have continued large in all industries, and even have shown a tendency to increase over the course of the year. The gains are evident in union and nonunion and high and low-wage industries. In the nonmanufacturing industries, a tight labor market has increased competition for workers forcing wage rates up, while the February increase in minimum wages put a much higher floor under entry-level wage rates.

The rapid pick up in manufacturing wages has been the result of a very heavy period of collective bargaining this year. Since new contracts have emphasized very large first-year wage increases, hourly earnings are showing unusually sizable over-the-year gains. Because most major contract negotiations in this important bargaining round are now completed, pressure on wages from first-year wage increases (which have averaged about 7-1/2 per cent) will diminish, while second and third year contract increases (which are expected to average 4-1/2 per cent) will take on added weight.

AVERAGE HOURLY EARNINGS OF PRODUCTION OF NONSUPERVISORY WORKERS
(Per cent Change from a Year Earlier)

	1968		
	January	June	October
Total private	5.3	6.7	7.4
Manufacturing	5.8	6.4	7.0

<u>Wage developments</u>. With the October 14 settlement of the coal industry contract, a major round of collective bargaining activity came to an end. Although contracts covering an estimated 400,000 employees--including over 50,000 East and Gulf-coast longshoremen who are working under a Taft-Hartley injunction until late December--are up for renegotiation in the remainder of the year, the peak bargaining period for 1968 was reached in the third quarter when contracts covering 1.4 million workers were negotiated. Some 3.4 million workers were covered by contract negotiations in the first nine months of 1968, the largest number covered in a comparable period since 1960.

MAJOR COLLECTIVE BARGAINING SETTLEMENTS
Annual Rate of Increase (Per cent)

	Settlements Concluded During:			
	Full Year			First 9 Months
	1965	1966	1967	1968
Wages and benefits 1/	3.3	4.1	5.2	6.0
Wages only:				
First-year adjustment	3.8	4.8	5.6	7.5
Changes over life of contract	3.3	3.9	5.0	5.6

1/ Equal timing.

Third quarter collective bargaining settlements continued the pattern established in the first half of the year. In terms of the annual cost of the wage and fringe package, the settlements continued the pattern of 6 to 6-1/2 per cent average annual increases established in earlier settlements this year. Also continued was the high median first-year increase for wages alone--7-1/2 per cent. However, wage changes in the second and third years of these contracts have tended to be in the neighborhood of 4-1/2 per cent, about the same as second and third year wage increases negotiated in 1967 contracts.

Although the number of workers covered by reopening of contracts on wages is relatively small in the fourth quarter, a substantial number will receive deferred increases. Approximately 800,000 auto and related workers will receive a 3 per cent productivity increase and an 8 cent, or 2 per cent, maximum cost-of-living adjustment during the fourth quarter.

Consumer prices. The Consumer Price Index rose only 0.2 per cent in September--to 122.2 per cent of the 1957-59 average--as compared with an average monthly increase of 0.4 per cent between May and August. The relatively small rise in September, as well as the fast increase over the preceding 3 months, stemmed in large part from fluctuations in mortgage interest charges. These charges rose only 0.3 per cent in September after jumping 11 per cent between May and August. Other factors in the September slowing were declines in prices of foods and of new cars, both of which, however, were less than expected seasonally.

Apart from the unusual impact of mortgage interest charges, which have been a special phenomenon obscuring--in a sense--the underlying changes in consumer prices, service costs continued up at a fast pace in September, although the rise for the third quarter as a whole was below the near-record rate in the first half of the year. Of as much significance, after allowing for usual seasonal changes, was the sharp further rise in average retail prices of commodities in September. New car prices showed only about half the usual large seasonal decline and thus the seasonally adjusted index for autos spurted after showing little change through most earlier months of the year. Prices of appliances jumped. Retail apparel prices were raised 1.7 per cent, twice the expected seasonal rise. Prices of food at home declined less than seasonally, although for the third quarter as a whole these prices, seasonally adjusted, averaged unchanged from the second quarter.

On a seasonally adjusted basis, prices of both durable and nondurable goods--but particularly durables--rose more in September than had been allowed for in the third quarter estimates shown in the table on page II-24 of the October 23 Green Book. Revised third quarter changes in the adjusted "CPI" are shown below, along with the revised implicit price deflator for personal consumption expenditures. The rise in consumer prices apparently did slow down in the third quarter--in large part because of the leveling off in food prices--but the contrast between the "CPI" indications and the implicit PCE deflators is even more marked than a month ago.

CHANGES IN CONSUMER PRICES
(Per cent changes in seasonally adjusted data at annual rates)

	"CPI" adjusted 1/ 1968		PCE deflator 1968	
	QII	QIII	QII	QIII
All items	4.3	3.6	4.1	2.4
Durable goods	2.0 2/	2.4 2/	2.0	1.6
Nondurable goods	4.5 3/	3.4 3/	4.2	2.8
Services	4.0 4/	4.2 4/	5.1	3.5

1/ "CPI" is calculated by combining the three sub-series below with weights based on durable-nondurable-service breakdown of personal consumption expenditures in QIV 1967.
2/ BLS series for new cars and for other durables (excluding used cars and home purchase) combined with QIV 1967 PCE weights.
3/ Regularly published BLS series, including food away from home and newspapers, magazines, and books.
4/ Excluding mortgage interest charges. Not seasonally adjusted because series apparently shows no seasonal variation.

Wholesale prices. Final BLS data for October (Confidential until release November 27) show that the rise in prices of industrial commodities rounded to 0.5 per cent, instead of 0.4 per cent as estimated earlier. The major increases were for motor vehicles and equipment (2.3 per cent), lumber and plywood (2.3 per cent), coal (2.4 per cent--following the strike settlement), and footwear (1.9 per cent). The rise for motor vehicles and equipment alone accounted for roughly half the increase in the industrial average.

While a few major items accounted for a very large part of the industrial price rise in October, there were a spate of widely scattered, small increases. The number of product classes showing increases for the month totaled 121 (or 54 per cent), the highest since last February. A pronounced decline in foods and foodstuffs offset the industrial price rise in October, and the over-all-wholesale price index, at 109.1 per cent of the 1957-59 average, was the same as in September and also July.

The major industrial price development since mid-October has been the cut of over 20 per cent in prices of hot-rolled steel sheet, a product which accounts for about 11 per cent of total steel shipments. The direct effect of this price reduction alone--if completely effective in the BLS November index--will be to reverse most of the average price rise of 2.3 per cent announced in August (and first included in the September index). The August increase covered steel products accounting for roughly 70 per cent of mill shipments and added about 0.1 percentage point to the September industrial commodity total. Whether this cut is a harbinger of general weakness in steel prices--particularly for the closely related cold-rolled steel sheets--or merely a one-shot effort to reverse the sharply rising trend of steel imports, in one way or the other, may be revealed in coming weeks. It does act in itself to slow the rise in average prices of industrial commodities, which, through October, was accelerating.

Wholesale prices of industrial commodities have been increasing since mid-year, following a number of months of little change, and this pattern is broadly similar to the sequence of developments in the spring, summer and early autumn of 1967. The period of stability in industrial prices was more protracted last year than this year: the BLS industrial average was literally stable from February to July 1967 whereas this year the index was stable only from April to July. The resumption of an upward movement last year was sparked initially by the large rubber wage settlement and price rise around mid-July, and the industrial average showed a steady upward movement to October (and subsequently on to last March). The recent advance started much more slowly in August and then accelerated in September and October. But the increase in the BLS industrial commodity average from July to October was the same in both years--0.7 per cent.

In the recent period of stepped-up industrial price advance, as well as in the corresponding period a year earlier, a few major items have accounted for a very large share of the total advance. From July to October this year, motor vehicles and equipment, lumber and plywood, machinery and equipment, and steel mill products accounted for over three-fourths of the advance in the industrial average. From July to October last year, these four major items plus two others, rubber products and nonferrous metals, accounted for over four-fifths of the total advance.

While both of these periods were marked by a pronounced impact of a relatively small number of sizable increases, both periods were also characterized by a steadily widening diffusion of increases. The sequence of the number of reported increases among the 225 four-digit industrial commodity classes was as follows during the two 3-month periods:

DIFFUSION OF INDUSTRIAL PRICE INCREASES

	Number of reported price increases	
	1967	1968
July	71	87
August	86	98
September	87	106
October	109	121

The table below summarizes some of the key details of the industrial price rise at wholesale from July to October this year and over the corresponding months in 1967.

CHANGES IN WHOLESALE PRICES OF INDUSTRIAL COMMODITIES
(Based on BLS data)

	Per cent of total industrial average Dec. 1966	July to Oct. 1967		July to Oct. 1968	
		Per cent change 1/	Per cent of total increase	Per cent change 1/	Per cent of total increases
Industrial commodity, total	100.0	0.7	100.0	0.7	100.0
A. Selected commodity groups	40.4	1.4	83.7	1.4	76.1
Motor vehicles & equip.	9.5	2.4	32.3	1.9	24.4
Lumber & plywood	2.2	2.3	7.5	5.9	20.7
Machinery & equipment	16.6	0.5	12.9	0.8	17.7
Steel mill products	4.5	0.7	4.8	2.3	13.9
Rubber & products	3.2	3.2	14.7	0.3	1.1
Nonferrous metals	4.4	1.8	11.4	-0.3	[-1.7]
B. All other industrials	59.6	0.2	16.4	0.3	23.9

1/ Per cent changes were calculated from the weighted aggregates rather than from the index numbers rounded to tenths. These per cent changes may differ somewhat from results obtained using the indexes.

Farm production and prices. Indexes of farm output based on relatively firm November 1 estimates show 1968 total output to be 2.5 per cent above last year with both crop and livestock output larger than in any other year. Record crops of wheat, rice, soybeans, and peanuts more than offset smaller crops of corn and tobacco and total crop was 2.6 per cent above last year. Cropland in production was about 1 per cent less than a year earlier. Among livestock products, expanding production of cattle and hogs this year more than offset declines in production of poultry, eggs, and milk products.

Production prospects point to sagging prices for many farm products in the coming marketing year. Supplies of food grains, feed grains, and oilseeds are expected to exceed utilization, and harvest-time prices are well below a year earlier and are close to loan rates. Feed grain prices have strengthened a little but are not likely to stray far from loan rates. Fruit prices will probably be forced down when the marketing of the one-third larger citrus crop begins in December. Meat animal prices also may sag in early 1969 if output of pork, beef, and broilers increase as anticipated. Although the cotton crop is again below utilization, prices are likely to show little change because stocks are still large and the 1968 crop is of desirable quality and staple. Tobacco prices may strengthen because of the smaller crop and 3 per cent higher price support.

INDEXES OF FARM OUTPUT AND PRICES RECEIVED
(1957-59 = 100)

	Output		Prices received	
	1968 (Nov. survey)	Per cent change from a year ago	1968 (Oct. 15)	Per cent change from a year ago
Total, all products	121	2.5	108	3.8
Livestock products	118	.9	113	5.6
Meat animals	123	2.5	110	2.8
Dairy products	99	-1.0	131	4.8
Poultry and eggs	134	-2.9	94	22.1
Crops	120	2.6	102	1.0
Food grains	144	7.5	73	-11.0
Feed grains and hay	119	-3.3	93	-8.2
Oilseeds	188	9.9	109	-3.5
Cotton	88	41.9	86	-2.3
Tobacco	99	-14.7	118	6.3
Vegetables	115	2.7	116	5.5
Fruits	n.a.		147	23.5

Source: Statistical Reporting Service of USDA.

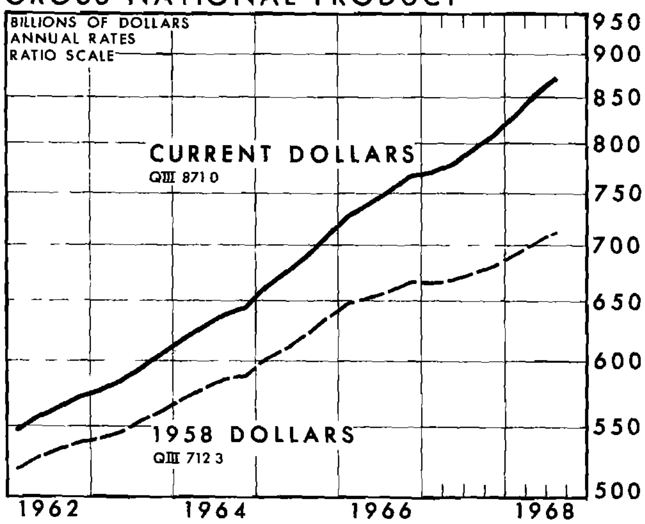
Farm income. A little higher average farm prices and larger volume of farm marketings are expected to boost realized net farm income to around $15.0 billion in 1968 from $14.2 billion in 1967, according to USDA. Strong consumer demand for livestock products, fruits and vegetables, higher price supports for milk, and larger government payments contributed to the gains in gross cash income. Partly offsetting these gains were higher production costs and these are likely to continue to rise in 1969.

