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CONFIDENTIAL (FR)

CURRENT ECONOMIC and FINANCIAL CONDITIONS

Prepared for the Federal Open Market Committee

By the Staff

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

December 11, 1968

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SUMMARY AND OUTLOOK

Outlook for economic activity

A wide range of economic information becoming available in recent weeks points to significantly stronger GNP growth in this and the following quarter than was projected earlier. Impressive has been the strength in business plant and equipment spending plans, the continuing strength and upward revision in employment data, the sharp further drop in the unemployment rate last month, and the resumed upward thrust in retail sales in November. As a result, real GNP growth in this quarter is now estimated at a 4-1/3 per cent annual rate--only a little less than in the third quarter. (GNP growth this quarter could well be even larger than this, particularly since preliminary data--just received--on trade inventory accumulation for October indicate a much sharper increase than allowed for in the staff projection for the fourth quarter as a whole.)

Assuming that the October inventory figure does not signal a continued excessive build-up in stocks--only to be followed by a sharp inventory adjustment early next year--GNP growth in the first quarter is projected at around a 3 per cent rate, with prospects still for a further slowing in expansion next spring.

The pickup in business capital spending is projected to carry over strongly into the first quarter of next year, but a slowing is now scheduled for the second quarter. Also, an increase in social security taxes in January and large payments on 1968 tax liabilities in both the first and second quarters are expected to dampen the rise of spendable income, which in turn may reduce the rate of growth of consumption somewhat further. The fourth quarter moderation in consumption growth mainly reflects reduced purchases of automobiles and some other durables, with nondurable goods demands thus far continuing strong.

Only modest further stimulus is anticipated from other sectors of demand in the first half of next year. Little further growth in residential construction from current advanced levels is anticipated, reflecting recent tightening in mortgage markets. Increases in Federal expenditures have already shown signs of moderating and they may level off after the first quarter. After a series of deficits rising to over $10 billion annual rate in the second quarter of this year, Federal expenditures are expected to be about in balance with receipts by the year's end, and the budget (NIA basis) may show a surplus early next year.

Outlook for prices and resource use.

Sustained consumer demands and an apparent resurgence in business investment demands have brought a steady rise in industrial production since August. The rise has not been large enough to make any appreciable dent in the sizable margin of unutilized manufacturing capacity and production expansion from here on is likely to lag somewhat the further rise in capacity. Nevertheless, investment spending appears to be accelerating, partly in response to heightened inflationary expectations and the pressure of the continued rise in labor costs.

Employment gains in nonmanufacturing activities continue strong; even in manufacturing a moderate upturn developed in October and November following several months of stability. The unemployment rate dipped to 3.3 per cent in November, with the rate for adult males down to only 2 per cent. A moderate rise in unemployment is projected in the first half of 1969, but the rate is likely to remain below 4 per cent. Tightness in the labor market should lead to continuing strong upward pressures on labor costs, although the smaller second year wage increases scheduled in many labor contracts should be a moderating factor.

The consumer price index rose sharply in October after increasing moderately for two months. Although the October rise partly reflected a temporary bulge in food prices and an increase for autos at the beginning of the model year, retail prices of most industrial commodities and of services have been rising at a fast pace this fall. At wholesale, the price of a major steel product was cut sharply in early November but this has since been mostly rescinded; apart from steel, the rise in industrial prices is persisting, although at a somewhat slower pace than in early autumn. The moderate easing of demand pressures projected for the first half of 1969 should result in some slowing of the advance in the general price level.

Credit demand outlook

Business loans at banks are expected to show a large rise in December following the sharp spurt in November. The December expansion will reflect in part the substantially increased level of tax and dividend payments this year compared with a year ago. Thereafter, loan demands are likely to moderate. There are some factors in prospect which could keep demand to the sizable side. The recently announced step-up in planned plant and equipment expenditures implies increased working capital requirements in several supplying sectors. And if the rate of business inventory accumulation in the early months of 1969 continues close to fourth quarter levels, this would tend to sustain demands for bank credit. On the other hand, business short-term credit demands could contract markedly early next year should there be an excessive inventory build-up in late 1968 and a consequent sharp inventory readjustment in early 1969.

With the latest economic projection implying a widening gap between internally generated funds of corporations and their capital outlays, business credit demands are also likely to lead to a continued fairly large volume of capital market financing. The recent record level of bond yields has led to some postponements, which have reduced the December calendar to a relatively low level. But a snapback in the volume of offerings is anticipated for early next year. Moreover, it is possible that corporations may tend to over-finance early next year relative to needs in order to accumulate funds so as to avoid a sharp liquidity squeeze in the second quarter when tax payments reach a seasonal peak. This would be an especially likely development should businesses begin to have stronger doubts about the future availability of bank credit.

The volume of offerings is likely to remain large in the municipal market in early 1969, but below the peak months of 1968. While the continued rise in capital outlays and the financing of some very large special projects will maintain the volume of offerings, the calendar will no longer be enlarged by industrial revenue financing. Further interest rate pressures--particularly if banks reduce their net purchases of tax-exempts--could produce concellations of new issues, thus marginally reducing the volume of new financing.

Assuming that the new Federal budget to be published in early January indicates relatively small Federal financing needs, capital market yields could back away from their peaks, although credit demands from State and local governments and businesses may be large enough to keep any such declines to modest proportions. However, a more restrictive monetary policy has probably not been completely discounted by the market, and could, if it developed, lead to further upward interest rate pressures in the short run.

Outlook for supply of funds

Net inflows of time and savings deposits to banks and thrift institutions are likely to be reduced more than usually as a result of withdrawals around the mid-December tax period and the year-end interest-crediting period. With the latest CD maturity survey showing December maturities at a new high of $6.5 billion, a large CD run-off is anticipated, given current relatively high market interest rates that leave CD's little or no margin of competitiveness except for funds of a local nature or from regular customers. Whether these losses can be recouped in early 1969--when maturities are also heavy--will, of course, depend on interest rate developments. As of now, it would appear that banks' progress in that respect would be relatively slow, even assuming some abatement of short-term market interest rate pressures.

Inflows of consumer-type time and savings deposits at commercial banks have continued relatively strong, despite the relatively high interest rates on market instruments. It is expected, however, that some withdrawals may be made during the interest-crediting period to take advantage of attractive market opportunities. Moreover, there may be reduced net inflows early next year in conjunction with the projected further decline in personal savings.

Demand deposit growth is not expected to be an exceptionally large source of funds to banks in the early part of next year. Growth in transactions needs for such deposits by businesses and consumers are expected to moderate. However, there might be some tendency for corporations and investment institutions to build up demand balances--as well as interest-bearing liquidity instruments--for precautionary reasons, should credit markets show indications of further tightening. U.S. Government demand deposits are not likely to expand sharply, although at some point in the first quarter of 1969 the Treasury may have to raise $1.5 - $2.5 billion of new cash, possibly through a financing payable in tax and loan accounts.

While net savings inflows to nonbank thrift institutions in the fourth quarter may be somewhat above the 6 per cent annual rate of growth that prevailed in the first nine months of 1968, the current level of market yields should lead to an enlargement of withdrawals over the interest-crediting period. Recent comments from California savings and loan associations suggest that such developments may already be in progress.

With the level of mortgage commitments of thrift institutions already unusually high relative to inflows, some cut-back in new commitment volume is to be expected; the cut-back might be quite large since net savings inflows to the institutions seem likely to fall below earlier optimistic expectations. Given the recent rise in bond yields, these considerations suggest that returns on mortgages may be under further upward pressure in the period ahead.

International Developments

The underlying trend in U.S. trade and other current transactions in coming months is still expected to be one of modest improvement, but recent evidences of strong domestic demand suggest that we may have to raise the projection of imports. Merchandise trade figures for October show that much of the improvement in the trade balance in the third quarter reflected the temporary effects of anticipation of the October 1 port strike. For the July-October period, the trade surplus was at an annual rate of only $1/2 billion--marginally better than during the first half year but still far below the $3-1/2 billion rate for all of 1967. With the Taft-Hartley injunction against the port strike scheduled to expire on December 20, further distortions in monthly trade figures are to be expected.

The measures recently taken by Germany, Britain, and France to affect their foreign trade positions seem unlikely to have significant net effects on U.S. trade with those countries, although the German measures may help to arrest the deterioration of our competitive position vis-a-vis German products in third markets.

After a brief respite at the end of November during which some speculative positions were unwound, foreign exchange markets have again become unsettled, with sterling weak and the German mark strong. The measures cannot quickly alleviate the underlying causes of unease, which include the persistence of the large German trade surplus despite the domestic German boom, the disappointingly high level of U.K. imports, the pressing need for rescheduling of British short-term official debt, and the social and economic difficulties with which France is wrestling. If new exchange market crises occur in the months ahead, the dollar may prove more vulnerable than it appeared to be during the November 1968 crisis. A substantial U.S. payments deficit on the official reserve transactions basis of calculation had already re-emerged in the past two months, as inflows of foreign liquid funds through the Euro-dollar market subsided. However, private and official transactions of relatively transient kinds in December may serve to hold down the fourth-quarter deficit on both bases, and particularly on the liquidity basis.

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.)	Nov'68	79.0	78.8	78.0	1.3	3.3
Unemployment (mil.)	"	2.6	2.9	3.0	-11.4	-3.0
Unemployment (per cent)	"	3.3	3.6	3.8	--	--
Nonfarm employment, payroll (mil.)	"	68.8	68.6	66.8	3.0	5.9
Manufacturing	"	19.8	19.8	19.5	1.5	1.4
Other industrial	"	8.3	8.2	8.1	2.1	3.0
Nonindustrial	"	40.7	40.6	39.1	4.0	8.8
Industrial production (57-59=100)	Oct'68	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)	"	108.8	108.4	105.9	2.7	4.0
Sensitive materials (FR)	"	107.9	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/	"	122.9	122.2	117.5	4.6	7.3
Commodities except food	"	114.7	113.9	110.6	3.7	6.6
Food	"	120.9	120.4	115.7	4.5	4.6
Services	"	136.6	136.0	129.1	5.8	10.1
Hourly earnings, mfg. ($)	Nov'68	3.08	3.07	2.88	6.9	11.6
Weekly earnings, mfg. ($)	"	125.59	125.64	117.11	7.2	10.5
Personal income ($ bil.) 2/	Oct'68	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.)	Nov'68	29.1	28.7	26.4	10.5	13.6
Autos (million units) 2/	"	8.8	9.1	7.3	21.3	7.1
GAF ($ bil.)	"	8.0	7.7	e7.1	11.5	16.9
Selected leading indicators:						
Housing starts, pvt. (thous.) 2/	Oct'68	1,548	1,592	1,496	3.5	83.2
Factory workweek (hours)	Nov'68	40.8	41.0	40.7	0.2	-1.0
New orders, dur. goods ($ bil.)	Oct'68	30.3	28.4	25.7	18.0	14.9
New orders, nonel. mach. ($ bil.)	"	5.4	5.2	4.4	23.7	23.4
Common stock prices (1941-43=10)	Nov'68	105.40	103.76	92.66	13.7	30.1
Manufacturers' Inventories, book val. ($ bil.)	Oct'68	87.6	87.1	82.0	6.9	14.7
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.

e Estimated.

SELECTED DOMESTIC FINANCIAL DATA

	Week ended Dec. 7	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent)	5.60	5.56	6.28	5.58
U.S. Treas. bills, 3-mo., yield (per cent)	5.66	5.50	5.69	4.96
U.S. Treas. bills, 1-yr., yield (per cent)	5.69	5.58	5.75	5.10
Net free reserves 2/ ($ millions)	-114	-277	21	-471
Member bank borrowings 2/ ($ millions)	532	575	807	337
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	5.93	5.75	5.93	5.45
20-year U.S. Treas. bonds 1/	5.76	5.64	5.76	5.18
Corporate new bond issues, Aaa 1/	6.88	6.71	6.88	6.13
Corporate seasoned bonds, Aaa adj. 8/	6.33	6.23	6.33	5.95
Municipal seasoned bonds, Aaa 1/	4.40	4.36	4.40	3.80
FHA home mortgages, 30-year 3/	--	7.29	7.52	7.28
Common stocks, S&P composite series 4/				
Prices, closing (1941-43=10)	107.94	106.67	107.94	97.33
Dividend yield (per cent)	2.87	2.89	3.14	2.94

	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/	Jan. e/	1,250	1,095	414	144
State & local govt. public offerings	Jan. e/	1,100	1,100	-317	-326
Comm. & fin. co. paper (net change in outstandings) 6/	Oct. 1968	+575	+364	+18	+453

	Latest month	Out-standings Latest month	Change: Latest month	Change: 3-month average	Annual rate of change from: Pre-ceding month	Annual rate of change from: 3 months ago	Annual rate of change from: 12 months ago
		($ billions)			(per cent)		
Banking (S.A.)							
Total reserves 1/	Nov. 27, '68	26.64	0.10	0.10	4.5	4.7	5.8
Credit proxy 1/	" " "	293.8	2.9	2.6	12.0	11.1	7.7
Bank credit, total 6/	" " "	381.6	2.0	3.7	6.3	12.1	10.8
Business loans	" " "	94.3	1.6	1.0	20.7	12.7	11.1
Other loans	" " "	156.1	1.9	2.1	14.8	17.1	13.3
U.S. Govt. sec.	" " "	61.0	-3.2	-1.0	-59.8	-18.2	--
Other securities	" " "	70.2	1.7	1.6	29.8	28.7	16.2
Total liquid assets 1/ 6/	Oct. 30, '68	697.0	9.1	6.2	15.9	10.9	8.4
Demand dep. & currency 1/	Nov. 27, '68	192.1	1.8	0.6	11.3	3.8	6.1
Time & sav. dep., comm. banks 1/	" " "	202.0	2.5	2.7	15.0	16.9	11.0
Savings, other thrift instit. 6/	Oct. 30, '68	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 Dec. 11. 3/ Latest figure is monthly average for Oct. 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 Dec. 15. 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^r	II^r	III^p	Oct^p
				Seasonally adjusted				
Goods and services, net 1/	1,293	1,269	1,359	848	326	592	878	
Trade balance 2/	975	1,098	1,085	319	57	5	262	-140
Exports 2/	7,661	7,703	7,626	7,478	7,924	8,325	8,840	2,532
Imports 2/	-6,686	-6,605	-6,541	-7,159	-7,867	-8,320	-8,578	-2,672
Services balance	318	171	274	529	269	587	616	
Remittances and pensions	-262	-392	-358	-263	-266	-286	-300	
Govt. grants & capital 3/	-1,176	-1,039	-988	-1,008	-1,164	-1,072	-953	
U.S. private capital	-975	-1,104	-1,788	-1,638	-707	-1,448	-1,768	
Direct investment	-653	-651	-902	-815	-374	-1,035	-1,102	
Foreign securities	-259	-199	-476	-332	-385	-83	-313	
Banking claims	79	-198	-435	95	303	196	-194	
Other	-141	-56	24	-586	-251	-526	-159	
Foreign capital, nonliq.	865	1,202	766	353	1,367	2,479	1,740	
Official foreign accts.	382	724	18	150	344	927	430	
Long-term deposits	304	584	-215	147	122	145	118	70
U.S. Govt. liab.	78	140	233	3	222	782	312	
Int'l. institutions 4/	70	97	117	30	-94	-20	51	136
Other 5/	413	381	631	173	1,117	1,572	1,259	
Errors and omissions	-250	-458	207	-34	-243	-429	444	
	Balances, with and without seasonal adjustment (- deficit)							
Liquidity balance, S.A.	-505	-522	-802	-1,742	-687	-164	41	
Seasonal component	267	302	-410	-159	428	236	-491	
Balance, N.S.A.	-238	-220	-1,212	-1,901	-259	72	-450	-584
Official settlements balance, S.A.	-1,764	-806	247	-1,082	-556	1,528	444	
Seasonal component	485	101	-272	-314	646	35	-353	
Balance, N.S.A. 6/	-1,279	-705	-25	-1,396	90	1,563	91	-447
	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, except for latest revisions.
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. Little moderation has been observed in the momentum of economic activity, with the pace of expansion continuing excessively rapid. The fourth quarter increase in GNP in current dollars will probably equal the $18 billion gain of the third quarter, although with prices rising more rapidly, the rate of growth in real GNP may dip slightly, from 5 per cent to 4.3 per cent. (GNP growth in this quarter could well be even larger than this if the sharp spurt in trade inventories in October--just received--signals a much higher rate of inventory accumulation than now projected for the quarter.)

The major factor responsible for the stronger fourth quarter picture than had been expected as recently as three weeks ago is the outlook for a resurgence in fixed capital spending by business, as reported by the recently released Commerce-SEC survey of intentions to invest in plant and equipment. An upward trend in orders for machinery and equipment since mid-year appears to confirm the new higher spending plans, which may reflect in part heightened inflationary expectations associated with recent and anticipated price advances. The Commerce-SEC survey indicates an increase of $7.7 billion, annual rate, in expenditures between the third quarter of 1968 and the first quarter of 1969, followed--surprisingly--by a dip in spending in the second quarter. Actual outlays in the third quarter of this year (and the previous quarter as well) fell well below previous expectations, however, and it seems possible that progress in installing the projected new capacity also could be slower than anticipated in the new survey, and the rise may be stretched out over a longer period. In our projections, we have smoothed the projected pattern somewhat, assuming a continuing shortfall in realization of plans in this and the next quarter, but a further rise in the spring of next year (instead of the decline shown in the survey) as actual spending catches up with plans.

Overall activity this quarter apparently has also been supported by the rise in residential construction expenditures, which followed the summer pickup in new housing starts. Starts may again exceed an annual rate of 1.5 million units this quarter, despite some recent tightening in mortgage markets, but residential construction activity is likely to show little further increase during the first half of next year because of limited availability of funds. (It should be noted that this projection assumes continuation of about the prevailing complex of credit conditions, and does not assume a significant contraction in the availability of mortgage funds.)

Consumer expenditures are running slightly higher than previously expected, but the increase for the current quarter is still likely to average substantially less than in the third quarter. Unit sales of new cars have been slightly lower than in the third quarter. Sales of household durables also appear less strong, but nondurable goods sales continue to rise, with price increases for apparel and food helping to push up expenditures. In total, consumer expenditures appear likely to be up by about $10 billion in this quarter. The rise in personal income is likely to be slower than earlier this year, but the recent upward revision of employment estimates in October as well as greater-than-expected exuberance in the economy suggest that income gains will be larger than we had expected last month.

Strength in consumption is expected to diminish further early next year. Disposable income growth will be curbed in the first half of 1969 by two factors--a somewhat slower rise in personal income and a sharp increase in tax payments. Final payments on 1968 income taxes in the first half of 1969 are expected to run unusually large in view of the fact that the surcharge took effect in April-July but withholdings were not raised until July. These additional tax payments are likely to amount to about $2 billion in the first quarter and $4 billion in the second, at annual rates. There is also a further increase of about $1.5 billion, annual rate, in the social security tax effective January 1, 1969; together these cut the increase in disposable income by about $3.5 billion in the first quarter and $5.5 billion in the second quarter of next year.

