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Content last modified 6/05/2009.

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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

December 10, 1969

TABLE OF CONTENTS

	Page No. Section
SUMMARY AND OUTLOOK	I
Outlook for Economic Activity	- 1
Outlook for Resource Use and Prices	- 3
Prospective Financial Developments	- 4
Outlook for Commercial Banks	- 5
Mortgage Markets.	- 6
Bond Markets.	- 7
Balance of Payments Outlook	- 8
THE ECONOMIC PICTURE IN DETAIL:	
Domestic Nonfinancial Scene	II
Gross national product	- 1
Industrial production	- 8
Retail sales	- 9
Consumer credit	- 11
Michigan survey research center consumer survey . . .	- 12
Cyclical indicators	- 14
Inventories.	- 15
Orders and shipments	- 17
Construction and real estate	- 18
Plant and equipment spending plans	- 20
Labor market.	- 22
Employment and earnings	- 24
Industrial relations.	- 26
Wholesale prices.	- 27
Debts of farm operators	- 30
Domestic Financial Situation	III
Bank credit	- 1
Bank liquidity.	- 4
Bank sources of funds	- 4
Money stock developments.	- 6
Nonbank depositary intermediaries	- 8
Mortgage market	- 11
Corporate security and municipal bond markets	- 14
Government securities market.	- 18
Other short term credit markets	- 21
Federal finance	- 23

TABLE OF CONTENTS

	Page No. Section
INTERNATIONAL DEVELOPMENTS	IV
U.S. Balance of Payments.	- 1
Euro-Dollar Market.	- 5
Foreign Exchange Markets.	- 6
U.S. Foreign Trade.	- 9
Price Developments in Major Industrial Countries. . . .	-13
APPENDIX A	
The Trade-off Between Inflation and Unemploument. . . .	A - 1
APPENDIX B	
The Budget Outlook for Fiscal 1970.	B - 1
APPENDIX C	
Survey of Bank Lending Practices, November 1969	C - 1

SUMMARY AND OUTLOOK

Outlook for economic activity

Growth in current dollar GNP appears to be slowing substantially in the fourth quarter. The smaller rise in prospect reflects a continued weakening in final demands; additions to inventory may be as large or larger than in the third quarter. Price increases have continued rapid, and the moderation in process is being reflected in a reduced rate of real growth.

Recent reports on business plans for capital spending have been relatively strong, but most other indicators of economic activity continued to moderate in November--with the notable exception of the unemployment rate--generally appearing to confirm our estimate of appreciable easing in overall economic growth. Industrial production may have declined more in November than in any of the three previous months, even after adjustment for effects of strikes. Cuts in auto output have been sizable and the lower rate of assemblies is now scheduled to continue into early next year. With industrial output down, manufacturing employment also fell in November, as did overtime hours, and unemployment claims rose further.

Personal income apparently rose only moderately in November, the third successive month of substantially slower growth. With prices continuing to rise rapidly, consumers have remained cautious. Judging from the weekly data, retail sales declined in November, and have remained virtually unchanged since early last spring. Trade reports indicate that Christmas shopping has been rather lackluster so far.

The projected rise in business capital spending in the first half of 1970 has been revised upward, in line with the recent Commerce-SEC survey, but final demands in most other sectors are still expected to remain relatively weak. Residential construction activity is especially vulnerable to growing tightness in the mortgage market and extremely high interest rates, and it seems increasingly likely that housing starts will fall off sharply further in the months ahead. Current and prospective difficulties in raising funds can also be expected to limit State and local government capital expenditures through much of next year. It also still appears likely that Federal purchases of goods and services will decline through the first half of next year.

Recent Congressional actions on taxes and social security benefits have been in the direction of stimulating disposable income more than allowed for in our projections. Such actions, however, are subject to changes in conference committee, and to Presidential veto. Assessment of the extent to which these actions might provide additional stimulus to consumer expenditures will have to await more definitive developments. It should be noted now, however, that enactment of a 15 per cent increase in social security benefits payable in the second quarter and retroactive to the beginning of the year would raise disposable incomes and consumer outlays at that time substantially more than we have assumed in our projection.

Outlook for resource use and prices

The manufacturing capacity utilization rate declined sharply further in November to below 82 per cent; much of this decline was a result of the General Electric strike, but with industrial production down this quarter and expected to come down further in the first half of next year--while capacity continues to grow--the utilization rate is expected to decline to 80 per cent or lower by mid-1970.

The sharp November decline in the unemployment rate to 3.4 per cent does not appear representative of the underlying situation in the labor market. The drop occurred mainly among secondary workers--younger persons and women--many of whom left the labor force, at least temporarily. Manufacturing employment declined appreciably even after adjustment for strikes and the average workweek in manufacturing remained at the reduced October level. The insured unemployment rate moved up significantly further in November and was running well above year-earlier levels.

Nonfarm employment is still projected to change little in the first half of next year with manufacturing employment likely to edge down further. Under those circumstances, the unemployment rate would be likely to rise irregularly to about the 4.5 per cent level by mid-1970.

Wage and benefit settlements next year are expected to be large despite prospective easing of conditions in the labor market and minimal growth of employment. Key negotiations are particularly important in the first quarter of 1970, as contracts expire covering a total of 1.5 million workers in the railroad, trucking, and apparel industries.

However, a reduced workweek, less overtime pay, easier labor market conditions and stiffer resistance by management should help to moderate the overall increase in average hourly earnings.

Unit labor costs are likely to rise substantially further next year, and pressures to raise or maintain prices will be strong in an environment of declining profits. Recent price developments have not been encouraging and we have raised somewhat our estimate of the amount of price increase next year. One unfavorable feature of the recent situation has been that the boom in Western Europe and Japan has added to upward price pressures on internationally traded materials. Nevertheless, we still look for a slowing of the domestic price rise, primarily because of our expectation of slack demand relative to growing resource capabilities.

Prospective financial developments

Assuming that current money market conditions and interest rate ceilings are held unchanged into early 1970, supplies of funds will remain severely constricted. In fact, some analysts fear that a combination of low liquidity and heavy net savings attrition will create severe problems for some depositary-type institutions during the post-interest crediting period just ahead.

Pressure of demands on the limited credit supplies will tend to maintain upward pressures on market yields, although interest rates will also be highly sensitive to news reports regarding the economy, fiscal and monetary policies, and any indications of a change in the

strength of credit demands. Week to week developments could thus lead to sizable interest rate fluctuations over the next month or so. It seems unlikely, however, that recent rate peaks will be significantly exceeded. And there could be some rate declines as the first quarter progresses.

Outlook for commercial banks. Pressures on the commercial banking system in December appear to be coming chiefly from current and prospective year-end credit demands. Non-financial corporations--with their liquidity depleted and quarterly income tax payments expected to reach record proportions for the month--are likely to step up demands on bank credit lines at mid-December. Dealer borrowing also remains large, and finance company borrowing is likely to run high to cover seasonal redemptions of the large volume of maturing paper. Some seasonal drop-off in dealer and business loan demands can, of course, be expected after the turn of the year. And over the full first quarter, some weakening in business loans would be consistent with the projected slowing in GNP growth, including inventory investment.

While total deposits at banks are projected to show a small increase in December, net deposit attrition is likely to resume again in size during January as funds are transferred from consumer-type accounts to market securities. CD attrition at major city banks may continue to be cushioned to some extent by inflows of funds from foreign official sources. But a large seasonally adjusted decline is likely in January, since this is a month that normally shows sizable unadjusted growth.

To replenish their loan funds in the period ahead, banks can thus be expected to bid actively for Federal funds and Euro-dollars. Some banks will probably add further to outstanding commercial paper of their affiliates--although the over-all growth in such outstandings has thus far remained below the accelerated October pace reached just prior to publication of the Board's proposed regulation.

Mortgage markets. At nonbank thrift institutions net savings losses to securities markets are also expected to be unusually large during the December-January reinvestment period. Given the unprecedently high spreads now prevailing between savings rates and market yields, and the more than $18 billion of certificate-type accounts that mature at savings and loan associations during December and January, some of the more pessimistic forecasters fear this attrition may run to as much as $2.5 billion--although such estimates are highly uncertain.[1/]

If savings losses at thrift institutions should approach these proportions, resulting drains on the liquid assets of the Federal Home Loan Bank System would very likely force it to borrow directly from the U.S. Treasury. Moreover, as the intensity of the further squeeze on mortgage lenders became evident, more severe reductions in new mortgage loan commitments at thrift institutions could be expected, and pressures on FNMA to expand public supplements to mortgage flows would be increased.

1/ The $18 billion plus figure on maturing certificates was obtained from a special United States Savings and Loan League Survey and should be kept confidential.

After January, the thrift institutions may experience some modest resumption of net growth in their savings flows. Even if market rates receded substantially from their recent highs, however, spreads against prevailing savings rates would still be so large that thrift institution performance would probably remain relatively poor. Thus, the outlook is for heavy continuing demands on securities markets by the FHLBB and the FNMA, along with further overall deterioration in fund flows to mortgage markets and a further rise in mortgage rates.

Bond markets. New bond offerings in both the corporate and municipal markets will be seasonally light from mid-December to early January. This respite from the pressure of new issues should afford dealers an opportunity to reduce the uncomfortably large inventory positions built up during the heavy recent volume of underwritings. Since the year-end is typically associated with increased fund flows from pension funds, trust accounts, and the like, and since such flows will be bolstered substantially this year by transfers of funds out of depositary institutions, the recent tendency for bond yields to drift lower may persist at least temporarily.

As the first quarter progresses, however, the prospective volume of new security offerings may exert renewed upward pressures on yields. Corporate public bond offerings are expected to rise from their recent volume--a level of offerings that has itself posed marketing difficulties. Public utility financing needs remain pressing,

and underwriters report that the financial positions of an increasing number of industrial firms are about at the point where near-term capital market financing seems desirable--even at high rates.

While capital market financing by State and local governments continues to be constrained by the very high level of prevailing yields, the importance of this constraint appears to have weakened, so that volume is unlikely to be cut back again to the sharply reduced levels of last summer. Governmental units with the ability to finance appear determined to do so; some States have obtained higher interest rate ceilings; and an increasing number of units without ceilings are coming to market. Furthermore, bond volume could be sustained by the need to refinance short-term borrowings.

Balance of payments outlook

Currently available data provide no basis for revising earlier estimates of the U.S. balance of payments in the period ahead, but the indications are at best only moderately encouraging. The October trade figures (published two weeks ago) support the projection of a continuing rise in U.S. exports, as do the mounting evidences from Europe of strong demand and cost-push pressures there. On the other hand, U.S. imports in October were up enough from September to leave it doubtful whether the projected sharp slowing in U.S. import growth was under way yet.

Similarly, in the long-term capital account there was a rising inflow of foreign net purchases of U.S. corporate stocks in late summer and early autumn, but November's reversal of price movements in the stock market makes it doubtful that such a trend has continued.

With regard to the official settlements balance, the prospects of an early worsening through large repayments of Euro-dollar borrowings by U.S. banks, which momentarily came into the limelight in October, have evaporated in recent weeks along with market hopes of an early easing of U.S. monetary conditions. A net inflow of over $1 billion between October 29 and mid-November brought the overhang of U.S. banks' outstanding liabilities to branches to a level about as high as in mid-October. Since December 4, the action taken by the Bundesbank to encourage repatriations by German banks has added to tensions in the Euro-dollar market, as indicated by the fact that the 3-month deposit rate in London is again around 11 per cent.

A part of the large outflow of funds from the German mark during October and November evidently came directly to the United States, lowering our liquidity deficit in those months and helping to generate an official settlements surplus in November. The recent favorable flows from the mark and from the Euro-dollar market may be supplemented before the year is over by a slackening (or temporary reversal) of direct investment outflows, aimed to meet program targets. Moreover,

seasonal factors in some other elements of the balance of payments are favorable in December. It may be recalled that the balance of payments showed a strong surplus in late December a year ago. Looking into the new year, however, the chances of continuation of an official settlements surplus are slight, to say the least.

December 9, 1969

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest Period	Amount			Per Cent Change	
		Latest Period	Preced'g Period	Year Ago	Year Ago*	2 Yrs. Ago*
Civilian labor force (mil.)	Nov'69	81.3	81.5	79.0	2.9	4.2
Unemployment (mil.)	"	2.8	3.2	2.7	5.4	-6.6
Unemployment (per cent)	"	3.4	3.9	3.4	--	--
Nonfarm employment, payroll (mil.)	"	70.6	70.6	68.7	2.9	6.0
Manufacturing	"	20.0	20.2	19.9	0.4	2.2
Other industrial	"	8.6	8.5	8.3	3.4	5.6
Nonindustrial	"	42.1	42.0	40.5	3.9	8.0
Industrial production (57-59=100)	Oct'69	173.3	173.9	166.0	4.4	10.2
Final products	"	171.3	172.1	167.0	2.6	9.1
Materials	"	175.7	175.9	165.7	6.0	11.4
Wholesale prices (57-59=100)1/	Nov'69	114.7	114.0	109.6	4.7	8.0
Industrial commodities (FR)	"	113.1	112.8	109.0	3.8	6.4
Sensitive materials (FR)	"	114.2	113.5	108.4	5.4	11.6
Farm products, foods & feeds	"	115.7	114.3	108.3	6.8	11.9
Consumer prices (57-59=100)1/	Oct'69	129.8	129.3	122.9	5.6	10.5
Commodities except food	"	119.8	118.7	114.7	4.4	8.3
Food	"	127.2	127.5	120.9	5.2	9.9
Services	"	146.5	146.0	136.6	7.2	13.5
Hourly earnings, mfg. ($)	Nov'69	3.26	3.26	3.08	5.8	13.2
Weekly earnings, mfg. ($)	"	131.70	131.75	125.37	5.0	12.6
Personal income ($ bil.)2/	Oct'69	763.1	760.7	706.2	8.1	19.4
Corporate profits before tax ($ bil.)2/	QIII'69	92.4	95.4	91.5	1.0	16.2
Retail sales, total ($ bil.)	Oct'69	29.6	29.3	28.7	3.2	13.3
Autos (million units)2/	Nov'69	8.3	8.4	8.8	-6.4	13.6
GAF ($ bil.)	Oct'69	8.1	7.9	7.7	5.8	15.0
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	"	1,342	1,533	1,570	-14.5	-10.3
Factory workweek (hours)	Nov'69	40.5	40.5	40.8	-0.7	-0.5
New orders, dur. goods ($ bil.)	Oct'69	31.8	32.1	30.3	5.0	23.8
New orders, nonel. mach. ($ bil.)	"	5.6	6.2	5.4	4.0	29.0
Common stock prices (1941-43=10)	Nov'69	96.21	95.52	105.40	-8.7	3.8
Inventories, book val. ($ bil.)	Oct'69	164.2	162.7	152.0	8.0	16.1
Gross national product ($ bil.)2/	QIII'69	942.8	924.8	876.4	7.6	17.8
Real GNP ($ bil., 1958 prices)2/	"	730.6	726.7	712.8	2.5	7.8

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

SELECTED DOMESTIC FINANCIAL DATA

	Week ended Dec. 6	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent) 9/	9.38	9.10	10.18	8.11
U.S. Treas. bills, 3-mo., yield (per cent)	7.60	7.37	7.60	6.45
U.S. Treas. bills, 1-yr., yield (per cent)	7.55	7.49	7.77	6.61
Net free reserves 2/ ($ millions)	-1,096	-1,010	-349	-1,162
Member bank borrowings 2/ ($ millions)	1,193	1,179	1,634	740
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	7.67	7.60	7.97	6.69
20-year U.S. Treas. bonds 1/	6.81	6.79	6.84	6.18
Corporate new bond issues, Aaa 1/	8.85	8.56	8.85	7.50
Corporate seasoned bonds, Aaa 1/	7.59	7.44	7.59	6.90
Municipal seasoned bonds, Aaa 1/	6.34	6.03	6.34	5.52
FHA home mortgages, 30-year 3/	--	8.48	8.48	8.36
Common stocks, S&P composite series 4/				
Prices, closing (1941-43=10)	91.73	94.23	102.12	91.73
Dividend yield (per cent)	3.30	3.34	3.44	3.00

	Latest month	Amount	3-month average	Change from year earlier: Latest month	Change from year earlier: 3-month average
New Security Issues (N.S.A., $ millions)					
Corporate public offerings 5/	Dec. e	1,500	1,723	410	380
State & local govt. public offerings	Dec. e	600	911	-515	-544
Comm. & fin. co. paper (net change in outstandings) 6/	Oct.'69	2,227	1,148	1,652	784

	Latest month	Out-standings Latest month	Change: Latest month	Change: 3-month average	Annual rate of change from: Pre-ceding month	3 months ago	12 months ago
Banking (S.A.)		($ billions)			(per cent)		
Total reserves 1/	Nov.'69	27.75	+0.40	+0.11	+ 8.4	- 1.1	- 1.3
Credit proxy 1/	"	286.1	+2.6	+0.3	+11.0	+ 1.1	- 3.0
Bank credit, total 6/	"	399.7	+2.9	+0.7	+ 8.8	+ 1.3	+ 3.4
Business loans	"	103.8	--	+0.2	--	+ 1.4	+ 9.1
Other loans	"	171.7	+2.2	+1.5	+15.6	+ 6.6	+ 7.2
U.S. Govt. sec.	"	53.2	-0.2	-1.2	- 4.5	-15.6	-12.9
Other securities	"	71.0	+0.9	+0.2	+15.4	+ 2.4	+ 1.4
Total liquid assets 1/ 6/							
Demand dep. & currency 1/	Oct.'69	199.2	+0.2	--	+ 1.2	- 0.2	+ 3.9
Time & sav. dep., comm. banks 1/	"	193.5	-0.6	-1.4	- 3.7	- 8.5	- 3.0
Savings, other thrift instit. 6/	"	201.7	-0.1	+0.6	- 0.6	+ 3.6	+ 4.2
Other 6/ 7/	"	120.0	-6.6	-0.1	-62.6	- 0.7	+ 8.2

N.S.A. - Not seasonally adjusted. S.A. - Seasonally adjusted. e - Estimated.
1/ Average of daily figures. 2/ Average for statement week ending December 3. 3/ Latest figure is monthly average for October. 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 December 7. 10/ Reflects $400 million reduction in member bank deposits resulting from withdrawal of a large country bank from System membership in January 1969. Percentage annual rates are adjusted to eliminate this break in series. 11/ Reflects $1.7 billion increase beginning January 1969 in U.S. Government securities maturing within 1 year to conform to the new Budget concept. Percentage annual rates are adjusted where necessary.
r - Revised.