In early 1969, realized net income is likely to drop from current high levels to around the $14.6 billion annual rate of the first half of 1968. The drop is expected because of rising costs, and because of downward pressure on selling prices stemming from large supplies of meats and broilers, big grain and soybean stocks, and possibly, some easing in domestic demand. Price support loan programs for the crops in surplus supply and the strong possibility that government payments will be larger than in 1968 are expected to act as stabilizing influences on farm income next year.

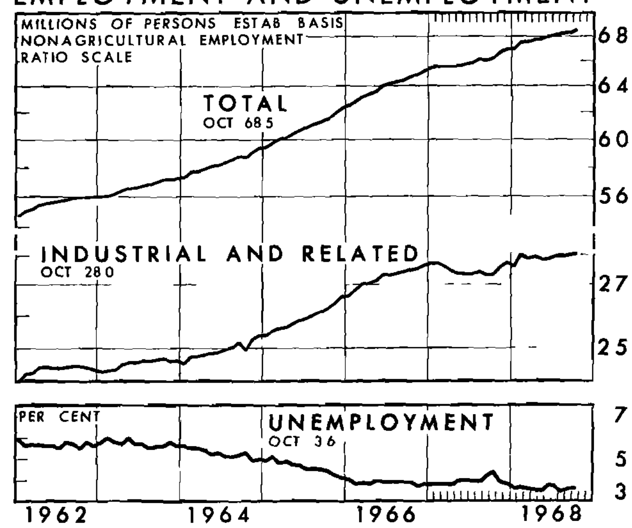
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

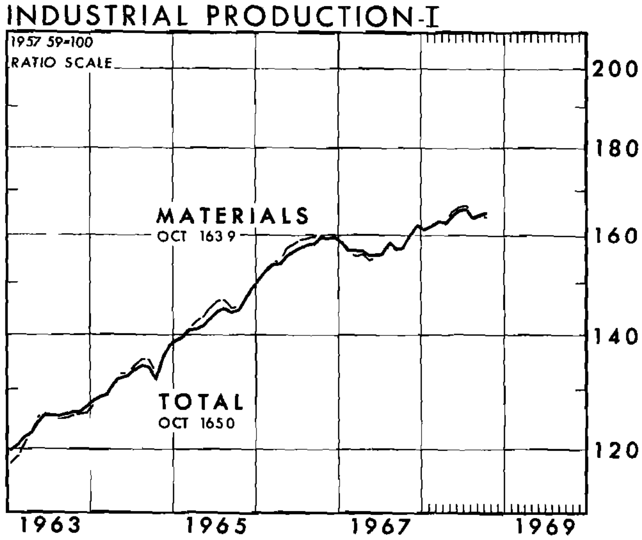
GROSS NATIONAL PRODUCT



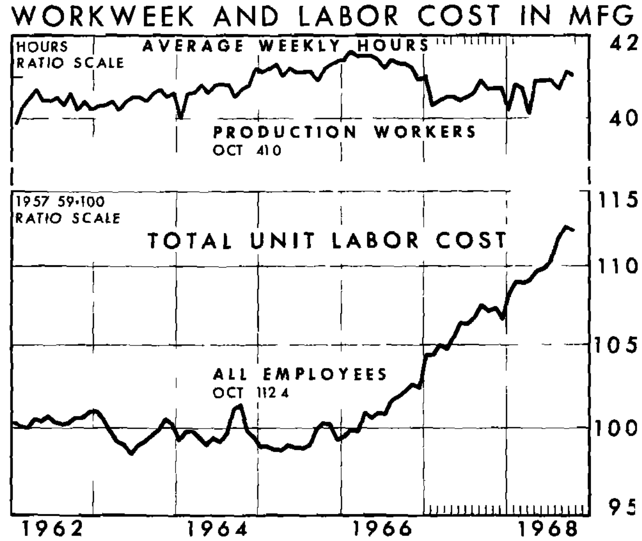
EMPLOYMENT AND UNEMPLOYMENT



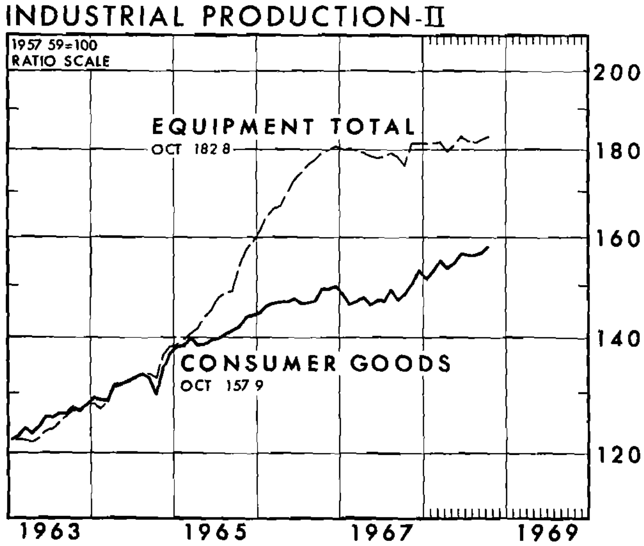
INDUSTRIAL PRODUCTION-I



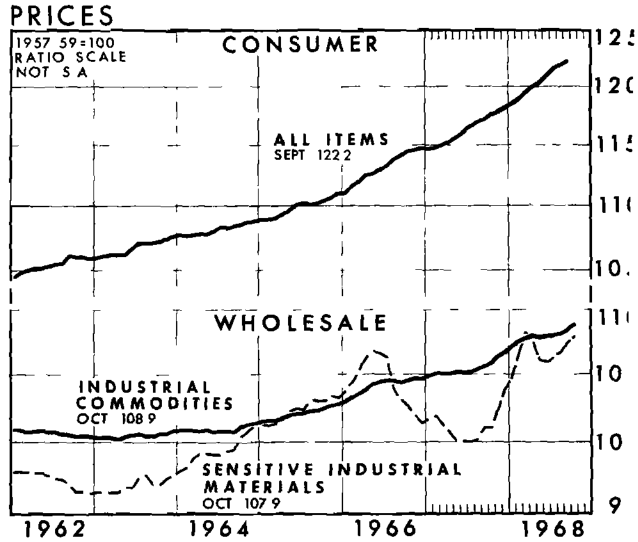
WORKWEEK AND LABOR COST IN MFG



INDUSTRIAL PRODUCTION-II



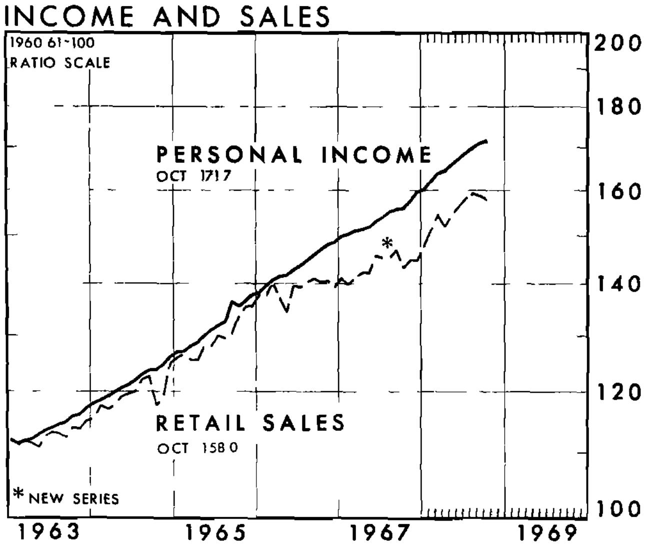
PRICES



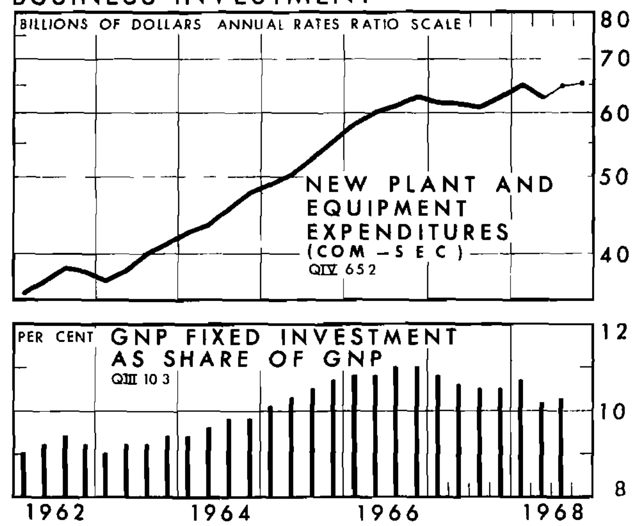
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