Although consumers may allow their rate of saving to drop somewhat further with a lessened rise of after-tax income next year, a cut as sharp as in the third quarter of this year seems unlikely. Therefore, slower growth in after-tax incomes should be reflected in less buoyant consumer markets. Purchases of durables are likely to level off, or even decline somewhat. In addition, a slower advance in non-durables goods purchases seems likely, reflecting in part a projected lowering of food prices.

Federal expenditures for goods and services are apparently continuing to show smaller rises, although information is complete only for October. CCC purchases of farm commodities are expected to continue to rise through the winter months, along with a small increase in defense.

The sharp increase in Federal income tax receipts in the second half of this year combined with the hold-down in outlays resulted in a reduction in the NIA deficit from an annual rate of over $10 billion in the second quarter to an estimated half billion dollars in the fourth. The Federal Government is expected to move into surplus in the first quarter of next year and increase the rate of surplus in the second quarter.

With continued strong demands, inventory accumulation is shown to remain at about the third quarter rate through the first quarter of next year. Some unintended buildup may occur in the second quarter, if final demand weakens as expected.

On balance, although the continued upward momentum of business investment should partly offset the expected moderation of other sectors, the overall rate of economic growth is likely to be off in the first quarter. GNP is projected to rise at the rate of about $14.5 billion and the real rate of growth to slacken to less than 3 per cent.

The rise in GNP in the second quarter is projected to ease further to about $13 billion, and growth in real output could slow to under 2.5 per cent. With growth of demand slackening, the pace of price and wage increase should begin to slow and the GNP deflator, now estimated to be running at close to a 4 per cent rate, may edge down to a 3.5 per cent rate of increase by the second quarter.

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	1968 IV Projected	1969 I Projected	1969 II Projected
Gross National Product	789.7	861.0	831.2	852.9	871.0	889.0	903.5	916.5
Final sales	783.6	854.2	829.1	842.1	863.5	882.0	896.5	908.0
Private	605.2	657.1	638.6	646.4	663.9	679.3	690.5	700.5
Personal consumption expenditures	492.2	534.9	519.4	527.9	541.1	551.3	560.0	567.5
Durable goods	72.6	82.7	79.0	81.0	85.1	85.8	85.7	85.0
Nondurable goods	215.8	231.2	226.5	228.2	232.7	237.4	241.8	245.8
Services	203.8	221.0	213.9	218.7	223.4	228.1	232.5	236.7
Gross private domestic investment	114.3	126.5	119.7	127.3	127.1	131.7	134.7	137.5
Residential construction	24.6	29.9	29.1	29.5	29.5	31.3	31.4	31.7
Business fixed investment	83.6	89.8	88.6	87.0	90.1	93.4	96.3	97.3
Change in business inventories	6.1	6.9	2.1	10.8	7.5	7.0	7.0	8.5
Nonfarm	5.6	6.6	1.6	10.4	7.3	7.0	7.0	8.5
Net Exports	4.8	2.5	1.5	2.0	3.3	3.3	2.8	4.0
Gov't. purchases of goods & services	178.4	197.1	190.5	195.7	199.6	202.7	206.0	207.5
Federal	90.6	100.1	97.1	100.0	101.2	101.9	103.0	102.5
Defense	72.4	78.8	76.8	79.0	79.6	79.9	80.5	80.5
Other	18.2	21.2	20.3	21.0	21.5	22.0	22.5	22.0
State & local	87.8	97.1	93.4	95.6	98.4	100.8	103.0	105.0
Gross national product in constant (1958) dollars	673.1	707.1	692.7	703.4	712.3	720.0	725.0	729.2
GNP implicit deflator (1958=100)	117.3	121.8	120.0	121.2	122.3	123.5	124.6	125.7
Personal income	628.8	686.0	662.7	678.1	694.3	709.0	720.5	733.0
Wages and salaries	423.4	463.5	448.3	457.6	469.0	478.9	488.5	498.2
Disposable income	546.3	589.3	574.4	586.3	592.7	603.6	610.3	618.5
Personal saving	40.2	39.9	40.8	44.0	37.1	37.6	35.4	35.9
Saving rate (per cent)	7.4	6.8	7.1	7.5	6.3	6.2	5.8	5.8
Corporate profits before tax	81.6	92.1	88.9	91.8	92.2	95.5	94.0	92.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	151.2	176.9	166.6	171.8	181.9	187.3	194.5	197.9
Expenditures	163.6	182.4	175.1	181.9	184.9	187.5	189.7	189.9
Surplus or deficit (-)	-12.4	-5.5	-8.6	-10.2	-3.0	-0.2	4.8	8.0
Total labor force (millions)	80.8	82.3	81.9	82.2	82.4	82.7	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	79.1	79.5	79.8
Unemployment rate (per cent)	3.8	3.6	3.6	3.6	3.6	3.5	3.7	3.9
Nonfarm payroll employment (millions)	66.0	68.1	67.4	67.8	68.3	68.8	69.1	69.3
Manufacturing	19.4	19.7	19.6	19.7	19.8	19.8	19.8	19.7
Industrial production (1957-59=100)	158.1	164.3	162.1	164.0	164.6	166.3	167.1	169.2
Capacity utilization, manufacturing (per cent)	85.3	84.2	84.9	84.8	83.6	83.5	82.8	82.6
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	8.63	8.19	8.44	9.01	8.87	8.75	8.50

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967	1968 Proj.	1968 I	1968 II	1968 III	1968 IV (Projected)	1969 I (Projected)	1969 II (Projected)
					---In billions of dollars---			
Gross National Product	42.1	71.3	20.2	21.7	18.1	18.0	14.5	13.0
Inventory change	-8.6	0.8	-6.2	8.7	-3.3	-0.5	0.0	1.5
Final sales	50.8	70.6	26.4	13.0	21.4	18.5	14.5	11.5
Private	28.6	51.9	19.4	7.8	17.5	15.4	11.2	10.0
Government	22.2	18.7	7.0	5.2	3.9	3.1	3.3	1.5
GNP in constant (1958) dollars	16.0	34.0	10.9	10.7	8.9	7.7	5.0	4.2
Final sales	24.0	33.6	16.9	2.8	12.0	8.0	5.1	2.9
Private	9.8	25.1	12.4	0.1	11.1	7.2	4.2	3.0
					---In Per Cent Per Year---			
Gross National Product	5.6	9.0	10.0	10.4	8.5	8.3	6.5	5.8
Final sales	6.9	9.0	13.2	6.3	10.2	8.6	6.6	5.1
Private	5.0	8.6	12.5	4.9	10.8	9.3	6.6	5.8
Personal consumption expenditures	5.7	8.7	13.7	6.5	10.0	7.5	6.3	5.4
Durable goods	3.0	13.9	25.9	10.1	20.2	3.3	-0.5	-3.3
Nondurable goods	4.4	7.1	14.8	3.0	7.9	8.1	7.4	6.6
Services	8.2	8.4	8.2	9.0	8.6	8.4	7.7	7.2
Gross private domestic investment	-5.4	10.7	-6.9	25.4	-0.6	14.5	9.1	8.3
Residential construction	-0.8	21.5	8.4	5.5	0.0	24.4	1.3	3.8
Business fixed investment	2.8	7.4	16.9	-7.2	14.3	14.6	12.4	4.2
Gov't. purchases of goods & services	14.2	10.5	15.3	10.9	8.0	6.2	6.5	2.9
Federal	17.1	10.5	15.4	11.9	4.8	2.8	4.3	-1.9
Defense	19.5	8.8	11.8	11.5	3.0	1.5	3.0	0.0
Other	8.3	16.5	27.4	13.8	9.5	9.3	9.1	-8.9
State & local	11.4	10.6	15.1	9.4	11.7	9.8	8.7	7.8
GNP in constant (1958) dollars	2.4	5.1	6.4	6.2	5.0	4.3	2.8	2.3
Final sales	3.7	5.0	10.0	1.6	6.9	4.5	2.9	1.6
Private	1.9	4.8	9.3	0.1	8.2	5.2	3.0	2.1
GNP implicit deflator	3.1	3.8	3.5	4.2	3.4*	3.9	3.7	3.4
Personal income	7.2	9.1	10.8	9.3	9.6	8.5	6.5	6.9
Wages and salaries	7.3	9.5	10.9	8.3	10.0	8.4	8.0	7.9
Disposable income	6.8	7.9	10.6	8.3	4.4	7.4	4.4	5.4
Corporate profits before tax	-4.7	12.9	16.4	13.0	1.7	14.3	-6.3	-6.4
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	5.7	17.0	26.1	12.5	23.5	11.9	15.4	7.0
Expenditures	14.9	11.5	15.4	15.5	6.6	5.6	4.7	0.4
Nonfarm payroll employment	3.1	3.2	4.2	2.4	2.9	2.9	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	3.9	6.5	4.7	1.5	4.1	1.9	5.0
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	14.0	40.6	12.0	27.3	-6.2	-5.4	-11.4

* Excluding Federal pay increase, 2.8 per cent.

Industrial production. On the basis of available data, industrial production is estimated to have increased one index point or more in November to around 166.0 per cent. At this level the index would be somewhat above July, the previous high, and about 4 per cent above a year earlier. Output gains are expected for both final products and materials. Production of coal recovered following settlement of strikes in October and added about .4 of one point to the total index in November.

Auto assemblies in November were at a seasonally adjusted annual rate of 9.2 million units. December schedules, after allowance for plant closings over the holiday period are set at the same rate. The monthly total of auto assemblies would decline from 873,000 in November to 740,000 in December; thus, these holidays should help to slow down the increase in dealers' stocks. Output of television sets has been curtailed but production of some other consumer durable goods and of some consumer nondurable goods probably rose further.

In the business equipment area, output of trucks and commercial aircraft increased and preliminary data indicate a further rise in production of nonelectrical machinery. The strengthening in the production of business equipment very recently seems to be consistent with the upsurge in new orders for durable goods, especially machinery, and the latest Commerce-SEC Survey findings that plant and equipment expenditures will rise appreciably in the fourth and first quarters.

Output of raw steel increased 13 per cent further in November suggesting a stronger than anticipated demand for steel mill products. With steel production below current consumption and with inventories of steel mill shapes and forms at consuming mills down 20 per cent from the July peak to the end of October, output of steel may increase further in December. Other November data indicate further gains in production of textiles, paper, and chemical products.

Capacity Utilization. The November rate of manufacturing capacity utilization is expected to be up slightly from the 83.3 per cent recorded in October. This would be the second consecutive small monthly increase, but in both months the production increase in manufacturing industries other than iron and steel was apparently about in line with the estimated increase in capacity, and the average rate for all manufacturing would have remained constant if iron and steel production had not increased sharply.

The industry pattern of operating rates remains much as it has been for several months. The motor vehicle, rubber, petroleum, and aircraft industries continue to operate at higher than normal rates. Unused capacity remains for the production of most other manufacturing products.

UTILIZATION RATES
(per cent)

	1967	1968					
	QIV	QI	QII	QIII	September	October	November (e)
Manufacturing	84.8	84.9	84.8	83.6	83.1	83.3	83.5
Primary processing industries	85.6	85.5	86.4	84.1	82.9	83.4	--
Advanced processing industries	84.3	84.4	83.6	83.3	83.2	83.3	--

e - estimated.

Retail sales. Retail sales in November rose 1.5 per cent from October, according to advance estimates. This rise follows two months of small declines, and the November increase brings the level of sales slightly above the previous high reached in August.

Sales of nondurable goods stores rose 2.4 per cent; total durable goods sales were virtually unchanged from October, with autos down somewhat further but with other durables up 1.7 per cent after declining between August and October. Sales of furniture and appliances were particularly strong, rising more than 4 per cent. Every major component of nondurable goods was up, but the greatest strength was in the general merchandise category which rose nearly 5 per cent.

RETAIL SALES
(Per cent change, seasonally adjusted)

	Nov. 1967- Nov. 1968	1968 July	Aug.	Sept.	Oct.	Nov.
		--Change from Previous Month--------				
Total	10.5	1.1	0.8	-0.6	-0.5	1.5
Total, excluding automotive	9.3	1.4	0.4	-1.5	0.7	2.3
Durables	13.0	1.2	1.8	1.4	-3.4	-0.3
Durables, excluding automotive	9.5	3.1	0.8	-1.0	0	1.7
Automotive	15.6	-0.1	2.5	3.0	-5.4	-1.7
Nondurables	9.3	1.1	0.3	-1.6	0.9	2.4

Unit sales and stocks of autos. Sales of new domestic autos, which had declined sharply in the first 10 days of November, recovered in the two following selling periods and for the month as a whole were at a seasonally adjusted annual rate of 8.9 million units, compared with 9.1 million for the month of October. Stocks of new domestic autos increased moderately further in November and were at a new high; stocks also rose relative to sales and represented 53 days' supply at current selling rates.

Consumer instalment credit. Consumer instalment debt rose sharply in October. Credit extensions increased somewhat more than seasonally while repayments increased less than seasonally. On net, the excess of borrowing over repayments in October provided consumers with additional funds at an $11 billion annual rate (seasonally adjusted). Personal and automobile loans outstanding increased most rapidly. Early indications suggest that in November the growth in debt slowed somewhat from the record October rate.

For 1968 as a whole, we estimate that use of instalment credit to supplement other funds will provide consumers with about an extra $8 billion. In 1967, growth in outstandings was only a little over $3 billion. While the 1968 increase is expected to rank with the record year 1965 in dollar terms, the percentage increase during the current year will be smaller. In recent years, increases have been as follows:

INCREASE IN CONSUMER INSTALMENT CREDIT OUTSTANDING

During Year	Billions of dollars	Percentage increase
1964	6.4	12
1965	8.0	13
1966	6.1	9
1967	3.3	4
1968 (estimated)	8.0	10

Manufacturers' orders and inventories. New orders for durable goods rose 7 per cent in October, according to preliminary data. The increase was concentrated in the business and defense equipment areas, especially in transportation equipment other than motor vehicles. Steel orders continued to rise sharply and were close to the levels prevailing in mid-1967, before the steel inventory build-up commenced. In contrast, orders for motor vehicles and parts declined in October, and orders for consumer durables other than autos were about unchanged from levels that have prevailed for over a year. Nondurable shipments and orders increased at a moderate 1/2 per cent rate and the new orders increase for total manufacturing was 4 per cent.

Unfilled orders for durable goods were up $1.3 billion (1.6 per cent) but the unfilled orders-shipments ratio declined to the lowest point since December 1965. In addition to the effect of the steel adjustment, this reflects a decline in the business and defense equipment industries, where a $900 million rise in the backlog of orders fell short of the sharp spurt in shipments and the unfilled orders-shipments ratio declined. The latter ratio, which has been declining irregularly since early 1967 and is now at its lowest point since early 1964, is associated roughly with changes in the rate of inventory accumulation in these industries. Its further decline appears to suggest that there is little need for higher rates of inventory build-up in the equipment sectors. With the sharp rise in recent months, new and unfilled orders for the machinery and equipment industries are high in relation to past levels, but, in defense industries, new orders and the backlog are no higher than they were in March and April of this year, in spite of the sharp October rise in new orders.

ORDERS AND SHIPMENTS IN DEFENSE AND MACHINERY AND EQUIPMENT INDUSTRIES
(Seasonally adjusted)

	Monthly Averages 1967 QIV	1968 QI	1968 QII	1968 QIII	Monthly 1968 Sept.	Monthly 1968 Oct.
	(Billions of Dollars)					
New orders	9.4	9.6	9.4	9.6	9.5	10.9
Shipments	9.0	9.3	9.4	9.6	9.8	10.0
Unfilled orders	52.8	53.1	54.3	53.9	53.9	54.8
Ratio, unfilled orders/shipments	5.86	5.69	5.79	5.59	5.52	5.49
	(Millions of Dollars)					
Change in book value of inventories	187	68	248	111	285	-26

The total book value of manufacturers' inventories rose about $500 million in October--an annual rate of over $6 billion. The increase was somewhat greater in nondurables than in durables--$3.3 billion and $2.7 billion annual rate, respectively.

In the durable sector, the equipment industries cut their inventories slightly. The principal increases were in finished goods inventories in "all other" durable industries, which include fabricated metal products, lumber, furniture, instruments, ordnance, and miscellaneous.

Steel users' inventories decreased 1.3 million tons in October, about as much as in September; although steel users' receipts of the metal increased, they used up even more. Continued decreases of this order would bring December inventories to the year-ago level. These decreases in unit stocks of steel have apparently been offset in part by price increases in the book value data.

In nondurable goods industries, the principal inventory increases in October were also in finished goods, and in the chemical, food, and "all other" industries.

Construction and real estate. Value of new construction put in place, which was revised upward by 2 per cent from the record high reported earlier for October, changed little in November, based on confidential preliminary extrapolations now available from the Census Bureau. The upward revision for October was largely concentrated in private nonresidential outlays (especially outlays for industrial plants). As a result, outlays for this major group as a whole also reached a new peak this autumn, along with those for private residential and public construction.

An important factor in the over-all uptrend has continued to be the advance in construction costs. As estimated by the Census Bureau, in November, as in the first ten months of the year, about half the year-to-year increase of 11 per cent reflected higher costs.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	November 1968 ($ billions) 1/	Per cent change from October 1968	Per cent change from November 1967
Total	88.4	--	+11
Private	59.0	--	+ 9
Residential	30.1	--	+10
Nonresidential	28.9	--	+ 8
Public	29.4	--	+14

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

Expectations by the Commerce Department for total new construction activity in 1969 are for a further over-all advance of 7 per cent from the record 1968 volume currently estimated at $84.7 billion. Most of this increase, if realized, would reflect further cost increases rather than greater physical activity.

Housing starts, which in October--the latest month available--held at the advanced 1.55 million seasonally adjusted annual rate averaged in the third quarter, have thus far continued to benefit from lender expectations of improved inflows aroused by passage of the surtax package last June and by the round of upward adjustments in State usury ceilings completed last summer. Given the record level of commitments outstanding this autumn, and the strength of prevailing demands for shelter staff expectations are for at least substantial continuance of the current somewhat more than 1-1/2 million annual rate of starts through the remainder of the year and into 1969. However, a temporary drop in the rate to be reported for November is likely because the number of working days in that month this year was unusually low. (The Census Bureau makes no specific adjustment for this factor in its seasonally adjusted series.)

While savings flows to major mortgage lenders have not yet begun to validate earlier optimistic expectations, trade projections of private housing starts for 1969 continue to gravitate to a level of 1.65 million units. These projections are based to an appreciable extent on an assumption of easier mortgage market conditions during most of 1969 as well as on the low level of vacancies and other evidences of pent-up demand pressures. A 1.65 million starts total for 1969 would compare with at least a 1.50 million unit total now indicated for 1968--the highest since 1964--and with 1.29 million units in 1967 when starts had already begun to recover from their 1966 low.