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

	1968			1969				
	Year	III	IV	I	II	III p/	Sept. p/	Oct. p/
Good and services, net 1/	2,516	909	301	363	303	736	n.a.	n.a.
Trade balance 2/	626	313	-75	-103	-3	328	200	127
Exports 2/	33,598	8,879	8,383	7,469	9,588	9,560	3,216	3,329
Imports 2/	-32,972	-8,566	-8,458	-7,572	-9,591	-9,232	-3,016	-3,202
Service balance	1,890	596	376	466	306	408		
Remittances and pensions	-1,159	-325	-285	-271	-286	-307		
Govt. grants & capital, net	-3,955	-968	-835	-793	-1,155	-1,052		
U.S. private capital	-5,157	-1,868	-947	-1,341	-2,002	-1,333		
Direct investment	-3,025	-1,262	-283	-928	-1,057	-1,095		
Foreign securities	-1,266	-337	-455	-323	-427	-562		
Banking claims	269	-90	-120	82	-501	205	*-18	*-145
Other	-1,134	-179	-89	-172	-17	119		
Foreign capital	9,277	2,515	2,902	3,351	4,525	3,532		
Official foreign, nonliquid	2,407	433	709	-42	-278	-592		
Official foreign, liquid	-3,099	-55	22	-1,133	-570	2,127		
Int'l and reg., liq. & nonliq. 3/	235	78	273	96	48	166		
Foreign private non-bank, liq.	374	44	223	-23	-144	-147		
Foreign commercial banks, liq.	3,382	702	-74	2,962	4,801	1,253		
New direct invest. issues 4/	2,129	586	378	401	150	216		
U.S. corporate stocks	2,084	459	786	751	127	169	118	347
Other	1,765	268	585	339	391	340		
Errors and omissions	-642	309	-60	-1,260	-1,088	-891		
	Balances, with and without seasonal adjustment (deficit -)							
Official settlements balance, S.A.		97	367	1,144	1,236	-918		
Seasonal component		-25	-442	567	-34	-120		
Balance, N.S.A. 5/	1,638	72	-75	1,711	1,202	-1,038	-702	-476
Liquidity balance, S.A.		-139	862	-1,670	-3,871	-2,555		
Seasonal component		-269	-124	395	59	-368		
Balance, N.S.A.	168	-408	738	-1,275	-3,812	-2,923	-510	-837
Adjusted over-all balance, S.A. 6/		-613	464	-1,826	-3,572	-2,179		
Seasonal component		-269	-124	395	59	-368		
Balance, N.S.A.	-1,744	-882	340	-1,431	-3,513	-2,547	-303	-850
Financed by: Liab. to comm. banks abroad, N.S.A. (decrease -)	3,382	954	-415	3,142	4,715	1,509	-399	374
Official settlements, N.S.A. 7/	-1,638	-72	75	-1,711	-1,202	1,038	702	476
	Reserve changes, N.S.A. (decrease -)							
Total monetary reserves	880	571	1,076	48	299	686	548	-427
Gold stock	-1,173	74	137	-56	317	11	10	26
Covertible currencies	1,183	474	575	73	-246	442	398	-456
IMF gold tranche	870	23	364	31	228	233	140	3

1/ Equals "net exports" in the GNP, except for latest revisions.
2/ Balance of payments basis which differs a little from Census basis.
3/ Long-term deposits and Agency securities.
4/ New issues sold abroad by U.S. direct investors.
5/ 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.
6/ Represents the net result of all international transactions of the U.S. other than changes in reserve assets, in all liabilities to foreign monetary authorities and in liabilities to commercial banks abroad (including U.S. bank branches) reported by banks in the U.S.
7/ Minus sign indicates decrease in net liabilities.

* Not seasonally adjusted.

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. The dichotomy between the continuing strength of longer term business expectations, as reflected in planned new investment, and weakening of current demand has apparently widened. The latest (November) Commerce-SEC survey of anticipated business spending shows a further rise in capital expenditures for the fourth quarter of this year and a significant upward adjustment in anticipated spending in the first half of 1970. And yet, aside from a drop in the total unemployment rate in November--the significance of which is questionable--major economic indicators reflect no new sources of a pickup in current demand. Recent weakness already has been reflected in reduced industrial output, declines in manufacturing employment and the workweek,and considerably slower growth in personal income. At the same time, there has been no indication as yet of any easing of cost and price pressures which apparently remain a major stimulus to increased investment spending.

The added strength now anticipated in business spending does not appear to provide sufficient impetus to change materially the overall outlook for economic activity. There is continued weakness in most other sectors, and it still appears likely to us that the next few quarters will see a distinctly slower growth of GNP. We are now projecting an increase in GNP of $12 billion this quarter--a slightly

smaller rise than was carried in the last Greenbook. In real terms, we expect GNP growth to drop to about 1 per cent.

Consumer demand for goods has remained quite sluggish. Unit sales of autos were down by 7 per cent in October and edged off further in November. Retail sales as a whole declined last month, remaining below year-earlier levels in real terms for the sixth month in a row. With curtailed growth in employment and a shortened workweek, gains in income have been reduced in the past few months, weakening the support for growth in consumption. (Personal income gains in November were reduced--probably by $1 billion or more, annual rate--by the G. E. strike. It now seems unlikely that the strike will be settled before year-end and the level of wages and salaries is likely to be affected in December as well.) Moreover, recent consumer buying intentions surveys show a further weakening of spending propensities.

Housing starts dropped again in October, and residential construction activity shows every indication of a further decline as a result of the greatly reduced availability and high cost of mortgage funds. State and local government spending has also been hard hit by high interest rates, and outlays by this sector should continue to be limited, and to increase at a substantially slower rate than during the first half of this year. Finally, with the Administration remaining firm in its determination to restrain growth of expenditures, purchases by the Federal government are projected to be reduced further in this quarter and through the first half of next year.

The only major source of expansive strength continues to be in plant and equipment spending. Businessmen currently anticipate increasing their expenditures for new plant and equipment at about a 10 per cent annual rate between the third quarter of 1969 and the second quarter of 1970, a substantially larger increase than we had been assuming. The upward revision in plans primarily affects spending in the early part of next year. We have revised our projections for 1970 accordingly, although we have smoothed out slightly the very large bulge expected in the first quarter, and are projecting a $3 billion increase, with progressively smaller increases for the next two quarters. Much of the boost expected in the first half of 1970 is in communications and public utilities. It still seems probable that investment plans will be dampened by disappointing levels of sales, reduced profits and the elimination of the investment tax credit which appears likely by the end of this year. But, in line with recent surveys, we are now projecting an increase in business fixed investment for 1970 as a whole of about 8-1/2 per cent, as compared with the rise of 6 per cent formerly projected.

As far as the current quarter is concerned, the new survey figures have little effect on our projections. We had earlier estimated a fairly large increase in plant and equipment spending, but available figures on nonresidential construction and shipments of machinery--as well as the survey itself--now appear to suggest a somewhat slower growth.

Although our overall GNP projections have been raised somewhat as a result of the larger rise now expected in business spending,

it still appears likely that real GNP growth will show little or no gain in the first half of the next year. With money markets continuing under restraint, construction activity is almost certain to decline further and State and local spending to continue growing more slowly. Curtailed growth in employment and reduced workweeks are likely to continue to dampen growth of personal income and to hold increases in consumption in check, even assuming a reduction of the surtax on January 1 and increased Social Security benefits in April. As a result, only moderate increases in final sales are expected, and a distinct slowing of inventory growth is projected to get underway in the first quarter, and with it a substantially slower growth of GNP. The October inventory investment was quite large, in part because of an accumulation of auto stocks, and accumulation for this quarter is likely to be as large or larger than in the third quarter.

With demand pressures easing, some moderation of price increases also seems likely, although recent large advances at both wholesale and retail and continued large wage adjustments suggest that moderation of inflationary pressures may proceed more slowly than we had been anticipating; we are now projecting the GNP deflator to dip to about a 3-1/2 per cent annual rate by the second quarter of 1970, down from a 5 per cent rate of increase in the second quarter of this year.

These projections assume a reduction of the surcharge to 5 per cent for the first half of 1970, which adds about $4-1/4 billion (annual rate) to disposable income in the first quarter, and a 10 per cent increase in Social Security benefits effective April 1, worth an

additional $3 billion in disposable income in the second quarter. Senate action on the tax bill in the past few days raises the possibility of larger Social Security expenditures and lower tax revenue next year than we had been assuming, which would tend to add strength to the outlook for growth of disposable income and consumption, especially in the first half. However, such actions are still subject to conference committee changes, and to Presidential veto.

We still assume, as we did in the October Chart Show, that some easing of monetary restraint early in the year would allow a turnaround in construction activity in the latter half of 1970. With adjustments of production to demand likely to be more or less completed by then, moreover, inventory investment should stabilize. Consumer demand will receive further support from elimination of the surcharge on July 1 and from an expected Federal pay raise. Under these conditions, a resumption of moderate growth of real GNP would be likely in the second half, but at a rate somewhat less than the expected growth of resources. This would permit some easing of cost pressures, and some further progress toward moderating inflationary pressures.

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.)

	1968	1969 Proj.	1970 Proj.	1969 * II	1969 * III	1969 * IV (Projected)	1970 * Projected I	1970 * Projected II	1970 * Projected III	1970 * Projected IV
Gross National Product	865.7	932.8	983.1	924.8	942.8	954.8	964.3	973.8	989.3	1004.8
Final sales	858.4	924.0	976.2	917.9	932.0	943.8	955.8	966.8	983.3	998.8
Private	658.1	709.2	752.6	705.0	715.0	724.7	735.8	746.5	757.7	770.2
Excluding net exports	655.6	707.0	749.0	703.4	712.3	721.7	732.3	742.5	754.2	766.8
Personal consumption expenditures	536.6	575.7	614.6	572.8	579.8	588.2	598.7	609.4	620.0	630.1
Durable goods	83.3	89.7	90.8	90.6	89.8	90.0	90.0	90.0	91.0	92.0
Nondurable goods	230.6	243.6	261.9	242.1	245.1	248.5	254.2	259.9	264.6	268.8
Services	222.8	242.4	261.9	240.1	244.9	249.7	254.5	259.5	264.4	269.3
Gross private domestic investment	126.3	140.1	141.3	137.4	143.3	144.5	142.1	140.1	140.2	142.7
Residential construction	30.2	32.1	26.9	32.7	31.4	31.0	28.1	25.6	25.7	28.2
Business fixed investment	88.8	99.2	107.5	97.8	101.1	102.5	105.5	107.5	108.5	108.5
Change in business inventories	7.3	8.8	6.9	6.9	10.7	11.0	8.5	7.0	6.0	6.0
Nonfarm	7.4	8.5	6.7	6.7	10.3	10.5	8.0	6.8	6.0	6.0
Net exports of goods and services	2.5	2.2	3.6	1.6	2.7	3.0	3.5	4.0	3.5	3.4
Gov't. purchases of goods & services	200.3	214.8	223.6	212.9	217.0	219.1	220.0	220.3	225.6	228.6
Federal	99.5	102.1	100.9	100.6	103.2	102.8	101.2	99.0	101.6	101.8
Defense	78.0	79.3	76.5	78.5	80.3	79.5	77.5	75.0	76.8	76.8
Other	21.5	22.7	24.4	22.1	22.9	23.3	23.7	24.0	24.8	25.0
State & local	100.7	112.7	122.7	112.3	113.8	116.3	118.8	121.3	124.0	126.8
Gross national product in constant (1958) dollars	707.6	728.2	736.5	726.7	730.6	732.4	732.5	733.3	737.1	742.9
GNP implicit deflator (1958=100)	122.3	128.1	133.5	127.3	129.0	130.4	131.6	132.8	134.2	135.3
Personal income	687.9	747.0	795.2	740.5	756.5	766.5	775.9	788.4	801.9	814.6
Wages and salaries	465.0	509.8	543.4	504.3	516.9	524.5	530.8	537.3	547.9	557.5
Disposable income	590.0	629.4	674.9	622.0	639.0	646.3	657.7	667.7	682.4	691.9
Personal saving	38.4	37.7	43.6	33.3	43.1	41.8	42.5	41.6	45.4	44.7
Saving rate (per cent)	6.5	6.0	6.5	5.3	6.7	6.5	6.5	6.2	6.7	6.5
Corporate profits before tax	91.1	93.5	86.3	95.4	92.4	90.5	88.5	85.5	85.0	86.0
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	176.3	201.5	199.4	202.8	201.4	203.2	198.1	199.5	198.2	201.9
Expenditures	181.5	191.6	201.8	189.3	193.6	195.1	195.9	199.0	204.6	207.7
Surplus or deficit (-)	-5.2	9.9	-2.4	13.5	7.8	8.1	2.2	0.5	-6.4	-5.8
Total labor force (millions)	82.3	84.3	85.5	83.8	84.6	84.9	85.0	85.3	85.6	85.9
Armed forces "	3.5	3.5	3.3	3.5	3.5	3.5	3.4	3.3	3.3	3.2
Civilian labor force "	78.7	80.8	82.2	80.3	81.1	81.4	81.6	82.0	82.3	82.7
Unemployment rate (per cent)	3.6	3.6	4.6	3.5	3.7	3.7	4.1	4.5	4.7	4.9
Nonfarm payroll employment (millions)	67.9	70.2	70.9	70.0	70.4	70.6	70.8	70.8	70.9	71.2
Manufacturing	19.8	20.2	19.9	20.1	20.2	20.1	20.1	19.9	19.8	19.9
Industrial production (1957-59=100)	165.4	172.3	174.5	172.6	174.3	172.2	173.5	174.0	174.8	175.8
Capacity utilization, manufacturing (per cent)	84.5	83.8	80.6	84.5	84.2	82.0	81.6	80.8	80.2	79.7
Housing starts, private (millions A.R.)	1.51	1.48	1.13	1.51	1.43	1.25	1.13	1.00	1.10	1.30
Sales new domestic autos (millions, A.R.)	8.62	8.42	8.48	8.54	8.45	8.32	8.35	8.35	8.45	8.75

* Assumes Administration's proposals for repeal of investment tax credit and extension of tax surcharge at 10% through 1969 and then at 5% through June 1970.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1968	1969 Proj.	1970 Proj.	1969* II	1969* III	1969* IV	1970* Projected I	1970* Projected II	1970* Projected III	1970* Projected IV
	In Billions of Dollars									
Gross National Product	72.2	67.1	50.3	16.1	18.0	12.0	9.5	9.5	15.5	15.5
Inventory change	-0.1	1.5	-1.9	0.3	3.8	0.3	-2.5	-1.5	-1.0	0.0
Final sales	72.2	65.6	52.2	15.8	14.1	11.8	12.0	11.0	16.5	15.5
Private	52.0	51.1	43.4	12.9	10.0	9.7	11.1	10.7	11.2	12.5
Excluding net exports	54.7	51.4	42.0	12.8	8.9	9.4	10.6	10.2	11.7	12.6
Net exports	-2.7	-0.3	1.4	0.1	1.1	0.3	0.5	0.5	-0.5	-0.1
Government	20.2	14.5	8.8	2.9	4.1	2.1	0.9	0.3	5.3	3.0
GNP in constant (1958) dollars	33.0	20.6	8.3	3.6	3.9	1.8	0.1	0.8	3.8	5.8
Final sales	33.3	19.5	9.8	3.5	0.6	1.6	2.1	1.8	5.1	5.8
Private	24.9	18.1	12.3	3.9	1.4	1.8	3.2	3.5	4.2	5.3
	In Per Cent Per Year									
Gross National Product	9.1	7.8	5.4	7.1	7.8	5.1	4.0	3.9	6.4	6.3
Final sales	9.2	7.6	5.6	7.0	6.1	5.1	5.1	4.6	6.8	6.3
Private	8.5	7.8	6.1	7.5	5.7	5.4	6.1	5.8	6.0	6.6
Personal consumption expenditures	9.0	7.3	6.8	7.7	4.9	5.8	7.1	7.1	7.0	6.5
Durable goods	14.1	7.7	1.2	10.0	-3.5	0.9	0.0	0.0	4.4	4.4
Nondurable goods	7.2	5.6	7.5	5.9	5.0	5.5	9.2	9.0	7.2	6.3
Services	9.1	8.8	8.0	8.7	8.0	7.8	7.7	7.9	7.6	7.4
Gross private domestic investment	8.9	10.9	0.9	6.5	17.2	3.3	-6.6	-5.6	0.3	7.1
Residential construction	20.8	6.3	-16.2	-7.2	-15.9	-5.1	-37.4	-35.6	1.6	38.9
Business fixed investment	6.1	11.7	8.4	10.5	13.5	5.5	11.7	7.6	3.7	0.0
Gov't. purchases of goods & services	11.2	7.2	4.1	5.5	7.7	3.9	1.6	0.5	9.6	5.3
Federal	9.7	2.6	-1.2	-3.9	10.3	-1.5	-6.2	-8.7	10.5	0.8
Defense	7.7	1.7	-3.5	-2.5	9.2	-4.0	-10.1	-12.9	9.6	0.0
Other	16.8	5.6	7.5	-8.9	14.5	7.0	6.9	5.1	13.3	3.2
State & local	12.8	11.9	8.9	14.0	5.3	8.8	8.6	8.4	8.9	9.0
GNP in constant (1958) dollars	4.9	2.9	1.1	2.0	2.1	1.0	0.1	0.1	1.3	3.1
Final sales	5.0	2.8	1.4	2.0	0.3	0.9	1.2	1.0	2.8	3.2
Private	4.7	3.3	2.2	2.8	1.0	1.3	2.2	2.6	2.7	3.6
GNP implicit deflator	4.0	4.7	4.2	5.1	5.6 1/	4.1	3.9	3.5	4.3 2/	3.1
Personal income	9.3	8.6	6.5	8.9	8.6	5.3	4.9	6.4	6.8	6.3
Wages and salaries	9.8	9.6	6.6	8.9	10.0	5.9	4.8	4.9	7.9	7.0
Disposable income	8.0	6.7	7.2	7.7	10.9	4.6	7.1	6.1	8.8	5.6
Corporate profits before tax	13.4	2.6	-7.7	0.4	-12.6	-8.2	-8.8	-13.6	-2.3	4.7
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	16.7	14.3	-1.0	8.5	-2.8	3.6	-10.0	2.8	-2.6	7.5
Expenditures	10.8	5.6	5.3	1.7	9.1	3.1	1.6	6.3	11.3	6.1
Nonfarm payroll employment	3.0	3.4	1.0	2.9	2.3	1.1	1.1	0.0	0.6	1.7
Manufacturing	2.1	2.0	-1.5	0.0	2.0	-2.0	0.0	-4.0	-2.0	2.0
Industrial production	4.6	4.2	1.3	5.6	3.9	-4.8	3.0	-1.2	1.8	2.3
Housing starts, private	16.7	-2.1	-23.3	-48.3	-21.5	-50.9	-39.1	-44.4	40.0	72.7
Sales new domestic autos	14.0	-2.3	0.6	8.4	-4.2	-6.1	1.2	0.0	4.8	14.2

* Assumes Administration's proposals for repeal of investment tax credit and extension of tax surcharge at 10% through 1969 and then at 5% through June 1970.