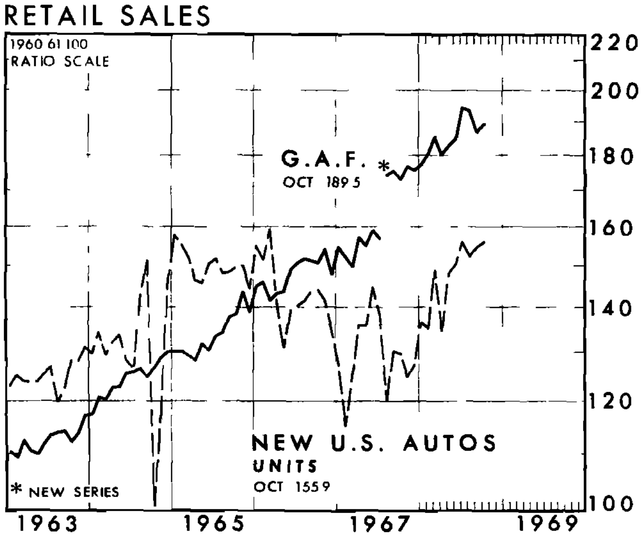
INCOME AND SALES



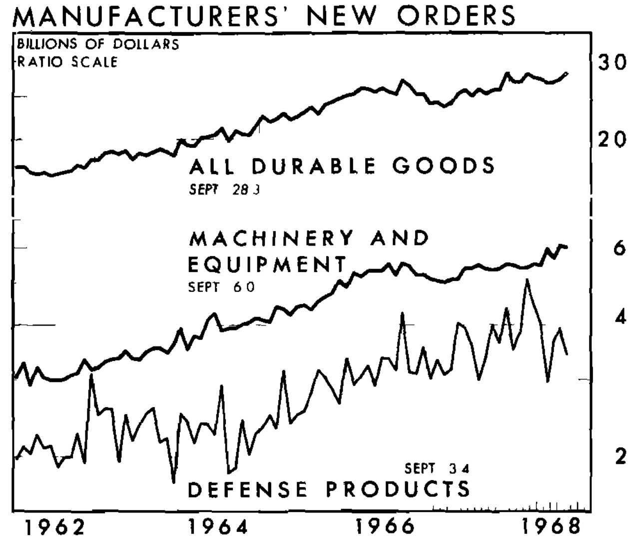
BUSINESS INVESTMENT



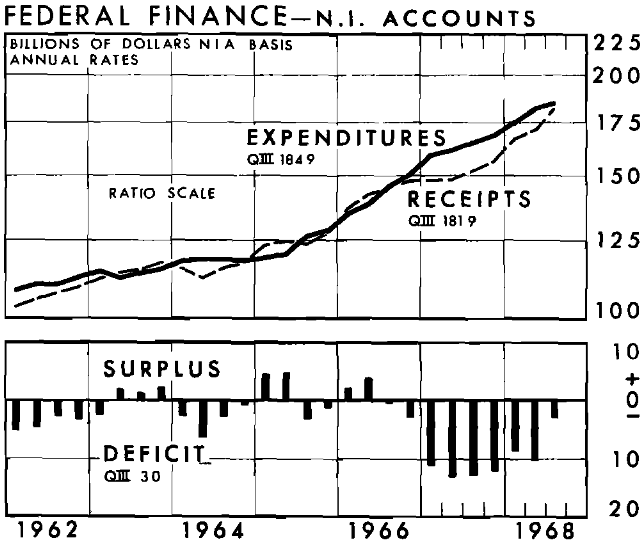
RETAIL SALES



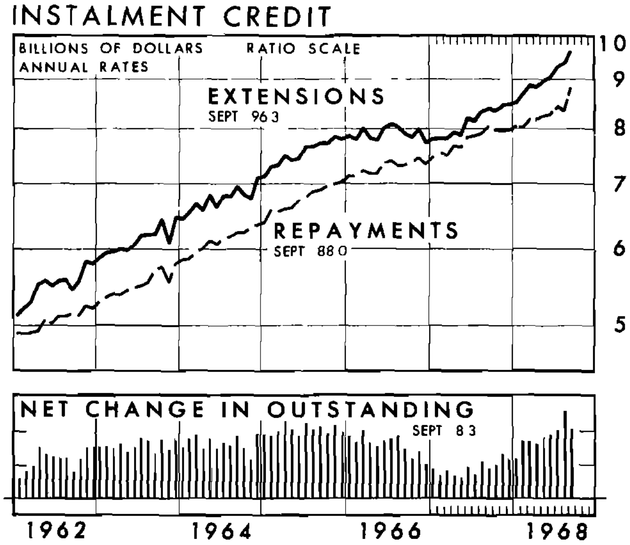
MANUFACTURERS' NEW ORDERS



FEDERAL FINANCE—N.I. ACCOUNTS



INSTALMENT CREDIT



DOMESTIC FINANCIAL SITUATION

Bank credit. Total loans and investments at all commercial banks, on an end of month basis, continued to expand in October at about the 15 per cent annual rate of the previous two months. Nearly two-thirds of the October increase reflected further loan expansion, with growth in business and real estate loans appreciably larger than in September. While banks added relatively little to holdings of U.S. Government securities, they continued to take other securities into portfolio during October and early November at about the rapid pace of recent months.

NET CHANGE IN BANK CREDIT
All Commercial Banks
(Seasonally adjusted annual rates, in per cent)

	1967	1968				
		1st half	July	Aug.	Sept.	Oct.
Total loans & investments 1/	11.6	6.5	27.2	14.7	14.2	15.4
U.S. Gov't securities	11.4	2.3	53.6	15.2	1.9	3.8
Other securities	26.1	8.1	9.4	20.5	27.5	26.9
Total loans	8.3	7.2	25.2	13.6	13.4	15.3
Business loans	9.8	7.6	14.7	9.3	6.6	10.4
Real estate loans	8.6	10.3	6.8	8.4	10.4	13.3
Consumer loans	5.7	9.3	12.1	18.0	11.8	11.7
MEMO:						
Credit proxy 2/	11.6	5.5	9.0	22.1	9.4	11.8

1/ Last Wednesday of the month series.

2/ Monthly average of daily figures, adjusted to include Euro-dollar borrowing.

In spite of almost complete bank underwriting of a $3 billion Treasury bill financing late in October, bank holdings of U.S. Government securities changed relatively little over the month--largely the result of bank sales of Treasury bills prior to the financing. This liquidation of Treasury bills, which was resumed in early November, probably reflects the high cost of funds, the relatively attractive yields on municipals, and the sustained strength of loan demand.

Following some slowing earlier in the month, net bank acquisitions of other securities rose rapidly in late October and early November, bringing the October increase up to the rapid pace prevailing since deposit inflows improved this summer. While the October rise continued to be mainly in municipals and agency issues, it was concentrated more in longer-term securities at banks outside New York than has been the case in recent months. New York banks, which have been liquidating short-term municipals since the end of September, also began to reduce holdings of longer term securities in early November.

The rate of growth in business loans rose somewhat in October-- with virtually all of the increase taking place at banks outside New York--after having slowed in recent months from the rapid increase in July. However, the timing and the distribution of the October increase do not suggest a resurgence of widespread business borrowing at banks. While business loans expanded rapidly during the first three weeks in October, they declined in the following two weeks, and rose only somewhat more than normally in early November. Moreover, the October increase was the result of expanded borrowing by only a few industrial categories, principally retail trade, transportation equipment, construction, and services.

Growth in consumer loans continued at the increased pace that has prevailed since around mid-year, reflecting principally--as in recent months--the financing of a large volume of automobile sales. Expansion in real estate loans accelerated further from the increased pace of September, probably in response to the recent increase in construction activity and the continued availability of funds at banks.

After having risen by nearly $4 billion over the third quarter, security loans declined slightly in October as dealers reduced their inventories, on average, from September. However, data for New York banks suggests that security loans changed little, on balance, at large banks during early November.

Bank deposits. Time and savings deposits at all commercial banks, on a daily average basis, rose at a 17.7 per cent annual rate in October--approximately the third quarter pace--although inflows appear to have slowed somewhat late in the month and in early November. As in recent months, much of the October increase represents further additions by banks to their outstanding CD's. However, inflows of consumer-type time and savings deposits held by State and local governments also increased rapidly, the latter--which took place mostly in the San Francisco District--probably representing in large part the temporary investment of funds obtained from the recent large volume of municipal financing in California.

NET CHANGE IN TIME AND SAVINGS DEPOSITS
Weekly Reporting Banks
(Millions of dollars, not seasonally adjusted)

	1965 Sept. 29- Nov. 3	1966 Sept. 28- Nov. 2	1967 Sept. 27- Nov. 1	1968 Sept. 25- Oct. 30
Total time & savings deposits	930	-1,644	530	2,119
Consumer-type deposits	n.a.	- 199	362	872
Savings deposits	502	- 275	89	168
Time deposits, IPC (Other than CD's, IPC)	n.a.	76	273	704
Negotiable CD's	69	-1,258	336	1,043
All other time deposits 1/	n.a.	- 187	-168	204

1/ Consists primarily of time deposits held by State and local governments and by foreign institutions.

n.a. -- Not available.

Although large banks added nearly $1.2 billion to their outstanding CD's in the six weeks ending November 6, most of the expansion occurred in the first half of October, with inflows slowing somewhat in subsequent weeks. While this increase was about equally divided between New York and outside banks, outstanding CD's at New York banks have shown virtually no growth since mid-October. Major banks both in and outside of New York have had to pay increasingly higher rates to attract CD funds. Most banks apparently are now paying ceiling rates on maturities up to six months and there are scattered reports of banks paying the 6-1/4 per cent ceiling rate on maturities of six months and over.

Inflows of consumer-type time and savings deposits at weekly reporting banks accelerated further in October, continuing the trend in recent months of a steadily increasing rate of growth. However, unlike past increases, October inflows were heavily concentrated at the first of the month, showing successively smaller advances in the following weeks. Nearly all of the October increase in savings deposits took place in the San Francisco District during the first week of the month, probably reflecting quarterly crediting of interest to existing deposits. The expansion of time certificates and open accounts also was concentrated in the early part of the month and occurred primarily in the New York and San Francisco Districts, where October inflows at S&L's have been less than normal.

Following a rapid increase from the end of July through the September tax date, bank liabilities to foreign branches have remained relatively unchanged, on balance, since the end of September, generally fluctuating around an average level of about $7.1 billion.

The money stock in October rose at approximately a 5 per cent annual rate, slightly faster than the third quarter pace but less than the 5.6 per cent rise over the past 12 months. The October expansion reflects largely an increase in private demand deposits, in part a response to the reduction in U.S. Government deposits following a build-up of these deposits in the previous two months. Partial data suggests that the November increase in the money stock may exceed that of October, as U.S. Government deposits decline further.

Nonbank depositary intermediaries. The rate of savings growth at thrift institutions increased slightly during October for the third consecutive month. The increase was the result of larger net inflows to savings and loan associations, as the rate at mutual savings banks was about the same as in September.

GROWTH IN SAVINGS AT THRIFT INSTITUTIONS
SEASONALLY ADJUSTED ANNUAL RATES*
(In per cent)

	Mutual Savings Banks	Savings and Loans	Both
1967 - I	9.6	9.4	9.5
II	10.8	11.1	11.0
III	8.6	9.7	9.4
IV	7.0	6.2	6.4
1968 - I	7.2	5.6	6.1
II	6.6	5.6	5.9
III	6.3	5.9	6.1
July	5.9	4.7	5.1
August	6.2	6.1	6.1
September p/	6.8	6.9	6.9
October p/	6.7	7.7	7.4

* N.B. Seasonal factors have been revised as a result of updating. The effect of the updating is less marked on the quarterly data than it is on the monthly.

Larger inflows to S&L's were generally nationwide. Two noteworthy exceptions, however, were S&L's in the New York and San Francisco Districts, where net savings inflows fell short of the year earlier experience. In those districts, by contrast, inflows of consumer-type time and savings deposits at commercial banks were much larger than a year earlier. Reasons for this disparity are not clear; it apparently was not caused by rate factors, since most institutions in these districts offer ceiling rates which are higher for S&L's than for commercial banks. There have been reports, however, of increased commercial bank promotional activity.

The backlog of mortgage commitments at S&L's in October continued large relative to cash flow-- even after allowance for the July-August liquidity adjustments made in response to the relaxed FHLBB regulation.[1/] Though a temporary increase in the ratio of commitments to cash flow may result from lengthening of commitment maturities, persistence of the higher ratios implies that honoring these commitments will require increased savings inflows, further reductions in recently stable liquidity ratios, and/or increased borrowing--which has been modest in recent months. The FHLBB has indicated willingness to advance funds for mortgage acquisitions, and apparently has funds available to implement this.

1/ Effective July 1968, the required ratio of cash and Government holdings to share capital was reduced from 7 per cent to 6.5 per cent. In response, the industry liquidity ratio declined from 10 per cent in June to 9.4 per cent in August, which represents about $700 million diverted from liquid holdings. The 9.4 per cent ratio currently is near the low reached during 1966.

INSURED SAVINGS AND LOAN ASSOCIATIONS
MORTGAGE COMMITMENTS OUTSTANDING AS MULTIPLE OF
3-MONTH TOTAL CASH FLOW*

	1965	1966	1967	1968
January	.8	.8	.7	1.0
February	.8	.9	.8	1.1
March	.9	1.0	.8	1.1
April	.8	.9	.8	1.0
May	.8	.8	.8	.9
June	.7	.9	.8	1.0
July	.8	1.0	.8	1.1
August	.8	1.1	.8	1.2
September	.8	1.1	.8	1.1
October	.7	.8	.8	1.0
November	.7	.7	.8	
December	.7	.7	.8	

* "Total cash flow" equals sum of gross mortgage return flows, plus net savings, plus net changes in borrowings and in other liabilities for the current month and the preceding two months. This total was divided into total mortgage commitments outstanding (including the stock of loans in process) to derive the above ratios. Computations were based on data not seasonally adjusted. Insured savings and loan associations account for 96 per cent of industry resources.

Similarly, the size of the mortgage commitment backlog relative to recent cash flow at New York State savings banks implies an expectation of increased inflows and/or reduced future investments in corporate securities, liquidity reductions, or use of borrowed funds. A recently-instituted data series of outstanding mortgage commitments scheduled to mature within three months, when related to the total of net savings inflows plus net mortgage return flows for the current month and preceding two months, reveals a sharply tightened position since April. From August 1967 through March 1968, these maturing commitments represented only about half of the three-month funds described above; from April through September, in contrast, these commitments have equalled or exceeded three-month funds.[2/]

Mortgage market developments. Slight tightening in the sensitive secondary mortgage market, which began in early October, apparently continued through the first half of November. With returns on other capital markets instruments remaining relatively high, yields on FNMA's 6-month forward-purchase mortgage commitments rose slightly in each of the three auctions held so far in November, as shown in the table. During the same period, the interest of diversified investors in purchasing home mortgages slackened somewhat, according to FNMA field office opinions.

2/ Data on gross flows to New York State savings banks--or even net return flows from corporate securities investments--are not available. Thus, the relationship of mortgage commitments to deposit gains plus mortgage return flows presents an incomplete picture of their commitment position. Corporate securities, which have been such an important part of portfolio changes in the recent past, could represent the safety valve for these banks, since securities acquisitions could be limited sharply in favor of mortgages. Indeed, during September, the entire savings bank industry reduced sharply its net acquisitions of corporate securities, although seasonal factors may have influenced this pattern.