Plant and equipment spending. Nonfarm business plans to increase its spending for new plant and equipment by nearly $4.0 billion, annual rate, in each of the current and following quarters and then to reduce spending by more than $1 billion in the second quarter of next year according to the Commerce-SEC survey of business plans taken in late October and November. In relative terms, the increases come to 6.0 per cent and 5.8 per cent, respectively, and the decline to almost 2 per cent. (See table.)

Strength in spending plans in the current and next quarter is fairly widespread among both manufacturing and nonmanufacturing industries. The fall-off now indicated in the second quarter of next year reflects mainly a reduction in outlays by airlines as expansion programs with existing types of aircraft are largely completed. Little further rise in the second quarter of next year is now planned by manufacturers.

Actual outlays in the third quarter were up only $800 million, annual rate, or 1.3 per cent. This small rise contrasts with the $2.15 billion rise indicated for that quarter by the August survey. The short-fall in third quarter expenditures from August plans was mostly in spending by the nonrail transportation industry and the communication, commercial, and other industries group.

For 1968, business plant and equipment spending is now expected to total $64.5 billion, 4.7 per cent more than last year. This increase compares with gains of 4.4 planned last August and of 6.7 per cent and 5.8 per cent last May and February, respectively. In 1967, fixed capital outlays had risen by 1.7 per cent. In each of the three preceding years rates of increase had been around 15 per cent.

NEW PLANT AND EQUIPMENT INVESTMENT

	1968*	1968 I	1968 II	1968 III	1968 IV*	1969 I*	1969 II*
	----------Billions of Dollars----------------						
	--------(Seasonally Adjusted Annual Rate)-----						
All Business	64.53	64.75	62.65	63.45	67.25	71.15	69.80
Manufacturing	26.78	26.35	25.80	26.65	28.10	29.60	29.70
Durable Goods Industries	13.58	13.65	12.80	13.65	14.15	15.10	15.40
Nondurable Goods Industries	13.19	12.70	13.00	13.05	13.90	14.50	14.30
Nonmanufacturing	37.75	38.40	36.85	36.75	39.20	41.50	40.10
	-------Per cent Change from Preceding Period---						
All Business	4.7	3.3	-3.2	1.3	6.0	5.8	-1.9
Manufacturing	.3	1.3	-2.1	3.3	5.4	5.3	0.3
Durable Goods Industries	-.8	1.1	-6.2	6.6	3.7	6.7	2.0
Nondurable Goods Industries	1.5	1.2	2.4	0.4	6.5	4.3	-1.4
Nonmanufacturing	7.9	4.6	-4.0	-0.3	6.7	5.9	-3.4

* - Planned investment.

Earlier plans for outlays in the fourth quarter have been revised up substantially, according to the November survey--from an increase of $250 million (annual rate) to $3.8 billion. This very large increase includes outlays on projects already underway as well as expenditures planned on new projects begun this quarter. Manufacturers started a record volume of new projects in the third quarter of 1968, and the value of these projects totaled more than expenditures in the quarter. In fact, manufacturers' carryover of expenditures yet to be incurred on projects already underway at the end of the third quarter reattained the record level reached at the end of 1966. Carryover of public utility projects underway rose to a new record, reflecting a larger decline in expenditures in the third quarter than in the value of new projects started.

The recent National Industrial Conference Board's survey of the nation's thousand largest manufacturers suggests continued strength in manufacturers' plant and equipment investment. According to this survey, manufacturers' new capital appropriations rose by 9.5 per cent in the third quarter, the largest rise since the beginning of 1965, and the backlog of unspent appropriations rose to a new record high. Closing backlogs were 3.8 times larger than capital expenditures in the quarter. This survey also indicated (confidential) that manufacturers expect new appropriations to rise substantially further in the fourth quarter.

Labor market. Reflecting strong demands in most sectors of the economy, the labor market continued extremely taut in November. Employment in nonfarm establishments rose briskly. Typical seasonal increases in unemployment did not materialize this November and the over-all unemployment rate dropped to 3.3 per cent, seasonally adjusted, its lowest point in 15 years. Upward pressures on wages kept hourly earnings rising at about the same rapid rate as in other recent months.

The increase in payroll employment totaled 163,000 in November, and the previously reported October increase was revised up substantially (such adjustments are generally a sign of strength). Despite the recent reductions in Federal employment--which was down 95,000 from its June 1968 peak--total employment has risen sharply in the last two months after slower increases in the summer.

INCREASES IN NONFARM PAYROLL EMPLOYMENT*
(Seasonally adjusted, in thousands)

	May to July	July to September	September to November
Total	335	163	438
Manufacturing	77	-17	41
Nonmanufacturing	258	146	397

* - Adjusted for major strikes.

The sharp recent pickup in employment has been concentrated in the nonindustrial sector, with the largest gains occurring in trade, services and State and local government. Manufacturing employment turned up in October and November after several months of stability during the summer. Demand appeared to be up in the durable goods industries, where, reflecting strengthening equipment expenditures, machinery employment moved higher in both October and November. In addition, most other durable goods industries showed small gains, while employment in nondurable goods industries continued slightly below the June 1968 peak level.

Weekly hours declined by two-tenths of an hour in manufacturing in November. However, the reference week included a holiday (for which seasonal adjustment is difficult) and unusually bad weather in some parts of the country, both of which may have depressed hours. In durable goods manufacturing, the workweek was unchanged over the month, but compared to a year earlier was up four-tenths of an hour, with the largest gains in the auto and fabricated metals industries. Although the factory workweek has remained below the record highs of 1966, its recent levels are among the highest in the postwar period.

Unemployment and labor force. Unemployment, which normally rises by about 300,000 in November, as seasonal activities such as construction and agriculture begin winter slowdowns, rose by only 65,000 this year. Thus, on a seasonally adjusted basis, unemployment fell sharply and the overall unemployment rate dropped to a 15-year low of 3.3 per cent. Unemployment dropped in all major labor force groups, but adult men (20 and over), who are heavily represented in the industry groups where seasonal employment reductions are common in November, were most affected. Their jobless rate dropped to 2.0 per cent, equaling the low of March 1953, but otherwise its lowest point since the end of World War II. Despite the very thin supply of men and continuing strong labor demand, joblessness continues very high among teenagers--a rate of 12.2 per cent in November.

SELECTED UNEMPLOYMENT RATES

	Year		
	1952 Average	1966 Average	1968* November
TOTAL	3.0	3.8	3.3
White	2.8	3.3	3.0
Nonwhite	5.4	7.3	6.5
Men, 20 years and over	2.4	2.5	2.0
White	n.a.	2.2	1.9
Nonwhite	n.a.	4.9	3.7
Women, 20 years and over	3.2	3.8	3.4
White	n.a.	3.3	3.1
Nonwhite	n.a.	6.6	5.8
Teenagers	8.5	12.7	12.2
White	n.a.	11.2	10.3
Nonwhite	n.a.	25.4	26.7

* - Seasonally adjusted.

For teenagers, both white and nonwhite, the unemployment problem is partially a function of their numbers and the demand for their skills. In 1952, they comprised only 6-1/2 per cent of the labor force, and, job requirements being less stringent, their unemployment rate was 8-1/2 per cent. In 1968, they account for 8 per cent of the labor force in an economy which demands higher skills, and their jobless rate is over 12 per cent. If the overall labor force distribution were the same in 1968 as it was in 1952, the current overall unemployment rate would be 3.1 per cent, only slightly higher than the 1952 rate.

The civilian labor force increased by 200,000 in November after showing no change from August to October. Despite the November pickup the labor force expansion continues below expectations and appears to be contributing to the maintenance of low unemployment. The increase from a year earlier amounted to 1.1 million in November, considerably fewer than expected on the basis of long-term demographic projections.

Compensation and productivity. Unit labor costs, compensation, and output per manhour in the private economy rose at about the same rate in the third quarter as earlier in the year.

PRIVATE ECONOMY
(Per cent change from a year earlier)

	Output per manhour	Compensation per manhour	Unit labor cost
1965	3.3	4.1	0.7
1966	3.8	7.0	3.2
1967	1.6	6.1	4.4
1968:			
I	3.3	7.4	3.9
II	2.8	7.0	4.1
III	3.2	7.3	4.0

The increase in output per manhour so far this year approaches the average rate of growth of productivity since World War II and is about twice the 1967 gain. At the same time, increases in average hourly compensation have been significantly higher than last year and, despite the pickup in productivity, unit labor costs have averaged about 4 per cent higher than a year earlier. Although the rate of increase of unit labor costs was no longer rising in 1968, it is significant that it had not fallen appreciably; the 1968 rise in labor costs is likely to be only slightly below that in 1969 and one of the largest since the Korean War.

Industrial relations. The substantial gains in wages and fringe benefits achieved this year were accompanied by a high level of strike activity. Measured in terms of man-days of work lost, strike activity during the first 10 months this year exceeded the comparable figure for 1967. Recently, however, strike activity has diminished and total man-days idle in 1968 may reach, but probably not surpass, last year's total which was the highest since 1959.

It is likely that more than 50,000 longshoremen will strike when the 80-day Taft-Hartley injunction period ends December 20. None of the major issues in the negotiations have been resolved according to the Board of Inquiry appointed by the President. The major disputed issues are provisions to cushion or share the consequences and benefits of containerization and union-wide bargaining. The union-wide bargaining demand is focused on the guaranteed work-year provision. The New York Shipping Association has agreed to a guaranteed 2,080 hours of work or pay a year. At issue is the union demand for a similar provision in contracts with shippers at other Atlantic and Gulf Coast ports. Sharp differences between labor and management also exist with respect to wage increases, liberalization of pensions, welfare benefits, vacations, and the length of the contract.

With collective bargaining activity much reduced next year--only about 2 million workers are covered by contract expirations or wage reopenings compared with 4.6 million in 1968--strike activity can also be expected to fall well below the high levels of 1967 and 1968. Contract expirations center in transportation early in the year--railroads and airlines--and in electrical products late in the year.

Wholesale prices. The BLS wholesale price index for industrial commodities increased an estimated 0.1 per cent in November, as compared with an average monthly rise of 0.35 per cent in September and October.

Slowing of the over-all rise last month stemmed in part from a 22 per cent cut in prices of hot-rolled steel sheets. This cut for a single, though major, steel product precipitated an estimated 1.5 per cent decrease in the average price for all steel mill products--almost reversing the 2.3 per cent rise, affecting a wide variety of steel products, effective in late August and first appearing in the September index. It now appears that most of the early-November price cut for hot-rolled steel sheet will soon be restored, and at the same time prices of some other steel products not included in the August boost are being raised.

Excluding steel mill products, industrial prices increased about 0.2 per cent in November. Lumber prices continued sharply upward--at a time when a large seasonal decline usually occurs. Average prices of lumber and plywood have increased in almost every month since early 1967 for a total rise of 30 per cent--to a level nearly one-fifth above the previous post-World War II high of May 1966--under the dual impact of the strong resurgence in residential construction activity and log and lumber supply limitations.

Machinery prices also rose further in November, bringing the rise over the past year to about 3.5 per cent (as compared with 2.5 per cent for all industrials combined). Recent pronounced strengthening in business demands point to continuing price advances for producers' equipment. Nonferrous metals' prices, which had declined substantially from last March to September, have subsequently increased somewhat as reported scarcities of copper scrap and higher prices for foreign copper (because of a series of economic and political crises affecting foreign producing and consuming countries) have led to price increases for copper and brass mill products.

Altogether, the number of industrial product classes showing increases in November declined from October. (In October, the diffusion of increases had been the highest since last February's peak.) But the November proportion was apparently somewhat higher than in September and in November a year ago.

Prices of farm products and processed foods and feeds are estimated by BLS to have increased contraseasonally in November, although they remained below September and the seasonal high reached in July. Prices of meats and poultry rose, although a decline is usual; fresh fruits and vegetables showed larger than seasonal increases. The over-all WPI rose an estimated 0.4 per cent in November, to 109.5 per cent of the 1957-59 average--a new high.

Consumer prices. The consumer price index rose 0.6 per cent in October, the largest monthly increase in six years. Larger-than-seasonal increases for new autos and apparel and a contra-seasonal rise in food prices accounted for half the rise, with the continuing rise in service prices accounting for most of the remainder. At 122.9 per cent of the 1957-59 average, the CPI had advanced 4 per cent in the first

10 months of the year and was 4.6 per cent above October 1967--the largest gains for comparable periods since the early 1950's.

Allowance for the usual seasonal changes in auto and apparel prices acts to moderate the over-all rise in consumer prices: new car prices rose 1 per cent on a seasonally adjusted basis, as compared with 4.5 per cent unadjusted, and apparel rose 0.6 per cent adjusted and 1 per cent unadjusted. However, food prices rose more on a seasonally adjusted basis; and prices of furniture, appliances, and other durables, as well as of services in general, continued to rise at a sizable pace. Altogether, after allowing for seasonal changes, and after excluding mortgage interest charges (which in October showed little change), the October rise in average consumer prices was only moderately less than the change indicated by the unadjusted CPI, and it was considerably larger than in September and the third quarter as a whole.

Part of the accelerated rise in consumer prices in October appears to be special to that month and not representative of continuing trends. A rise in seasonally adjusted food prices of almost 1 per cent--stemming from an unusual combination of larger-than-usual increases for eggs and dairy products, especially sharp increases for several fresh vegetables, and a failure of meat prices to show their usual large seasonal decline--will hardly persist in view of the general supply outlook. Moreover, the amount by which the new car price rise exceeded seasonal expectations in October approximated the price increase accorded to new models after allowance for quality changes. Although the introduction of new models at higher list prices in October has in recent years become a quasi-seasonal phenomenon, the present seasonal factors allow primarily for the elimination of dealer discounts from list prices between September and October. The BLS assumes a further sizable seasonal rise in new car prices in November as sales of old models are largely phased out and the new, higher-priced (and undiscounted) models account for the bulk of total sales. With consumer purchases of new cars tending to edge off from earlier record levels, discounting of new model prices may now be beginning, and seasonally adjusted new car prices are unlikely to rise further from October.

Even after allowance for special influences in October and assuming a smaller over-all rate of increase in November and December, the rise in consumer prices (seasonally adjusted) for the fourth quarter as a whole is likely to exceed that in the third quarter.

Expenditures for farm price stabilization. It has been evident since midsummer that 1968 crops would be 3 to 4 per cent larger than the record crop of 1967 despite cut-backs in acreages of wheat and feed grains. It has also been evident that this increased production would add as much as one billion dollars to the $2.9 billion projected in the January Budget Document as the Commodity Credit Corporation costs of supporting prices in fiscal 1969. Major expenditures for price support usually occur in the first quarter of the fiscal year when about two-thirds of farmers' direct payments are disbursed, and in the second quarter when crops are going under price support loan in heavy volume. In the third quarter of the fiscal year, down payments to farmers signing acreage diversion contracts swell expenditures, and in the fourth, expenditures drop sharply or net eceipts are recorded. Usually, first quarter expenditures are the largest.

This fiscal year, first quarter expenditures amounted to $2.5 billion, up a little more than one billion dollars from a year earlier. About half the increase was in larger payments to farmers for price support and acreage diversion, and half was in greater outlays for loans and inventories.

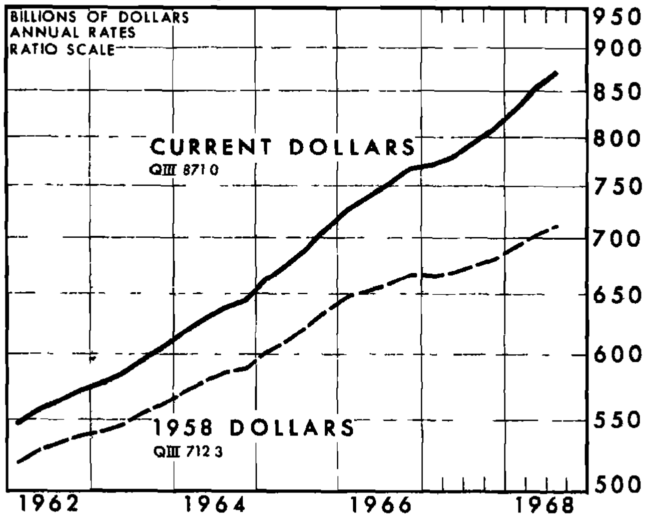
The larger payments are primarily the result of a shift in policy from one encouraging expansion in 1967 grain acreage to rebuild stocks depleted by the world food shortage to one cutting 1968 acreage back to keep supplies in balance with needs.

The greater expenditures on loans and inventories in the first quarter of fiscal 1969 contrasts with net liquidation that was still in progress in the first quarter last year. The largest 1968 crop moving under loan, so far, is wheat. Other crops will move under rapidly through January if the seasonal pattern of past years is followed.