1/ Excluding Federal pay increase 4.3 per cent.

2/ Excluding Federal pay increase 3.3 per cent.

Industrial production. Industrial production in November is tentatively estimated to have declined about 1 per cent or more, around 2 points, from the preliminary October level of 173.3. The General Electric strike, affecting output of consumer durable goods, business equipment, and industrial materials and parts for further processing, accounted for more than half of the November drop. Further cutbacks in production in the automotive industry accounted for about .4 of a point decline in the total index.

Output of final products was curtailed sharply in November. Auto assemblies were at an annual rate of 7.9 million units, down from 8.4 in October and 9.1 in July and August. While production of household appliances and television sets was sharply curtailed by the G. E. strike, other manufacturers of these goods also have announced cuts in output, as inventories remain high relative to sluggish retail sales. Production of furniture declined further. Output of business equipment also dropped because of the G. E. strike; those equipment industries which have not been affected by the strike have generally maintained production at record levels.

With respect to materials, preliminary data indicate that output of raw steel, paper, and some chemicals changed little in November. The sharp cutback in auto production since midyear is now being reflected in production declines in supplying industries--automotive steel, metal stampings, rubber products, etc.

The pattern of change in industrial production in November, after allowance for the widespread effects of the G. E. strike, was

much the same as in the previous four months. Downward adjustments in output of many consumer durable goods, apparel, and defense equipment; a leveling off in production of some materials and declines in others used by manufacturers of consumer durable goods and in private residential construction; and a continuing high level in production of business equipment. Again, abstracting from the effects of the G. E. strike and its eventual settlement, the outlook for December and early 1970 appears to be for further weakness unless there is a marked pickup in consumer demand.

Retail sales. Retail sales in October were revised upward 0.8 per cent as the more complete sample became available, to a level 1.2 per cent above September. Nevertheless, sales were still only about one-half per cent above April, the previous peak. The advance report for November, however, indicates a decline in sales of about 1 per cent from October with sales of nondurable goods about unchanged. The two months together average about the same as in the second quarter. In real terms, November was the sixth consecutive month in which sales were below year-earlier levels.

Sales of department stores have continued stronger throughout the year relative to last year than total retail trade. After reaching a peak in April, department store sales tended to flatten out. Even after gains in October and November, volume last month was still slightly below the April level, but 5 per cent above a year earlier.

QUARTERLY RETAIL SALES
(Seasonally adjusted, monthly averages, billions of dollars)

	1968	1969				
	IV	I	II	III	Oct.	Nov.
Total - all stores	28.6	29.1	29.4	29.2	29.6	29.3
Durable	9.3	9.5	9.5	9.2	9.3	9.2
Nondurable	19.3	19.6	19.9	20.0	20.3	20.2
Department stores	2.9	2.9	3.0	3.1	3.0	3.1
Total - deflated for price changes	24.5	24.6	24.5	24.1	24.2	n.a.

The greater relative strength in department store sales may be part of a longer term shift in buying patterns. Aggressive opening of stores in suburban shopping centers may be adding to growth for this important category of stores.

SALES OF DEPARTMENT STORES AS A PERCENTAGE OF
TOTAL SALES OF ALL STORES AND OF SALES OF GAF* STORES

	Total	GAF*
1969 - 11 month average	10.3	37.9
1968	9.8	36.7
1967	9.4	35.5
1966	9.1	35.4
1965	8.0	32.2
1964	8.4	33.5

* Includes general merchandise, apparel, and furniture and appliances.

Dealer deliveries of new domestic autos at a seasonally adjusted annual rate of 8.3 million units in November were about 1 per

cent below October and 6 per cent below a year earlier. Sales in the last 10 days of November were at the lowest level of the month, after allowance for intra-month seasonal variation.

Dealer stocks of new domestic autos on November 30, at 1.5 million units, remained near the record end of October level and were 3 per cent above a year earlier. The seasonally adjusted stock-sales ratio was at 61 days' supply.

Consumer credit. Consumer instalment credit outstanding increased at a seasonally adjusted annual rate of $8 billion in October with more than one-half of the increase occurring in automobile credit. The over-all October expansion was lightly less than in September but exceeded the $7.7 billion annual rate of increase of the third quarter.

The $4.1 billion rise in auto credit during October was the largest monthly gain so far this year. Credit extensions for auto purchases rose to a new peak, while repayments eased slightly for the second month in a row.

In contrast to auto credit, the increase in outstandings for other consumer goods was the smallest in nearly 2-1/2 years, and the net decrease in repair and modernization credit was the largest in many years. Personal loans continued to expand at about the same rate as in the first three quarters of 1969.

NET CHANGE IN CONSUMER INSTALMENT CREDIT OUTSTANDING
(Billions of dollars, seasonally adjusted annual rates)

	Total	Automobile	Other consumer goods	Personal loans	Home repair and modernization
1969 - QI	$8.3	$2.7	$2.5	$3.0	$ .2
QII	9.6	3.1	2.9	3.2	.4
QIII	7.7	1.9	2.6	3.1	.0
October	8.0	4.1	1.1	3.0	-.2

Michigan Survey Research Center consumer survey. The index of consumer sentiment registered a sharp drop for the third successive quarter, declining to a level very close to the post-war low for this index which occurred during the 1957-58 recession. Much of the deterioration in sentiment reflects a substantial increase in the number of respondents who expect business conditions to be worse in the next 12 months. The Survey Research Center attributes this pessimism to belief that the Administration will force a slowdown in the economy; there was a sharp increase in the percentage of families expected an increase in unemployment in the next year.

PER CENT OF FAMILIES EXPECTING AN INCREASE
IN UNEMPLOYMENT IN THE NEXT YEAR*

1966	1968	1969			
February	August	February	May-June	Aug.-Sept.	Oct.-Nov.
11	20	27	29	35	52

* This question is not asked every quarter.

Pessimistic responses to other questions that are not included in the index for sentiment, as well as the decline in the index, led the Center to suggest that there will be a decline in consumer expenditures for durable goods. Buying intentions for cars were down for the first time during 1969 on a year-over-year comparison, and there was a substantial fall in the number of families who thought it was a good time to buy cars, large household goods, or houses. This poor evaluation of buying conditions appears inconsistent with some improvement

in consumers' evaluation of the outlook for prices and the level of interest rates. The Center suggests that consumers now have more faith that the Administration will be able to slow inflation. The greater optimism about the price outlook is possibly the explanation for the lack of change reported in consumers' evaluation of their expected personal financial situation for the next year which appears at some odds with their pessimistic view of business conditions.

INTENTIONS TO BUY CARS DURING NEXT 12 MONTHS
Percentage of family units

Surveys conducted in November	All cars	New cars	Used cars
1965	19.3	10.9	8.4
1966	17.9	10.0	8.0
1967	19.5	10.1	9.4
1968	20.8	12.3	8.5
1969	16.0	9.3	6.7

INDEX OF CONSUMER SENTIMENT
(Feb. 1966 = 100)

	All families	Families with incomes of $10,000 and over
1969		
February	95.1	95.5
May-June	91.6	93.9
August-September	86.4	87.5
October-November	79.7	82.3

Cyclical indicators. In October, the Census composite leading indicator adjusted for trend declined nearly one per cent. Series declining included the manufacturing workweek, initial claims for unemployment insurance (inverted), industrial materials prices, housing permits, durable goods new orders, and plant and quipment contracts and orders. Series rising included the common stock price index and the ratio of price to unit labor cost. For November, the preliminary industrial materials price index and the 500 common stock price index were above the October average levels, although stock prices declined during the month and were down further early in December. The manufacturing workweek was unchanged in November, and unemployment claims were down again (on an inverted basis).

COMPOSITE CYCLICAL INDICATORS
1963 = 100

		12 leading indicators	5 coincident indicators	6 lagging indicators
1969:	July	152.1	170.9	189.9
	August	151.7	172.3	193.6
	September	153.6	171.5	194.7
	October (prel.)	152.4	172.3	195.2

The coincident composite for October rose back to its August high and the lagging composite also rose.

The recent performance of the leading and coincident indicators can best be characterized as hesitation at a high level. Earlier in the year, through April, both composites were increasing strongly.

Inventories. Book value of business inventories rose at a $17 billion annual rate in October. Accumulation was greater than the average of the third quarter, increasing mainly in durable goods manufacturing and trade. The increase at durable goods retailers was largely associated with October's rise in unit auto stocks. This rate of accumulation is not likely to continue, since unit stocks changed little in November and auto output is scheduled to be cut further in December. In addition, recent price movements suggest that the inventory valuation adjustment may be somewhat higher in the fourth quarter than in the third. Together, these facts suggest that the fourth quarter GNP inventory figure may not necessarily exceed the third.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
(Seasonally adjusted annual rate, billions of dollars)

	1969		
	QII	QIII	October
Manufacturing and trade, total	11.5	13.9	17.2
Manufacturing, total	7.6	8.0	9.4
Durable	6.0	6.2	7.6
Nondurable	1.6	1.8	1.8
Trade, total	3.9	5.9	7.8
Wholesale	2.2	0.4	1.0
Retail	1.7	5.5	6.8
Durable	-0.7	2.9	5.8
Automotive	0.2	2.8	5.0
Nondurable	2.4	2.6	1.0

Most of the October increase in manufacturers' inventories was in durable goods stocks at equipment manufacturing industries--especially nonelectrical machinery--and the durable goods increase was was equally divided between finished and in-process inventories.

Manufacturers now anticipate that they will increase inventories at a $8.8 billion rate in the fourth quarter as a whole--slightly below the October rate, in the case of both durable and nondurable goods. They are projecting the first quarter increase at an annual rate of $6 billion--$4 billion in durables and $2 billion in nondurables. Durable goods manufacturers anticipate a slight decline in sales in the current quarter and an increase of less than 1 per cent in the first quarter, while nondurable goods manufacturers expect no change in sales this quarter and a slight increase next quarter, so that inventory-sales ratios are expected to rise appreciably, particularly for durables manufacturers in the current quarter.

INVENTORY RATIOS

	1966	1969	
	December	September	October
Inventories to sales			
Manufacturing and trade, total	1.56	1.54	1.54
Manufacturing	1.72	1.67	1.68
Durable	2.00	1.95	1.97
Nondurable	1.37	1.30	1.30
Trade, total	1.39	1.39	1.38
Wholesale	1.22	1.17	1.16
Retail	1.51	1.53	1.53
Durable	2.10	2.14	2.21
Automotive	1.67	1.72	1.81
Nondurable	1.23	1.24	1.22
Inventories to unfilled orders			
Durable manufacturing	.64	.72	.73

The over-all inventory-sales ratio was unchanged in October, but the durable goods ratios moved up while nondurable goods ratios declined at the retail level.

Orders and shipments. Manufacturers' new orders declined slightly in October after the sharp increase the previous month, but remained above the third-quarter average. Equipment orders dropped back from the unexpectedly high September level; this decline was almost offset, however, by a rise in defense orders from their reduced September level. The durable goods backlog was about unchanged and shipments rose slightly, resulting in a small further decline in the durable goods ratio of backlogs to shipments.

VALUE OF MANUFACTURERS' NEW ORDERS
TOTALS AND SELECTED MARKET CATEGORIES
(Seasonally adjusted monthly, billions of dollars)

	1969				
	QII (averages)	QIII (averages)	Aug.	Sept.	Oct.
Total manufacturing	54.2	55.8	54.8	56.8	56.6
Durable	30.0	31.2	30.5	32.1	31.8
Nondurable	24.2	24.6	24.3	24.7	24.8
Machinery, equipment & defense industries: total	10.2	10.4	10.0	10.7	10.6
Defense products (new series)	1.7	1.8	1.5	1.4	1.8
Equipment, less defense	8.5	8.6	8.6	9.3	8.8
Automotive equipment	4.6	5.3	5.3	5.4	5.1
Home goods and apparel	4.8	4.8	4.5	4.6	4.7
Consumer staples	10.1	10.5	10.5	10.6	10.8
Construction materials	4.6	4.6	4.5	4.8	4.8

Construction and real estate. Seasonally adjusted outlays for new construction put in place, which were revised downward for October,[1/] changed little in November at an annual rate of $91.8 billion. This was just below the peak in September. While the year-to-year increase amounted to 5 per cent, all of it reflected higher costs as measured by the Census Bureau.

Private residential outlays, the level of which was revised upward by 6 per cent[2/] for most months this year owing to a sharply higher benchmark adjustment for additions and alterations, apparently dipped slightly from October to November. Even so, the over-all rate of residential outlays was 6 per cent below the peak reached last April. Moreover, with downward pressures from financial markets on new housing starts persisting, some acceleration in the downtrend in expenditures for new dwelling units and in total residential outlays is indicated for the period ahead.

Expenditures for private nonresidential construction in November apparently held at the October rate after a relatively sharp drop from their high in September. Among the major component groups,

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1/ This reflected substantial though largely offsetting revisions in the level of two component groups for most recent months this year as well as for October. In the case of residential additions and alterations, a series with a considerable data lag, the Census revision for recent months was upward by nearly $2 billion. For State and local construction, it was downward by about $2.5 billion.
2/ This adjustment will not be incorporated in the GNP series for residential structures until the July 1970 GNP revision.

only expenditures for industrial plants appeared to be sustaining their September pace.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	November 1969 ($ billions) 1/	Per cent change from October 1969	Per cent change from November 1968
Total	91.8	--	+ 5
Private	63.9	- 1	+ 8
Residential	30.9	- 1	+ 3
Nonresidential	33.0	--	+14
Public	27.9	+ 1	- 3
Federal	3.4	+ 3	- 5
State and local	24.5	+ 1	- 3

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.

Public construction outlays moved higher in November, but--based on recent revisions--State and local outlays are now reported to have remained well below the peak established in February and, in fact, to have continued below a year earlier for the fifth consecutive month. This pattern contrasts sharply with the steady uptrend reported earlier and is in line with the results of the Board's survey of State and local government borrowing realizations for the third quarter of this year, as summarized in the supplement to the previous Greenbook.

With mortgage markets continuing to tighten and available stocks of homes for sale becoming increasingly limited, transactions in existing homes have receded further this autumn from year-earlier

levels. In October, unit sales of such homes were running about 7 per cent below a year earlier, according to the National Association of Real Estate Boards. Prices of such homes actually sold meanwhile were holding nearly a tenth higher than the year before.

Plant and equipment spending plans. Recent surveys indicate that business spending for new plant and equipment is currently running higher than anticipated earlier and will continue to rise through the first half of 1970. The recent Commerce-SEC survey of spending anticipations shows outlays for the second half of 1969 revised sharply upward from earlier estimates, in contrast to the downward pattern of revisions earlier this year. Also, a large rise is projected for the first half of 1970 as utilities, communications, and, to a lesser extent, durable goods manufacturers continue to increase their spending programs. As currently planned, the average spending level in the first half of 1970 would be 6 per cent above the second half of 1969 and about 12 per cent above the first half of 1969. Evidently, given current and prospective weakness in growth of final demand, businessmen are willing to accept lower profits and to carry excess capacity for a time in order to prepare for ebullient future demands and as insurance against rapidly rising unit labor costs and expected higher equipment prices.

The November Commerce-SEC survey indicates that businessmen now plan to spend 11 per cent more in 1969 as a whole than in 1968--a little higher than the 10.6 per cent gain noted in August but well below the anticipated 14 per cent rise reported last February.

PLANNED 1969 PLANT AND EQUIPMENT EXPENDITURES
RESULTS OF SUCCESSIVE COMMERCE-SEC SURVEYS
(Billions of dollars)

Survey date:	All Business	Manufacturing	Nonmanufacturing
February	73.0	30.7	42.3
May	72.2	30.0	42.2
August	70.9	29.7	41.2
November	71.3	29.7	41.6

Fourth quarter 1969 plans now show a small increase as opposed to the decline projected earlier with most of the upward revision in utilities, mining, and railroads. Spending in the first quarter of 1970 is projected to increase by $3.5 billion, with most of this increase in the nonmanufacturing sector where utilities and communications

SURVEY OF PLANT AND EQUIPMENT EXPENDITURES PLANS COMMERCE-SEC
(Billions of dollars)

	1968	1969	1969		1970	
			III	IV	I	II
	Actual	Est.	Actual		Planned	
All Business	64.1	71.3	72.5	73.4	76.9	78.2
Manufacturing	26.4	29.7	30.5	30.6	31.2	31.9
Durable	13.5	15.3	15.6	15.5	15.8	16.3
Nondurable	12.9	14.4	14.9	15.1	15.4	15.6
Nonmanufacturing	37.7	41.6	42.0	42.8	45.7	46.3
			Increases			
All Business	2.4	7.2	2.3	0.9	3.5	1.3
Manufacturing	-0.3	3.3	1.1	0.1	0.6	0.8
Durable	-0.2	1.8	0.2	-0.1	0.3	0.5
Nondurable	-0.1	1.5	0.9	0.2	0.3	0.2
Nonmanufacturing	2.7	3.9	1.2	0.8	2.9	0.6

firms are planning especially large increases. Within manufacturing, substantial gains are anticipated in the stone, clay, and glass, chemical, and petroleum industries. Second quarter spending is projected to grow at a slower pace--$1.3 billion--with manufacturing firms increasing more than nonmanufacturing.

The basic pattern of continued growth of spending by manufacturers revealed above is generally consistent with findings of the third NICB survey of capital appropriations of the 1,000 largest manufacturing firms. This survey showed that capital spending commitments rose 3.7 per cent further in the third quarter--down sharply from the 12.8 per cent second quarter gain. Since there is generally a six- to twelve-month lag between appropriations and expenditures, this survey would indicate further appreciable increases in manufacturers outlays, with a possible slowdown after midyear.

Labor market. The unemployment rate fell to 3.4 per cent in November from 3.9 per cent in October, the sharpest one-month decline in the past decade. But the decline was not supported by other labor market indicators, which suggested some further easing. Thus, manufacturing employment declined, employment growth in nonmanufacturing continued slower than earlier in the year, the average workweek in both manufacturing and nonmanufacturing continued at the lower October levels, insured unemployment rose further, and jobless rates for blue-collar and manufacturing workers continued significantly higher than earlier in the year.

The drop in total unemployment occurred mainly among younger workers and women. About one-fourth of the drop occurred among persons who had been seeking part-time work, a large proportion had never worked before, and almost all had been jobless for five weeks or less. Moreover, about half the net decline in unemployment was attributable to workers with drawing from the labor force, and the labor force declined somewhat. Also, the reduction was concentrated in the same labor force groups that accounted for the bulk of the sharp jump of total unemployment in September. Unemployment levels and rates for these "secondary" workers tend to be erratic on a month-to-month basis and the economic significance of recent movements is debatable.