FNMA WEEKLY AUCTIONS
(6-month forward commitments)

Auction date	Accepted bids ($ millions)	Implicit private market yield (per cent)
1968 high, June 10	44.8	7.71
October 7	22.9	7.16
14	30.0	7.18
21	30.7	7.20
28	31.3	7.23
November 4	29.5	7.26
12	29.3	7.30
18	29.0	7.35

Note: Average secondary market yield after allowance for commitment fee and required purchase and holding of FNMA stock, assuming prepayment period of 15 years for 30-year Government-underwritten mortgages. Yields shown are gross, before deduction of 50 basis point fee paid by investors to servicers. The first auction date was May 6.

During the entire month of October, FHA data now available indicate that yields on home mortgages edged higher in the private secondary market for Government underwritten loans, thus reversing a 3-month downturn. In the less volatile primary market for conventional home mortgages, in contrast, interest rates declined for the first time in a year and a half, but only slightly. The decline partly reflected reductions within several Eastern states where rates had abruptly increased earlier this year following upward revisions in usury ceilings.

Since returns on new issues of high grade corporate bonds rose rather sharply in October, the gross yield spread favoring investment in home mortgages deteriorated, as shown in the table. At around 80 basis points, it again became comparatively unattractive by standards prevailing before 1965.

AVERAGE RATES AND YIELDS ON SELECTED NEW-HOME MORTGAGES

	Primary Market: Conventional loans		Secondary Market: FHA-insured loans		
	Level (per cent)	Yield spread (basis points)	Level (per cent)	Yield spread (Basis points)	Discount (points)
1967					
October	6.55	43	6.65	53	5.6
November	6.65	12	6.77	24	6.5
December	6.70	19	6.81	30	6.8
1968					
January	6.75	51	6.81	57	6.8
February	6.75	46	6.78	49	6.6
March	6.80	24	6.83	27	7.0
April	6.90	38	6.94	42	7.9
May	7.15	49	7.50e	84e	6.1e
June	7.25	60	7.52	87	6.3
July	7.30	76	7.42	88	5.5
August	7.30	104	7.35	109	5.0
September	7.30	100	7.28	98	4.4
October	7.25	78	7.29	82	4.5

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 through April 1968. Data for May 1968 estimated by Federal Reserve based on the new 6-3/4 per cent regulatory rate, on which a change of 1.0 points in discount is associated with a change of 12 to 13 basis points in yield. Gross yield spread is average mortgage return, before deducting servicing fees, minus average yield on new issues of high grade corporate bonds.

Further improvement during October in the pace of net savings inflows to thrift institutions helped to sustain lender willingness to supply mortgage funds. The supply was adequate in nearly all major areas to meet primary market demands for long-term home-mortgage credit at high interest rates, according to both FHA and FNMA field reports. However, some tightening was noted in a number of market areas toward the end of the month.

Corporate and municipal bond markets. Yields on new corporate bonds advanced significantly in the latest week shown on the yield table to a level about equal to their recent high reached in mid-October. But yields have advanced further in the last few days, with a Aaa-rated South Central Bell Telephone issue reoffered to yield 6.85 per cent--a record yield for a Bell issue and 60 basis points above a comparable offering in August. Municipal bond yields continued upward from their August lows, bringing the total advance in municipal yields since August to one-half percentage point.

BOND YIELDS
(Weekly averages, per cent per annum)

	Corporate Aaa		State and local Government	
	New	Seasoned		
	With call protection		S&P High Grade	Bond Buyer's (Mixed Qualities)
1968				
Low	6.13(8/30)	5.95(9/13)	4.15(8/9)	4.07(8/9)
High	6.83(5/24)	6.29(6/7)	4.68(5/24)	4.71(5/24)
Week ending:				
Oct. 4	6.31	6.02	4.45	4.36
11	6.56	6.06	4.55	4.49
18	6.57*	6.10	4.60	4.51
25	6.50	6.13	4.59	4.52
Nov. 1	--	6.15	4.63	4.56
8	6.43	6.16	4.64	4.56
15	6.55	6.15	4.68	4.58

* -- Some issues included carry 10-year call protection.

Various factors appear to have accounted for the recent upward pressure on interest rate.. Investors adopted a cautious approach as the future course of interest rates became cloudy, and unsold bonds in syndicate began to mount. Uncertainties attached to the Vietnam peace negotiations, mixed economic statistics, and the course of monetary policy contributed to this investor hesitancy. In addition, the market was dampened by the announcement of two $150 million corporate issues to be offered in November and December, as well as by the prospective surge of industrial revenue bond offerings.

Flotations of corporate bonds in the public market are expected to total about $850 million in November, significantly below October but nearly equal to the monthly average during the third quarter. While this estimate includes the $150 million Anaconda offering, the bulk of the volume, nonetheless, continues to reflect a heavy calendar of public utility issues. Including private placements, total bond and stock offering in November are estimated at $1.6 billion, below the recent monthly average of offerings due partly to a decline in stock offerings.

CORPORATE SECURITY OFFERINGS[1/]
(Millions of dollars)

	Bonds					
	Public Offerings[2/]		Private Placements		Total bonds and stocks	
	1967	1968	1967	1968	1967	1968
QI monthly avg.	1,088	822	604	575	1,821	1,726
QII monthly avg.	1,339	1,035	489	548	2,069	1,901
QIII monthly avg.	1,534	869	517	453	2,277	1,698
QIV monthly avg.	1,035	855e	712	633e	2,098	1,788e
October	1,375	1,015e	566	500e	2,409	1,965e
November	645	850e	551	500e	1,500	1,600e
December	1,087	700e	1,020	900e	2,385	1,800e

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

Looking ahead to December, the calendar now contains $500 million of scheduled corporate bonds and this may ultimately build-up to about $700 million. This would place the calendar for December among the lowest this year. However, the volume is seasonally high and concentrated in the first half of the month. Privately placed bonds are expected to show a normal year-end jump and will likely bring total corporate security offerings in December to $1.8 billion, well below the outsized volume a year earlier but little changed from the average volume of issues over this year.

In the municipal market, the estimated volume of offerings for November has been reduced to $1.2 billion, placing November a full $1 billion below the record-breaking volume in the month earlier. Much of the downward revision reflects a slower than anticipated growth in the calendar and some rescheduling of issues due to unfavorable market conditions--a large overhang of unsold bonds and rising interest rates. The estimated volume of issues in December is currently $1.2 billion and allows for a sizeable volume of industrial revenue issues. But since yields necessary to sell these industrial revenue bonds currently exceed statutory interest rate ceilings in some states, the ultimate volume of such issues before the year-end cut-off date may be significantly influenced by the course of interest rate.

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

	1967	1968
QI monthly average	1,391	1,240
QII monthly average	1,294	1,269
QIII average	1,050	1,491
QIV monthly average	1,186	1,533e
October	975	2,200e
November	1,401	1,200e
December	1,182	1,200e

e/ Estimated.

1/ Data are for principal amounts of new issues.

Recent bond election results suggest that municipal offerings in the future are likely to continue at a fast pace. Voters approved a record $4.4 billion of bonds--$1 billion above the previous high set in 1960. And this occurred with an acceptance ratio of less than one-half of the proposed issues, a rate sharply below earlier years. In California, voters defeated the "Watson Amendment" which would have severely constrained local borrowing authority (part of the large October volume contained California offerings that had been accelerated to avoid this potential constraint.)

Stock market. The most recent advance in common stock prices, which had begun in early August, lost momentun in late October and early November. By mid-November, prices were still fluctuating around the historic highs reached in the previous month, while trading volume--after a brief moderation--had returned to the level registered during the advance. Four-day trading weeks were extended through the end of November as back-office problems continued.

STOCK PRICES

	Dow-Jones Industrials	New York Stock Exchange Index	American Exchange Index
Mid-July high	932.72	57.69	30.28
Early-August low	869.65	54.18	28.82
Late October high	967.49	58.99	30.99
November 19	966.75	59.91	31.51
Per cent increase: early-August low to late-October high	11.3	8.9	7.5

AVERAGE DAILY TRADING VOLUME

	New York Stock Exchange	American Stock Exchange
July	14.3	6.6
August	10.8	4.8
September	13.4	6.5
October	15.0	6.4
Week ending:		
November 1	14.1	5.6
8	11.7	4.4
15	15.7	7.4

Very preliminary figures for October indicate that margin debt to brokers declined $90 million during the month to $6,300 million. Since July, such debt has declined steadily, although stock prices have risen; by the end of October, 22 per cent of the $1.8 billion 1967-68 increase had been erased. At large weekly-reporting commercial banks, on the other hand, purpose loans to non-brokers continued to advance to new highs in October. Such loans--which include those to purchase bonds and over-the-counter securities as well as convertibles and registered stock--expanded by $42 million during the month to a total of $2,557 million.

Government securities market. With the exception of quotations on shorter-term Treasury bills, which have declined on balance, yields on U.S. Government securities have risen since the last meeting of the Committee. Increases have been most pronounced on long-term bonds.

The yield on 3-month Treasury bills dropped 10 basis points to about 5.40 per cent at mid-November and, after edging higher again with the deterioration in foreign exchange markets, has most recently returned about to the 5.40 per cent level.

MARKET YIELDS ON U.S. GOVERNMENT SECURITIES
(Per cent)

	1968 Highs	Sept. 26 1/	Oct. 29 2/	Nov. 4	Nov. 20 3/
Bills					
1-month	5.70(5/21)	5.12	5.40	5.28	4.95
3-month	5.92(5/21)	5.09	5.51	5.52	5.42
6-month	6.08(5/21)	5.22	5.51	5.61	5.59
1-year	6.03(5/21)	5.12	5.45	5.48	5.53
Coupons					
3-year	6.36(5/21)	5.40	5.54	5.55	5.61
5-year	6.21(5/21)	5.45	5.58	5.59	5.66
10-year	6.02(5/21)	5.45	5.62	5.63	5.74
20-year	5.77(3/14)	5.28	5.46	5.47	5.59

1/ Recent lows.
2/ Last FOMC meeting.
3/ Bill quotes are for noon November 20; note and bond quotes for close November 19.

The further increase in Government security yields developed despite the bombing halt in Vietnam and the outcome of the election. Apparently in reality these events bred less confidence among market participants of foreseeable cut-backs in Federal spending than they had in prospect. With market participants also wondering whether hhe persistent early November tightness of money signified a shift in policy, some observers began to question whether earlier expectations of significant general yield declines next year would necessarily be realized outside of short-term markets--where the impact of heavy Federal debt repayments will be centered. Most recently, the resurgence of turmoil in foreign exchange markets has created further market uncertainties about the likely course of policy, but these have been eased somewhat by the more comfortable state of the money market.

With investors and market professionals generally taking a more cautious view of the future, Government security dealers moved to reduce their holdings of longer-term notes and bonds. Dealers emerged from the November Treasury refinancing with positions totaling nearly $760 million in issues due after 5 years, and about $475 million in other coupon issues. Since then, they have made fairly good progress in distributing these holdings, reducing positions to about $650 million in longer-term issues and to $380 million in other coupon issues. Of course, progress in distributing these holdings occurred at some sacrifice in price.

As yields on longer maturity bills have risen in recent weeks, spreads from yields on shorter maturities have widened. To some extent this has reflected the modification of market expectations about future interest rates, already noted, but in addition it has reflected important temporary changes in immediate market demands for short-term bills relative to the supply. In late October and early November yields on short-bill maturities rose when demands for bills on swaps out of "rights" to the Treasury refinancing proved to be smaller than anticipated; in these circumstances, dealers became concerned about the high cost of financing and moved to cut back positions. Subsequently, bill demands strengthened substantially--particularly from foreign sources; dealer holdings of short-bill maturities became quite scarce; and yields at the short end of the market were bid sharply lower. Looking ahead dealers now face three successive Treasury bill auctions at a time when demands for bills usually taper off. The regular monthly and weekly bill auctions take place on November 22 and 25, and the Treasury has just announced a further auction of about $2 billion June tax bills for November 26.

Other short-term rates. Yields on other short-term obligations have also moved upward on balance in recent weeks, as indicated in the following table. Rates in commercial paper, finance company paper and bankers' acceptances are all now around 1/8 of a percentage point above the levels prevailing at the time of the last Committee meeting.