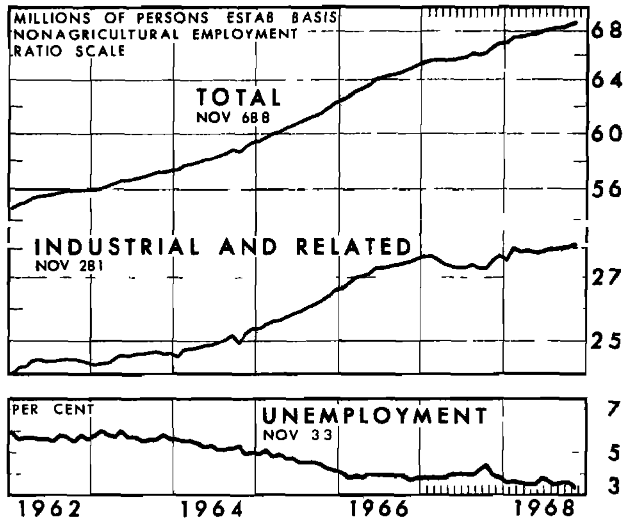
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

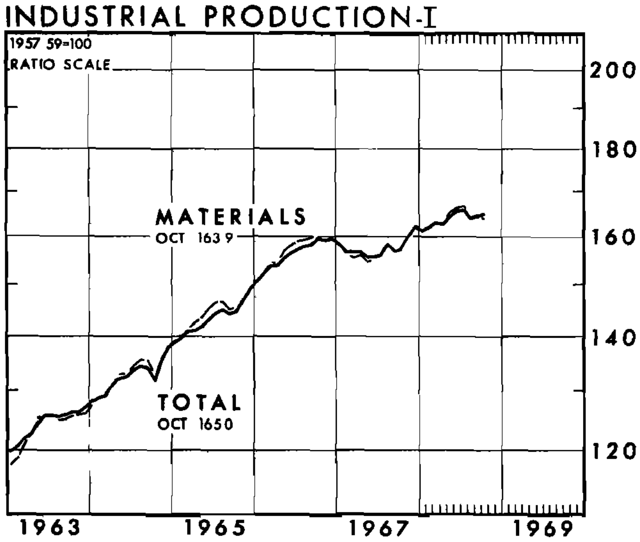
GROSS NATIONAL PRODUCT



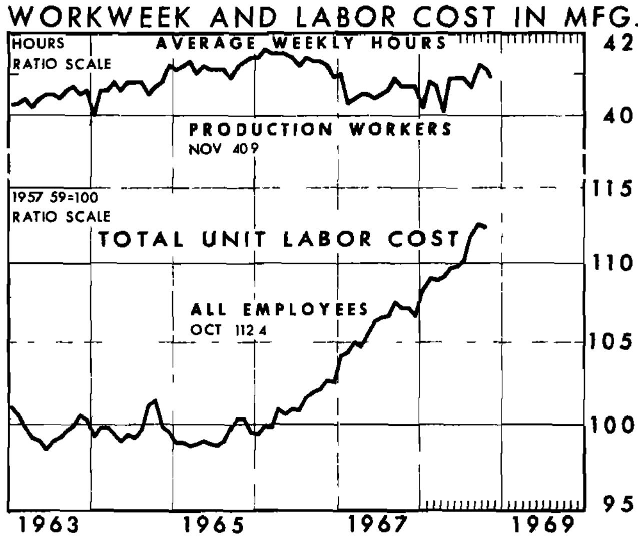
EMPLOYMENT AND UNEMPLOYMENT



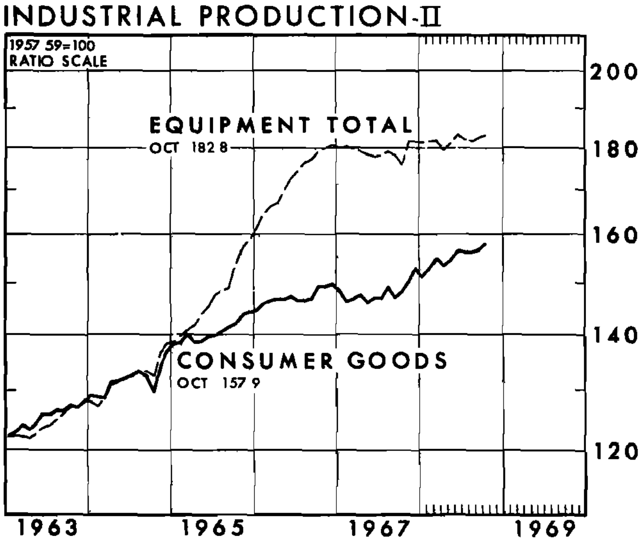
INDUSTRIAL PRODUCTION-I



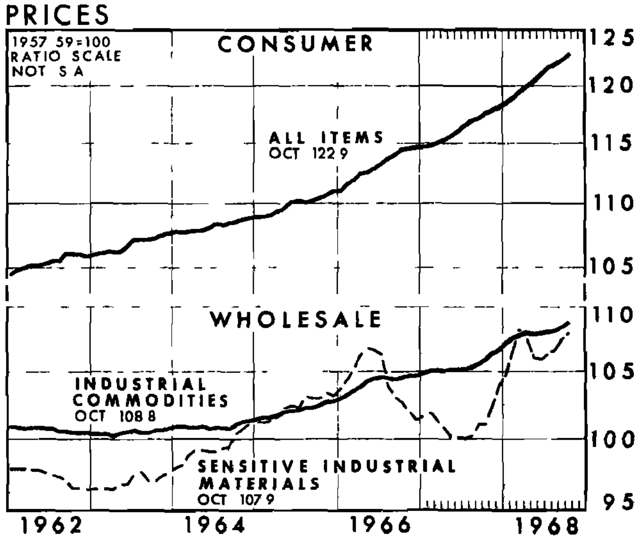
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



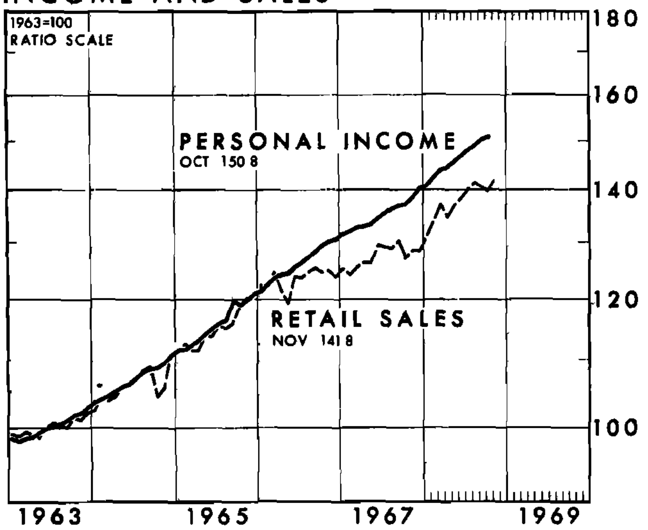
PRICES



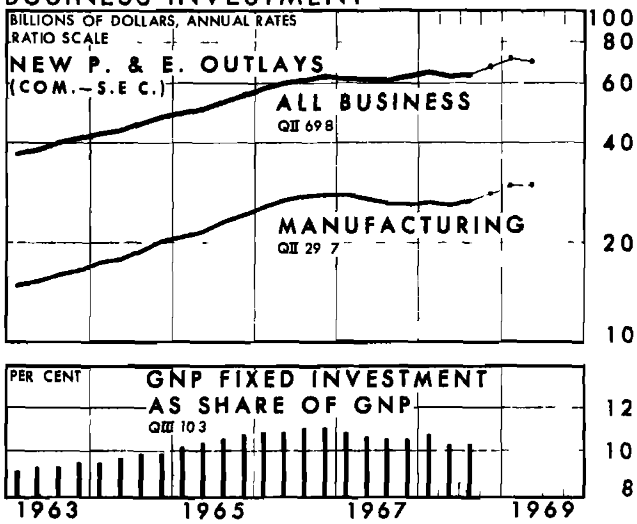
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

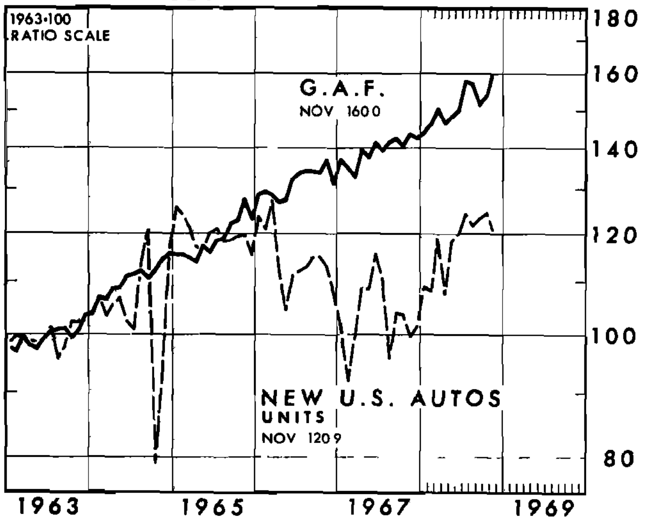
INCOME AND SALES



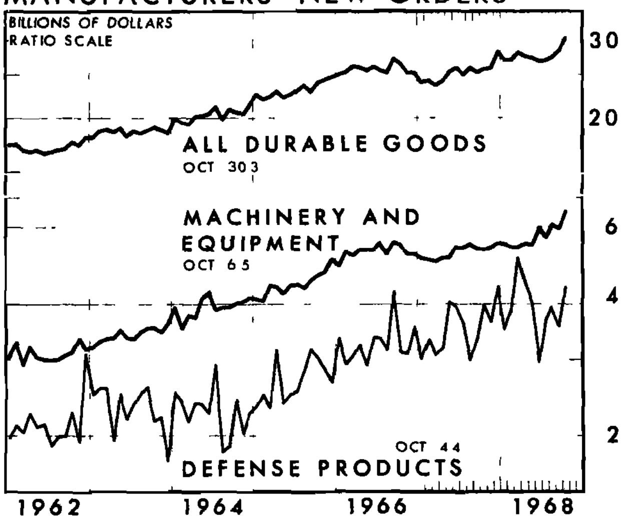
BUSINESS INVESTMENT



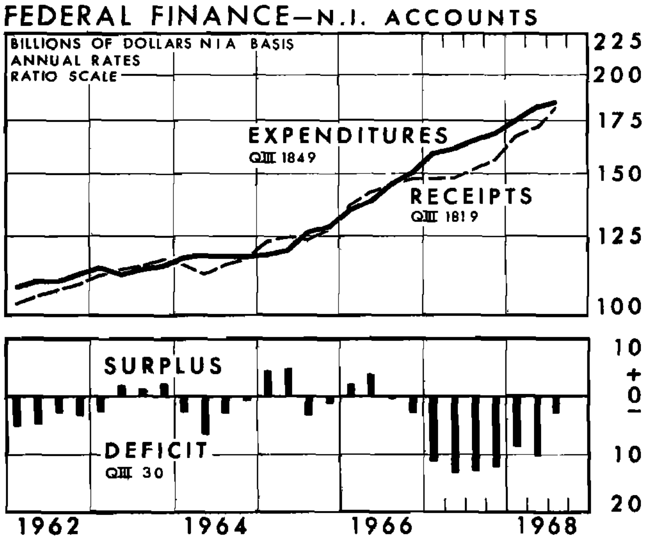
RETAIL SALES



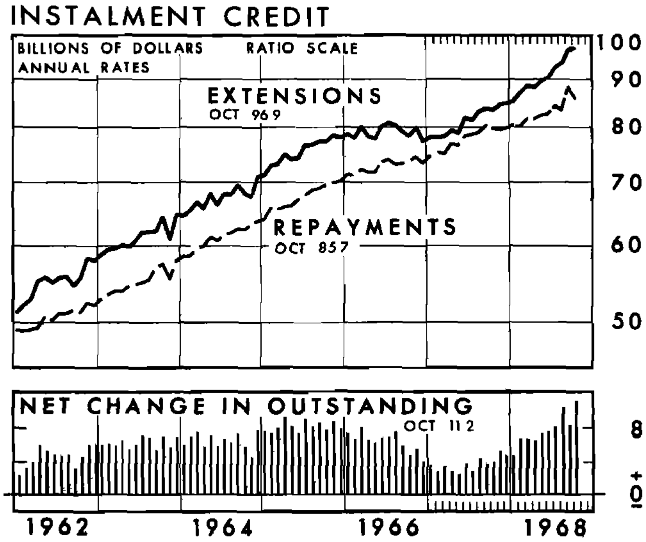
MANUFACTURERS' NEW ORDERS



FEDERAL FINANCE—N.I. ACCOUNTS



INSTALMENT CREDIT



DOMESTIC FINANCIAL SITUATION

Bank credit. Total loans and investments at all commercial banks rose at approximately a 6 per cent annual rate in November, or less than one-half the average pace of the previous three months. The November slowdown reflects a large seasonally adjusted decline in bank holdings of U.S. Government securities, resulting in part from the delay until early December of the Treasury bill financing which normally takes place in the latter half of November. However, expansion of bank holdings of other securities, as well as bank loans, was rapid in November, surpassing even the increased pace of recent months.

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

	1968					
	1st half	July	Aug.	Sept.	Oct.	Nov.
Total loans & investments 1/	6.5	27.2	14.7	14.2	15.4	6.3
U.S. Government securities	2.3	53.6	15.2	1.9	3.8	-59.8
Other securities	8.1	9.4	20.5	27.5	26.9	29.8
Total loans	7.2	25.2	13.6	13.4	15.3	17.0
Business loans	7.6	14.7	9.3	6.6	10.4	20.7
All other loans	6.9	31.7	16.2	17.6	18.2	14.8
MEMO:						
Credit proxy 2/	5.5	10.1	22.1	9.4	11.8	12.1

1/ Last Wednesday of the month series.
2/ Monthly average of daily figures, adjusted to include Euro-dollar borrowing.

Aside from the influence of the delay in the recent Treasury financing, bank holdings of U.S. Government securities--particularly Treasury bills and short-term notes and bonds--declined considerably druing November, following relatively little change over the previous two months. A number of factors, including the high cost of CD funds, the relatively attractive yields on municipals, and the continued strength in loan demand probably contributed to the November decline in bank holdings of Governments.

Banks did take other securities into portfolio at an accelerated pace in November. As in October, the November increase was virtually all in longer-term municipals, and appears to have been financed, in part, by the continued liquidation of sizable amounts of short-term issues. This apparent maturity-switching probably was largely in response to the rise in long-term relative to short-term municipal yields that has taken place over the past few months. Reflecting a normal delivery lag of about 4 weeks, many of these longer-term issues taken into portfolio in November may represent purchases made during October.

Expansion of bank loans in November also exceeded the rapid rate of recent months. However, the November increase was buoyed up by a further acceleration in business loans, while growth in other loan categories generally slackened. The $1.6 billion rise in business loans is the largest monthly increase since June of 1966. November growth was more steady throughout the month and more widespread among banks than in October, but most of the rise appeared to be concentrated in retail trade, construction, services, and public utilities. Reflecting this recent strength in business loan demand and the increased cost of CD funds, most banks raised their prime rate to 6.50 per cent in early December. (The easing of interest rate policies indicated in the November Bank Lending Practices Survey--in Appendix A--as compared to the August survey was largely in response to the late September reduction in the prime rate, as the responses to the November survey were made prior to the recent increase in the prime rate.)

Growth in consumer loans during November maintained the increased pace that has prevailed since midyear. Demand for consumer loans probably remained heavy in response to the continued large volume of automobile sales. On the supply side, banks in the November Lending Practices Survey generally indicated a greater willingness to make consumer loans than was the case in the previous survey. Expansion in real estate loans--as in October--also was large in November. Security loans declined further as dealers continued to reduce their inventories, on average, in November.

Bank deposits. Time and savings deposits at all commercial banks, on a daily average basis, are estimated to have risen at approximately a 15 per cent annual rate in November, only marginally below the average rate of growth over the previous four months. As has been the case since midyear, most of the November increase was attributable to bank sales of CD's, although inflows of consumer-type time and savings deposits also continued to show strength.

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

	1965 Oct. 27- Nov. 24	1966 Nov. 2- Nov. 30	1967 Nov. 1- Nov. 29	1968 Oct. 30- Nov. 27
Total time & savings deposits	237	-352	780	1,124
Consumer-type deposits	n.a.	-178	65	200
Savings deposits	349	- 38	95	146
Time deposits, IPC (other than CD's, IPC)	n.a.	-140	-30	54
Negotiable CD's	235	-240	898	999
All other time deposits 1/	n.a.	66	-183	-75

1/ Consists primarily of time deposits held by State and local governments and by foreign institutions.
n.a. - Not available.

In spite of further tightening in the market for CD funds, large banks were able to add nearly $1 billion to outstandings in November, most of which was acquired after midmonth. Strong loan demands, the high cost of Euro-dollars, and the specter of large CD maturities in December and January may all have contributed to the more active bidding by banks for CD's in November. During the latter half of the month, most large banks were reported to be paying maximum rates on all maturities in an effort to obtain what CD funds they were still able to attract, which appeared to be increasingly in the longer maturity ranges. Expectations of rising interest rates and increasing doubts as to future availability of CD funds probably also contributed to the willingness of banks to obtain these longer-term funds at ceiling rates.

As in October, November inflows of consumer-type time and savings deposits at large banks were much greater than in comparable periods of recent years, but were somewhat more widespread among Federal Reserve districts than were inflows during October. Time certificates and open accounts, following less than normal outflows during the early part of November--related to the withdrawal of Christmas club funds--expanded rapidly in the last week of the month. Savings deposits at large banks also exhibited unusual strength throughout November. At country banks, savings deposits declined more than normally, although these outflows were more than offset by increases in other time deposits. However, country bank savings deposit figures do not represent only passbook savings deposits--as do those at weekly reporting banks--but also include Christmas club funds, which probably accounted for much of the November decline in savings deposits at country banks.

With the cost of Euro-dollars still relatively high, banks made little further use of this source of funds in November and early December. Through the week ending December 4, bank liabilities outstanding to their foreign branches remained generally unchanged from the $7.2 billion average level in September.

The money stock--which began to increase in October after having shown little change over the previous two months--rose at approximately an 11 per cent annual rate in November, measured on a daily average basis. The November increase reflects, in part, a large rise in demand deposits during the latter half of the month--as U.S. Government deposits declined sharply--although expansion of currency outstanding also was sizable. The increases in the money stock over the past two months may have also partly reflected the recent accelerated growth in bank loans.

Mortgage markets and nonbank depositary intermediaries. The sensitive secondary mortgage market for FHA and VA home mortgages continued to tighten through the early part of December. Although lagging the increase in other capital market rates, implicit yields on FNMA's 6-month forward mortgage purchase commitments advanced further in recent weeks, as shown in the table. By the December 9 auction, average secondary market mortgage yields for the 6-month commitments series reached 7.51 per cent. This was 35 basis points above the recent low at the end of September, though still 20 basis points below the early-June high.

FNAM 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
November 4	29.5	7.26
12	29.3	7.30
18	28.9	7.35
25	33.7	7.40
December 2	25.8	7.46
9	23.5	7.51

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.

Recent developments in the money and capital markets have intensified the usual uncertainties prevailing in the home mortgage market as the end-of-year dividend reinvestment period approaches. Early in December, a number of S&L's in California, which had cut their prime mortgage lending charges somewhat in September, reinstated their former higher rate schedules, reportedly in response to heavy loan demands, reduced savings inflows, and the commercial bank prime-rate hikes around the turn of the month. Prior to that time, supplies of funds, while somewhat less abundant than earlier, had been reported as adequate in nearly all major areas to meet unusually strong, but seasonally slackening, home mortgage credit demands at high interest rates, according to both FNMA and VA field reports made toward the end of November.

No information is yet available on either net savings inflows or mortgage commitments at thrift institutions in November. Net inflows through early autumn had accelerated somewhat from their reduced July rate, and forward commitments apparently had remained unusually large both absolutely and in relation to inflows.

In the primary mortgage market, recent upward pressures on yields and associated discounts have once again begun to pose barriers to credit flows for transactions involving individually-owned properties. In the case of conventional mortgages, usury ceilings of 7 per cent or less, for example, still prevail in 11 states, which altogether accounted for about a fifth of the total number of all home and multifamily building permits issued last year.

A feature of mortgage market developments so far this year has been the relatively large direct contribution of commercial banks in a period of near-record aggregate net lending volume. In October, commercial bank net takings accounted for as much as three-tenths of the advanced volume of all institutional net lending on residential and nonresidential mortgages, according to the estimates shown in the table which are based on weekly reporting bank data. The commercial bank share, undoubtedly reflecting in part heavy bank construction-loan activity, far exceeded the shares of either savings banks or life insurance companies. Each of the latter types of institutions, of course, has continued to find bonds an unusually attractive investment.