SELECTED UNEMPLOYMENT RATES, 1969*
(Seasonally adjusted, per cent)

	IQ	IIQ	IIIQ	November
Total	3.3	3.5	3.7	3.4
Women aged 20 and over	3.5	3.7	3.9	3.5
Teenagers	12.1	12.3	12.6	11.6
Men aged 20 to 24	4.8	4.8	5.4	5.3
Men aged 25 and over	1.5	1.6	1.8	1.8
Blue-collar workers	3.7	3.8	4.0	4.2
Manufacturing workers	3.1	3.2	3.3	3.8
Private wage and salary	3.3	3.5	3.7	3.6
Insured unemployed	2.1	2.1	2.2	2.4

* - For the weeks including the 12th of the month.

For some segments of the "primary" labor force, however, unemployment has risen progressively since the early part of the year. These increases have occurred mainly among adult men with job experience as blue-collar workers. Since most of these workers are covered under unemployment insurance programs, the number of workers drawing unemployment pay has increased and the most recent initial claims figures suggest the continuation of a slow rate of rise. The increases are attributable both to rising initial claims and to longer spells of unemployment, and have paralleled the slow weakening of manufacturing and residential construction employment.

Employment and earnings. Total nonfarm employment declined slightly in November, as the GE strike kept about 130,000 workers off payrolls, thereby offsetting further employment increases among nonmanufacturing industries. (For purposes of measuring unemployment, strikers are considered with a job but not at work. Thus, although they are no longer on payrolls and therefore reduce the count of payroll jobs, they are not counted as unemployed and have no direct effect on the unemployment rate.)

Manufacturing employment showed signs of further weakness in November, declining by 40,000 after allowance for the effects of strike activity. Hours of work were unchanged from October (40.5 hours) but down from the March high of 40.9 hours. In recent months, employment has declined somewhat in ordnance, lumber, autos, radio and TV,

apparel, textiles, and leather. Easing in these industries was offset until recently by increases in primary metals, machinery, fabricated metals and some segments of electrical equipment. However, manhours worked in the latter industries have stabilized or trailed off slightly since September (after crude allowance for strike effects), suggesting some easing in this sector.

CHANGES IN NONFARM PAYROLL EMPLOYMENT*
(Seasonally adjusted, in thousand)

	May 1968 to November 1968	November 1968 May 1969	May 1969 to November 1969
Total	1,038	1,392	661
Government	200	210	141
Private industry	838	1,182	520
Manufacturing	135	252	-29
All others	703	930	549

* - Adjusted for direct effects of major strikes.

Personal income growth slowed in September and October as relatively small employment gains coupled with the drop in the average workweek held down the expansion of gross wages and salaries. With employment gains continuing sluggish and many persons off payrolls because of strikes, the rise in wages and salaries--and in personal income--should be relatively small in November. At the same time, wage increases continue large. In recent months, hourly earnings have averaged about seven per cent higher than a year earlier, with increases in nonmanufacturing running ahead of manufacturing.

Industrial relations. Railroad representatives and union negotiators for the shopcraft unions reached agreement on a 2-year contract on December 4. Full details of the agreement, which covers 1969 and 1970, are being withheld until it is ratified by the 48,000 members of 4 shopcraft unions. Preliminary reports indicate, however, that these workers will receive an 11 per cent wage increase upon ratification with provisions for retroactive payments. In addition, the shopcraft unions will receive a 7 per cent wage increase in 1970, with the bulk of that (5 per cent) effective January 1. Contracts covering expire 400,000 other railroad workers.

The strike of 130,000 electrical workers at G.E. which began October 27 continues and there have been no reports of any progress toward a settlement.

Wholesale prices. An exceptionally large rise in prices of farm products and a further substantial increase in prices of industrial products pushed the wholesale price index up 0.6 per cent in November. The rise in farm products was the first since June, and reflected to a considerable extent a temporary spurt in volatile prices of perishable goods. The rise in industrial commodities reflected a broad advance with a continued large advance for nonferrous metals. A turnaround in lumber and wood products prices (for which large declines had earlier exerted a moderating influence on the overall price increase) added strength to the upward movement in the average for industrial commodities.

WHOLESALE PRICES, 1969
(Percentage changes at annual rates)

	March to June	June to September	September to October	October to November
All commodities	5.2	1.6	4.8	7.2
Industrial commodities	0.8	3.6	6.0	4.8
Steel mill products	4.0	9.6	9.6	0
Nonferrous metals	17.2	23.6	10.8	13.2
Lumber and plywood	-78.4	-28.0	-7.2	20.4
Farm products & processed foods and feeds	17.2	-4.0	0	14.4

Prices rose much more in November than had been reported in the preliminary estimate. Prices of farm and food products rose 1.2 per cent compared to 0.9 per cent in the preliminary report and the average for industrial prices rose 0.4 per cent rather than the 0.2 per cent originally estimated.

About one-quarter of the rise in industrial commodities was the result of an increase of 0.4 per cent for machinery and equipment as large increases were posted for agricultural, construction, and metal working machinery. Prices of metals and metal products also rose 0.4 per cent and accounted for about one-fifth of the increase in industrial commodities as nonferrous metals continued to rise sharply. A brisk rise in prices of softwood plywood was primarily responsible for causing the lumber and wood products group to rise for the first time since last March. Prices for some chemicals, paper products, furniture, and tires also increased, but gasoline, electric power, skins, and crude natural rubber declined.

Since mid-November, a number of increases in metals prices have been announced. Lead prices have been raised, and a further increase for this metal is widely expected as is an advance for zinc. Copper fabricators have raised prices as they have been forced to use increasing amounts of raw material from higher-priced sources. A recent increase in tin has resulted in the highest price since November 1965, and cadmium prices have advanced to an all-time high.

The increased cost of nickel resulting from the settlement of the strike in Canada has been reflected in U.S. producers' announcement of increases of from 4-1/2 to 5-1/2 per cent in the prices of stainless steel products, effective in mid-December. This will be offset in considerable part, however, by reductions of perhaps 2-5 per cent for many steel sheet products by a new method of billing, effective on January 1.

Complicating the computation of price change is the addition of "extra" charges to be applied in February to shipments under the new steel pricing method.

A review of industrial prices for the past year shows a wide dispersion of price increases, with metals and metal products prices rising at over twice the rate of products of any other industry. Several major industries, including some labor-intensive ones, have had relatively low rates of price rise. Of the 13 major industrial groups, 6 have increased less than 3.5 per cent, compared to 3.9 per cent for the average, and 4 have increased at a rate of 2 per cent or less, as shown below.

PER CENT CHANGE IN PRICES OF PRODUCTS OF MAJOR INDUSTRIES
(November 1968 to November 1969)

Metals and metal products	9.3	
Iron and steel		7.3
Steel-mill products		6.7
Nonferrous metals		19.6
Non-metallic mineral products (largely building materials)	4.3	
Miscellaneous 1/	4.0	
All industries	3.9	
Pulp, paper and allied products	3.9	
Machinery and equipment	3.8	
Hides, skins and leather	3.6	
Fuels and power	3.4	
Coal		11.3
Rubber and products	3.3	
Furniture and household durables 2/	2.1	
Textiles and apparel	1.9	
Chemicals and allied	1.1	
Lumber and wood products	-2.3	
Transportation equipment	n.a.	
Motor vehicles and equipment		2.3

1/ Includes 6.4 per cent rise in tobacco.
2/ Floor coverings and home electric equipment fell, household appliances rose less than 1 per cent; the biggest increase was in commercial furniture.

On the other hand, iron and steel prices rose 7.3 per cent, steel mill products 6.7 per cent, and nonferrous metals 19.6 per cent. Nonferrous metals are extremely sensitive to world demand levels and have been heavily affected by labor and political troubles.

The small--one per cent--increase in chemical prices can perhaps be attributed to low labor intensity, fast technological progress, and over-capacity in the industry. The small increases in wholesale prices of furniture and textiles, on the other hand, probably reflect the strong demand situation.

Debts of farm operators. The estimated 6.7 per cent increase in farm debt during fiscal 1969 was the smallest annual increase of this decade. The slower growth reflected various constraints on both borrowers and lenders, and perhaps some underestimation, as explained below. From the partial information available on new loans made and mortgages recorded, it appears that lending activity slackened in late 1968 and then picked up moderately in 1969, except at insurance companies and the Farmers Home Administration (direct loans). Repayments were normal and foreclosures negligible. Lending trends through September appear similar to those of January-June.

Among the important elements in the farm credit market in fiscal 1969 were scarcity of funds at some lenders, competition from nonfarm borrowers for available funds, farmer resistance to high interest rates, low usury ceilings in some states, and, earlier in the year, gloomy prospects for net farm earnings. But earning prospects changed

dramatically in the spring of 1969 when livestock product prices climbed sharply to highs which they have sustained since. Net farm income for 1969 forecast by the USDA as late as February at less than the $14.9 billion of 1968, jumped to $16.3 billion (seasonally adjusted annual rate) in the second quarter, and is now expected to total $16.0 billion for the year.

The improved earnings outlook undoubtedly contributed to the pick-up in overall lending activity that began in the spring of 1969. Yet lagging sales of farm machinery and a continued deceleration in land value increases suggest that reduced credit availability and high interest rates were offsetting influences.

Differences in farm loan growth rates among lending institutions resulted from differing availability of funds. Direct loans by the Farmers Home Administration showed no increase as the agency had limited funds and turned increasingly to its insured real estate loan program. Insurance company balances rose only nominally as the companies allocated fewer funds to farm mortgages and made virtually no loans in states with low usury ceilings. On the other hand, the Federal land banks, exempt from state usury laws and with ready access to funds through sales of bonds, expanded outstanding mortgage loans by 10 per cent. Banks also increased their holdings of farm real-estate-secured loans by 10 per cent, but some of this rise may have consisted of purchases of loans insured by the Farmers Home Administration.

Expansion of farm production credit slowed relatively more at banks than at production credit associations. The gain over the fiscal

year at banks was 5.7 per cent, compared to the most recent five-year average annual rate of 7.6 per cent. Outstanding loans at the PCA's, which obtain their funds from sales of debentures, rose by 11.4 per cent, compared to their five-year average of 12.4 per cent.

In the opinion of many observers, increased credit from nonreporting lenders, particularly land-contract credit from sellers of farms, has recently tended to compensate for reduced credit availability from lending institutions (especially life insurance companies). Unfortunately, there are no hard data on activity of nonreporting lenders. Estimates shown in the table assume that their relative role has remained unchanged since the benchmark provided by the 1960 Census. Increases in total farm debt during fiscal 1969 and other recent tight-money periods may therefore have been underestimated.

INDEBTEDNESS OF FARM OPERATORS IN MID-1969
By Security and by Source of Credit

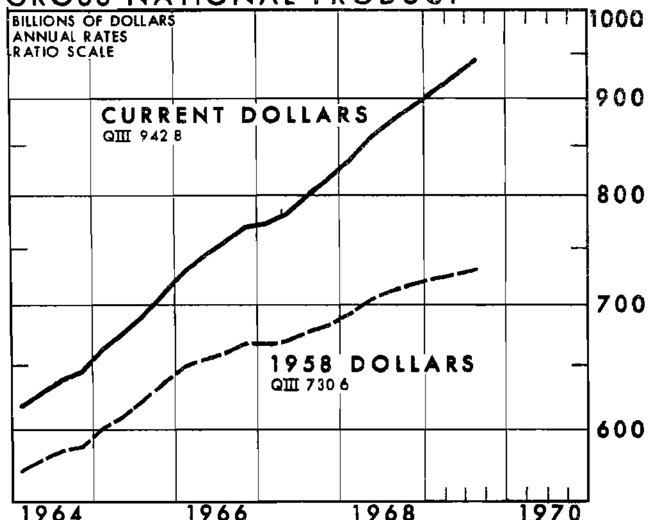
	Amount outstanding June 1969 (millions of dollars)	Annual per cent change; June 30 data		
		1968 to 1969	1967 to 1968	Average since June 1964
Non-real estate				
Commercial banks	10,552	5.7	6.9	7.6
Prod. credit assns. 1/	4,754	11.4	12.1	12.4
Farmers Home Adm. (direct)	939	0.1	3.8	4.8
Nonreporting creditors 4/	11,538	7.0	8.1	8.7
Total	27,783	7.0	8.1	8.7
Real estate				
Commercial banks 2/	4,181	9.7	15.3	10.0
Federal land banks	6,509	9.9	12.7	13.3
Insurance companies	5,850	2.1	6.6	7.5
Farmers Home Adm. (direct)	476	-7.8	-8.3	-5.1
Individuals and others 4/	11,434	6.5	10.2	9.6
Total 3/	28,450	6.5	10.2	9.6
Grand total 3/	56,233	6.7	9.2	9.1

1/ Includes loans of other institutions discounting with the Federal Intermediate Credit Banks--$219 million outstanding in mid-1969.
2/ Includes bank investments in notes insured by the Farmers Home Administration--amounts not reported separately on the call report.
3/ Excludes Farmers Home Adm. insured notes except those noted in 2/. The Farmers Home Adm. portfolio of insured loans (including loans sold to banks) amounted to $3.3 billion in mid-1969.
4/ Estimates are based on benchmark data obtained from the 1960 Census, with growth since 1960 assumed to equal the average rate experienced by reporting lenders.

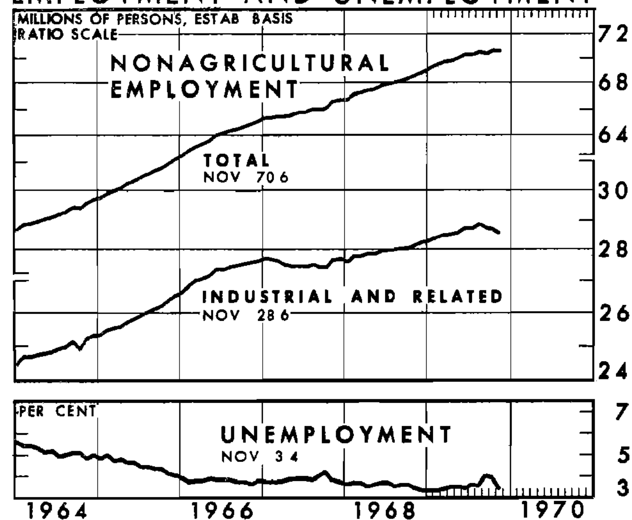
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

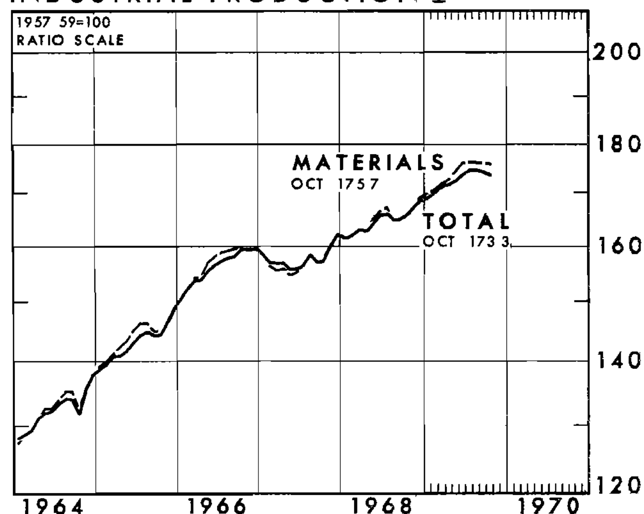
GROSS NATIONAL PRODUCT



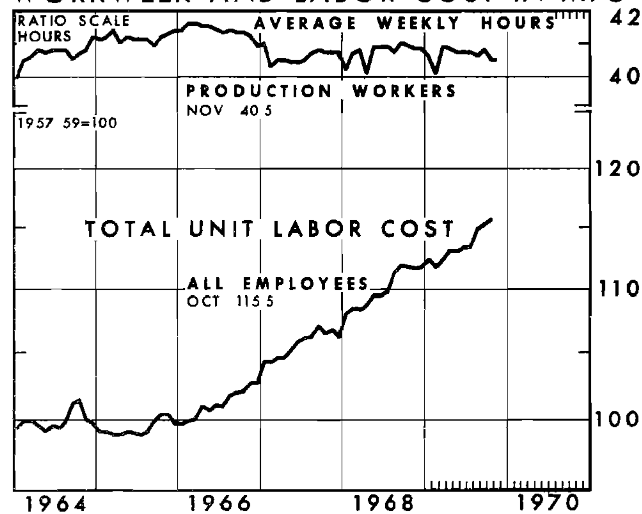
EMPLOYMENT AND UNEMPLOYMENT



INDUSTRIAL PRODUCTION-I



WORKWEEK AND LABOR COST IN MFG



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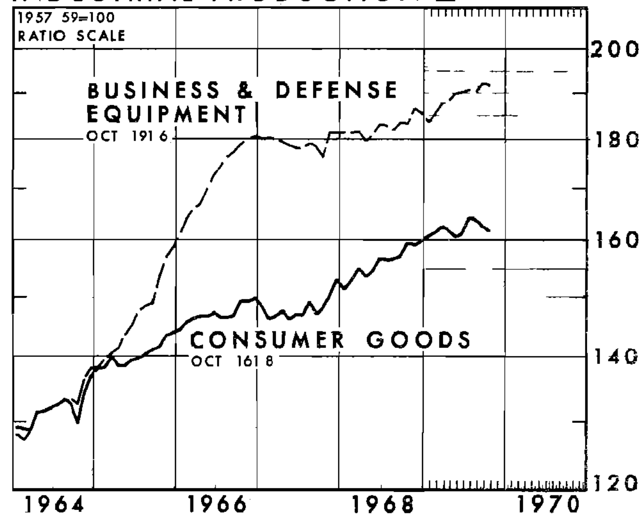