SHORT-TERM INTEREST RATES

	1968				
	Highs	Sept. 26	Oct. 31	Nov. 7	Nov. 18
1-month					
CD's (prime NYC)					
Highest quoted new issue	5.50 (11/14)	5.50	5.50	5.50	5.50 (11/14)
Secondary market	6.20 (5/31)	5.60	5.88	5.90	5.90 (11/14)
3-month					
Bankers' acceptances	6.13 (5/24)	5.62	5.88	5.88	6.00
Federal agencies	6.11 (5/17)	5.41	5.79	5.77	5.79 (11/14)
Finance paper	6.13 (6/25)	5.50	5.75	5.75	5.88
CD's (prime NYC)					
Highest quoted new issue	6.00 (11/14)	5.62	6.00	6.00	6.00 (11/14)
Secondary market	6.20 (5/31)	5.65	6.05	6.00	6.05
6-month					
Bankers' acceptances	6.25 (5/24)	5.75	6.00	6.00	6.12
Commercial paper	6.25 (7/25)	5.75	5.88	5.88	5.88
Federal agencies	6.25 (5/24)	5.53	5.80	5.79	5.82 (11/14)
CD's (prime NYC)					
Highest quoted new issue	6.25 (7/11)	5.62	5.62	5.75	5.75 (11/14)
Secondary market	6.40 (5/31)	5.75	6.10	6.05	6.15 (11/14)
1-year					
Prime municipals	3.90 (5/31)	2.85	3.10	3.10	3.15

N.B. - Latest dates on which high rates occurred are indicated in parentheses.

Federal finance. The Budget Bureau is now forecasting a Budget deficit of $3 billion for the current fiscal year, $2 billion less than indicated in the Summer Budget Review. Although Federal outlays, at $185 billion, are estimated to be $600 million larger than in the Summer Review, the projection of Budget receipts has been revised upward by $2.6 billion. The new estimate on spending (whether calculated on a Budget or an NIA basis) is still about $1.5 billion smaller than the one projected by the Board staff in the October chart presentation. In the absence of a cease-fire in Vietnam very soon, however, the staff still believes its own estimate to be more realistic.

The $2 billion tax bill financing, just announced will be paid for on December 2. Its size is somewhat smaller than was projected in the last green book, chiefly because the Treasury has recently gained funds from other sources including certificate sales to foreigners. Staff estimates now indicate that the Treasury will end the calendar year with a cash operating balance of over $4 billion. At mid-December prior to receipt of payments on quarterly corporate income taxes, however, the operating balance would temporarily drop much lower and this might require a Treasury overdraft at the Federal Reserve for several days.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

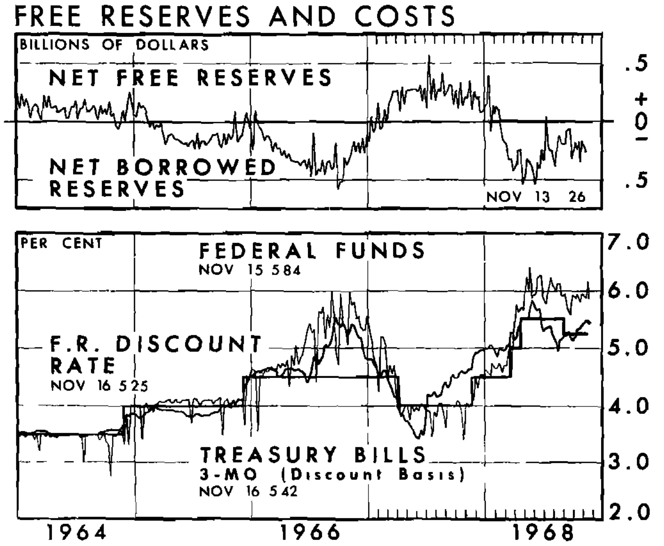
	Oct.[a/]	Nov.	Dec.	Jan.
Borrowing operations				
New cash raised				
Weekly bills	.2	--	--	--
Tax bills	2.9	--	2.0	--
Coupon issues	--	--	--	--
PC's	--	--	--	--
Other (agency, debt repayment etc.)	.5	- .3	- .8	--
Total net borrowing from public	3.6	- .3	1.2	--
Plus: Other net financial sources[b/]	--	- .8	--	.9
Plus: Budget surplus or deficit (-)	-5.7	-2.4	.1	- .6
Equals: Change in cash balance	-2.1	-3.5	1.3	.3
Memorandum: Level of cash balance end of period	6.5	3.0	4.3	4.4

a/ Actual and estimated data

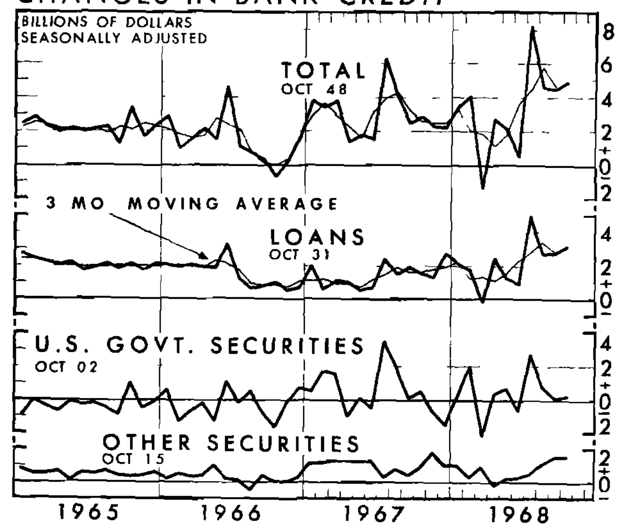
b/ Checks issued less checks paid and other accrual items.

FINANCIAL DEVELOPMENTS - UNITED STATES

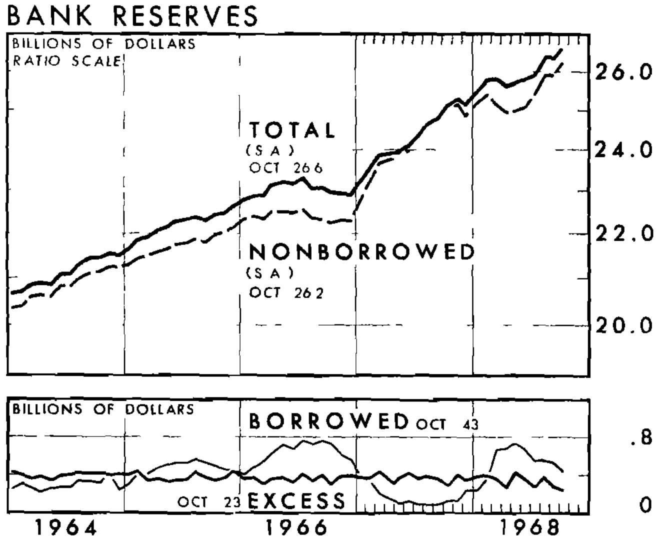
FREE RESERVES AND COSTS



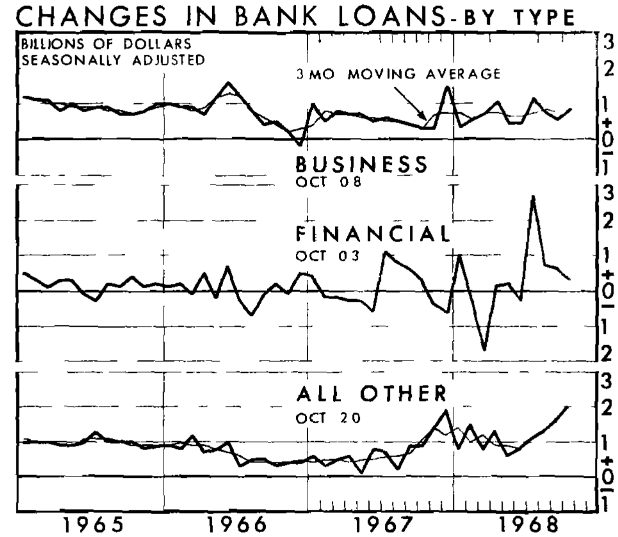
CHANGES IN BANK CREDIT



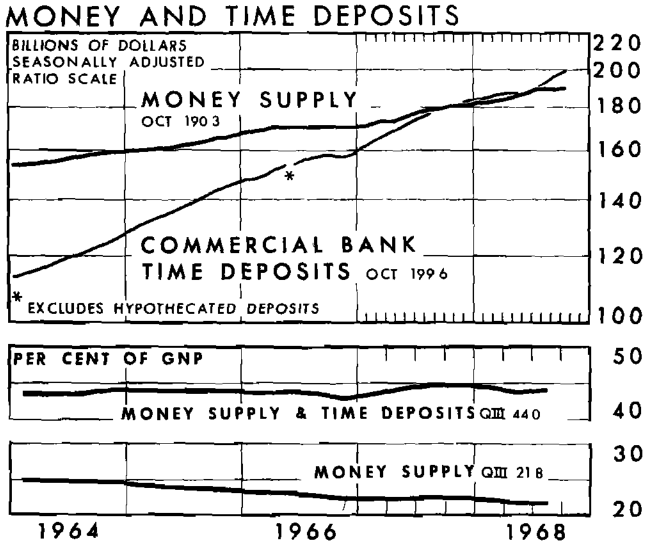
BANK RESERVES



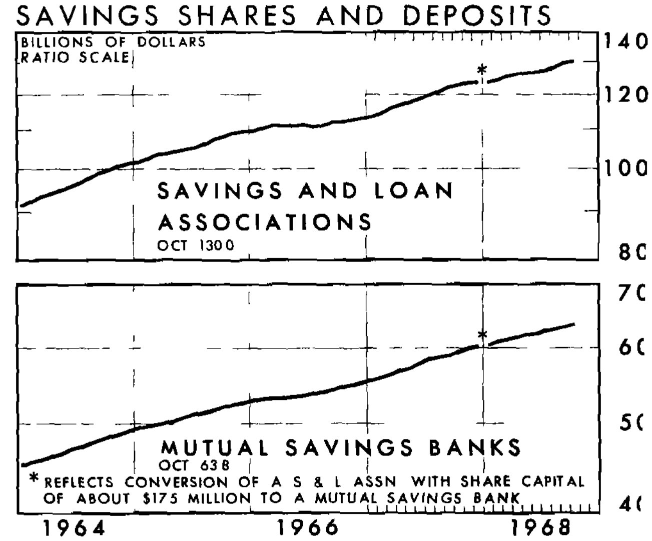
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