COMMERCIAL BANK MORTGAGE LENDING

	As per cent of total institutional net lending*				
	1964	1965	1966	1967	1968
I	16	17	18	6	23
II	22	28	29	24	29
III	21	28	33	28	28
October p/	15	25	36	21	30

* Including all S&Ls, commercial and savings banks, life insurance companies, and FNMA-GNMA. Based on data not seasonally adjusted.

<u>Corporate and municipal bond markets</u>. The continued flow of bullish economic statistics and developing expectations of a tighter monetary policy contributed to the renewal of the upward advance of bond yields in mid-November. During the first week in December market pressures were particularly intense following the bank prime rate

increase, and bond yields generally pierced their previous highs of last May. (The level of yields indicated by the corporate Aaa new issue series is understated for technical reasons.) Since August, corporate and municipal yields have risen about 70 basis points. More recently, the record yields on some corporate issues have elicited a favorable investor response, and the rise in new issue yields appears to have halted, at least temporarily.

BOND YIELDS
(Weekly averages, per cent per annum)

	Corporate Aaa New With call protection	Corporate Aaa Seasoned	State and local Government S&P High Grade	State and local Government 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)	6.31 (12/6)	4.83 (12/6)	4.76 (12/6)
Week ending:				
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
22	6.64*	6.17	4.70	4.62
29	6.68	6.28	4.70	4.64
Dec. 6	6.81	6.31	4.83	4.76

* Some issues included carry 10-year call protection.

In late November and early December, 9 corporate syndicates were terminated, releasing over $100 million of unsold bonds; in free market trading upward yield adjustments ranged to over 25 basis points. Indicative of these developments was the adjustment on one of these issues--an Aaa-rated bond with five-year call protection--that brought its yield to 7 per cent in the free market. Municipal underwriters also have reduced their inventories somewhat by substantial price-cutting on older issues. Beyond these factors, the prospective sizable volume of forthcoming bond offerings contributed to the pessimism of market participants.

The unsettled market conditions in the last two weeks have resulted, however, in a significantly reduced volume of near-term bond offerings. In the corporate market, the December volume has been reduced by $170 million due to the postponement of two issues and the cut-back in size of another. Public offerings of corporate bonds in December are now estimated at $525 million, substantially below the November volume and the lowest for any month since October 1966. Total corporate security offerings in December, including private placements and stocks, will likely aggregate about $1.6 billion with a seasonal rise in private placements offsetting the drop in public bond issues.

CORPORATE SECURITY OFFERINGS 1/
(Millions of dollars)

	Bonds				Total bonds and stocks	
	Public Offerings 2/		Private Placements			
	1967	1968	1967	1968	1967	1968
Year-monthly avg.	1,249	883e	580	553e	2,066	1,748e
October	1,375	1,015e	566	500e	2,409	1,965e
November	645	935e	551	500e	1,500	1,810e
December	1,087	525e	1,020	900e	2,385	1,625e
	1968	1969	1968	1969	1968	1969
January	903	950e	546	500e	1,771	1,750e

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

Corporate public bond offerings in January will probably show a sizable increase from the reduced December volume. Nearly $700 million of issues are already scheduled and the total may build up ultimately to about $950 million, above the average monthly volume of issues in 1968. But a seasonal decline in private placements will largely offset the rise in public bond offerings and, consequently, corporate security offerings in total are likely to be around the average monthly volume during 1968. It should be noted, however, that the pace of new offerings may be significantly influenced by the course of interest rates.

In the municipal market, as in the corporate market, the outlook for forthcoming bond offerings has been altered by the unsettled market conditions. Dealer inventories--which have been unusually high since August--were reduced only a little by sharp price cutting in late November and early December. In association with shifting market sentiment, the inventory overhang has apparently resulted in cautious bidding for new issues, as well as a withdrawal of some dealers from underwriting syndicates. In this environment, over $150 million of scheduled municipal bonds have been postponed since mid-November--some due to forced bid rejections in states with below-market rate ceilings. As a result, the estimated volume of municipal issues in November has been reduced to $1.1 billion. The December estimated volume has been lowered to $1.0 billion and allows for about $300 million of industrial revenue bond offerings. However, the actual volume of industrial revenue bonds may fall short of the currently expected volume due to adverse market conditions and the constraint of statutory interest rate ceilings in some states. Municipal bond offerings in January are estimated at $1.1 billion, well below the monthly average during 1968, but little changed from November and December despite the removal of tax-exemption from industrial revenue issues in excess of $5 million after year-end--which will eliminate these issues as a major market factor.

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

	1967	1968
Year-monthly average	1,230	1,355e
October	975	2,200e
November	1,401	1,025e
December	1,182	1,000e
	1968	1969
January	1,175	1,100e

e/ Estimated.
1/ Data are for principal amounts of new issues.

Stock market. Stock prices continued to rise in November and early December on an enlarged volume of trading. Since early August, the major common stock price indices have risen approximately 12 per cent. Observers agree that the preponderance of favorable economic news has provided the main support for this advance; the recent pronounced weakening in the bond market has thus far had virtually no effect on stock prices. At its new high on December 6, the broadly-based

New York Stock Exchange index showed prices 20 per cent above the 1966 high. On the American Exchange, where the median price/earnings ratio of these less-seasoned issues reached a record 25 at the end of November, prices paralleled the New York Exchange Index after July 1968, but were up over 90 per cent from the 1966 peak.

Continued heavy trading volume recently led the major Exchanges to continue 4-day trading weeks through the end of this year and, starting January 6, to shorten the normal trading day by 90 minutes. The curtailment, they announced, is to continue until "limitations are no longer needed."

Data available through the end of October indicate that stock market credit has not been a major factor in the recent upward pressure on stock prices; margin debt actually has been declining since the increase in margin requirements in late June. The major market participants have apparently been institutions and foreigners, the latter--according to some--providing an especially strong demand for U. S. stocks during and immediately following the recent international monetary crisis.

STOCK PRICE INDICES

	Dow-Jones Industrials	New York Stock Exchange Index	American Exchange Index
1966 high	995.15	51.06	17.00
1968			
Mid-July high	932.72	57.69	30.28
Early August low	869.65	54.18	28.82
Early December high	985.21	61.27	32.93
December 10	977.69	60.81	33.07
Per cent increase to December 10:			
rom early August low	12.4	12.2	14.7
From 1966 high	-1.8	19.1	94.5

AVERAGE DAILY TRADING VOLUME
(Millions of shares)

	New York Stock Exchange	American Stock Exchange
1968 average through November	12.8	6.2
Week ending:		
November 8	12.4	4.7
15	15.7	7.4
22	15.8	7.9
29	15.4	7.4
December 6	16.4	7.9

Government securities market. After edging higher immediately following the last meeting of the Committee, yields on Government securities rose sharply further after the December 2 increase in the prime rate. In some sectors increases amounted to more than 1/4 of a percentage point, raising over-all advances since the last meeting to as much as 3/8 of a percentage point on notes and bonds and to over 1/2 a percentage point on some Treasury bills. The 3-month Treasury bill was most recently bid at 5.84 per cent.

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

	1968				
	Highs	Sept. 26[1/]	Nov. 26[2/]	Nov. 29[3/]	Dec. 10
Bills					
1-month	5.70 (5/21)	5.12	4.90	5.17	5.50
3-month	5.92 (5/21)	5.09	5.46	5.52	5.84
6-month	6.08 (5/21)	5.22	5.56	5.62	5.94
1-year	6.03 (5/21)	5.12	5.56	5.59	5.82
Coupons					
3-year	6.36 (5/21)	5.40	5.58	5.62	6.00
5-year	6.21 (5/21)	5.45	5.71	5.72	6.01
10-year	6.02 (5/21)	5.45	5.76	5.78	5.92
20-year	5.77 (3/14)	5.28	5.63	5.66	5.77

1/ Recent lows.
2/ Last FOMC meeting.
3/ Closing quotes prior to prime rate action.

Apart from the backwash of the crisis in foreign exchange markets, the major factor putting upward pressure on yields prior to the prime rate increase was a continued flow of bullish business news. This was generally interpreted as indicating a stronger-than-forecast economy in the months ahead and tended to dampen market psychology to the point where a shift to tighter money appeared more likely, and hopes for even a temporary decline of interest rates after the turn of the year were significantly weakened. The prime rate action accentuated this general shift in market sentiment and caused dealers to scramble to reduce their inventory exposure.

During much of November, dealers had made net sales of Treasury bills--in large measure to foreign buyers. This substantially reduced their total bill positions, particularly in shorter maturities. In late November, however, some return flow of bills from foreigners, along with bills acquired in successive Treasury auctions of monthly, weekly, and June tax bills added more than $1 billion to dealers net positions. The weight of these holdings on the market followed the prime rate increase contributed significantly to the sharp run-up of bill yields. At the same time stepped-up selling of June tax bills by banks added to market pressures. Dealers made considerable progress in reducing bill positions taken on in late November, but they absorbed a sizable part of the bank selling of tax bills.

In addition to the negative impact of shifting market psychology on customer demand, the general updrift of yields on Treasury notes and bonds that preceded the prime rate action was attributable partly to swaps out of Treasury issues into new corporate bonds. Following the prime rate action, dealers pressed aggressively to reduce positions. But at the advanced yield levels which then developed, some customer demand reappeared. While this interest has most recently tapered off again as market sentiment has weakened, over the whole period since late November dealers made significant progress in reducing holdings of coupon issues, particularly in the over-5-year category.

DEALER POSITIONS IN GOVERNMENT SECURITIES 1/
(Millions of dollars)

	November 22	November 29	December 6
Total	2,820	4,184	4,012
Treasury bills	1,942	3,327	3,269
Coupon issues	878	857	743
Due within 1 year	160	174	206
1-5 years	102	103	66
over 5 years	616	580	471

1/ Friday figures.

Other short-term rates. With investment yields on 3-month, 6-month, and 1-year Treasury bills most recently at 6.01, 6.21, and 6.18 per cent, respectively, new CD's at banks are being subjected to intensified competition from market securities. As a result, CD offering rates are now generally at the regulatory ceilings, and CD yields in the secondary market have risen to a premium of about 10 basis points above ceiling rates on 3-month maturities.

Yields on Federal Agency securities and bankers' acceptances have also risen substantially since the last FOMC meeting, in line with the general rise in interest rates; but as is customary yields on commercial paper and finance company paper have lagged behind.

SHORT-TERM INTEREST RATES

	1968				
	Highs	Sept. 26	Nov. 26	Nov. 29	Dec. 10
1-month					
CD's (prime NYC)					
Highest quoted new issue	5.50 (12/5)	5.50	5.50	5.50	5.50 (12/5)
Secondary market	6.20 (5/31)	5.60	5.95	5.90	6.05 (12/5)
3-month					
Bankers' acceptances	6.13 (5/24)	5.62	6.00	6.00	6.13
Federal agencies	6.11 (5/17)	5.41	5.77 (11/21)	5.86	5.98 (12/5)
Finance paper	6.13 (6/25)	5.50	5.88	5.88	5.88
CD's (prime NYC)					
Highest quoted new issue	6.00 (12/5)	5.62	6.00 (11/21)	6.00	6.00 (12/5)
Secondary market	6.20 (5/31)	5.65	6.05 (11/21)	6.10	6.10 (12/5)
6-month					
Bankers' acceptances	6.25 (5/24)	5.75	6.13	6.13	6.25
Commercial paper	6.25 (7/25)	5.75	6.00	6.00	6.00
Federal agencies	6.25 (5/24)	5.53	5.91	5.88	6.09 (12/5)
CD's (prime NYC)					
Highest quoted new issue	6.25 (12/5)	5.62	5.75 (11/21)	5.75	6.25 (12/5)
Secondary market	6.40 (5/31)	5.75	6.20 (11/21)	6.25	6.25 (12/5)
1-year					
Prime municipals	3.90 (5/31)	2.85	3.20 (11/21)	3.20	3.40 (12/5)

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

<u>Federal finance</u>. Strengthening of staff projections of general economic activity over the rest of the fiscal year include higher estimates for personal and corporate incomes. On the basis of these revisions the staff has raised its fiscal year estimate of Federal tax receipts by $1.5 billion. The bulk of this change occurs next spring during the seasonal period of maximum personal and corporate income tax payments. With the staff estimate of fiscal year budget outlays still projected to run nearly $2 billion higher than the amount indicated in the latest Budget Bureau estimate, the upward revision of receipts reduces the prospective unified budget deficit to $3 billion. On a national income accounts basis the new staff projection shows the Federal sector approaching balance in the fourth quarter and then moving to a surplus of $8.0 billion by the second quarter of 1969.

During November the Treasury cash balance declined by almost $4 billion to a level of $2.8 billion. This decline would have been even sharper had it not been for $0.6 billion sales of foreign series securities to the Bundesbank.

In December, Treasury expenditures will continue to exceed receipts through mid-month. In fact, the excess of expenditures over receipts in just the first few days of the month was large enough to use up all of the $1.9 billion of new money received December 2 from the further sale of June tax bills. Yesterday, the Treasury had to make a small special borrowing at the Federal Reserve in order to maintain a manageable operating balance. Further overdrafts of somewhat larger magnitude, are expected on several days between now and next

Tuesday. But after mid-December receipts of $5.5 billion expected from corporate income taxes will rebuild the Treasury's cash position.

In the first half of January the balance will again experience seasonal drains and slide to a temporary low at mid-month. Our projections suggest that this drain will again force the Treasury to borrow temporarily from the Federal Reserve, unless some additional cash is raised from the public. Treasury new money borrowing will be needed later in the first quarter, in any event, before the balance is replenished by the massive inflow of April tax receipts. Total cash requirments for the first quarter may amount to perhaps $1.5 to $2.5 billion.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Oct.[a/]	Nov.[b/]	Dec.	Jan.
Borrowing operations				
New cash raised				
Weekly bills	.2	--	--	--
Tax bills	2.9	--	1.9	--
Coupon issues	--	--	--	--
PC's	--	--	--	--
Other (agency, debt repayment, etc.)	--	-1.0	- .8	--
Total net borrowing from public	3.1	-1.0	1.1	--
Plus: Other net financial sources[c/]	.9	- .8	--	.9
Plus: Budget surplus or deficit (-)	-6.1	-1.9	.3	- .4
Equals: Change in cash balance	-2.1	-3.7	1.4	.5
Memorandum:: Level of cash balance end of period	6.5	2.8	4.2	4.7

a/ Actual data.
b/ Actual and estimated data.
c/ Checks issued less checks paid and other accrual items.

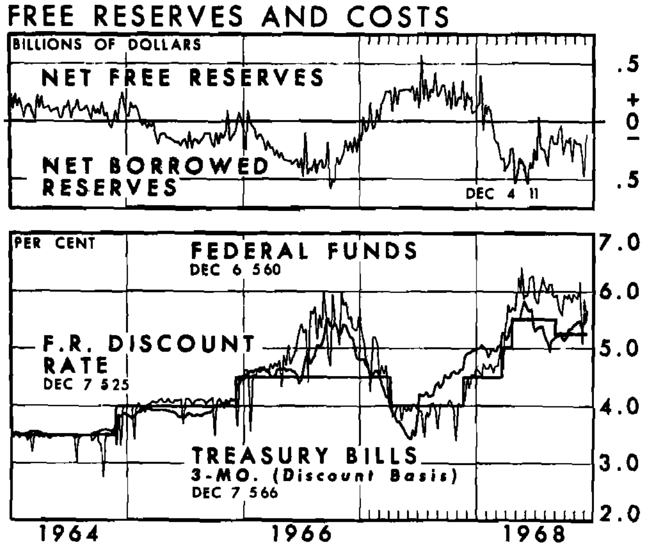
NEW BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	Fiscal years			1967		1968				1969	
	1967	1968	FR Board 1969 a/	III	IV	I	II	III	IV e/	I e/	II e/
Quarterly data, unadjusted											
New Budget:											
Surplus/deficit	-8.8	-25.4	- 2.6	- 8.9	-10.8	- 8.6	2.8	- 3.2	- 7.8	- 2.2	10.5
Receipts	149.6	153.5	184.2	35.3	31.8	36.2	50.2	43.6	39.1	44.2	57.2
Total expenditures and net lending	158.4	178.9	186.8	44.1	42.7	44.8	47.4	46.9	46.9	46.4	46.7
Means of financing:											
Total borrowing from the public	2.8	23.1	3.8	8.5	10.5	6.7	- 2.6	7.7	3.2	--	- 7.1
Decrease in cash operating balance	5.2	.4	- 2.0	- 1.0	1.1	.2	.1	- 3.3	4.4	1.0	- 4.1
Other 1/	.8	1.9	.9	1.4	- .8	1.7	- .4	- 1.1	.1	1.2	.7
Cash operating balance, end of period	5.7	5.3	7.3	6.7	5.6	5.4	5.3	8.6	4.2	3.2	7.3
Seasonally adjusted annual rate											
Federal surplus/deficit in national income accounts	-6.7	-11.9	2.4	-12.9	-12.2	- 8.6	-10.2	- 3.0	- .2	4.8	8.0
Receipts 2/	147.8	160.8	190.4	152.2	156.4	166.6	171.8	181.9	187.3	194.5	197.9
Expenditures	154.3	172.7	188.0	165.1	168.6	175.1	181.9	184.9	187.5	189.7	189.9

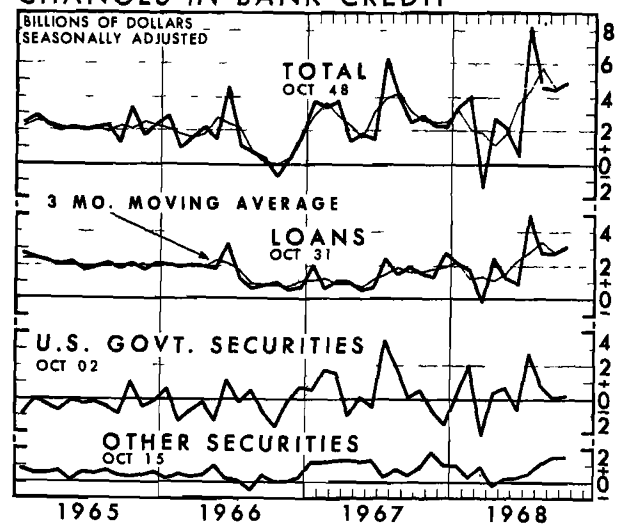
e--Projected.
1/ Includes various accrual items, such as deposit fund accounts and clearing accounts.
2/ Retroactive corporate surtax liability is included beginning first quarter 1968. Quarterly receipts do not add to fiscal year totals due to seasonal adjustment of social security taxes.