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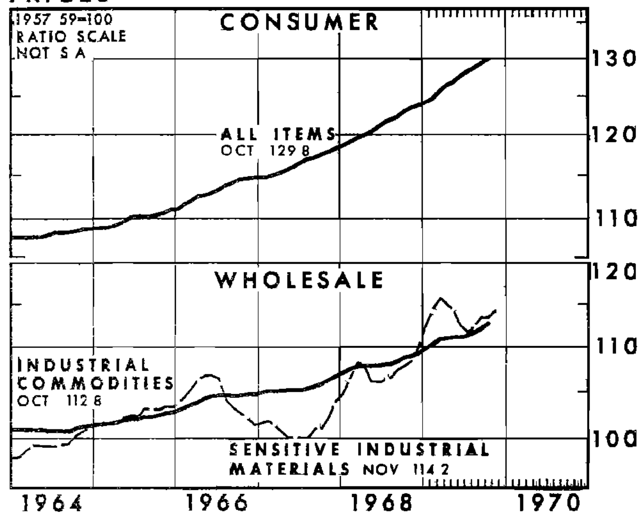
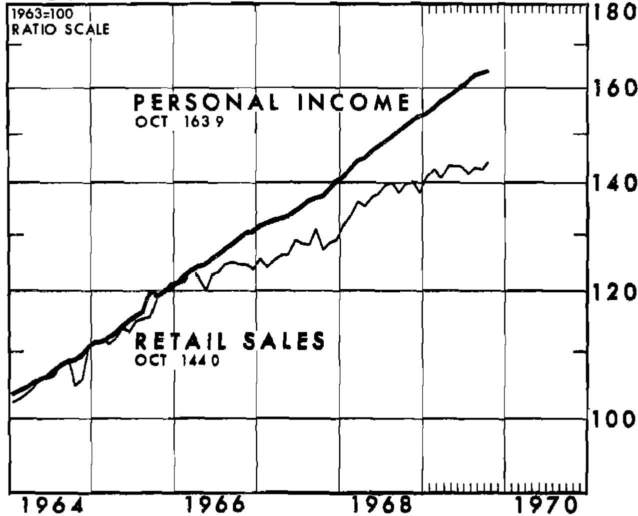
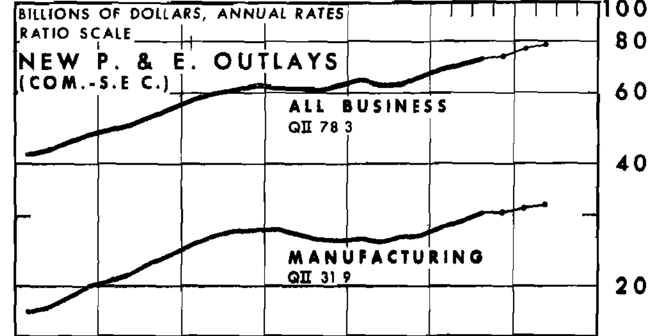
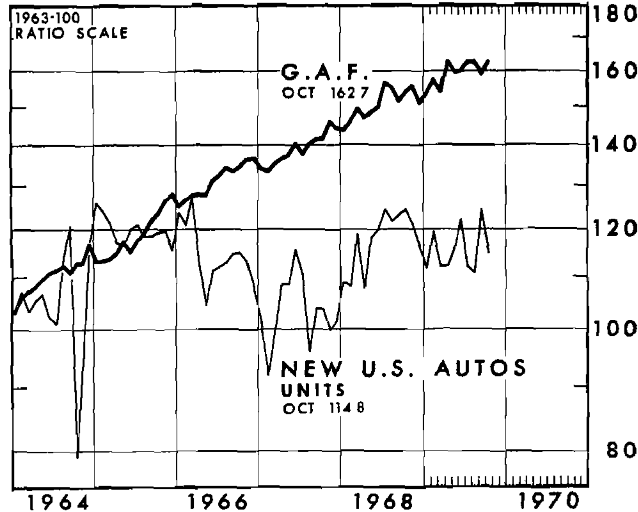


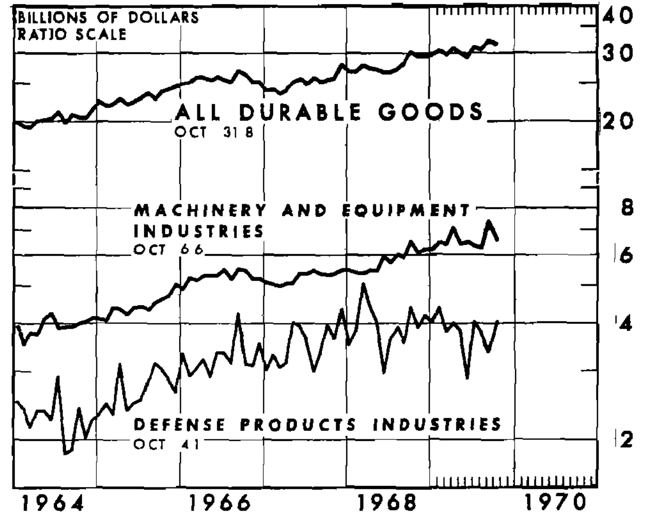
ECONOMIC DEVELOPMENTS - UNITED STATES

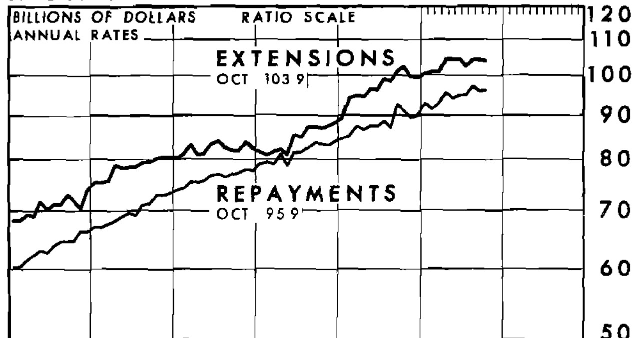
SEASONALLY ADJUSTED

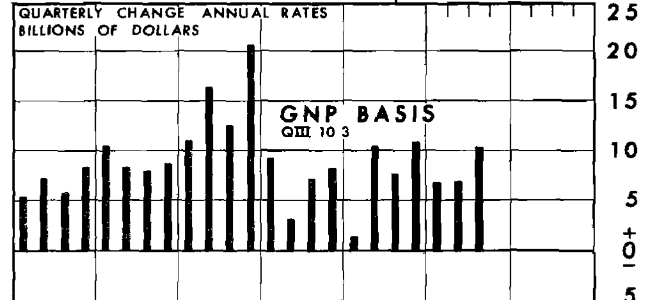


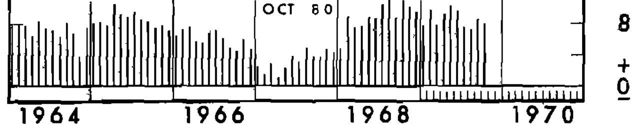


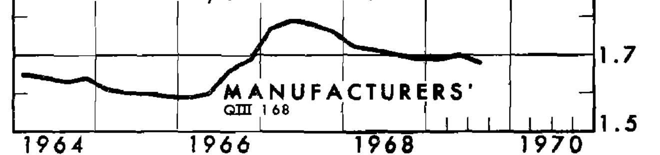












THE ECONOMIC PICTURE IN DETAIL

Bank credit. Commercial bank credit increased $2.4 billion in November. The gain, the largest since April, was mainly the result of a sharp and for the most part probably temporary increase in holdings of securities other than U.S. Treasury issues and in loans to security dealers. The latter reflected in part a $370 million matched sale-purchase arrangement with the System at month-end. Trends in most other loan categories were moderate to weak, and holdings of U.S. Treasury securities declined further.

With the sharp advance in holdings of other securities, banks recorded their first monthly increase in investment holdings of the year in November. A significant part of this rise apparently was the result of a buildup in inventories of municipal securities (and in some instances of Federal Agency issues) at dealer banks and reflected the difficulties encountered in distributing new issues to final investors. The net decline in U.S. Government securities was much smaller than in the previous two months, reflecting bank underwriting of the $2.5 billion tax bill financing (carrying full tax and loan credit) on the last reporting date of the month.

NET CHANGE IN BANK CREDIT[1/]
All commercial banks
(Seasonally adjusted percentage change, at annual rates)

	1968	1969 (4 mos.)		
	Year	1st 5 months	June - October	November
Total loans and investments	11.0	4.7	- 0.4	8.8
U.S. Gov't. securities	3.0	-21.1	- 15.5	- 4.5
Other securities	16.4	1.7	- 7.1	15.4
Total loans	11.6	11.9	4.6	9.6
Business	11.1	16.0	4.4	--
Security	13.0	-32.3	6.5	140.4
Other	15.6	12.0	4.6	8.2
MEMORANDA:				
Total loans plus loan sales 3/	11.6	13.4	8.3	10.3
Business loans plus loan sales 4/	11.1	18.0	8.8	2.2

1/ Last Wednesday of month series.
2/ Series revised beginning March 1969, to reflect adjustments to June 30, 1969 Call Report.
3/ Includes outright bank sales of loans to their own holding companies, affiliates, and subsidiaries.
4/ Includes outright bank sales of business loans to their own holding companies, affiliates, and subsidiaries.

Loans rose substantially in November exceeding the fairly strong increase recorded in October. However, as in October, growth in loans to security dealers accounted for nearly half of the total increase. Moreover, the volume of loan sales to subsidiaries and affiliates, which amounted to nearly $950 million in October, fell to about a third of that amount in November.

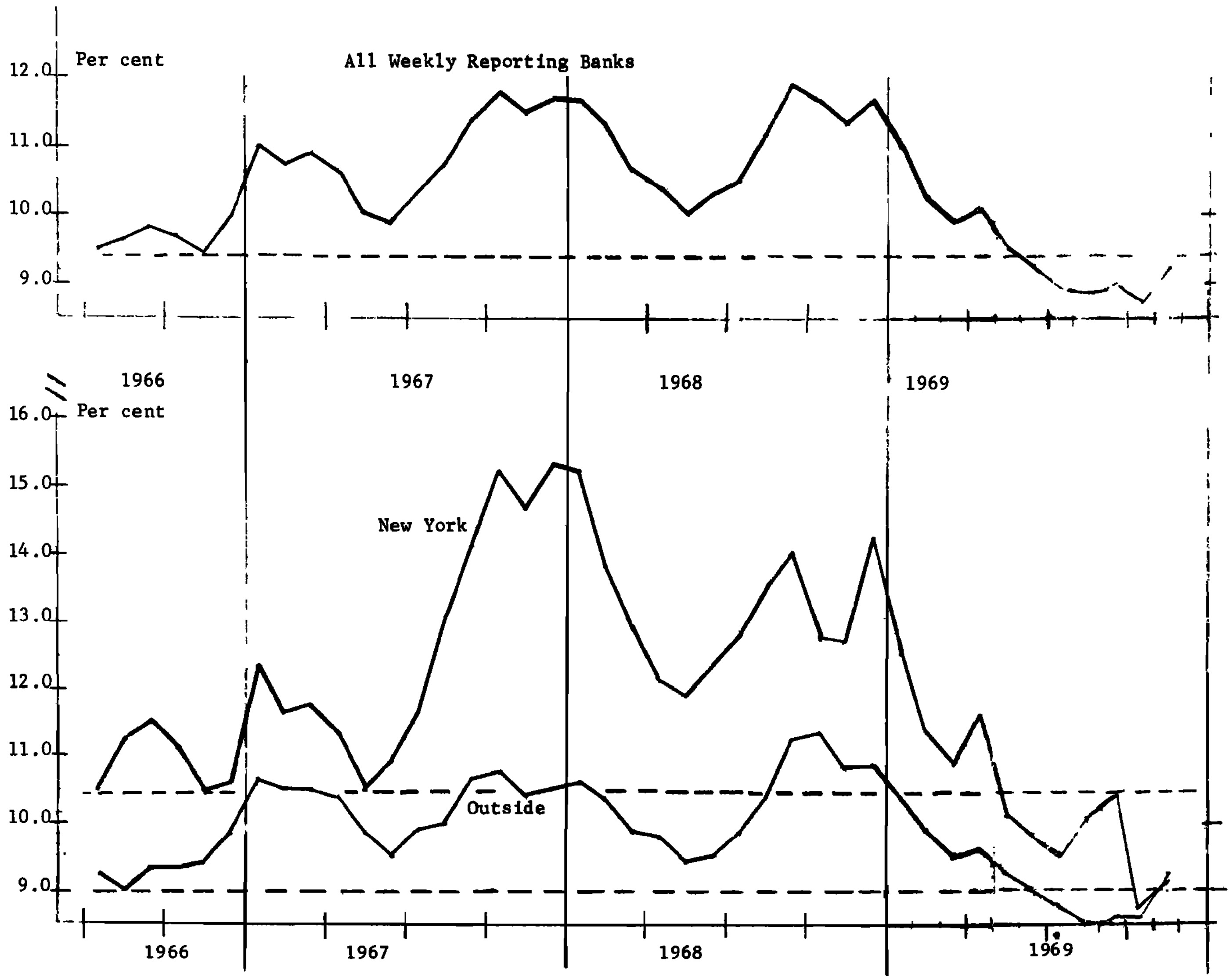
Business loans remained unchanged and, even after adjustment for the outright sale of $200 million of such loans, the rate of growth in these loans was down markedly from other recent months. The volume of securities sold by corporations in the capital market was quite large in November, which may partly explain this weakening. In addition, many firms, expecting bank credit conditions to become progressively tighter later in the year, may have satisfied a good part of their fourth quarter needs in October--when business loans went up $1.1 billion and sales of business loans to affiliates totaled $700 million. However, with the business needs for outside financing remaining strong, it seems unlikely that business loan developments in December will remain as weak as in November. According to the latest lending practices survey, most banks are expecting demands for loans to remain about unchanged or to strengthen over the next three months (See Appendix C for more detailed discussion of survey.)

Bank liquidity. The liquidity position of large commercial banks measured by the ratio of liquid assets to total liabilities less capital accounts and valuation reserves increased slightly in November (see chart). But a large part of the increase, associated with the tax bill financing on November 26 and the recent growth in loans to security dealers, presumably will be temporary. If bank acquisition of the tax bills were excluded, the ratio would have remained essentially unchanged from its October level, which was the low mark for the year. This ratio has declined almost continuously this year and is now below the level that prevailed during the 1966 credit crunch.

Bank sources of funds. The funds to finance the November growth in bank credit were supplied primarily by deposit inflows. U.S. Treasury deposits advanced sharply in conjunction with two major Treasury financing operations to account for a considerable part of this growth. Private demand deposits also advanced moderately during the month while time deposits remained essentially unchanged.

At large banks, total time and savings deposits extended their long standing downtrend although the November decline was somewhat smaller than in recent months. New York banks continued to be successful in attracting foreign official funds to their negotiable CD's, and banks in other cities experienced a rate of attrition in their CD's more moderate than in other recent months.

LIQUID ASSETS/TOTAL LIABILITIES LESS CAPITAL ACCOUNTS AND VALUATION RESERVES 1/



1/ Monthly averages of weekly figures, except for latest plot, which is a Wednesday figure. Liquid assets include Treasury bills, certificates, and notes and bonds maturing in one year, tax warrants and short-term municipals, bankers acceptances, balances with domestic banks, loans to domestic banks, broker-dealer loans, and Federal funds. Data not seasonally adjusted.

NET CHANGES IN MAJOR SOURCES OF FUNDS AT
WEEKLY REPORTING BANKS
(Billions of dollars, not seasonally adjusted)

	Dec.31-June 25[1/]		June 25-Oct. 29[1/]		Oct. 29-Nov. 26[1/]	
	1968	1969	1968	1969	1968	1969
Time and savings-- total	.9	-8.1	6.9	-6.7	1.2	- .9
Consumer-type	2.2	- .0	2.4	-1.8	.2	- .5
Savings	- .1	-1.6	- .1	-1.2	.2	- .0
Other time[2/]	2.3	1.6	2.6	- .6	.1	- .5
Negotiable CD's	-1.1	-7.6	4.0	-3.7	1.0	- .2
All other time	- .3	- .6	.5	-1.2	- .1	- .1
Nondeposit funds-- total	n.a.	10.8	n.a.	2.5	n.a.	1.8
Euro-dollar[3/]	2.0	8.3	.8	.5	.1	1.4
Commercial paper[4/]	n.a.	1.2	n.a.	2.4	n.a.	.4
Loans sold under repurchase agree- ment 5/	n.a.	1.3	n.a.	- .4	n.a.	- .0

1/ Dates are for 1969; corresponding dates used for other years.
2/ Time deposits, IPC, other than CD's, IPC.
3/ Borrowed through foreign branches, through branches in U.S. territories and possessions, directly from foreign banks, and through domestic brokers and dealers.
4/ Issued by bank subsidiaries, holding companies, or other bank affiliates.
5/ To affiliates and others. Examination of individual bank reports indicates that virtually all of the loans sold under repurchase agreement to bank affiliates were at banks having no commercial paper outstanding, so that the possibility of double counting is minimal.

Consumer-type time and savings deposits, in contrast, fell sharply further at large commercial banks--partly because of reduction in Christmas Club accounts--and accounted for more than half of the decline in total time and savings deposits. Country banks also experienced a continued sharp outflow in their time and savings deposits during November.

Use of nondeposit sources of funds expanded substantially further in November as banks tapped the Euro-dollar market for a large block of funds. The commercial paper market again serves as a source of funds but the November advance was only about a third as large as the $1.2 billion October increase.

Money stock developments. The money stock increased at a seasonally adjusted annual rate of 4.8 per cent in November and this advance lifted the rate of growth since midyear to 1.1 per cent. For the year to date, the money stock has increased at a 2.9 per cent annual rate. An increase in public currency holdings has accounted for nearly half of the growth in the money supply since the beginning of the year. And since midyear, growth in currency has been even more important, offsetting as it has a decline in the demand deposit component of the money supply.

Nonbank depositary intermediaries. The preliminary information now available suggests that during November, thrift institutions received modest inflows reminiscent more of the reduced third quarter pace than of the sharply constricted October pattern. While the MSB data are biased upward by seasonal adjustment problems, the pattern of modest growth at mutual savings banks apparently continued in early December, at least at the New York institutions. The data now available probably pre-date any withdrawals that would occur as a result of the reported heavy subscription by individual investors of recent public corporate bond offerings.

DEPOSIT GROWTH AT THRIFT INSTITUTIONS
(Seasonally adjusted annual rates in per cent)

		M&Bs	S&Ls	BOTH
1968	Q I	7.1	5.6	6.1
	Q II	6.7	5.7	6.0
	Q III	6.5	5.9	6.1
	Q IV	7.1	6.2	6.5
1969	Q I	6.2	6.1	6.1
	Q II	4.3	3.5	3.8
	Q III	1.9	2.2	2.1
	October	.5	- .9	-.4
	November[e/]	5.4	2.5	3.4
October and November[e/]		2.9	.8	1.5

e/ Estimated.

Note. Because of difficulties with seasonal adjustment, monthly patterns may not be significant.

NET DEPOSIT INFLOWS

15 LARGEST SAVINGS BANKS IN NEW YORK CITY[1/]

FIRST 5 DAYS IN DECEMBER

(Millions of dollars, not seasonally adjusted)

	1966	1967	1968	1969
Net Deposit inflow	38	40	38	28
Adjusted net deposit inflow[2/]	26	22	16	10

1/ These banks represent nearly 30 per cent of industry deposits.

2/ Adjusted for passbook loans.

Reflecting the weakness in deposit inflows, liquidity at both the S&Ls and the savings banks has been reduced, at least through October. In both cases, ratios of liquid assets to deposits have reached new lows.[1/] In addition, mutual savings banks have reduced on net their holdings of corporate securities, through the third quarter, at least in New York, they also increased their reliance on borrowings, as outright loans from commercial banks, mortgage warehousing, and repurchase agreements (both for securities and mortgages) were important supplements to their reduced funds available to honor commitments.

1/ The required minimum that S&Ls must hold in cash and Governments was reduced by the FHLBB in November from 6 per cent to 5.5 per cent of outstanding deposits.