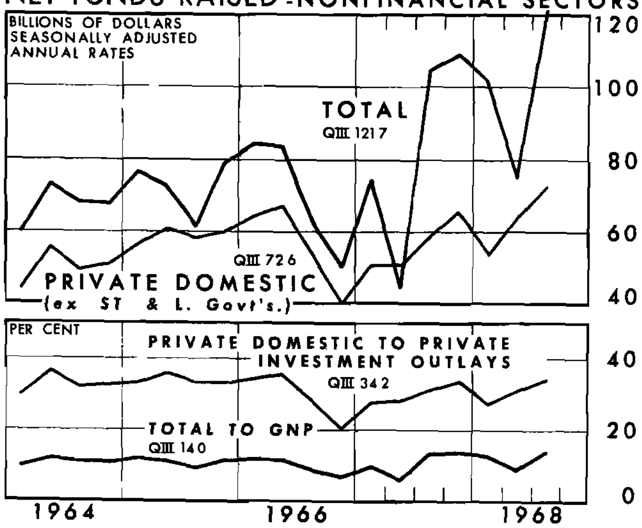


SAVINGS SHARES AND DEPOSITS

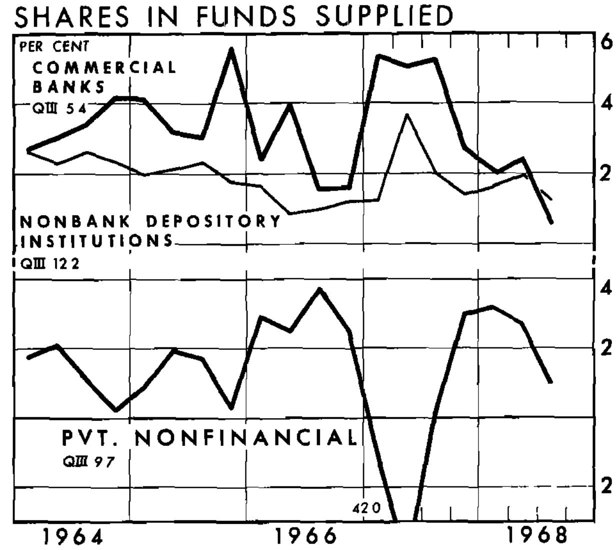


FINANCIAL DEVELOPMENTS - UNITED STATES

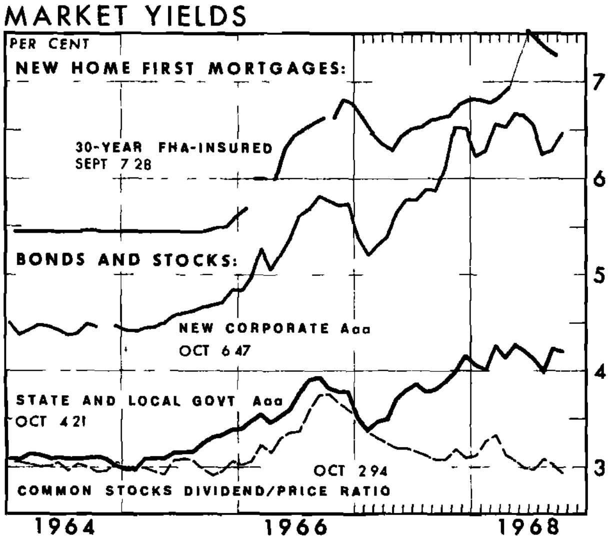
NET FUNDS RAISED - NONFINANCIAL SECTORS



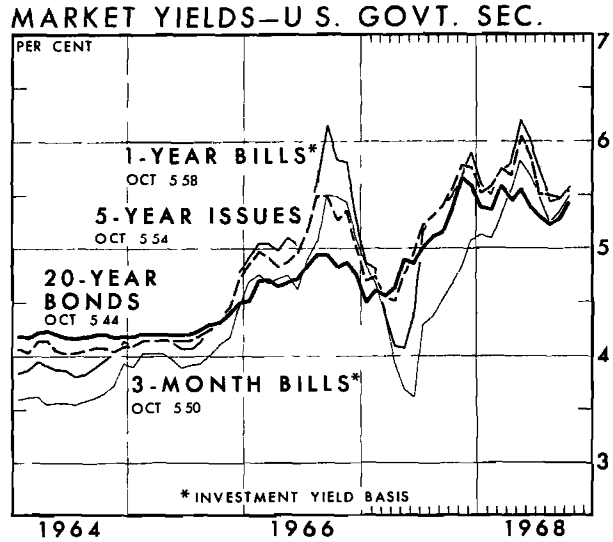
SHARES IN FUNDS SUPPLIED



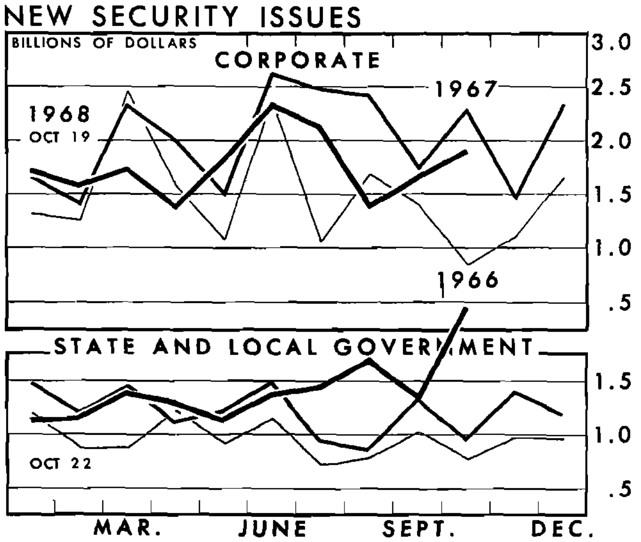
MARKET YIELDS



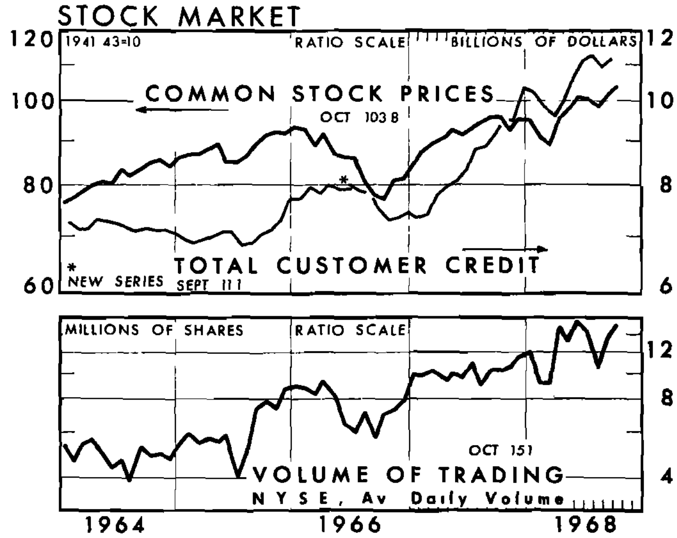
MARKET YIELDS—U S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

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Recent developments in foreign exchange markets. Revival in recent weeks of speculative buying of the German mark has created near-chaotic conditions in exchange markets and has put increasing pressure on the French franc and pound sterling. Heavy demand for the mark developed on Wednesday, November 6, in response to rumors that the mark would be revalued over the weekend. The speculative demand continued to build up in the following fortnight, and so far this month the Bundesbank has purchased about $2.9 billion in the spot exchange market to maintain the current parity. In order to reduce the impact on its reserves the Bundesbank has also been conducting swaps with German commercial banks -- selling U.S. dollars spot and purchasing them forward -- at a premium on the forward mark below what the market rate would otherwise be. Through noon November 15 (last Friday) it had done about $1.0 billion of swaps. We should, however, guard against interpreting the $2.9 billion of spot purchases of the Bundesbank as indicative of the size of the volume of funds flowing to marks, since -- with the swaps going on -- it is likely that part of the Bundesbank's gross spot transactions reflect repurchase of dollars which it had previously sold under swaps. On November 15 the

Bundesbank limited further swaps to 61-90 day maturities, at a 3.5 per cent discount on dollars, and only for the placement of funds in U.S. Treasury bills; since that time no further swap business has been done.

The impact of the mark speculation has been most severe on the French franc. Selling pressure on the French franc accelerated considerably in the week ended November 15 and still further this week. The Bank of France has increased its drawings on its swap facilities with the System and with European central banks, and has sold gold as well, in order to finance its exchange sales. Since April 30 the Bank of France has sold at a minimum $4.5 billion from the $7 billion of net reserves (including IMF gold tranche position) it had at the end of April. Published gross reserves do not reflect all this loss, because of the financing of exchange sales by over $1 billion of central bank credits and at least $300 million of swaps with French commercial banks.

Until about a week ago the current wave of mark speculation had not had much impact on sterling. However, starting on Wednesday, November 13 the demand for sterling began to weaken when the October trade figures showed a somewhat larger seasonally adjusted deficit than in September. The Bank of England lost large amounts of net reserves in moderating the decline in the sterling exchange rate from about $2.3900 on November 8 to its low of $2.3827 per pound on November 19.

There has been little evidence in the exchange markets of speculative reactions directly adverse for the position of the dollar. The tightening in the Euro-dollar market in October and November, however, is probably related to the increased tendency for liquid capital flows in Europe to go toward the mark rather than the dollar.

Actions taken this week to deal with the international exchange market crisis will be summarized in a supplement to this Green Book.

Financial markets in major industrial countries. Since about the end of September, interest rates in many countries have stopped declining. Previously, short-term rates had generally been easing off after midyear. That tendency has continued in Japan, but in most other countries short-term rates in October and early November were either level or rising seasonally. More pronounced changes have occurred in France, where the authorities have sought to stem losses of official reserves by raising short-term interest rates and -- in the past two weeks -- by taking strong measures to restrain bank credit expansion. Euro-dollar rates, too, have risen sharply -- by a full percentage point for maturities of 3 months or less -- since the latter part of September.

Long-term rates have been stable since midyear in Britain, Switzerland, and the Netherlands, and have moved down in Japan. On the other hand, the advance in German economic activity together with heavy U.S. and other foreign demands on the German capital market brought an end, two months ago, to the long downtrend in German long-term yields. In Canada, the May-to-September decline in long-term yields was sharply reversed in October-November.

The French authorities have to some extent shifted their economic priorities, adopting stronger measures in the past two weeks to bolster the external position of the franc at the risk of slowing down the rapid rise of domestic economic activity.

SHORT-TERM INTEREST RATES
(per cent per annum)

	1968		Recent Rates							
	Low	High	7/12	8/30	9/13	9/27	10/11	10/25	11/8	11/15
Euro-dollar										
Call	4.50 (1/26)	6.62 (6/28)	5.75	6.00	5.62	5.50	6.38	6.12	6.50	6.50
3-month	5.44 (2/16)	7.19 (5/31)	6.31	6.12	5.81	6.00	6.44	6.56	6.68	6.87
United Kingdom										
Treasury bill	6.44 (10/18)	7.47 (2/2)	7.09	6.84	6.78	6.50	6.47	6.50	6.53	6.52
Local authority	6.94 (11/15)	8.50 (5/24)	8.19	7.50	7.75	7.44	7.50	7.12	7.12	6.94
Germany										
Call money	1.00 (11/15)	3.56 (8/26)	1.88	2.50	1.88	3.38	2.81	3.06	1.94	1.00
3-month interbank	3.22 (1/23)	4.75 (10/31)	3.50	3.63	3.63	3.38	4.75	4.75	4.50	4.50
Switzerland										
3-month bank deposit	2.75 (5/7)	4.00 (11/13)	3.75	3.75	3.75	3.75	4.00	4.00	4.25	n.a.
France										
Call money 1/	4.75 (2/21)	9.61 (11/13)	6.00	6.00	6.75	6.88	7.75	6.88	7.25	9.62
12-month Treasury bill	5.02 (2/26)	7.81 (9/25)	6.02	5.92	6.76	7.81	7.54	7.30	7.37	8.11
Belgium										
3-month Treasury bill	3.75 (9/23)	4.40 (1/29)	3.75	3.75	3.75	3.80	3.90	4.00	4.15	4.25
Netherlands										
3-month local authority	4.44 (9/27)	5.88 (6/21)	5.75	4.94	4.88	4.44	5.13	5.25	n.a.	n.a.
Canada										
91-day Treasury bill	5.31 (8/30)	6.79 (5/3)	6.17	5.31	5.42	5.54	5.46	5.50	5.45	5.50
Japan										
Call loans repayable on a day's notice	7.30 (11/9)	8.40 (8/6)	9.13	8.03	8.03	8.03	7.67	7.67	7.30	n.a.

1/ Wednesday rates.
Note: If high or low rate prevailed on more than one date in period, only latest date is shown.

LONG-TERM INTEREST RATES
(per cent per annum)

	1968		Recent Rates							
	Low	High	7/12	8/30	9/13	9/27	10/11	10/25	11/8	11/15
Euro-dollar bonds										
Foreign governments	7.38 (2/23)	7.81 (7/5)	7.76	7.60	7.61	7.61	7.56	7.56	7.56	n.a.
United Kingdom										
3-1/2% War Loan 1/	7.12 (1/12)	7.77 (7/4)	7.53	7.55	7.59	7.55	7.59	7.51	7.65	7.80
Germany										
6% public authority	6.19 (10/7)	6.88 (3/21)	6.34	6.24	6.21	6.20	6.21	6.21	6.21	n.a.
France										
Public sector 2/	6.45 (5/10)	6.99 (6/21)	6.78	6.66	6.66	6.66	6.67	6.69	6.69	n.a.
Italy										
Composite 3/	6.48 (Feb.)	6.55 (June)	6.53	6.51	6.51	6.51	n.a.	n.a.	n.a.	n.a.
Belgium										
Government 4/	6.44 (June)	6.60 (Feb.)	6.52	6.45	6.58	6.58	6.58	6.58	6.59	6.59
Netherlands										
Government	6.21 (1/5)	6.65 (7/12)	6.65	6.52	6.47	6.47	6.48	6.50	n.a.	n.a.
Canada										
4-1/2% 1983 5/	6.45 (8/28)	7.22 (11/13)	6.65	6.45	6.56	6.74	7.03	7.04	7.07	7.22
Government (average) 5/	6.43 (8/28)	7.00 (5/22)	6.64	6.43	6.47	6.60	6.84	6.86	6.84	6.94
Japan										
Bank debentures 3/	8.00 (Aug.)	8.84 (June)	8.31	8.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Telegraph & Telephone bonds 3/	8.03 (Aug.)	8.83 (June)	8.25	8.03	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

1/ Thursday rates. 2/ Net of withholding tax. Weekly average. 3/ Monthly average.
4/ Beginning of month. 5/ Wednesday rates.
Note: If high or low rate prevailed on more than one date in period, only latest date is shown.