FINANCIAL DEVELOPMENTS - UNITED STATES

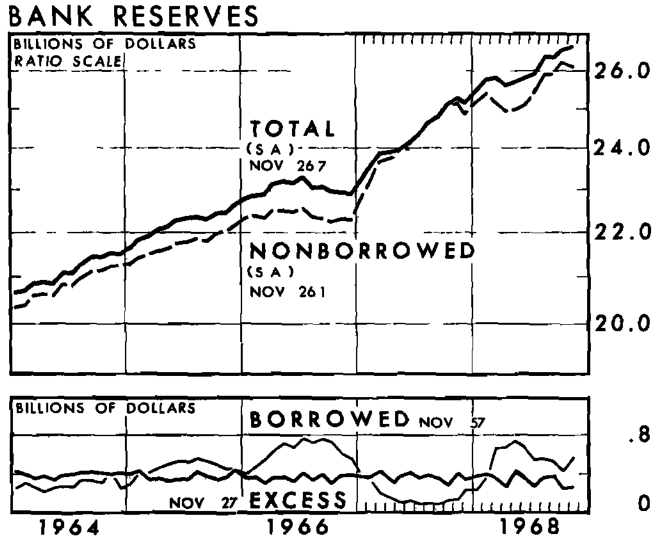
FREE RESERVES AND COSTS



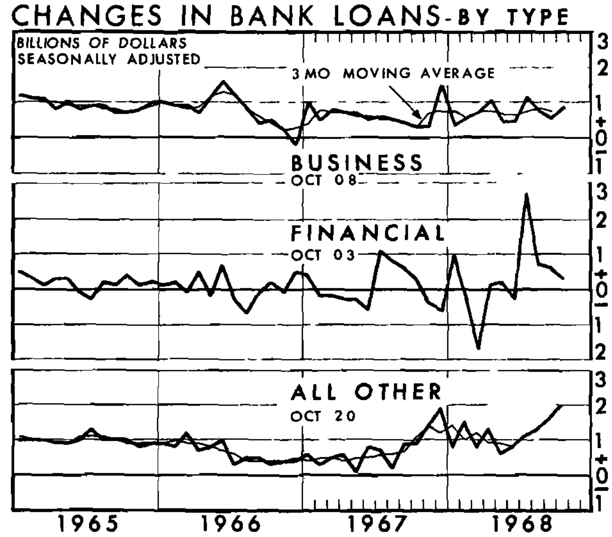
CHANGES IN BANK CREDIT



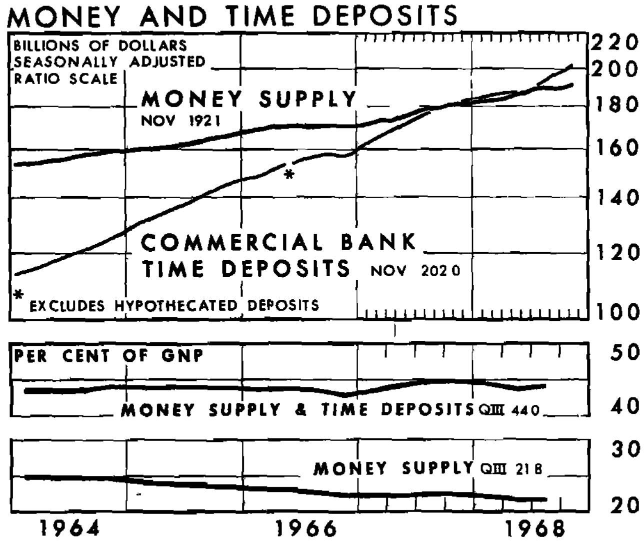
BANK RESERVES



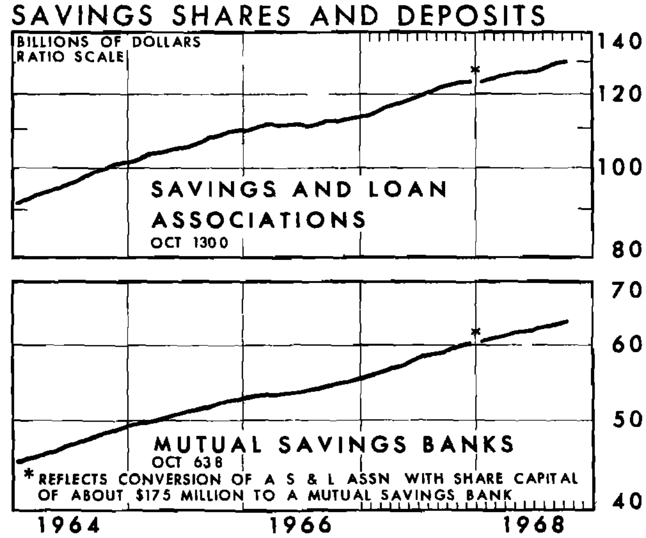
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

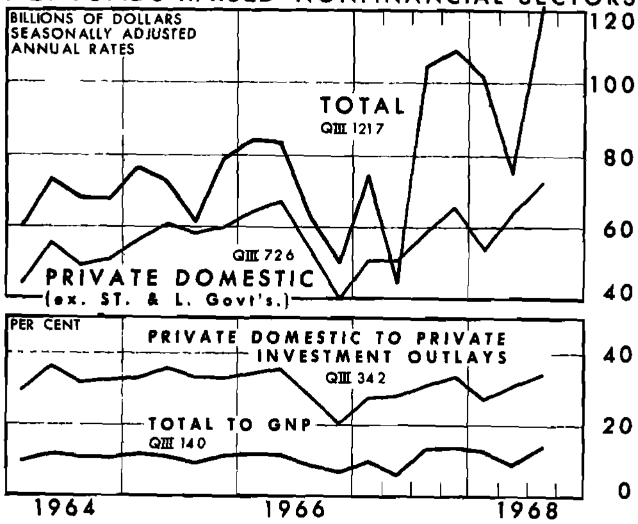


SAVINGS SHARES AND DEPOSITS

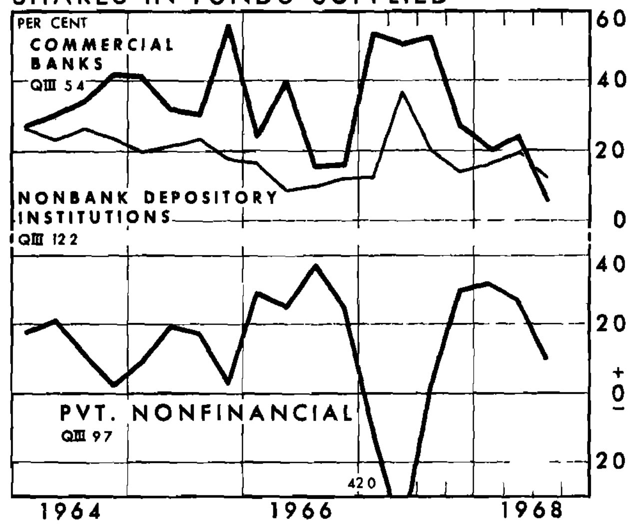


FINANCIAL DEVELOPMENTS - UNITED STATES

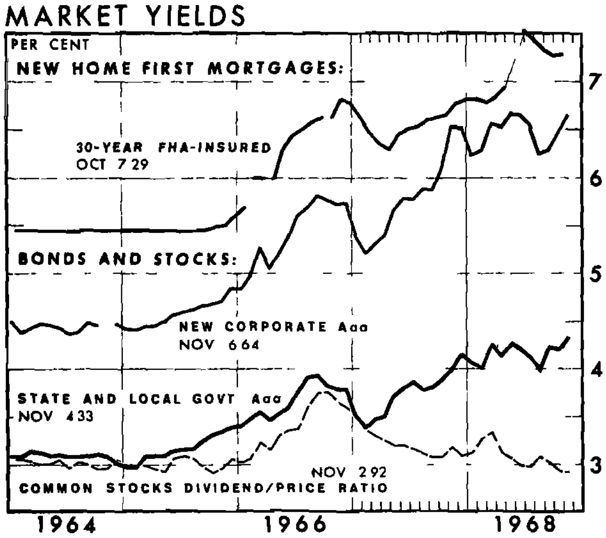
NET FUNDS RAISED-NONFINANCIAL SECTORS



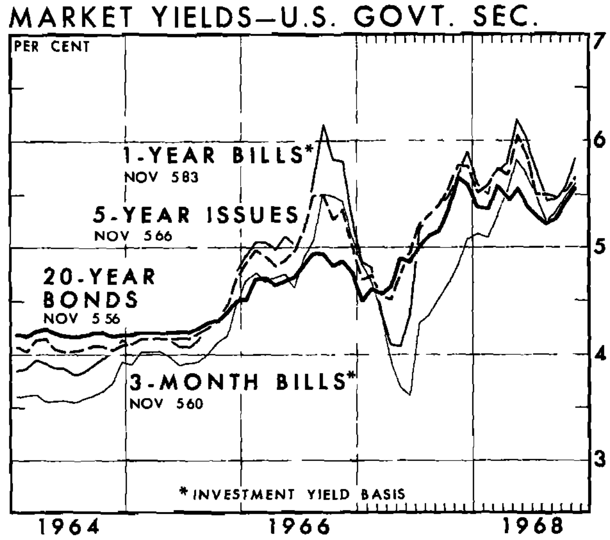
SHARES IN FUNDS SUPPLIED



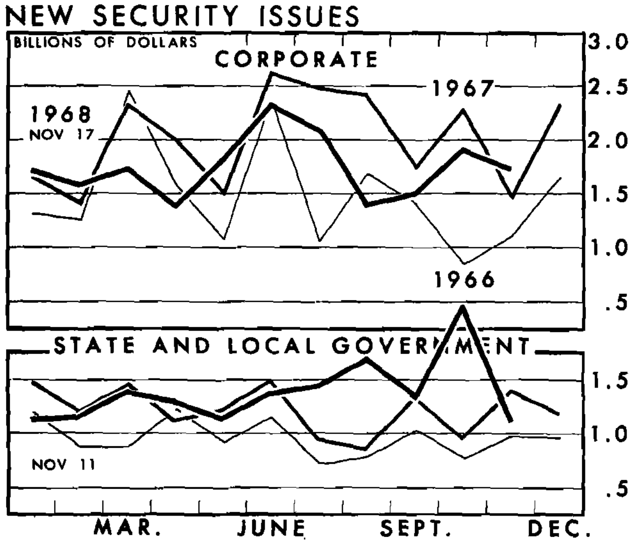
MARKET YIELDS



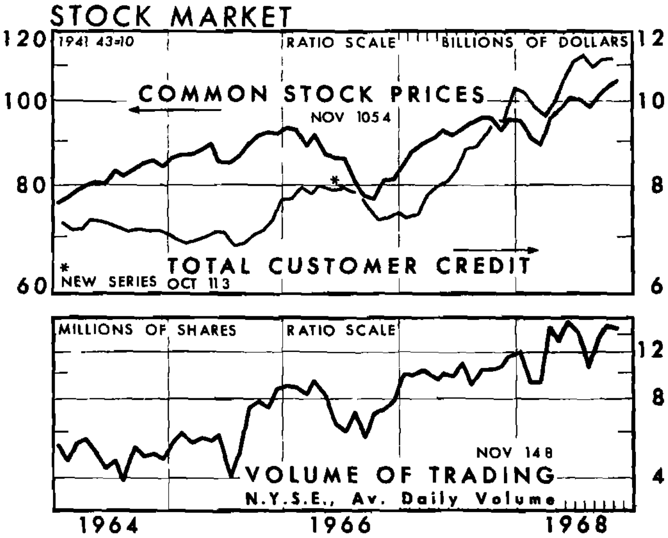
MARKET YIELDS—U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

Contents

Foreign exchange market developments. During the week following the recent exchange crisis -- November 24-30 -- there was some unwinding of speculative positions that had been built up in anticipation of a mark revaluation with its possible repercussions on other exchange parities. Funds flowed out of marks and to a much lesser extent back into sterling and French francs. However, in the first week of December the outflow from Bundesbank reserves dwindled sharply from the volume of the previous week, a general air of uncertainty reappeared, and growing pessimism over sterling caused the Bank of England to suffer large reserve losses in holding the exchange rate for the pound at about $2.3830.

The price of gold -- after easing slightly from the $40 an ounce level reached during the crisis -- has moved back above $40 and on December 11 was fixed in London at $40.95, its highest level in that market since early July.

During the final week of November the Bundesbank sold about $900 million spot in the exchange market. In the first week of December its spot sales were only $150 million, and so far in the second week of December they have totaled $115 million. In the week immediately following the crisis the Bundesbank intervened to hold the premium on the forward mark down to 3 per cent per annum, in order to have a favorable psychological impact on the market and to encourage the outflow of funds from marks; it sold a total of about $240 million of marks forward on an outright basis. The Federal Reserve sold an additional $70 million of marks forward in the New York market.

Beginning December 2 the Bundesbank stopped its intervention in the forward market on an outright basis and reinstituted its policy of doing swaps -- selling dollars spot (but only for short-term investments in dollar assets) and buying them back forward at a 2.75 per cent per annum discount (premium on the forward mark). In the first seven trading days of December it did about $425 million of such swaps. However, the Bundesbank has a very large volume of swaps contracted in earlier months which come due in December, and the Bank may have to continue to offer swaps at very attractive rates to the market if it is to avoid adding to its reserves from these maturing swaps.

The Bank of England was able to make very modest purchases of foreign currencies in the week following the crisis. However, during early December a growing undertone of pessimism developed in the market for sterling and very heavy selling pressure developed on the pound. (This morning short covering produced a spurt of heavy buying of spot sterling. Thereafter the market was erratic.)

It is difficult to point to any single factor responsible for the renewed pressure against sterling. Reportedly the unrest in the Middle East was an important triggering factor; Middle Eastern residents were large sellers of sterling. In addition, the announcement of a large reserve loss during November -- though ascribed in part to large debt repayments -- apparently contributed to the pessimistic market atmosphere as did growing apprehensiveness over the November trade figures which will be announced December 12. Finally, there has been considerable discussion in the British press of the unsatisfactory results of the devaluation a year ago and the likelihood that the Bank of England debt repayments scheduled for 1969 will have to be rephased. The sharp deterioration in market confidence in sterling is reflected in the very large discount that has once again developed for forward sterling in spite of occasional Bank of England support. On December 11 the discount on three-month contracts was slightly over 7 per cent per annum in London, compared with 2.95 per cent at the first of the month.

French exchange controls apparently have the franc market well under control for now and market quotations for the franc generally reflect the Bank of France's operating rates. More restrictive exchange controls were put into effect December 5 -- both on spot and forward market transactions -- and these are expected to generate a significant volume of foreign currency sales by French banks and others to the Bank of France before the end of the year. The Bank of France has purchased a moderate amount of dollars during the 12 trading days since the crisis. However, the suspicion in which the franc is still held is indicated by the very large discount on forward francs in markets outside France; the discount on three-month forward contracts is now nearly 8-1/2 per cent per annum.

<u>U.S. balance of payments</u>. In the final quarter of 1968 the normal uncertainties that surround an evaluation of the outlook for the balance of payments are augmented by the crisis in international exchange markets and also by an imminent strike of longshoremen at East Coast and Gulf ports. Moreover, the restrictions on private direct investment may result in unusual year-end inflows of capital as companies satisfy the regulations by repatriating part of the remaining proceeds of their foreign borrowings.

The <u>October</u> liquidity deficit was $584 million (not seasonally adjusted), which was sizable though not extraordinary for this seasonally adverse month. During the month there was a substantial net increase in bank-reported claims on foreigners of $180 million, which was perhaps more than would be expected on the basis of the usual seasonal pattern. There were sizable flows to Europe, Canada, and Latin America.

Net U.S. purchases of foreign bonds in October were fairly large at $240 million, the principal item being a new issue of the World Bank of $179 million. U.S. investors sold about $60 million (net) of foreign equity securities in the month, much of which represented liquidation of a large minority interest in a U.K. firm rather than a shift from a pattern of moderate outflows. The net inflow of foreign capital to purchase U.S. equity securities was $204 million in October -- somewhat larger than the monthly average for the year so far.

In November the weekly data showed mounting liquidity deficits, with the deficit rising sharply in the week of heavy speculative capital flow into Germany, and continuing high until near the end of the month. At the end of November, or early in December (it is not yet clear what the monthly reports will show) a large surplus appeared, offsetting to some extent the formidable deficit that had been accumulating. The surplus in early December probably included the return of some speculative funds and perhaps also some inflows from U.S. direct investors. It now appears that the October and November liquidity deficits (not seasonally adjusted) totaled roughly $1.2 billion. Seasonal factors in the final months of the year are highly erratic. For October and November together the allowance for adverse seasonality should perhaps be on the order of $400 million, or even more, so that the seasonally adjusted liquidity deficit for the two months would be perhaps $3/4 billion.

In October and November the amount of receipts under financing arrangements between the Treasury and foreign governments was about $250 million, comprised mainly of $125 million from Germany under the military offset agreement and $100 million from Japan as an advance repayment on loans from the Export-Import Bank. In addition, international agencies invested $194 million in long-term deposits and U.S. Agency securities, absorbing most of the proceeds of new bonds sold by them in the U.S. market in the period.

The remainder of the year seems likely to be dominated by relatively transient transactions. The month of December is seasonally favorable, and an allowance of about $1/4 billion will have to be made for this. Export receipts were probably above normal in November and early December because of pre-strike accelerations of shipments, but this could mean a cut in receipts in the final weeks of the year. However, large receipts in those weeks are likely to occur as financing arranged by the Treasury with foreign governments and the international agencies (other than the IMF) mounts up, and also because of the operations of the direct investment controls.

According to the third-quarter accounts (which will not be published until late in the month and should be held strictly confidential) the expected reduction in direct investment outflows in that quarter did not occur. The flow to the European continent was somewhat reduced, but there was a very large flow to the U.K. (partly for requisitions of interests in existing firms) and a continued large flow into Canada and Latin America. In the quarter the companies sold over $500 million of new issues in foreign markets, but they used only a little over $200 million of such foreign funds to finance capital outflows while adding about as much to their holdings of accumulated proceeds abroad. By the end of September the accumulated funds held abroad available for use by the companies were about $1.5 billion. Under the terms of the Commerce program, some of these funds will have to be repatriated by the end of the year to the extent that companies holding them would exceed their allowables for the year without such credits. The amount involved would be only a fraction of the accumulated total, but could be several hundred million dollars. Other funds might be returned simply to make sure of compliance with the regulations, but then could return abroad next year.

An important part of the improvement in the third quarter liquidity balance remains unexplained, and the residual item -- errors and omissions -- shifted strikingly from a negative $429 million in the second quarter to an equally large positive amount in the third. One explanation may be that the second quarter unrecorded payments represented in part a return flow to Canada as confidence in that currency was restored, while the third quarter receipts included inflows following the mid-year crisis of the French franc and before the talk of German revaluation had begun. With such large elements of uncertainty prevalent, the outcome for the liquidity deficit in the fourth quarter remains quite unpredictable.