NEW YORK STATE SAVINGS BANKS
EXTERNAL SOURCES OF FUNDS
(Millions of dollars, not seasonally adjusted)

		Warehousing+ Repurchase Agreements	Other Borrowed Funds	Total	Total as % Gross Assets
1967	Q I	189	3	192	0.53%
	Q II	146	3	149	0.40
	Q III	186	18	204	0.53
	Q IV	273	33	306	0.79
1968	Q I	177	21	198	0.50
	Q II	171	21	192	0.48
	Q III	166	23	189	0.46
	Q IV	232	58	289	0.70
1969	Q I	200	34	234	0.56
	Q II	244	63	307	0.72
	Q III	353	103	456	1.07

Similarly, savings and loan associations have continued to borrow from the FHLBanks, with the growth in outstanding advances for 1969 through November amounting to $3.5 billion, far more than in any other year. At the end of November, the FHLB System held $1.4 billion in liquid assets available for lending and it has recently announced that it will break precedent and issue securities during December to raise $250 million of additional funds. The FHLBB also has authority to borrow up to $1 billion from the Treasury and a bill now in Congress would raise that to $4 billion.

SAVINGS AND LOAN ASSOCIATIONS
Net Change in FHLB Advances
(Millions of Dollars, not seasonally adjusted)

	1966	1967	1968	1969
Monthly Average				
Q I	-100	- 579	- 38	17
Q II	364	- 291	217	359
Q III	131	- 59	48	498
Q IV	- 80	88	77	--
October	74	- 8	12	477
November	-165	73	6	372p/
December	-150	198	212	
Memo: Cumulative total -- Year through November	1,095	-2,724	701	3,469p/

p/ Preliminary.

Mortgage market. FNMA in recent weeks has continued to be a major source of support to the market for Government underwritten mortgages. While the volume of auction bids submitted to FNMA has remained below the weekly average reached early last summer when the real estate market was more active, FNMA since mid-November has stepped up its weekly approval of forward purchase commitments on home mortgages to an annual rate of about $6.3 billion. This was somewhat above the volume in late October and early November when mortgage yields declined temporarily. In addition, FNMA has made commitments through direct negotiation for the purchase of FHA multifamily mortgages at an annual rate of approximately $450 million.

With take downs rising because of its enlarged commitment backlog, FNMA in early December issued $650 million in debentures, of which $100 million was net new money. As in other recent months, the net cost of this financing to FNMA was considerably higher than the net yields to FNMA on either its recent portfolio additions or its total mortgage holdings.

While returns on new issues of high-grade corporate bonds have risen sharply in recent weeks, average secondary-market yields on FHA and VA home-loan commitments approved in FNMA's auction have increased more slowly. In the December 8 auction, average yields nevertheless reached a new high that was well above the usury ceilings of 8 per cent or less applying principally to conventional home mortgages that still prevail in 21 States and the District of Columbia. The slower rise in home mortgage yields available to lenders has partly reflected the already-deep discounts on FHA and VA loans, which in turn have become an increasing barrier to originating new Federally underwritten mortgages.

FNMA WEEKLY AUCTIONS

	Amount of total offers Received	Accepted	Implicit private market yield on 6-month commitments
	(Millions of dollars)		(Per cent)
Highs			
1968	$232 (6/3)	$ 89 (7/1)	7.71 (6/10)
1969	410 (6/16)	152 (9/8)	8.64 (12/8)
Nov. 10	267	102	8.49
17	243	123	8.51
24	233	122	8.54
Dec. 1	236	121	8.58
8	243	123	8.64

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, 1968.

Reflecting mainly savings losses experienced again in October, New York State mutual savings banks (which account for three-fifths of the assets of all savings banks) apparently cut back the volume of their new mortgage commitments approved during that month. The October volume of new commitments was about 7 per cent below the reduced rate reached in the third quarter. The outstanding mortgage commitments of NYSMSB's edged down for the sixth consecutive month, after adjustment for seasonal variation, and at the end of October were 17 per cent below last April's peak. Moreover, owing in part to the efforts of savings banks to ease demands on their cash flow over the near term, an unusually low proportion (three-fifths) of their end-of-October backlog of mortgage commitments was scheduled for take down within the next 9 months.

Corporate security and municipal bond markets. Capital market yields rose to new all-time highs in the first week of December as a result of the heavy supply of new issues and selective buying by institutional investors. In the three weeks from November 14 to December 5 corporate and tax-exempt long-term yields rose about 50 basis points. In recent days these record yields, which included a better-than-9 per cent return on a Aaa issue, attracted an unusual volume of individual investors and some institutional interest, permitting dealers to work down inventory backlogs. But despite the resultant marginal increase in bond prices, it seems unlikely that any basic change in market attitudes or supply and demand factors has taken place as yet.

STOCK PRICES AND BOND YIELDS

	Stock Prices 1/		Bond Yields	
	NYSE	AMEX	New Corporate Aaa 2/	Long-term State and local Bonds 3/
1968				
Low	48.66(3/4)	21.58 (3/5)	6.13(8/30)	4.07(8/9)
High	61.27(11/29)	33.25(12/20)	6.92(12/13)	4.85(12/29)
1969				
Low	49.31(7/29)	25.02(7/29)	6.90(1/10)	4.82(12/24)
High	59.32(5/14)	32.91(1/3)	8.85(12/5)	6.72(12/5)
Week of:				
Nov. 7	55.07	28.61	8.13	6.11
14	54.33	28.31	8.27	6.17
21	52.68	27.27	8.44	6.36
28	52.49	27.34	8.67	6.58
Dec. 5	51.20	26.62	8.85	6.72
8	50.59	26.30	n.a.	n.a.

1/ Prices as of the day shown. NYSE is New York Stock Exchange. AMEX is American Stock Exchange.
2/ With call protection (includes some issues with 10-year call protection).
3/ Bond Buyer (mixed qualities).
n.a. Not available.

Stock prices and volume of trading continued their November decline into the second week of December. At their closing on December 8, the New York and American Stock Exchange stock price indices were both at their lowest points in two months, all of the gains made during the October rally having been erased. Although these two indices still were above their July 29 lows, the blue-chip oriented Dow Jones Industrial Average had fallen below the 800 level for the first time since January 1967.

Because a $100 million utility issue was postponed, the volume of public bond offerings fell short of the earlier staff estimate for November. But stock issues rose above $1 billion, bringing total corporate security offerings in November to $2.5 billion, the highest monthly volume since April of 1969. The increase in stock issues reflected three large rights offerings and rapid growth in the number of issues by small and medium-sized companies turning to the equity markets for funds even in the face of declining prices.

The public bond calendar for December built up quickly, and the staff estimate of such offerings has been raised to $1.1 billion. With seasonal increases in private placement takedowns, total corporate security issues in December are now estimated to be about $2.3 billion, even though the Christmas holidays will curtail activity in the markets during the last half of the month.

CORPORATE SECURITY OFFERINGS [1/]
MONTHLY OR MONTHLY AVERAGES
(Millions of Dollars)

	Bonds				Stocks		Total	
	Public Offerings		Private Placements					
	1968	1969	1968	1969	1968	1969	1968	1969
Year	894	1032e	554	539e	382	675e	1830	2247e
Q I	821	886	574	513	330	674	1726	2073
Q II	1035	1136	548	526	319	709	1902	2371
Q III	869	1065e	454	487e	389	588e	1711	2140e
Q IV	852	1040p	641	600p	491	683p	1984	2363p
November	939	1060e	362	500e	466	1000e	1767	2560e
December	607	1100p	965	800p	483	400p	2055	2300p
	1969	1970	1969	1970	1969	1970	1969	1970
January	980	1300p	636	500p	460	600p	2075	2400p

p/ Projected.
e/ Estimated.
1/ Data are gross proceeds.

Public bond offerings in January are now expected to reach $1.3 billion, the highest monthly issue volume in over a year. Utility financing needs remaining pressing, as indicated by the large number of scheduled issues and recent filings and by capital spending plans In addition both balance sheet considerations and reports by underwriters indicate that a number of industrial firms are now quite likely to come to market in the first months of 1970 in an effort to fund the abnormally large current volume of short-term financing, to rebuild depleted liquidity, and to finance capital outlays which continue high with further increases anticipated by business.

State and local government long-term financing is still being constrained by legal ceilings that are below market rates in some areas, but the market has found difficulty in absorbing even the relatively reduced supply of new issues because of the continued lack of support from commercial banks. December long-term offerings are estimated to total approximately $600 million, even after taking into account several large postponements. As in the corporate market, the seasonal reduction in volume of new issues in the latter part of December should help dealers work down inventories to more comfortable levels.

The potential volume of borrowing by State and local governments and lack of bank support could limit any decline in rates that might otherwise be produced by seasonal factors this month. January long-term municipal securities sales are expected to rise to $900 million. The December-January calendar contains a number of issues by special authorities who apparently feel that revenue prospects and user needs justify payment of record interest rates. While some major borrowers are out of the market at current yields, others, such as New York City, will continue to be active in the long-term area. Moreover, maturities of recent short-term borrowings may now be forcing some issuers back into the long-term market, with authorities running into legal restrictions on refunding of short-term debt.

LONG-TERM STATE AND LOCAL GOVERNMENT OFFERINGS
Monthly or Monthly Averages
(Millions of dollars)

	1968	1969
YEAR	1,381	966
Q I	1,247	930
Q II	1,285	1,215
Q III	1,537	810
Q IV	1,455	910p
November	1,021	870e
December	1,115	600e
	1969	1970
January	1,262	900p

p/ Projected.
e/ Estimated.

Government securities market. Interest rates in the Treasury security market showed mixed changes following the November 25 meeting of the Committee. Long-term coupon yields pushed higher on balance as investors switched to attractive new corporate issues; and rates on short- and intermediate-term notes and bonds also moved higher. In part in reflection of seasonal influences, yields on Treasury bills due in 3 months or less continued to rise, with the 3-month issue reaching a new high of 7.84 on December 9. In contrast, longer-term bill rates adjusted lower from the record levels reached just prior to the series of weekly, monthly, and tax bill auctions at the end of November.

WEEKLY AVERAGE MARKET YIELDS ON U. S. GOVERNMENT AND AGENCY SECURITIES[1/]

(Per cent)

	Lows	Highs	Week Ending		
			Nov. 25	Dec. 2	Dec. 9
Bills					
1-month	5.80(3/25)	7.20(9/22)	6.58	7.05	7.13
3-month	5.87(4/30)	7.84(12/9)	7.38	7.53	7.69
6-month	5.96(4/30)	8.00(11/21)	7.88	7.80	7.90
1-year	5.86(1/16)	7.86(11/24)	7.70	7.52	7.61
Coupons					
3-year	6.02(1/20)	8.14(10/1)	7.77	7.68	7.89
5-year	6.11(1/20)	8.04(10/1)	7.68	7.62	7.75
7-year	6.09(1/16)	7.76(10/1)	7.29	7.23	7.33
10-year	5.95(1/20)	7.52(10/1)	7.28	7.31	7.40
20-year	5.91(5/5)	6.89(11/20)	6.82	6.83	6.79
Agencies					
6-month	6.47(1/21)	8.66(11/24)	8.60	8.52	8.51
1-year	6.33(1/20)	8.74(11/24)	8.64	8.64	8.65
3-year	6.53(1/28)	8.45(9/30)	8.38	8.31	8.36
5-year	6.57(1/22)	8.44(10/1)	8.22	8.14	8.21

1/ Latest dates of high or low rates in parentheses and refer to single dates.

Greatly enlarged dealer bill positions, in the face of only moderate demands and high financing costs, continue to maintain bill rates at generally advanced, and in some instances record, levels. Total dealer positions in Treasury bills have risen to the highest levels seen this year. At the same time, the volume of long-term repurchase agreements made by the dealers has remained relatively stable in the $650-$750 million range prevailing since late October. As a result, dealers have been particularly sensitive to higher day-to-day financing costs of around 10 per cent in New York and 9 per cent at sources away from the major money market banks.

DEALER POSITIONS IN GOVERNMENT AND AGENCY SECURITIES
(In millions of dollars)

	November 24	December 1	December 8
Treasury securities			
Total	2,908	3,656	3,663
Treasury bills (total)	2,526	3,216	3,076
Due in 92 days or less	- 33	156	220
93 days or over	2,559	3,060	2,856
Treasury notes and bonds (total)	382	440	587
Due within 1 year	148	178	217
1-5 years	135	143	229
over 5 years	99	120	141
Agency securities			
Total	633	591	655
Due within 1 year	442	408	349
over 1 year	191	183	306

Price and yield changes in the Treasury note and bond market have reflected intermittent demands in the intermediate-term sector and, in longer maturities, reaction to developments in the corporate bond market. Dealers positions in all categories of coupon issues have increased on balance since late November, but remain relatively small by past standards.

In the market for Federal Agency obligations, the lull in new offerings between the November 19 FICB issue and the $650 million FNMA financing on December 2 allowed dealers to make a little progress in reducing their positions in Agency securities without further price concessions. In fact, yields on Agency issues moved slightly lower in late November in line with similar Treasury issues. Recently, however,

the Agency market showed some temporary signs of weakness when the 19- and 39-month FNMA issues, offered to yield 8.60 and 8.30 per cent, respectively, were not well received and moved to discounts.

Other Short-Term Credit Markets. Rates on private short-term credit instruments continued to increase in the latter half of November, although in most instances not by as much as the upward movement in similar maturities of Treasury bill rates. Rates on 3- and 6-month commercial paper advanced by 25 basis points to 8.75 as of December 5; and, after remaining steady since early October, posted rates on 3- and 6-month finance company paper adjusted to the generally higher level of other short-term rates in late November. Most recently, however, quotations on finance paper have moved back down to early November levels. Rates on finance paper with maturities of less than 3-months, where most of the volume of recent issue activity reportedly has been located, have also increased since mid-November, with the composite range of offered rates reported in New York Reserve Bank's series on 30-59 day finance paper moving from 7-3/4--8 per cent to 8-1/8--8-1/2 per cent on December 4.

Note: The latest figures available on commercial and finance company paper outstanding report that in October such paper rose by nearly $1.8 billion, seasonally adjusted, to a level of $32.0 billion, an increase of 6 per cent in outstanding paper, compared with increases of 4 per cent and 5 per cent in August and September, respectively. Bank related paper increased by more than 40 per cent (seasonally unadjusted) in October and totaled $3.6 billion at the end of the month. By November 26, bank-related paper had risen to $4 billion.

Table 1

CHANGES IN
COMMERCIAL AND FINANCE PAPER AND
BANKERS' ACCEPTANCES OUTSTANDING
(In millions of dollars)

	August	September	October
Commercial and finance paper[1/]			
Total	1,050	1,386	1,797
Placed through dealers	705	283	507
Paper placed directly[2/]	345	1,103	1,290
Memorandum:			
Bank related paper (unadjusted)	341	286	1,146
Bankers' Acceptances	154	87	24

1/ Data for commercial and finance paper are seasonally adjusted, in contrast to similar data published in the Bulletin that are seasonally unadjusted.

2/ As reported by companies that place paper directly with investors. As of June 1969, these figures include for the first time directly placed commercial paper issued by bank related companies. Dealer totals have always included paper issued by bank related companies.

SELECTED SHORT-TERM INTEREST RATES
(FRIDAY QUOTATION - DISCOUNT BASIS)

	November 14	November 21	November 28	December 5
3-Month				
Commercial paper	8.50	8.63	8.63	8.75
Finance paper	8.13	8.38	8.38	8.13
Bankers' Acceptances	8.00	8.63	8.63	8.63
Treasury bill	7.09	7.38	7.51	7.65
6-Month				
Commercial paper	8.50	8.50	8.75	7.75
Finance paper	7.75	8.38	8.38	8.13
Bankers' Acceptances	8.00	8.63	8.63	8.63
Treasury bill	7.46	8.00	7.81	7.88
12-Month				
Prime municipals 1/	5.45	5.45	5.60	5.75
Treasury bill	7.17	7.77	7.50	7.60

Source: Salomon Brothers & Hutzler's Bond Market Roundup.

1/ Bond yield basis.

Federal finance. Board staff estimates of total Federal receipts for fiscal 1970 have been raised $900 million to $196.2 billion since last Greenbook, reflecting somewhat higher estimates of corporate profits in the first half of next year. Staff expenditures estimates for fiscal 1970, which allow for only a 10 per cent increase in Social Security benefits effective April 1, remain unchanged at $192.9 billion. The estimated surplus has therefore been lifted to $3.3 billion, or $.47 billion on an NIA BAsis.

If the revenue changes recently voted by the Senate were to be enacted, the Staff's estimate of receipts could be cut back by nearly $1.5 billion; but at this point the staff is assuming that the House version of tax relief and reform is more likely to be enacted. This would cause no attrition in fiscal 1970 receipts relative to earlier Budget estimates. Congress and the Administration may, of course, reach a compromise that does tend to erode receipts even in fiscal 1970. The range of possible results that could emerge from present Congressional deliberations is discussed in Appendix B.

On the outlays side, recently voted Senate changes in Social Security benefits would add more than $1 billion in expenditures to the staff estimates for fiscal 1970, as shown in the Appendix. On the other hand, the Administration cut of $3 billion from its initial defense budget estimate, which the staff has been including in its expenditure estimates, has become more certain. Defense contract awards, a leading indicator of spending, were modest in October, for the seventh month in a row, and a $5.3 billion cut in 1970 defense appropriations just voted by the House highlights the stiffened resolve of Congress to reduce military outlays.

The Treasury's cash balance at the end of December is now projected to be $5.9 billion. This is $600 million below the estimate in the last Greenbook, with most of the shortfall arising from the expected redemption of a temporary special Treasury issue purchased

by the FHLBB. At the time of the last Greenbook, the staff was not aware that the unexpectedly improved late November level of the Treasury cash balance was largely attributable to this temporary FHLBB investment.