Earlier, a progressive tightening of the Paris money market raised the call money rate from 6 per cent in early September to about 8 per cent by mid-October. This action was taken in the light of the prospective large deficit in the current account of the balance of payments and the enlarged reserve losses after the removal of exchange controls in France on September 4 -- losses that were accentuated by speculation on a German mark revaluation. In addition to raising the rate at which it lends to the money market, the Bank of France employed for a while a new technique of making available, through its money market operations, only a part of the amount of funds applied for daily by each discount house at the rate set by the Bank.

In the latter half of October money market rates were allowed to recede, but they were raised again early in November when renewed speculation on the German mark increased the pressure on the franc in the exchange market. From September 5 to November 15, the rate on 1-year Treasury bills -- the principal instrument used in financing the mounting budget deficit -- rose on balance by more than 2 percentage points, while yields on long-term bonds showed very little change. On November 8 the call money rate on private paper was 7.25 per cent.

On November 13, the Bank of France increased its discount rate from 5 per cent to 6 per cent -- primarily for psychological reasons -- and at the same time announced measures to limit the expansion of bank credit. Most important was the imposition of a ceiling on short-term bank credit. Expansion of such credit from the end of September to the year end (not seasonally adjusted) is not to exceed 4 per cent.

Supporting this direct control, cash reserve requirements were increased, as was also the proportion of medium-term paper which banks must retain in their portfolios and so cannot rediscount. Earlier, ordinary rediscount quotas (from which approved medium-term paper is exempt) had been cut back on October 20 to their pre-June 20 levels, and special rediscount privileges for paper of small firms had been terminated at the end of October. All these measures reduce the liquidity of the banking system and have the effect of forcing the banks, in order to meet their cash reserve requirements, into the very narrow Paris money market, where the Bank of France can make borrowing very expensive for them. On November 15 the Bank's intervention rate was 7-5/8 per cent, but it was again limiting its assistance and some market borrowing was done at rates over 9 per cent.

In Germany, bond yields stopped declining in September, and would probably have moved up in subsequent weeks had not the Bundesbank resumed its support purchases of public authority bonds. Bundesbank purchases from September 24 through October 31 totaled DM 250 million, of which DM 101 million were made in the last week of October. Earlier, from mid-July to mid-August, the Bundesbank had been able to sell off some of its previous bond acquisitions. The average yield on 6 per cent public authority bonds has been at 6.21 per cent throughout October and early November.

A major component of the enlarged capital outflow which has offset much of Germany's current account surplus in 1968 has been the purchases of new foreign securities. Gross new bond issues by foreign borrowers in Germany were DM 4.1 billion ($1.0 billion) in the first three quarters of the year, up from DM 0.5 billion a year earlier, and were especially large in the third quarter, amounting to DM 2.1 billion. Much of these bonds have gone into German bank portfolios.

On November 4 the German Capital Market Committee subjected new bond issues of foreign borrowers to the same scheduling requirements as govern flotations by domestic issuers. Although the increasing volume of foreign issues was undoubtedly a factor tending to tighten the bond market, the purpose of applying the scheduling requirements to them was merely to prevent any undesired bunching rather than to reduce foreign access to the German capital market. In reflection of the German authorities' desire that Germany continue to be a net capital exporter, an Economics Ministry official recently warned German banks not to raise interest rates on loans or deposits, stating that a DM revaluation would be unavoidable if the capital outflow were not maintained.

The renewed speculative demand for marks this month has reflected widespread discussion -- notably in the European financial press -- of the large German trade surplus and of the precarious nature of the balance of payments offset via capital outflows, at a time when pressures on the resources of the German economy are growing.

Up to now there has been no turn toward active tightening of monetary policy in Germany, and changes in short-term rates since August have mainly reflected seasonal influences. For example, the rise of 1-3/8 percentage points in the 3-month interbank loan rate at the beginning of October was seasonal, in anticipation of year-end window dressing. Since about November 12, however, day-to-day money rates have fallen unusually low as the result of the influx of foreign money.

Elsewhere on the European continent, in October and early November short-term rates were moving up in Switzerland (seasonally), in the Netherlands, and in Belgium. The Belgian money market reportedly was tightened by shifts of bank funds to the Euro-currency markets. In contrasts, Sweden reduced its discount rate from 5-1/2 per cent on October 11, thereby restoring the bank loan and deposit rate structure existing before the emergency 1-point increase made at the time of last December's exchange crisis. The Swedish economy has not shown the energetic revival that was expected earlier this year; nevertheless, the monetary authorities have not taken aggressive steps in the direction of ease.

In Italy, the composite bond yield dipped a bit in July and August, the first decline in about 18 months, but held steady in September. Through July, new bond issues continued to run far ahead of the 1967 rate, rising to the equivalent of $3.2 billion (net of redemptions) for the first seven months compared with $2.0 billion a year before. Most of the increase has been in Treasury bond flotations to finance a much-expanded cash deficit on budgetary operations.

Italian commercial banks increased their net external assets in foreign currency by $400 million in June-September, while reducing their foreign-currency loans to domestic borrowers in those months. However, loan demand has continued to rise in Italy, and lira loans increased in this period by more than the reduction in foreign-currency loans.

Short-term interest rates in Britain continued to decline in September and part of October, the 3-month bill yield dropping to the neighborhood of 6-1/2 per cent compared with 7 per cent or more throughout the first half of this year. The fall in short-term rates after June was partly in anticipation of a Bank rate reduction. The eventual cut in the Bank of England's discount rate from 7-1/2 to 7 per cent on September 19 was timed to follow news of the Basle sterling balance financing arrangement and the August trade improvement. The narrowing of the forward discount on sterling from early September until last week served to keep the covered rate differentials against Euro-dollars from becoming more unfavorable to sterling placements.

Accumulating evidence that, despite the restriction of bank loan growth, consumer demand had been stronger than expected led to a stiffening of consumer credit regulations effective November 1. On automobiles, for example, the minimum down-payment was increased from 33-1/3 to 40 per cent and the maximum term was shortened from 27 to 24 months.

To aid the balance of payments, on October 11 the Bank of England forbade sterling financing of trade between third countries (outside the sterling area) and gave banks until November 25 to call outstanding loans, currently estimated at £120 million. This will result in a one-time reserve gain of that amount.

Bond yields in Britain have been almost unchanged since July, remaining at high levels that are without precedent in recent times.

The tone of Canadian financial markets changed quite abruptly in September, following the rather steep declines in both short- and long-term rates in June-August. Yields on long-term government bonds rose in September and early October nearly to the peak levels of last

May, while the Treasury bill yield failed to decline further after August. The main influences on Canadian rates were probably the upturns in short- and long-term rates in the United States after end-July. However, trends in Canadian rates have also been affected by domestic liquidity changes influenced by the balance of payments: the August-October rates of increase in bank reserves and in the money supply were only about one-half as large as those in May-July, when Canadian official external reserves were increasing more rapidly than in the more recent period.

The revised budget estimates presented to Parliament on October 22 show a much larger deficit for the current fiscal year (ending next March 31) than had been expected. This has increased the likelihood the government will borrow again in the long-term capital market before the end of this calendar year -- unless the autumn Canada Savings Bond campaign proves very successful. The government was last in the capital market in October, when it sold Can. $535 million gross to raise Can. $275 million of new funds.

Since August 7, when the Bank of Japan reduced its discount rate from 6.21 per cent to 5.84 per cent, the average interest rate charged by commercial banks on loans and discounts has tended to decline. Money market rates have fallen considerably from the highs reached around midyear. The rate for call loans repayble on one day's notice fell from 8.40 per cent before August 7 to 7.30 per cent by November 1. Yields on bonds were also declining after June, the yield on the Nippon Telegraph and Telephone bonds dropping from 8.83 per cent in June to 8.03 per cent in August. (Later data are not available.)

In view of many indications that the pace of expansion in Japanese economic activity has quickened again after the brief period of pause last winter, the Bank of Japan has decided against a further reduction in the discount rate at this time. In a somewhat unusual step, Governor Usami announced on October 23 that the discount rate would not be reduced in the near future.

U.S. balance of payments. The balance of payments results for the third quarter have now been published, but still with many important components missing. Several elements point to improvements in the underlying situation during that period. Most evident is the gain in the trade balance, though the annual rate of $1.0 billion (balance of payments basis) remains very weak and, as discussed below, probably would have been lower if not for the effects of a dock strike threat. Gains in those accounts for which data are not yet available can only be inferred, but these missing elements had accounted for average net payments (seasonally adjusted) of $750 million per quarter in the first half of 1968, and they dropped to an insignificant amount in the third quarter. Prominent in this collection of missing elements, which appear to have been especially favorable in July, are direct investment capital flows and income, short-term corporate capital, and services, including tourism. It seems reasonable to assume that much of the improvement in the third quarter reflected a smaller outflow of U.S. funds for direct investment -- which was expected in view of the large amounts of funds available out of foreign borrowings -- together with larger income returns. It is more doubtful that there were significant gains in the other still-unknown categories, which are less volatile.

Receipts under various arrangements between the U.S. Government and foreign governments (primarily Canada and Germany) to help in financing the U.S. balance were about $580 million in the third quarter, compared to $840 million in the second and $350 million in the first. Thus the moderate gain in the liquidity balance from the second to the third quarters occurred in spite of a reduction in these receipts, although they remained very large.

Financing the U.S. balance of international transactions was accomplished with relative ease in the third quarter. There was no pressure on reserves, and even some increase in the gold stock through French sales to the United States. Foreign monetary authorities' holdings of claims on the United States increased by nearly $500 million, but the increase largely took the form of issues of special Treasury securities and additions to over-one-year time deposits. U.S. banks added nearly $1 billion to their liabilities to foreign commercial banks, mainly their branches in the Euro-dollar market, which was being fed by outflows from France.

As the fourth quarter opened, the October figures on the liquidity basis began to add up to a substantial deficit, even after taking into account the fact that October is seasonally an unfavorable month. Moreover, the figures for the first two weeks of November showed a further sizable deficit. October probably also showed a deficit on the official settlements basis, as there was probably only a small change in total U.S. liabilities to commercial banks and other private foreign accounts.

Very little is known at this stage about the components of our international transactions in October. Merchandise trade data are not available, but various indirect sources suggest that the trade balance was down from the September amount. Capital outflows to purchase new issues of the World Bank were large in October, and sales of Canadian issues were substantial in November. Transactions for official foreign accounts in October involved primarily a $125 million receipt under the German offset agreement, whereas in September receipts from foreign monetary authorities had totalled $405 million, including $250 million invested by Canada in U.S. Treasury non-liquid securities and $135 million placed in long-term deposits by a few countries in Asia and by Argentina. Sizable receipts from foreign reserve holders for investments in non-liquid claims on the U.S. are projected for the rest of the year, including a $100 million purchase by Japan of Export-Import Bank certificates on November 15.

U.S. foreign trade. With a greater increase in exports than in imports, the U.S. export surplus in the third quarter expanded sharply to an annual rate of $1.1 billion (balance of payments basis), compared with less than a $100 million rate in the first half of this year. It is believed that a considerable portion of this improvement -- perhaps as much as one-half -- stemmed from the acceleration in shipments in anticipation of the longshoremen's strike at East and Gulf Coast ports on October 1, which was greater for exports than imports. Although October trade data are not available there are some indications of a considerable drop in both exports and imports in October.

U.S. MERCHANDISE TRADE
(billions of dollars; seasonally adjusted annual rates)

	1967					1968		
	Year	I	II	III	IV	I	II	III
Agricultural exports 1/	6.5	6.6	6.6	6.4	6.2	6.7	6.2	6.4
Nonagricultural exports 1/	24.5	24.5	24.5	24.7	24.6	25.4	27.3	29.4
Total exports:								
Census basis	30.9	31.1	31.1	31.1	30.8	32.1	33.5	35.9
Balance of payments basis	30.5	30.6	30.8	30.5	29.9	31.7	33.2	35.4
Total imports:								
Balance of payments basis	27.0	26.7	26.4	26.2	28.6	31.5	33.3	34.3
Trade balance	3.5	3.9	4.4	4.3	1.3	0.2	-0.1	1.1

1/ Census basis.

Exports in the third quarter advanced sharply to an annual rate of $35.4 billion (balance of payments basis). This was 9 per cent higher than in the first half of the year, which in turn was 7.5 per cent greater than in the second half of 1967. The apparent acceleration of growth beyond a 15 per cent annual rate was perhaps largely an effect of the strike threat.