On the <u>official reserve transactions basis</u>, as reported three weeks ago, there was a surplus of $444 million in the third quarter, seasonally adjusted. During October and November there were sizable deficits on this basis, on the order of $900 million, not seasonally adjusted. Spreads between Euro-dollar rates and U.S. rates have widened, probably partly because of absorption of Euro-dollar funds in speculation against the German mark. Also, U.S. companies have ceased to become major suppliers to the market since their dollar borrowings abroad have declined, and they may have begun to draw down their balances.

<u>U.S. foreign trade</u>. The trade balance in October was again in deficit following a relatively large surplus in the preceding month, as exports fell sharply while the drop in imports was more moderate. It is now estimated that 40 per cent of the third quarter improvement in the trade surplus (compared to the first half) was due to shifting of shipments into September that would have been made in October in the absence of a longshoremen's strike threat.

With only dim prospects for a new labor agreement being reached before expiration of the Taft-Hartley injunction on December 20, the recent pattern of anticipatory trade movements may be repeated. An actual strike call, which now seems almost certain, would deepen the possible import balance in the early weeks of 1969, as the value of waterborne general cargo, requiring the use of longshoremen, is greater for exports than imports though East and Gulf Coast ports.

The combined trade total for July-October -- which spans the recent strike-affected months -- may be indicative of basic trends in exports and imports. In this period the trade surplus was at an annual rate of $1/2 billion (balance of payments basis.) The rise in exports between the first six months and July-October was at an annual rate of 12 per cent, only moderately below the high 15 per cent rate of increase from the preceding half year. Similarly calculated, the recent rate of increase in imports was about 10 per cent, compared with 36 per cent earlier.

Effects of German, British and French measures on U.S. trade. The recent measures taken by Germany to reduce its export surplus, and France and the United Kingdom to improve their trade position (described in the following section) are not expected to affect significantly the value of U.S. trade directly with these countries. Germany's border tax modifications, however, may improve the United States export prospects in third markets.

In 1967 foodstuffs and industrial materials made up about 50 per cent of total U.S. exports to Germany and the United Kingdom and 40 per cent of shipments to France. These products are either exempt from the new measures, as in the U.K., or are assumed to have a low price elasticity, with demand governed more by supply conditions, internally and externally.

Most of the remaining U.S. exports to these countries last year were capital goods, machinery primarily, but also aircraft. Machinery is a long-lead item and such exports may not be immediately affected. Consumer goods were about 5 per cent of total U.S. shipments to each country, and may be affected more and sooner, as they are generally more price responsive. A very rough estimate, assuming import price increases of about 2 per cent in Britain and France and decreases of 4 per cent in Germany, is that a year from now, other things being equal, U.S. exports to Britain and France might be reduced about $100 million (annual rate) and exports to Germany increased by about as much.

The impact on U.S. imports from these countries may also be small. British export prices are not changed by the new regulations. About one-third of U.S. imports from France are consumer goods and another 15 per cent is machinery. Imports of these commodities may increase somewhat but probably by less than $25 million. More than one-third of total U.S. imports from Germany is automobiles and parts. It is questionable whether U.S. automobile buyers would be induced to switch to domestic cars for the announced $50 price increase. It is possible that those buyers who are particularly price sensitive would consider buying a Japanese, Italian or some other foreign car in place of a Volkswagen or Opel. Such shifts might also occur for cameras, radios and other types of consumer goods as well as steel imported from Germany.

The greatest benefit to U.S. trade from higher German export prices may be to improve the United States's competitive position in third markets, in some of which our share of sales of major categories of manufactures has declined relative to Germany's in recent years. While unit value indexes may only approximate actual export price movements, it may be noted that the indexes would suggest that U.S. export prices for manufactured goods have increased much more sharply than those for Germany since 1964 -- 12 per cent against 3 per cent.

Recent policy measures: France, Germany, the United Kingdom. The measures taken by France, Germany and the United Kingdom during the recent foreign exchange crisis and since the Bonn G-10 Meeting will affect the levels of economic activity and foreign trade next year in these three countries and -- to a much smaller extent -- in other industrialized countries. The French measures, more far-reaching than the others, could significantly damp down French economic expansion in 1969 and, if wages can be held back, yield a substantial improvement in the country's trade balance. The German measures, which are designed to reduce Germany's trade surplus, will probably not slow the overall rise in German economic activity significantly. The British measures should help to restrain U.K. consumption and imports and thereby to bring the balance of payments improvement that has been expected ever since last year's devaluation.

France acts to reduce expansion. Internal economic developments in France during October showed continuing recovery from the upheavel of May and June. Production was expanding rapidly, a consumer boom was clearly under way, order backlogs were rising and there was a slight decline in the level of unemployment. Confidence in the stability of the franc, badly shaken in the summer and especially when flows into marks took place in early September, was very slow in returning and there was only a slight slowing of French reserve losses in October. Uneasiness about the franc may have been due in part to France's inability to keep price rises from accelerating sharply and thereby exceeding the official target of 5 per cent (December to December). Consumer prices rose at an annual rate of 8 per cent in September and 12 per cent in October, bringing the year-to-year rise by October to 5.9 per cent. The acceleration of price rises in September-October was explainable only in part by seasonal influences and increases in prices of services provided by nationalized industries.

Early in November a second wave of speculation on a DM revaluation rapidly pushed French capital outflows to an unsustainable level. The measures taken by the French Government before and after the Bonn meeting included the following: re-imposition of exchange controls, reinforced credit restraint, a reduction in the projected budget deficit for 1969, and -- instread of the widely expected franc devaluation -- tax reforms designed to stimulate exports and reduce imports.

Immediate impacts on flows of funds have been favorable. Despite a further worsening in the underlying balance of payments in November, the Bank of France has gained net reserves in the past fortnight. (The November trade deficit was about $200 million, seasonally adjusted, up considerably from the $160 million average of September-October.)

The new French exchange controls, in effect since November 24, are similar to those in force last summer in that all current transactions will receive general authorization. However, the new controls are much tighter with regard to exports of French bank notes, holdings of foreign currency assets, repatriation of proceeds of export payments, and importers' forward purchases of foreign exchange. The tourist allowance is set at Fr 700 ($140) per trip exceeding 24 hours, compared with Fr 1,000 ($200) allowed under the previous controls.

Monetary measures adopted on November 12 included an increase in the Bank of France's discount rate by 1 percentage point to 6 per cent, an increase in commercial banks' reserve requirements, and a severe quantitative limitation on short-term credit expansion. Outstanding short-term credits granted by French banks as of December 31 are not to exceed 104 per cent of the level of September 30, and must be reduced to 101 per cent of that level by January 31, 1969. Since the announcement of these measures, the Bank of France has further limited its assistance to the money market and raised the cost of that assistance, thereby driving the day-to-day money rate to more than 10 per cent from the 7 per cent level at the end of October. Early in December this rate declined to 8-1/4 per cent. The new measures should sharply slow down, if not halt, the rapid expansion of bank credit and money supply which had been permitted after the May disturbances.

On November 26, Prime Minister Couve de Murville submitted to the National Assembly a series of amendments to the 1969 French budget. Planned increases in government expenditures will be cut and tax receipts will be increased, resulting in a reduction in the estimated budget deficit for calendar 1969 from Fr 11.6 billion ($2.3 billion) to Fr 6.35 billion ($1.23 billion). This is well below the deficit of Fr 14 billion ($2.8 billion) now estimated for calendar 1968. The revised budget, approved last week by the Assembly, reduces Government expenditures by Fr 2.8 billion including a cut of Fr 400 million in defense appropriations and atomic test programs, and provides for an increase of Fr 2.5 billion in estimated tax receipts in 1969, largely through the tax reforms discussed below.

As a result of these French measures, it is likely that the increase in real GNP from 1968 to 1969 will not be as great as the 7.6 per cent envisaged last summer -- which did not look unusually large, being measured from a base depressed by the loss of output in May-June. However, if further social unrest is escaped, the year-to-year expansion may still be around 5 per cent. This implies very little further gain beyond the level of activity already reached in the current quarter, and probably also implies growing unemployment.

The tax reforms mentioned above are designed to increase government tax receipts in 1969 and to help improve the French trade balance. The wages tax of 4-1/4 per cent, levied on payrolls, is abolished for most employees. The four rates of value-added tax were increased as follows:

Low rate (mainly agricultural goods)	from 6 to 7 per cent
Intermediate rate (energy, some raw mats.)	from 13 to 15 per cent
Regular rate (most goods)	from 16-2/3 to 19 per cent
High rate (luxuries, incl. cars)	from 20 to 25 per cent

The increases in value-added tax rates, apart from increasing tax receipts, will permit the French authorities to increase border tax adjustments for most imports. Domestic prices of imported goods will tend to be increased by an average of about 2.5 per cent. Taking into account the composition of French imports from Germany and from other countries, we estimate that prices of goods imported from Germany will rise by over 4 per cent, while prices of imports from other countries, including those from the United States, might be increased by an average of about 2 per cent. (These estimates involve assumptions regarding the degree of absorption of tax burdens by exporters and importers).

The increases in value-added tax rates are expected to give an upward push to prices of domestically produced goods as a whole, despite the abolition of the wage tax -- over and above other influences on prices. The Government is exerting strong pressure on manufacturers and retailers to consider the offsetting effects of the removal of the wage tax in setting prices and has granted some minor tax reliefs (for example, the turnover tax on meat was abolished). Some special concessions for value-added tax payments in December will postpone some price increases until next year. The Government may resort to price controls if price increases appear to be excessive. Nevertheless, prices are expected to rise sharply this month partly because of increases in prices of many services, which are not covered by existing price agreements and were not subject to the wage tax. Also, a rise in charges for railroad freight, electricity and gas for industry, and road transport, has already occurred in December; this is related to the budget cut of Fr 1.2 billion in subsidies to nationalized industries.

The French Government expects consumer prices to increase about 6 per cent during 1969 (December to December). However, even in the absence of social unrest, the Government may have to agree to substantial wage increases during the forthcoming March talks with labor and management. The cost push on the price level may be so strong that strict price controls may have to be instituted to prevent consumer prices from rising next year more than 6 per cent.

The substitution of the rebatable value-added tax for the wage tax should tend to reduce French export prices. Prices of French products paid by foreign importers, according to our estimates, should be reduced, other things being equal, by about 2.7 per cent. With the reduction of border taxes in Germany, the cost to German importers of French products should be cut by about 5.6 per cent, and French export prices to all other countries may be reduced by about 2.3 per cent.

According to French official estimates, the effects on imports and exports of the tax changes, together with the effects of the damping of domestic demand, should be a substantial improvement in the French trade balance in 1969, probably at the cost of some deterioration in employment. For 1969 as a whole, according to these estimates, the current account balance (trade and services) may be either in slight surplus or deficit, compared to a 1969 deficit, as recently estimated, of about $1 billion. The validity of this projection depends on avoidance of large wage increases next spring.

Germany changes border tax rates. The German trade surplus, which in 1963-66 averaged $1.3 billion a year (imports valued c.i.f.), has been running since mid-1967 at annual rates over $4 billion and in recent months at nearly a $5 billion rate. In November, the rumors of a DM revaluation led to exceptionally large speculative capital inflows. In order to discourage the German commercial banks from seeking out or accepting foreign deposits the Bundesbank raised reserve requirements against increases in foreign deposits to 100 per cent, effective November 20. Rather than revaluing the mark, the Government secured Parliamentary approval for a reduction for a period of 16 months in the value-added tax rates applied to imports and the rebates of value-added tax on exports.

Specifically, the value-added tax rates were reduced as follows:

Low rate (mainly agricultural products)	from 5.5 to 3.5 per cent
Standard rate (all other goods)	from 11 to 7 per cent.

The immediate effect toward reducing prices of imported goods in Germany may well be as much as the amount of the tax reductions -- as German officials assume. But the impact on prices of German exports (a rise) will be delayed and will probably be less than the reduction in the tax rebates. The German authorities granted numerous exceptions for contracts already negotiated or in cases where hardship could be proved by the German exporters on contracts negotiated without specific prices. Moreover, it is unlikely that German exporters will fully shift forward the cost to them of the reduction in the value-added tax rebate. German officials expect exporters to shift forward about two-thirds of the change (about 2.7 per cent) and absorb the balance in their profit margin. The only announced price change on a major German export, that for Volkswagen cars in the United States, is a hike of 2.9 per cent, implying a somewhat larger increase in ex-factory prices. The German authorities estimate that the tax changes will result in additional tax revenues of DM 1.3 billion ($325 million) in 1969. It is proposed to use this additional revenue to help export industries to re-direct some of their resources towards production for domestic sale.

According to official German estimates, the reduction in the trade surplus ascribable directly to the tax changes should amount to $1.25 billion. Our own estimate is smaller: in the range of $750 million to $1 billion.

The impact of the German tax changes on the rate of growth of GNP in 1969 is not likely to be significant. Since demand will still be pressing upon available resources, the previously estimated 4-1/2 per cent real GNP expansion in 1969 may well be achieved. The upward pressure on costs and prices, which has began to develop this year, may be somewhat relieved by the reduction in import prices. Some moderate narrowing of the trade surplus, beyond that due directly to the tax changes, may result from the rise in income and from fuller utilization of German capacity, but the trade surplus will remain very large -- still necessitating large long-term capital outflows to compensate for the current account surplus.

Britain imposes further austerity measures. On November 22, the Chancellor of the Exchequer announced a series of measures designed to reduce the level of British imports and consumer spending. The measures had been prepared before the foreign exchange crisis, but it appears clear that the crisis accelerated their implementation.

The devaluation of last November has been working for exports, which are now (September-October) 14 per cent larger in volume than at mid-1967, before the 1967 dock strike. But, because of reduced export prices (in dollars) and -- above all -- because of continuing high imports, the merchandise trade deficit is still running about $1 billion greater than in 1966.

To reduce consumption and imports, the Government activated the "regulator," by which a surcharge of 10 per cent was imposed on the duties

UNITED KINGDOM MERCHANDISE TRADE

	Year 1966	April-Sept. 1967	April-Sept. 1968	Sept.-Oct. 1968
	Seasonally adjusted annual rates in billions of dollars			
Exports1/ (f.o.b.)	14.7	14.8	15.2	15.9
Imports2/ (c.i.f.)	16.7	17.5	18.6	18.9
Balance	-2.0	-2.7	-3.4	-3.0
Balance (B/P basis)	-0.3	-1.1	-1.7	-1.4
	Indexes, 1966 = 100			
Exports (f.o.b.):				
Volume, s.a.	100	100	111	114e
Unit value ($)	100	102	95	96e
Value, s.a. ($)	100	101	104	109
Value, s.a. (£)	(100)	(101)	(121)	(127)
Imports (c.i.f.):				
Volume2/ s.a.	100	107	117	118e
Unit value ($)	100	99	95	97e
Value, s.a. ($)	100	105	111	114
Value, s.a. (£)	(100)	(105)	(130)	(133)

1/ Including re-exports
2/ Excluding U.S. military aircraft.
e = estimated.

for beer, wines, spirits, petrol and tobacco and on all rates of purchase tax. Further, an import deposit system was announced, requiring importers of semi-manufactured and manufactured goods to establish a deposit equal to 50 per cent of the import value of the goods. The Government will pay no interest on these deposits and will retain them for a period of 180 days. About two-fifths of total British imports will be affected by this requirement.

In the monetary field, the ceiling on sterling lending by the London clearing banks and the Scottish banks was reduced from 104 per cent of the November 1967 level to 98 per cent of that level. The reduction must be accomplished by March 1969. However, export credits and fixed-rate credits for domestic shipbuilding were placed outside the ceiling.

The National Institute estimates that the improvement in the British trade balance in 1969 ascribable to the import deposit plan plus the new restraints on consumption may be in the range of £100 million to £250 million. Expressed in terms of an import surcharge, at an interest rate of 8 per cent the six-month 50 per cent import deposit requirement represents an added domestic cost of 2 per cent on the imports affected.

Some balance of payments benefit may be achieved through the capital account. With bank credit difficult to obtain in the United Kingdom, some importers may be able to obtain additional credit from foreign suppliers. For example, the Irish Government has instructed Irish banks to pay the deposits for the British importers and is undertaking to pay interest on these loans.

The surcharge on purchase and excise taxes, which applies equally to domestic and imported goods, will have an impact on the British price level. In direct response to this measure prices should rise by one per cent within three months, and may rise by as much as 1-1/2 per cent in a year. The effectiveness of this price advance in restraining real consumption will depend of course on Britain's success in restraining wage increases.

The new measures should have some damping effect on economic activity in Britain. Assuming no greater wage increases than had been expected earlier, real consumer spending, according to the National Institute's estimate, should fall by about 3/4 or 1 per cent. The rate of real GNP expansion may be slightly reduced, perhaps by one-half of a percentage point, making the 1968-to-1969 increase about 2-1/2 or 3 per cent. Unemployment, which previously had been expected to decline, is now likely to remain at its present level -- 2.4 per cent, seasonally adjusted, in October -- throughout 1969.

Measures should have small impact on trade of other countries. For Italy and the smaller European countries -- as also for all other countries including the United States -- the direct impacts on their foreign trade of the actions taken in the past three weeks by France and Britain will tend to be offset -- in some cases perhaps more than offset -- by the effects of the German border tax changes.

One factor influencing the net impact is the relative importance within each country's trade of its trade with France, Germany and the United Kingdom. The Netherlands, Belgium, and perhaps Switzerland, should get larger net exports through the relatively high concentration of their trade with Germany. The composition of each country's trade is also relevant. Italy, for example, has important exports of cars to France and the large French border tax adjustment on cars may affect these exports disproportionately. Spain has sizable exports to both France and Britain, but these consist mainly of agricultural products on which the French and British measures will not bear heavily. However, the French exchange controls may significantly affect Spanish tourist receipts next year.