Strong quarterly income tax payments and five assumed $100 million supplements to weekly bill auctions are expected to swell the Treasury balance to $6.6 billion by the end of January. Thus, no additional cash financing by the Treasury is expected to be needed until early March. Unexpectedly large increases in advances to S and L's could force the FHLBB to draw on its $1 billion special borrowing privilege at the Treasury during the January reinvestment period. The Treasury would probably still not need to borrow in January to cover this drain; but if the FHLBB borrowing were not quickly repaid from the proceeds of FHLBB market borrowing in January, the Treasury might have to advance its cash financing from March to February.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Nov.	Dec.	Jan.	Feb.
Borrowing operations				
New cash raised:				
Weekly and monthly bills	.4	.4	.5	--
Tax bills	2.4	--	--	--
Coupon issues	-.1	--	--	--
Other (agency, debt repayment, etc.)	.2	-3.0	--	-.6
Total net borrowing from public	2.9	-2.6	.5	-.6
Plus: Other net financial sources[a/]	-1.0	--	.8	-.9
Plus: Budget surplus or deficit (-)	-1.0	2.1	-.6	.2
Equals: Change in cash balance	.9[b/]	-.5	.7	-1.3
Memoranda: Level of cash balance end of period	6.4[b/]	5.9	6.6	5.3
Derivation of budget surplus or deficit				
Budget receipts	14.4	17.5	15.5	15.2
Budget outlays	15.4	15.4	16.1	15.0

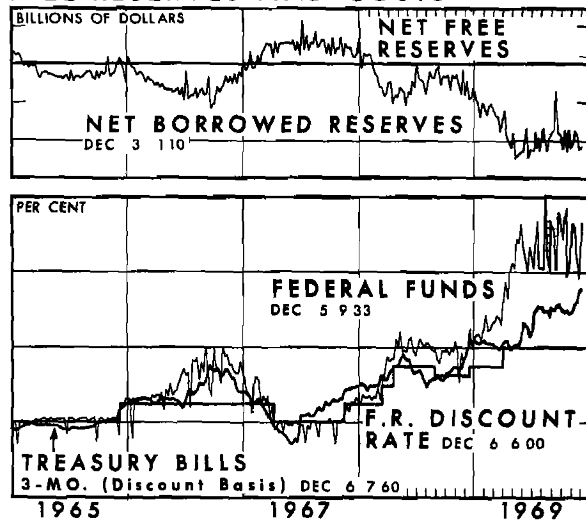
a/ Checks issued less checks paid and other accrual items.
b/ Actual

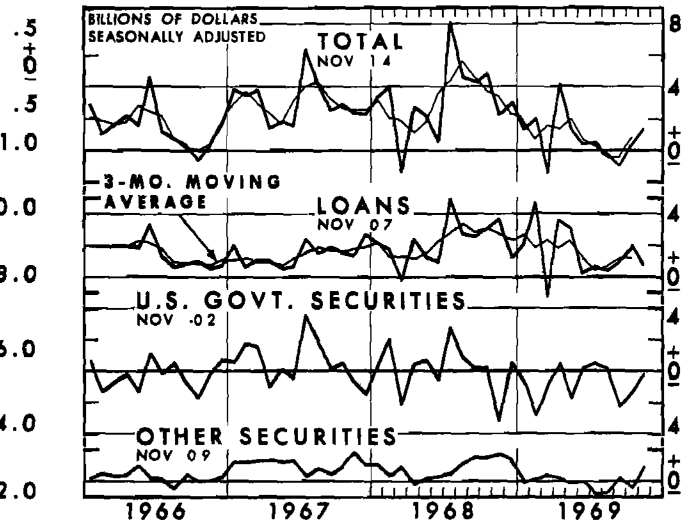
NEW BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

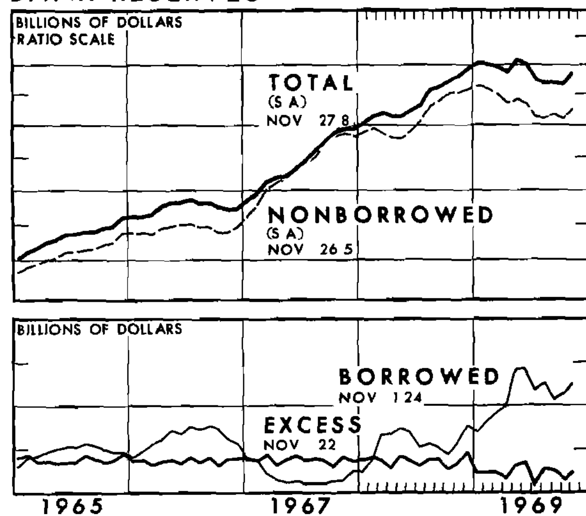
	FY 1969 Actual	Calendar year 1969e/	Fiscal 1970 Summer budget review	Fiscal 1970 F.R. Board	Calendar quarter 1969 I	1969 II	1969 III	1969 IVe/	1970 Ie/	1970 IIe/
Quarterly data, unadjusted										
New budget:										
Surplus/deficit	3.1	5.8	5.9	3.3	-2.0	15.3	-2.5	-5.0	-2.9	13.7
Receipts	187.8	196.5	198.8	196.2	44.1	60.8	47.9	43.7	44.5	60.1
Total expenditures and net lending	184.8	190.7	192.9	192.9	46.1	45.5	50.4	48.7	47.4	46.4
Means of financing:										
Total borrowing from the public	-1.4 1/	-4.5	n.a.	- .5	.2	-12.6	3.2 2/	4.7	.9	-9.3
Decrease in cash operating balance	- .6	-1.2	n.a.	-1.9	- .1	-1.1	- .7	.7	1.3	-3.2
Other 3/	-1.1	- .2	n.a.	- .9	1.9	-1.7	--	- .4	.7	-1.2
Cash operating balance, end of period	5.9	5.9	n.a.	7.8	4.8	5.9	6.6	5.9	4.6	7.8
Seasonally adjusted annual rate										
Federal surplus/deficit in national income accounts	4.9	9.9	5.1	4.7	10.1	13.5	7.8 p/	8.1	2.2	.5
Receipts	192.3	201.5	201.2	200.6	198.6	202.8	201.4 p/	203.2	198.1	199.5
Expenditures	187.4	191.6	196.1	195.9	188.5	189.3	193.6	195.1	195.9	199.0
High employment budget surplus/deficit 4/	2.7	9.7	n.a.	8.2	7.9	12.6	7.8	10.3	6.9	7.8

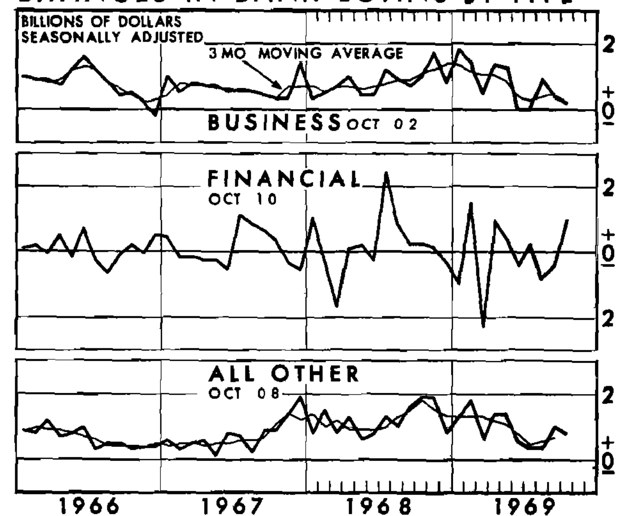
* Actual.
e--Projected. Assumes extension of surcharge at 5 per cent from January to June 1970. Also assumes discontinuance of investment tax credit effective, retroactively, April 1969.
n.a.--Not available.
p--Preliminary
1/ Excludes effect of conversion of agencies to private ownership.
2/ Excludes effect of reclassification of $1.6 billion of CCC certificates of interest from Budget transactions to borrowing from the public.
3/ Includes such items as deposit fund accounts and clearing accounts.
4/ National Income account translation estimated by Federal Reserve staff.

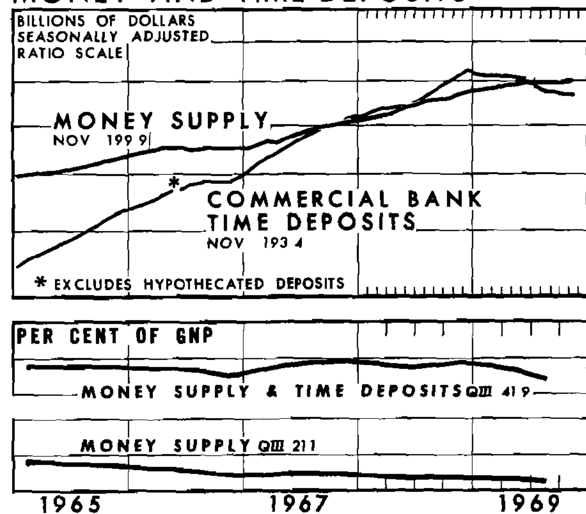
FINANCIAL DEVELOPMENTS - UNITED STATES

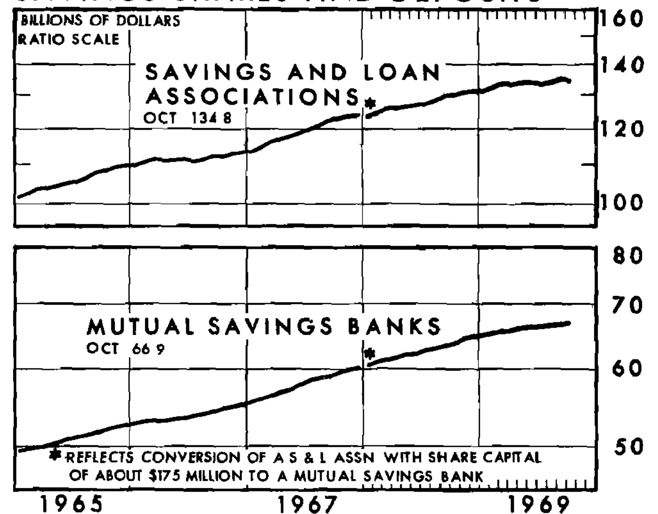




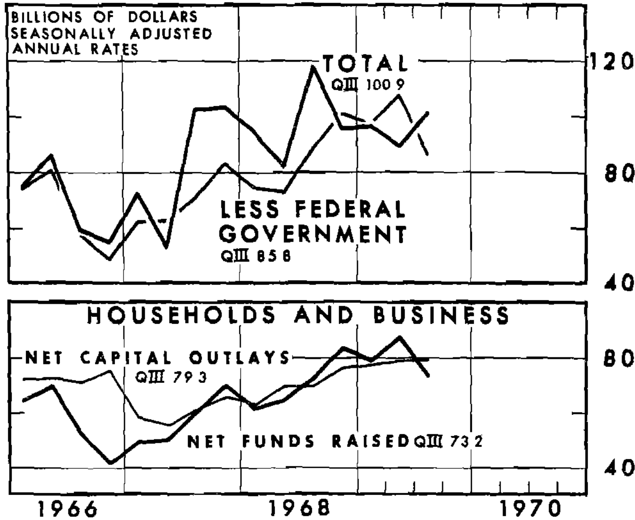


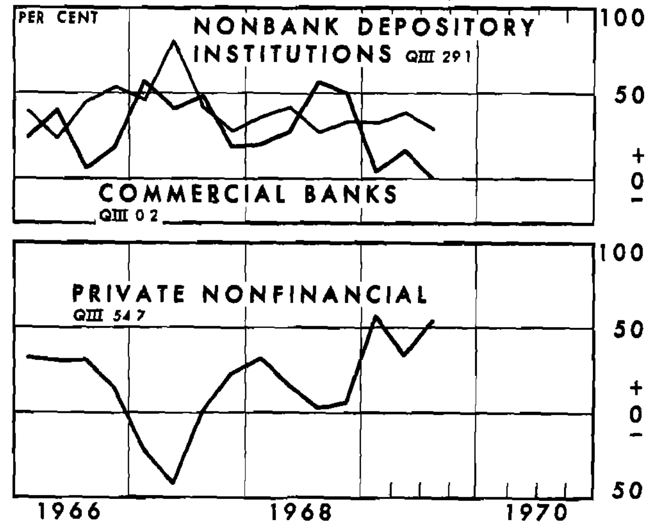


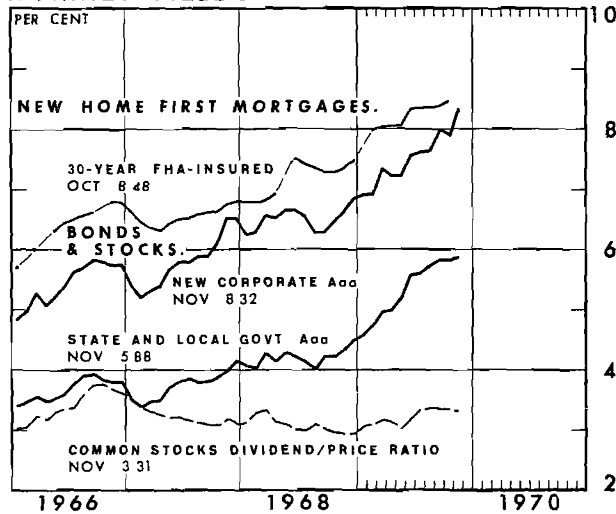


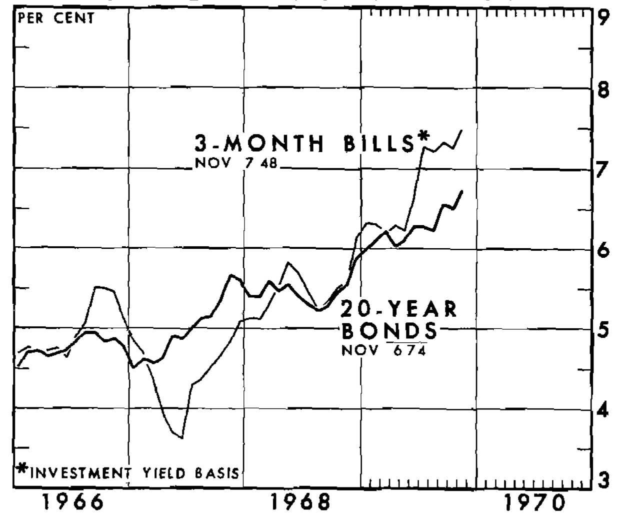


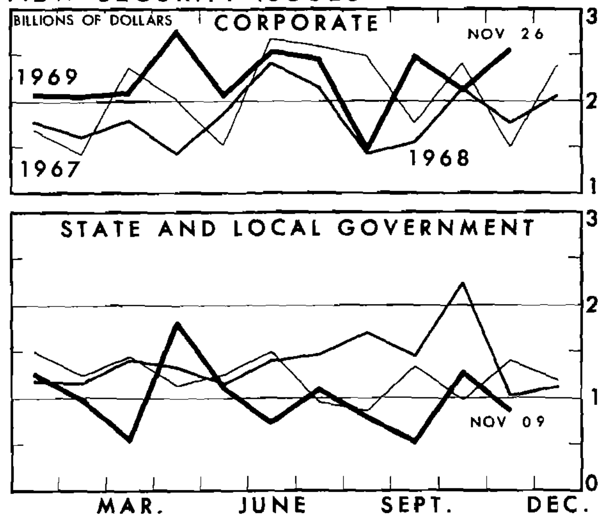
FINANCIAL DEVELOPMENTS - UNITED STATES

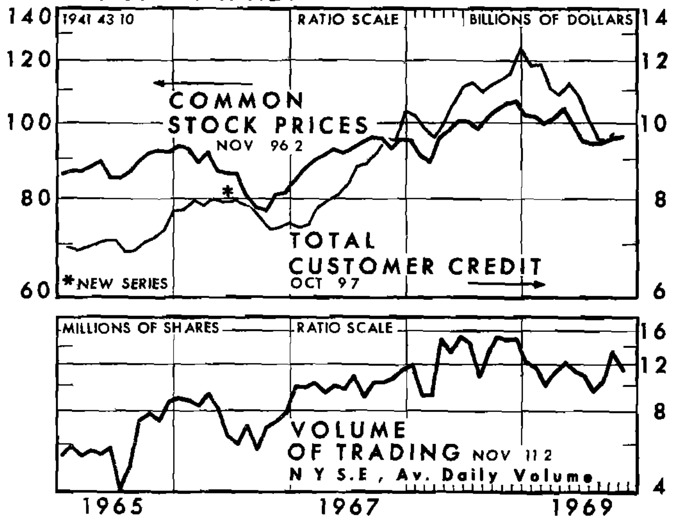












THE ECONOMIC PICTURE IN DETAIL

International Developments

U.S. balance of payments. The October liquidity deficit, not seasonally adjusted, is now reported at $840 million, rather than the $690 million estimated on the basis of earlier partial data. After seasonal adjustment the October deficit would still be large at about $400 million, but this is still consistent with the view that the fourth quarter rate of deficit will be much lower than the exaggerated rates in the earlier quarters of the year. Weekly data for November suggest a quite small liquidity deficit for that month, after adjustment for adverse seasonality.

Although the expected improvement in the fourth quarter seems to be occurring, there is little evidence that this reflects any decisive gain in basic transactions. The improvement appears to depend mainly on such relatively volatile elements as return flows from Euro-dollar and Deutschemark assets, a spurt in foreign purchases of U.S. equities in October, and year-end inflows by direct investors.

In October the trade surplus was lower than in September; exports were behaving well, but imports were apparently still under the influence of strong U.S. demand. Another negative factor in October was an increase of $145 million in bank-reported claims on foreigners, as a sizable reduction in short-term claims on Japan was more than offset by increased lending to a number of European countries and to Canada.

However, foreign net purchases of U.S. corporate stocks surged to $350 million in October, continuing a recovery from the net liquidations of June and July. This large inflow was no doubt related to the short-lived turnaround in the U.S. equity market; since October share prices have tended down, while Euro-dollar interest rates have risen sharply.

The full set of balance of payments tables just prepared for the third quarter (confidential until released at the end of December) indicate that outflows of corporate capital in that period were still an important factor in the deficits, and also that there were probably additional large outflows (unidentified) of U.S. funds for placement in Euro-dollars (especially in July) and in Deutschemark assets. In the first nine months of this year, the net identified outflow of corporate capital amounted to nearly $2 billion, compared to $1.2 billion in the same period of 1968. The outflow for direct investment averaged over $1 billion per quarter, a little higher than last year, and included about the same amount of foreign funds derived from new issues sold abroad -- about $150 million per quarter. However, this year corporations have increased their short-term assets abroad (apart from the proceeds of foreign borrowing) rather than liquidating them as they did last year, and their borrowing abroad has been much smaller.

It remains to be seen whether there will be once again a major inflow in the last weeks of the year. There is some evidence that corporate borrowing abroad began to rise in the third quarter, and is intensifying

CAPITAL FLOWS: U.S. CORPORATE FOREIGN ASSETS AND LIABILITIES
(Millions of dollars; seasonally adjusted; outflows, -)

	1968					1969		
	Year	I	II	III	IV	I	II	III^p
Total, net	-720	-23	-594	-599	495	-661	-816	-507
Direct investments	-3,025	-472	-1,009	-1,262	-283	-928	-1,057	-1,095
Other corp. assets:								
Long-term	-174	34	-32	-57	-119	-66	-32	-15
Short-term	-752	-322	-469	-98	137	-220	9	44
proceeds of new foreign issues	(-973)	(-374)	(-510)	(-194)	(105)	(-61)	(21)	(14)
other	(221)	(52)	(41)	(96)	(32)	(-159)	(-12)	(30)
Corp. liabilities:								
New foreign issues	2,129	580	585	586	378	401	150	216
Other liabilities:								
Long-term	673	154	165	10	344	148	59	163
Short-term	429	3	166	222	38	4	55	180

in the fourth, as corporations position themselves to meet any need to return funds to the United States to stay within the Commerce Department regulations. High borrowing costs and the weakened market for convertible issues are probably discouraging any tendency to repatriate more than the required amounts, as was done last year.