A commodity breakdown of the third quarter advance (without adjustment for the strike effects) indicates widespread strength in export demands. More than three-fourths of the increase over the first half year average was in machinery, chemicals, other industrial materials and consumer goods. Earlier, much of the strength had been concentrated in aircraft, automotive equipment to Canada, and refined copper (after the end of a nine-month copper strike in April). Shipments of agricultural products rose from the relatively low level of the second quarter, but remained below those of the first quarter.

The area composition of export gains has also shifted. In the third quarter more than half the rise over the first half was in shipments to Western Europe, mainly to the EEC countries but also to the U.K., Sweden and Switzerland. These countries had accounted for only about 10 per cent of the export expansion from the latter half of 1967 to the first six months of 1968. The advance was probably inflated, however, by some postponement of purchases from the second to the third quarter to get the benefit of lower rates of duty with implementation of the first 40 per cent of the Kennedy Round of tariff negotiations on July 1. Sales to Japan continued to grow at about the same rate as in the first half of the year. Shipments to Canada, Latin America and Asian and African countries (excluding South Africa) increased further but at a slower pace than earlier, and there was no further increase in exports to Australia, New Zealand and South Africa.

U.S. share of world markets. While U.S. exports have been rising this year, there has been an equally large increase in exports by other countries. Consequently the U.S. share of world exports (excluding those to the U.S.) in the first half of 1968 (the latest period for which data are available) was about the same as in the corresponding period of 1967. In finished manufactures we had about 24 per cent of total trade in the first six months of this year, a somewhat higher proportion than in the year earlier period. This improvement was attributable largely to chemicals, aircraft and cars to Canada.

In the first six months of this year, the United States supplied about 10.5 per cent of total imports of the European OECD countries, a slightly smaller share than in the first half of 1967 and about one percentage point below that of 1964. A downtrend was particularly evident in our share of shipments to Germany and France, and our share of Japanese imports continued to drift downward. The United States strengthened its position in Canada, accounting for nearly 75 per cent of that country's total imports in the first half of this year.

Imports in the third quarter continued to expand but at a slower rate than in the first half -- an annual rate of 15 per cent compared to 36 per cent. A very preliminary adjustment for the effects of the threatened October dock strike would reduce the import growth rate in the third quarter to about 12 per cent.

All major categories of imports displayed a slowing rate of increase in the third quarter, except foodstuffs. The sharp rise in coffee and whisky imports can be attributed to the threatened dock strike. Higher U.S. prices stimulated increased imports of fish and meat.

Imports of industrial materials other than copper and steel rose at an annual rate of only 3 per cent in the third quarter, much slower than the 25 per cent rate of advance in the first six months. Copper imports fell while those of steel advanced further but the

U.S. MERCHANDISE IMPORTS BY PRINCIPAL COMMODITY CATEGORIES
(millions of dollars; seasonally adjusted)

	1967					1968		
	Year	I	II	III	IV	I	II	III p/
Total Imports 1/	26,816	6,688	6,593	6,542	7,102	7,823	8,232	8,455
Food & Beverages	4,586	1,180	1,126	1,129	1,173	1,219	1,334	1,433
Industrial supplies	11,780	3,018	2,893	2,766	3,159	3,524	3,501	3,484
Fuels	2,235	564	579	503	599	591	592	645
Building materials	754	186	179	189	201	244	238	265
Iron and Steel	1,422	352	334	341	403	472	522	583
Other metals	2,862	753	709	635	788	1,012	901	721
(Copper) 2/	563	126	132	113	192	296	217	100
Capital equipment	2,382	605	581	600	600	670	681	722
Machinery	2,252	569	554	568	565	625	634	701
Auto vehicles & parts	2,627	575	651	683	738	893	1,055	1,107
Canada	1,593	325	411	432	443	551	628	628
Other	1,034	250	240	251	295	342	427	479
Consumer goods 3/	4,221	1,049	1,031	1,043	1,096	1,219	1,314	1,375
Durable	2,190	557	530	535	566	613	651	789
Nondurable	1,564	385	382	388	408	484	502	479
All other	1,220	261	311	321	336	298	354	334

1/ Census basis.
2/ Not seasonally adjusted.
3/ Excluding food and automotive.
p/ Preliminary.

rate of increase was more moderate than in the first half. Decreased purchases of other metals and newsprint offset increases in imports of petroleum, textile fabrics and building materials.

Sales to consumers of foreign cars (other than from Canada) expanded faster than total sales here, raising their share of the domestic market to 11.5 per cent, compared with 10.5 per cent in the first half. Imports of cars from Canada rose less rapidly than before.

Trade balance shifts. The magnitude and direction of our trade balance (on a balance of payments basis) with various areas changed considerably this year with the greater growth in imports than in exports. Our export balance has increased only with Latin America. The customary surplus with Canada had moved into deficit in the fourth quarter of 1967, and this increased to over $3/4 billion at an annual rate in the first nine months of this year. Our export balance with Western Europe this year through September has contracted sharply to less than 15 per cent of the $1.8 billion surplus rate in the corresponding period of 1967. Part of this shift was in our trade with Britain as imports from that country rose sharply. The trade deficit with Japan so far this year has increased to an annual rate of $1 billion, three times as large as in the same months of 1967.

U.S. EXPORTS AND IMPORTS BY PRINCIPAL AREAS -- BALANCE OF PAYMENTS BASIS
(billions of dollars at seasonally adjusted annual rates)

	1966	1967		1968	
	2nd half	1st half	2nd half	1st half	3rd qtr. p/
Exports					
Total	29.6	30.7	30.2	32.5	35.4
Canada	6.7	7.1	7.1	7.6	7.8
United Kingdom	1.7	1.9	1.9	1.9	2.0
Other Western Europe	7.7	7.7	7.9	8.1	9.7
Japan	2.5	2.6	2.7	2.9	3.1
Latin America	4.2	4.2	4.0	4.5	4.9
Other	6.8	7.2	6.6	7.5	7.9
Imports 1/					
Total	26.5	26.6	27.4	32.4	34.3
Canada	6.4	6.8	7.3	8.6	8.4
United Kingdom	1.9	1.7	1.7	2.0	2.4
Other Western Europe	6.2	6.1	6.7	7.9	8.8
Japan	3.1	3.0	3.0	3.8	4.2
Latin America	4.0	4.0	3.8	4.2	4.7
Other	4.9	5.0	4.9	5.8	5.8

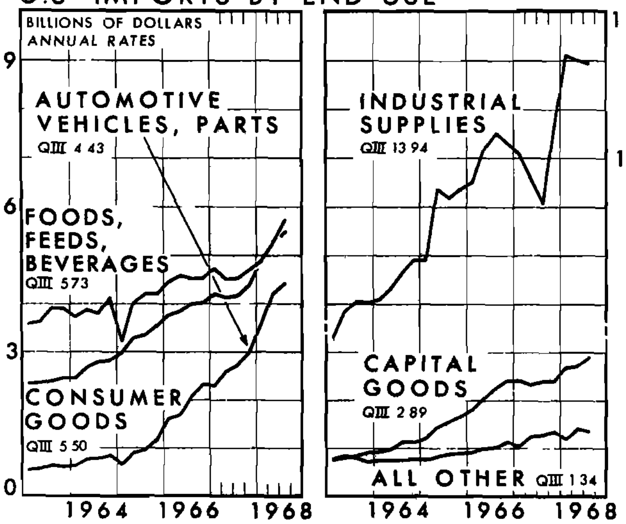
p/ Preliminary.
1/ Adjustments to balance of payments basis are staff estimates.

Note: Third quarter 1968 data may be overstated because of threat of October dock strike.

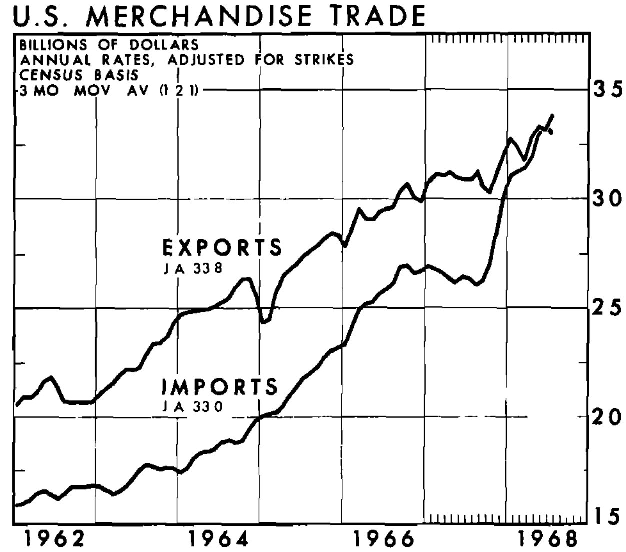
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

U.S IMPORTS BY END USE



U.S. MERCHANDISE TRADE



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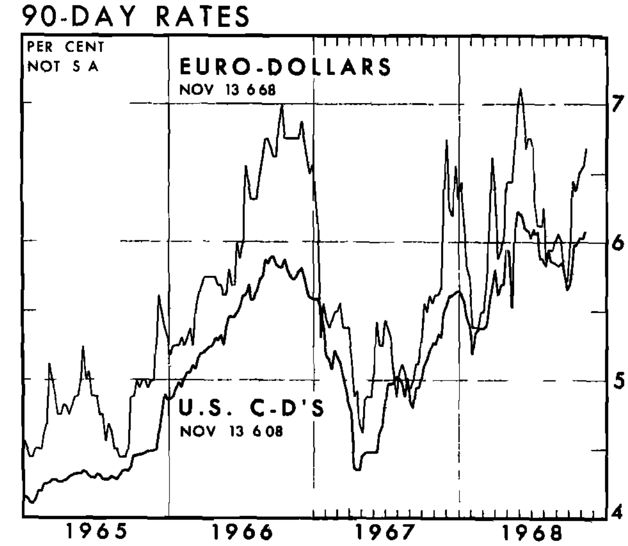

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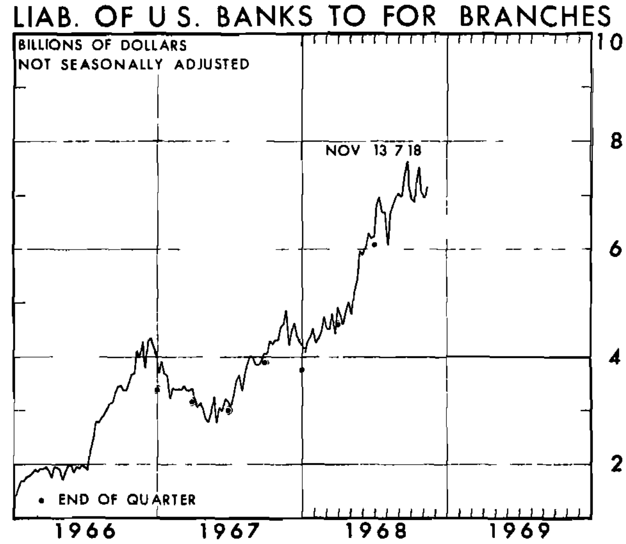
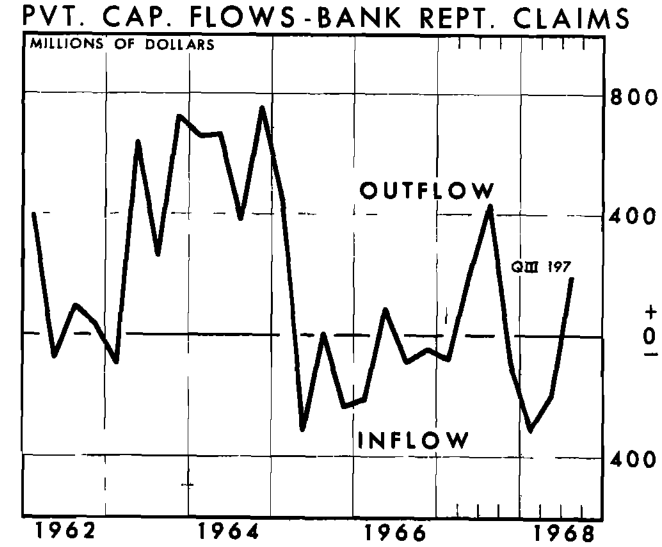


PVT. CAP. FLOWS-BANK REPT. CLAIMS



U.S. BANK CREDIT OUTFLOWS