SHARES OF TRADE WITH GERMANY, FRANCE, AND THE UNITED KINGDOM, 1967
(in per cent of each country's total exports and imports)

	Exports to:			Imports from:		
	Germany	France	Britain	Germany	France	Britain
United Kingdom	4.9	4.1	...	5.3	4.0	...
Germany	...	11.6	4.1	...	12.0	4.1
France	17.3	...	5.1	20.2	...	4.8
Italy	17.7	12.1	4.8	17.4	10.8	4.5
Netherlands	26.1	9.2	8.8	25.4	6.4	5.5
Belgium-Luxemburg	19.8	17.7	4.7	21.2	14.8	7.0
Sweden	11.0	4.7	13.3	19.3	4.8	14.7
Switzerland	13.1	9.0	7.5	28.7	13.7	7.7
Spain	10.2	10.1	10.1	13.9	11.5	8.7
Japan	2.1	0.7	2.8	3.1	0.7	2.2
Canada	1.6	0.7	10.3	2.3	1.2	6.1
United States	5.0	3.2	5.7	7.3	2.6	6.4

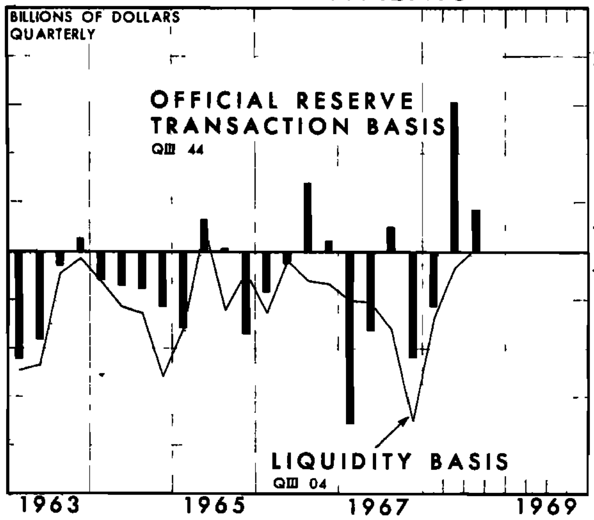
Source: OECD: Commodity Trade, 1967

For some countries, the effect of the recent measures may be felt in export competition in third-country markets. In particular, as noted earlier, the severity of German competition with U.S. exports may be somewhat lessened. Japanese exports, too, may be helped in third markets.

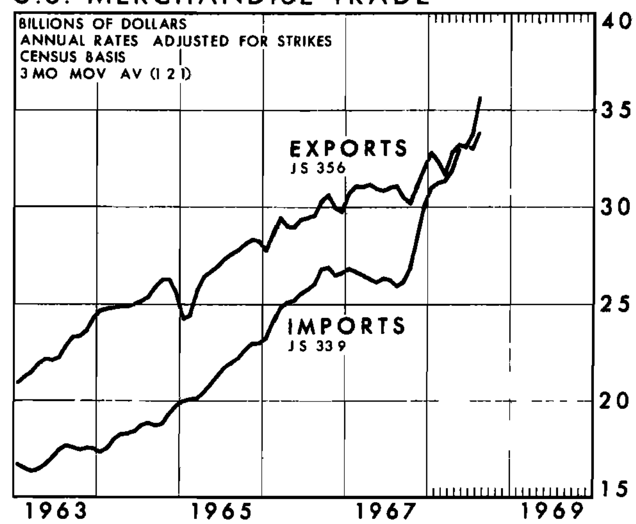
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

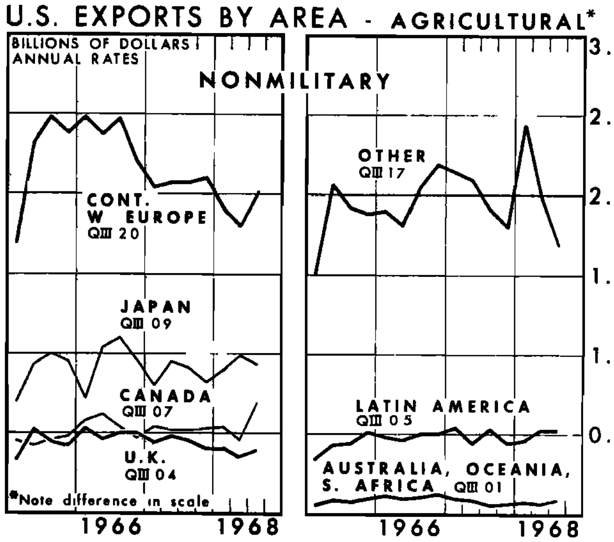
U.S. BALANCE OF PAYMENTS



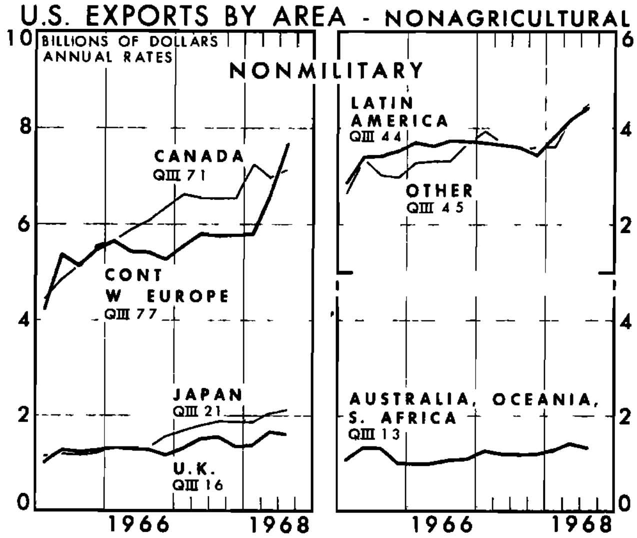
U.S. MERCHANDISE TRADE



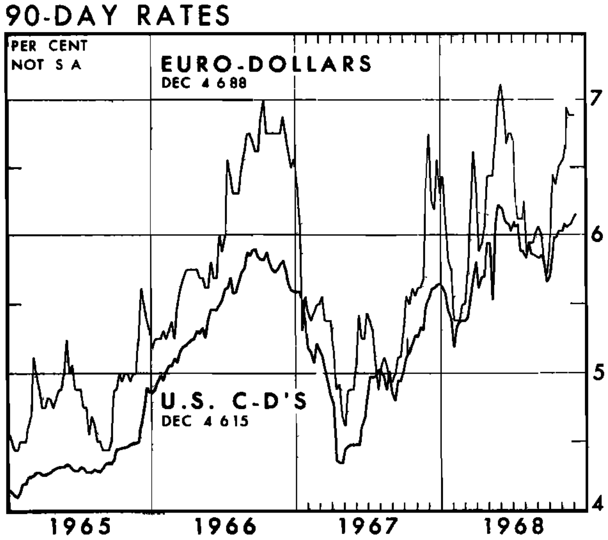
U.S. EXPORTS BY AREA - AGRICULTURAL*



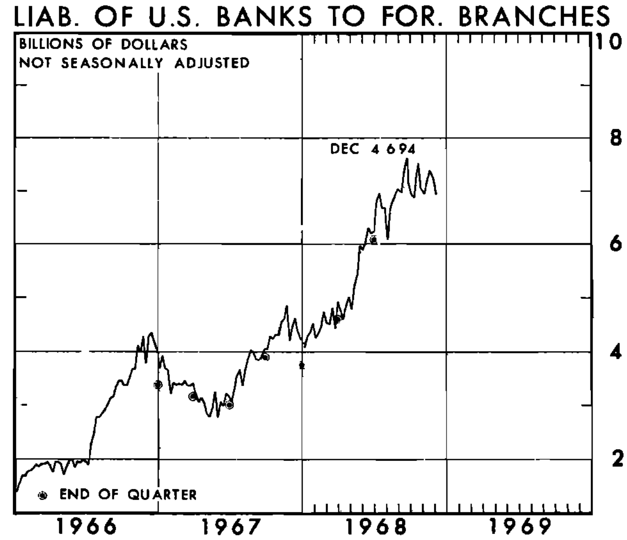
U.S. EXPORTS BY AREA - NONAGRICULTURAL



90-DAY RATES



LIAB. OF U.S. BANKS TO FOR. BRANCHES



APPENDIX A: SURVEY OF BANK LENDING PRACTICES*

Thirty-six per cent of the 125 banks reporting in the November 15 Bank Lending Practices Survey indicated that demand for business loans was stronger--while only ten per cent reported weaker business loan demand--during the current three-month reporting period as compared with the preceding one (see Table 1). Nearly 30 per cent of the respondent banks anticipate stronger loan demand in the next three months. However, in contrast to recent past surveys, banks with deposits under $1 billion experienced stronger loan demand than larger banks and a greater proportion of the smaller banks anticipate stronger loan demand during the next three months (see Table 2).

Interest Rates and Compensating Balance Requirements

About 35 per cent of the banks indicated that they had eased their policies regarding interest rates charged on loans to nonfinancial businesses, and approximately 30 per cent had eased such policies on loans to independent finance companies. While many banks commented that the decline in interest rates was in response to increased deposit inflows, others indicated that their "easier" interest rate response on this survey reflected the late September reduction in the prime rate. The survey, of course, had preceded the recent prime rate increase.

Almost nine-tenths of the respondent banks reported essentially unchanged policies regarding compensating balance requirements on business loans. On loans to finance companies, nearly all banks reported that these policies had not changed. However, interest rate and compensating balance policies on loans to both nonfinancial businesses and finance companies were somewhat firmer at smaller banks, where recent loan demands have been relatively heavy.

Other Nonprice Terms and Conditions

Nonprice terms and conditions to business and finance company borrowers generally were unchanged at most reporting banks. However, a somewhat firmer policy was established in dealing with new and nonlocal area business customers, and there was also some further reluctance to establish new or larger credit lines for independent finance companies, particularly at smaller banks.

Willingness to Make Other Types of Loans

While willingness to make term, mortgage, participation and broker loans was essentially unchanged, almost one-fifth of the banks had become more willing to make consumer instalment loans in the current reporting period. Several banks indicated improved deposit inflows, the high yield on consumer instalment loans, and bank credit card plans as the major reasons for their interest in these loans.

* - Prepared by Don Matthews, Research Assistant, Banking Section, Division of Research and Statistics.

Bank Lending Policies over 1968

Loan demand, which was reported much stronger in the May Survey, remained relatively unchanged until the current survey, in which banks again reported that demand had increased. Bank policies with respect to loans to nonfinancial businesses and noncaptive finance companies, which had firmed significantly in the May Survey period, generally remained firm through the November survey, except for the recent easing in interest rate policy. With the exception of consumer instalment loans, bank willingness to make several major types of loans was reduced substantially in the May Survey and has shown little tendency to increase since that time.

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QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S. 1/
(STATUS OF POLICY ON NOVEMBER 15, 1968 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS & PERCENT OF TOTAL BANKS REPORTING)

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	125	100.0	3	2.4	42	33.6	67	53.6	13	10.4	0	0.0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	125	100.0	0	0.0	36	28.8	79	63.2	10	8.0	0	0.0

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	0	0.0	9	7.2	73	58.4	43	34.4	0	0.0
COMPENSATING OR SUPPORTING BALANCES	125	100.0	0	0.0	14	11.2	110	88.0	1	0.8	0	0.0
STANDARDS OF CREDIT WORTHINESS	125	100.0	1	0.8	5	4.0	119	95.2	0	0.0	0	0.0
MATURITY OF TERM LOANS	125	100.0	1	0.8	[illegible]	3.2	117	93.6	3	2.4	0	0.0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	125	100.0	0	0.0	2	1.6	119	95.2	4	3.2	0	0.0
NEW CUSTOMERS	125	100.0	1	0.8	18	14.4	95	76.0	11	8.8	0	0.0
LOCAL SERVICE AREA CUSTOMERS	123	100.0	0	0.0	2	1.6	114	92.7	7	5.7	0	0.0
NONLOCAL SERVICE AREA CUSTOMERS	123	100.0	3	2.4	22	17.9	92	74.8	6	4.9	0	0.0

1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF NOVEMBER 15, 1968.

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	125	100.0	3	2.4	18	14.4	103	82.4	1	0.8	0	0.0
INTENDED USE OF THE LOAN	125	100.0	1	0.8	12	9.6	107	85.6	5	4.0	0	0.0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	0	0.0	1	0.8	90	72.0	34	27.2	0	0.0
COMPENSATING OR SUPPORTING BALANCES	125	100.0	0	0.0	3	2.4	122	97.6	0	0.0	0	0.0
ENFORCEMENT OF BALANCE REQUIREMENTS	125	100.0	1	0.8	3	2.4	121	96.8	0	0.0	0	0.0
ESTABLISHING NEW OR LARGER CREDIT LINES	125	100.0	4	3.2	13	10.4	97	77.6	11	8.8	0	0.0

	ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	125	100.0	0	0.0	9	7.2	106	84.8	10	8.0	0	0.0
CONSUMER INSTALMENT LOANS	124	100.0	0	0.0	3	2.4	98	79.1	22	17.7	1	0.8
SINGLE FAMILY MORTGAGE LOANS	122	100.0	0	0.0	7	5.7	104	85.3	10	8.2	1	0.8
MULTI-FAMILY MORTGAGE LOANS	122	100.0	1	0.8	11	9.0	103	84.5	7	5.7	0	0.0
ALL OTHER MORTGAGE LOANS	122	100.0	1	0.8	8	6.6	106	86.9	7	5.7	0	0.0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	125	100.0	0	0.0	6	4.8	113	90.4	6	4.8	0	0.0
LOANS TO BROKERS	123	100.0	2	1.6	5	4.1	111	90.2	5	4.1	0	0.0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DEPOSITS 1/
(STATUS OF POLICY ON NOVEMBER 15, 1968, COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS IN EACH COLUMN AS PER CENT OF TOTAL BANKS ANSWERING QUESTION)

SIZE OF BANK -- TOTAL DEPOSITS IN BILLIONS

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	100	100	0	4	27	37	66	47	7	12	0	0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	100	100	0	0	22	32	68	61	10	7	0	0

	TOTAL		MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	0	0	2	10	61	57	37	33	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	0	0	5	14	93	86	2	0	0	0
STANDARDS OF CREDIT WORTHINESS	100	100	0	1	2	5	98	94	0	0	0	0
MATURITY OF TERM LOANS	100	100	0	1	2	4	96	93	2	2	0	0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	100	100	0	0	0	2	93	97	7	1	0	0
NEW CUSTOMERS	100	100	0	1	10	17	83	72	7	10	0	0
LOCAL SERVICE AREA CUSTOMERS	100	100	0	0	0	2	90	94	10	4	0	0
NONLOCAL SERVICE AREA CUSTOMERS	100	100	3	2	10	21	79	73	8	4	0	0

1/ SURVEY OF LENDING PRACTICES AT 41 LARGE BANKS (DEPOSITS OF $1 BILLION OR MORE) AND 84 SMALL BANKS (DEPOSITS OF LESS THAN $1 BILLION) REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF NOVEMBER 15, 1968.

SIZE OF BANK -- TOTAL DEPOSITS IN BILLIONS

	NUMBER ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	100	100	0	4	7	18	93	77	0	1	0	0
INTENDED USE OF THE LOAN	100	100	0	1	7	11	88	84	5	4	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	0	0	0	1	71	73	29	26	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	0	0	0	4	100	96	0	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENTS	100	100	0	1	0	4	100	95	0	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	100	100	0	5	10	11	80	76	10	8	0	0

	NUMBER ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	100	100	0	0	7	7	88	83	5	10	0	0
CONSUMER INSTALMENT LOANS	100	100	0	0	0	4	87	75	13	20	0	1
SINGLE FAMILY MORTGAGE LOANS	100	100	0	0	3	7	89	84	8	8	0	1
MULTI-FAMILY MORTGAGE LOANS	100	100	0	1	10	8	85	85	5	6	0	0
ALL OTHER MORTGAGE LOANS	100	100	0	1	8	6	87	87	5	6	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	100	100	0	0	5	5	88	91	7	4	0	0
LOANS TO BROKERS	100	100	0	2	7	2	91	91	2	5	0	0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

TABLE 3

NET RESPONSES OF BANKS IN LENDING PRACTICES SURVEYS
(In per cent)

	Feb. 1967	May 1967	Aug. 1967	Nov. 1967	Feb. 1968	May 1968	Aug. 1968	Nov. 1968
Strength of loan demand 1/ (compared to 3 months ago)	-29.3	12.0	20.2	18.8	-8.0	64.8	-2.4	25.6
Anticipated demand in next 3 months	17.3	44.4	63.2	71.2	50.0	66.4	--	20.8
LENDING TO NONFINANCIAL BUSINESSES 2/								
Terms and Conditions								
Interest rates charged	-75.2	-69.8	21.6	30.4	34.4	93.6	0.8	-27.2
Compensating or supporting balances	2.3	1.5	20.8	25.0	16.1	56.8	4.8	10.4
Standards of credit worthiness	9.1	9.5	12.0	8.9	7.3	32.8	4.8	4.8
Maturity of term loans	- 3.0	- 3.1	5.6	12.1	1.6	32.8	1.6	1.6
Reviewing Credit Lines								
Established customers	-14.3	-14.2	1.6	6.4	-0.8	28.0	-5.6	-1.6
New Customers	-38.3	-23.1	16.8	21.6	10.5	64.8	-5.6	6.4
Local service area customers	-17.6	-12.1	0.8	6.5	2.5	30.0	-5.6	-4.1
Non-local service area customers	-10.8	- 4.0	16.1	18.9	11.6	56.9	10.6	15.4
Factors Relating to Applicant (Net percentage indicating more important)								
Value of depositor as source of business	5.3	6.3	25.6	20.0	19.2	54.4	12.8	16.0
Intended use of loan	-12.9	-13.4	10.4	14.4	12.0	44.4	8.1	6.4
LENDING TO NONCAPTIVE FINANCE COMPANIES 2/								
Terms and Conditions								
Interest rates charged	-49.6	-14.2	6.4	10.4	22.4	60.5	2.4	-26.4
Compensating or supporting balances	4.5	2.4	9.6	11.2	5.6	25.0	2.4	2.4
Enforcement of balance requirements	9.8	4.8	14.4	17.6	12.8	32.3	8.1	3.2
Establishing new or larger credit lines	- 0.8	- 5.6	13.7	14.4	7.2	53.2	15.3	4.8
WILLINGNESS TO MAKE OTHER LOANS 3/								
Term loans to businesses	-25.6	-21.5	6.4	11.2	- 4.0	49.6	4.8	-0.8
Consumer instalment loans	-23.5	-31.2	-16.1	-16.1	-22.6	- 0.8	-11.3	-15.3
Single-family mortgage loans	-42.0	-53.2	- 8.2	4.1	- 4.9	32.0	-14.1	-3.3
Multi-family mortgage loans	- 4.6	-17.0	9.0	14.0	7.4	36.4	8.2	4.1
All other mortgage loans	-14.5	-28.3	9.8	14.0	--	43.4	3.4	1.7
Participation loans with correspondent banks	-22.1	-24.2	- 6.4	- 4.8	8.8	16.0	1.6	--
Loans to brokers	-17.4	-13.8	1.6	3.2	1.6	23.4	6.5	1.6

1/ Per cent of banks reporting stronger loan demand minus per cent of banks reporting weaker loan demand. Positive number indicates net stronger loan demand, negative number indicates net weaker loan demand.

2/ Per cent of banks reporting firmer lending policies minus per cent of banks reporting weaker lending policies. Positive number indicates net firmer lending policies, negative number indicates net easier lending policies.

3/ Per cent of banks reporting less willingness to make loans minus per cent of banks more willing to make loans. Positive number indicates less willingness, negative number indicates more willingness.

NOTE: 133 banks participated in the February 1967 Survey; 125 banks have participated in the surveys since that time.