An unexpected aspect of the third-quarter accounts was a rise in income receipts from direct investments to a record $1.5 billion. For the first nine months of the year such receipts totaled $4.3 billion, a gain of over $1/2 billion over the like period in 1968. The increase probably reflects improved earnings and perhaps also a desire to meet the control targets by reducing reinvested foreign earnings.

The supposition that other short-term outflows were continuing in the third quarter is based on the large negative residual item of $.9 billion that persisted in the accounts -- although this was a bit lower than the residuals of the first or second quarter. Direct statistical evidence that such flows were occurring is lacking, at least until Bank of England data on liabilities of banks in the U.K. are available. Similarly, it will be some time before the extent of any return flows after September can be determined, though the reduced liquidity deficits imply they are fairly large.

On the official settlements basis, the U.S. balance of payments shifted into surplus in November. In October, U.S. banks had reduced their borrowings from branches, but there had been a substantial inflow of funds from Canadian and other foreign commercial banks, making the U.S. balance for October less unfavorable on the official settlements basis than on the liquidity basis. In November, U.S. banks' liabilities to branches increased sharply, by an estimated $1 billion. From November 19 to December 3, however, there was relatively little net change in these liabilities. The outstanding total as of December 3 was $15.1 billion without including foreign branch participations in head office domestic loans, and $15.3 billion if those are included. This compares with a peak of $15.4 billion (on the latter basis) at mid-October, and an average level during August and September of around $15 billion. Recent enlargement of U.S. banks' takings of Euro-dollar funds might

have been greater were it not for the continued strength in foreign official demand for time deposit holdings at U.S. banks. These holdings increased about $130 million in the three weeks ending December 3 -- for a total increase of about $1.6 billion from early September. The rates offered by U.S. banks for (90 to 179 days) foreign official time deposit funds ranged from 9-5/8 to 11 per cent as of Monday, December 1, compared to a range of 9-5/8 to 10-3/4 per cent the previous Monday.

According to incomplete data, from December 3 to Monday, December 8, liabilities to branches declined by about $500 million.

Euro-dollar market. Euro-dollar interest rates tended to rise irregularly during November and increased rather sharply near the end of the first week of December. The three-month rate, for example, which averaged about 10-3/4 per cent in the second half of November, reached 11-5/16 per cent on December 8 before receding to 10-7/8 per cent as of December 10.

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES
(weekly average of daily figures)

Average for week ending Wednesday	(1) Call Euro-$ Deposit	(2) Federal Funds	(3) =(1)-(2) Differential	(4) 3-month Euro-$ Deposit	(5) 3-month Treasury Bill	(6) =(4)-(5) Differential
Nov. 5	9.05	9.07	-0.02	9.89	7.01	2.88
12	8.80	9.32	-0.52	10.01	7.14	2.87
19	9.45	8.79	0.54	10.71	7.16	3.55
26	8.83	8.32	0.51	10.75	7.44	3.31
Dec. 3	9.47	8.91	0.56	10.83	7.55	3.28
10	9.35	8.96 p/	0.39	11.05	7.66 p/	3.39

p/ Preliminary.

The market has been affected by the Bundesbank's action on December 4 of increasing its Lombard rate by 1-1/2 per cent to 9 per cent per annum to encourage German banks to reduce their net foreign assets, rather than depend on advances from the Bundesbank to meet approaching yearend liquidity requirements. Also, yearend window-dressing repatriations by commercial banks in Switzerland are perhaps already being reflected in Euro-dollar rates. The Swiss National Bank has offered short-dated swaps in unlimited amounts to Swiss banks over the yearend. This will contribute to larger Swiss withdrawls from the Euro-dollar market than would occur without such a facility. The impact of these withdrawals on Euro-dollar rates will be damped, however, to the extent that the Swiss National Bank makes Euro-dollar placements for its own account.

Foreign exchange markets. The Bundesbank continued to sell large amounts of dollars until seasonal liquidity pressures in German financial markets together with new policy actions forced commercial banks in early December to begin repatriating funds invested abroad. Most other major central banks had moderate gains in reserves in late November; in the past week changes have been small.

The Bundesbank continued to suffer heavy losses of reserves very early in December. Its sales of dollars had tended to taper off during the last two weeks of November -- averaging about $400 million a week, compared with an average of about $800 million a week during the first half of the month -- but in the first two trading days of

December it sold a further $455 million. This brought total Bundesbank sales of dollars since September 30 -- the day the mark rate was cut loose to float -- to $5.2 billion. The net drain on Bundesbank reserves from all market transactions was $4.3 billion; the Bank received $885 million from maturing forward contracts between October 1 and December 10. The actual decline in reserves during this period was $4.1 billion -- as shown in the table below -- which reflects the receipt in October of a little more than $200 million purchased during the last two days of September.

The heavy drain on Bundesbank liquid dollar holdings prompted it to draw on unrestricted funds available from the IMF. On November 26 the Bundesbank drew $540 million of various currencies from its super-gold tranche at the Fund, and this week it drew $550 million, representing funds which it had lent the Fund under the GAB. At about $8.1 billion, German reserves are now about the same as at the end of 1967 before heavy speculation on a DM revaluation began.

GERMANY: OFFICIAL RESERVES, 1967-69
(In billions of dollars, at end of month except as noted)

	1967 Dec.	1968 Dec.	1969 Sept.	1969 Oct.	1969 Nov.	1969 Dec. 10
Total reserves	8.2	9.9	12.2	10.8	8.9	8.1e
Gold	4.2	4.5	4.6	4.6	4.6	4.6
Reserve position in IMF	1.1	1.5	1.5	1.5	.9	.3e
Foreign exchange	2.9	3.9	6.1	4.7	3.4	3.2e

Source: IMF, International Financial Statistics. e= partly estimated.

The Bundesbank announced two policy actions on December 4: (1) a general reduction in minimum reserve requirements for commercial banks for the month of December, aimed at easing the seasonal pressures in domestic money markets, and (2) as noted in the Euro-dollar discussion above, an increase in its Lombard rate -- the rate charged for advances to banks -- from 7-1/2 to 9 per cent. (The rediscount rate remains at 6 per cent, but rediscount quotas have not been increased). Following these moves, the mark exchange rate rose sharply to its highest point since revaluation, although it did not reach its new par level, and Bundesbank reserves have been unchanged. It seems clear that the objective in raising the Lombard rate was to check the reserve drain.

The decline in Bundesbank reserves over the past two months produced a sharp contraction of liquidity in the German banking system. Call money rates in Frankfurt rose from 1-1/2 per cent at the end of September to around 6 to 6-1/2 per cent two months later, and currently are around 10 per cent. The three-month interbank loan rate in Frankfurt reached a recent peak on December 9 of 10-11 per cent per annum -- about in line with the current 3-month Euro-dollar rate. The German rates would undoubtedly have gone higher before the end of the year if the Bundesbank had not taken the actions it did.

Since September 30, major Western European central banks have purchased, net, about $2.3 billion in their respective exchange markets. This accounts for a little more than one-half of the net drain on Bundesbank reserves during the same period.

Demand for sterling continues firm. The Bank of England purchased a small amount of dollars during the past three weeks, but its recent dollar purchases have been considerably lower than in early November. During the month of November the Bank of England purchased a total $525 million in the market, roughly the same as it purchased during October.

The Swiss franc exchange rate rose sharply during the past three weeks, like the German mark reflecting seasonal liquidity pressures in domestic financial markets and repatriation of assets from abroad by commercial banks. The French franc exchange rate has firmed moderately since mid-November and the Bank of France has purchased dollars from time to time. During November it purchased about $230 million. Other major purchasers of dollars in November were the Bank of Italy and the National Bank of Belgium, each purchasing about $100 million.

U.S. foreign trade. The export surplus diminished in October as imports rose more than exports. For September-October together, however, the surplus (balance of payments basis) was $2.0 billion at an annual rate, considerably better than the $0.8 billion rate in July-August and the small deficit recorded in the first half of the year.

Exports have been rising strongly. In September-October combined they were at an annual rate of $39.3 billion (balance of payments basis) about 3 per cent above the July-August rate, and up nearly 15 per cent from a year earlier. Less certain is the recent

trend of imports where monthly variations have been large. Imports in September-October were at a $37.3 billion rate, about the same as in the preceding two months but imports in October were the highest since May.

The export rise in September-October included both agricultural and nonagricultural commodities. Shipments of agricultural products have been surprisingly strong. For September-October together such shipments were 6.5 per cent greater than the relatively high level of the two preceding months and accounted for about one-third of the rise in total exports. Soybeans and tobacco led this most recent expansion; cotton shipments have sagged badly, while lower wheat prices have held down the value of grain shipments. The heavy foreign takings of soybeans reflected not only the bumper crop in the U.S. and the resultant lower prices but also higher prices of competing high protein foreign oils -- sunflowerseed oil from East Europe and fishmeal from Peru -- as supplies from these alternative sources have become more limited.

The advance in exports of nonagricultural products in September-October was concentrated in automobiles and parts to Canada, and in machinery and metals -- including steel, aluminum and copper. The outlook for further improvement in sales of machinery is particularly bright as export orders jumped again in October. Exports of steel, mainly to Germany and to the other EEC countries, accelerated further in October, when the monthly tonnage of shipments was the greatest in more than 15 years. Steel exports for this year are now expected to be close to

5 million tons, more than double the 1968 tonnage and the greatest volume since 1957. Demand in Europe is extremely strong and export prices of some steel categories in these countries are reportedly higher than internal prices for the first time in more than 12 years. Tightness in European steel supplies has also improved our marketing position in Latin America. Increased steel shipments to Canada reflect shortages there due to strikes earlier in the year.

By areas, the export rise in September-October was in shipments to Canada (principally automotive equipment), Japan and Australia, New Zealand and South Africa. Total sales to Europe held at the very high level of July-August, with a dip in exports to the United Kingdom offset by a small rise in shipments to the EEC countries. Exports to Latin America also showed little change. The further expansion in shipments to Japan in September-October above the high level of the preceding two months was, in part, attributable to larger shipments of soybeans.

In world trade in manufactured goods (final products and materials), the U.S. share in the third quarter improved over the low average of the first two quarters but it is still not back to the share of 1968. Japan's share of world trade in these types of goods has continued to improve this year while the shares of Germany, the United Kingdom and France have changed only slightly. Japan this year has replaced the United Kingdom as the third leading exporter of manufactures ranking behind Germany and the United States.

Although total imports in September-October were no higher than in the preceding two months, there were mixed movements in the principal commodity categories. Arrivals of nonfood consumer goods and capital equipment continued heavy, but imports of foods and beverages and semifabricated industrial materials fell off; the latter reflects limited supplies of nickel and copper from Canada as a result of the strike in Canadian nickel plants which began in July and did not end until November. The reduced volume of imports of these metals have been offset, in part, by higher metal prices. Import prices of copper in September and October were nearly 15 per cent greater than in July-August. The announced 25 per cent rise in the price of nickel with the termination of the strike can be expected to further boost the value of imported metals in the coming months. Purchases of foreign chemicals and crude materials such as woodpulp and natural rubber have continued strong, in spite of the easing in domestic industrial activity.

Imports of automobiles in September-October were up sharply from the levels of the two preceding months, especially from Canada. Despite the production of 275,000 Mavericks in the first eleven months of this year -- 60 per cent of the units were produced in Canada -- sales of European and Japanese cars in the United States in January-November were 8 per cent greater than in the corresponding period of 1968.

Price developments in major industrial countries. Since the beginning of the year, price advances at both wholesale and retail levels have been substantial in most of the major industrial countries. Wholesale prices for manufactured goods rose strongly through the third quarter in all of the industrial countries except Canada and the Netherlands. The rise in consumer prices generally slowed except in Japan and Italy. Demand was the principal element in generating inflationary pressures except in the United Kingdom, where cost increases were predominant. In Italy, rising labor costs were also important.

WHOLESALE PRICES, MANUFACTURED GOODS[1/]
(1963 = 100)

	Index June 1968	Per cent change (annual rate) Within quarters[a/] 1968 Q-3	Q-4	1969 Q-1	Q-2	Q-3	From year ago Q-3	Index latest month	
France[b/]	101.9	8.4	16.4	7.6	8.4	7.2	10.9	116.1	(Oct.)
Italy[c/]	106.4	.8	1.2	3.2	8.0	7.6[d/]	4.6[e/]	111.4	(Aug.)
Canada	110.6	2.8	1.2	9.2	3.6	-1.2	4.2	116.2	(Oct.)
U.S.	109.8	2.4	1.6	4.0	6.0	2.1	3.6	114.2	(Nov.)
Belgium	109.7	1.2	2.4	4.4	1.6	6.4	3.3	114.2	(Sept.)
U.K.	112.7	.4	1.6	4.0	3.6	4.0	3.2	116.8	(Oct.)
Japan[f/]	106.1	1.2	.8	- .4	7.6	4.0	2.8	110.1	(Oct.)
Germany[g/]	98.4	1.2	1.6	2.4	2.4	5.2	2.6	101.6	(Sept.)
Netherlands	118	--	--	-13.6[h/]	--	--	-3.0[h/]	114	(Sept.)

1/ Countries are listed in descending order of price increases between third quarter 1968 and third quarter 1969.
a/ From last month of preceding quarter to last month of quarter.
b/ Intermediate goods.
c/ Non-agricultural products.
d/ Extrapolation of change from June to August.
e/ July-August 1969 over July-August 1968.
f/ All commodities, seasonally adjusted.
g/ Producers' prices of industrial products.
h/ Distortion due to shift from turnover tax to value-added tax. Before 1969, prices included turnover tax; since then, indirect tax is excluded.

Price increases abroad may have prevented further deterioration in the relative price competitiveness of the United States during the 12 months ending September 1969, despite the acceleration in price increases in the United States.

CONSUMER PRICES[1]
(1963 = 100)

	Index June 1968	Per cent change (annual rate) — Within quarters[a] — 1968 Q-3	1968 Q-4	1969 Q-1	1969 Q-2	1969 Q-3	From year ago Q-3	Index latest month
Netherlands	125.7	3.2	6.4	20.4[b]	.8	2.8	7.1	136.1 (Sept.)
Japan	125.7	12.8	- .4	5.6	5.2	11.6	6.6	136.9 (Sept.)
France	116.2	6.0	6.8	7.2	5.2	4.8	6.1	126.0 (Oct.)
U.S.	113.3	4.4	4.8	6.0	6.4	5.2	5.7	121.6 (Oct.)
U.K.	121.0	1.2	8.4	5.6	5.6	.4	5.0	128.6 (Oct.)
Canada	116.3	4.4	4.0	3.2	8.8	2.0	4.9	123.1 (Oct.)
Belgium	119.2	2.8	2.8	5.6	3.2	3.2	3.9	124.6 (Sept.)
Italy	118.5	- .4	2.4	3.2	4.0	4.4	3.5	122.6 (Sept.)
Germany	113.1	-2.0	5.6	6.0	2.0	- .4	2.7	116.1 (Sept.)

1/ Countries are listed in descending order of price increases between third quarter 1968 and third quarter 1969.
a/ From last month of preceding quarter to last month of quarter.
b/ Introduction of value-added tax.

For the period ahead, significant cost-push pressures that could lead to intensified rates of price inflation during 1970 are developing in all the major European countries and Canada. In Japan, however, only moderate pressure on prices from increased costs appears likely and some probable abatement of investment demand could lead to a decrease in the pace of price advances.

The revaluation of the German mark, while helping to dampen inflationary tendencies in Germany, is likely to have the opposite effect in neighboring countries whose trade with the Federal Republic is a significant proportion of total national income. The cost-push effect in Germany's major trading partners of a rise in the price of imports from Germany due to the parity change should be fairly immediate, whereas the induced higher German demand for the output of these countries will have a more gradual and continuing price influence. Countries which might experience a potential upward push in their GNP deflator of 1 per cent or more within a relatively short time are Austria, the Netherlands and Switzerland; Belgium would be somewhat less affected.

The inflationary effects of the German boom were finally beginning to show in the months preceding the DM appreciation. From June to October, producers' prices for industrial products rose at an annual rate of over 7 per cent, significantly above the average annual rise of 2 per cent in the previous boom period that ran from the end of 1963 to April 1966. Increases were general, with the largest in the prices of capital goods.

The non-food cost-of-living index jumped 0.6 per cent in October. The year-to-year increase of 2.4 per cent, however, is still less than the average annual rise in overall consumer prices over the past 10 years. Recent price advances at the production and retail levels also reflect, in part, increases deferred until after the national elections in September.

Export prices rose 5.5 per cent between the fourth quarter of 1968 and the third quarter of this year. The border tax adjustments of November 1968, not rescinded until after the revaluation of the German

mark, accounted for some of this increase, but export prices were still climbing at about a 6 per cent annual rate during the past two quarters. The sharp rise in the third quarter also reflected concentration of foreign demand during August and September in anticipation of the revaluation.

Despite the high level of demand placed on fully utilized productive resources, price increases were relatively moderate until mid-year, primarily because labor productivity in industry was continuing to increase, thereby contributing to a decrease in unit labor costs of production. This is changing as wage demands become more intense and as the high degree of capacity utilization takes its toll on productivity. Several wildcat strikes occurred in the autumn in steel and other industries, and a settlement in the steel industry resulted in a 12 per cent wage increase. Hourly earnings in the fourth quarter are expected to show a year-to-year increase of around 12 per cent, which compares with an increase of about 8 per cent from mid-1968 to mid-1969. The Bundesbank expects unit labor costs to rise substantially, perhaps by as much as 6-8 per cent, through the summer of 1970. But even a rise of this magnitude would only bring unit labor costs back to their mid-1967 level. The rise in unit labor costs should be offset--in part at least--by the downward adjustment of raw material costs after revaluation.

The Economics Ministry estimates that consumer prices will rise at only a 2-1/2 to 3 per cent rate during 1970 despite these cost pressures. The anticipated slowdown in the German rate of growth in the latter part

of next year could moderate price advances, but the unfolding impact of the revaluation may be more significant. The parity change should decrease foreign demand for German products, which has been important in the boom, while increased import competition should lessen the propensity of German producers to pass on cost increases to the consumer. Furthermore, once the special arrangements for subsidy payments to German farmers concluded by the government and the EEC Commission become effective--as is expected to occur on January 1--food prices should drop significantly in Germany.

Despite very little economic growth in the United Kingdom this year, price and wage advances during this second year after devaluation have been faster than during the latter part of 1968, after the initial impact of the November 1967 devaluation had been felt. Consumer prices are rising at about a 5 per cent annual rate and wholesale prices at more than 3 per cent per annum.

The rise in consumer prices partly reflects indirect tax increases intended to help divert resources to export production. The British authorities have in fact deliberately engineered price increases for domestic consumer goods by twice raising indirect taxes since November 1968. Export prices rose only 2.4 per cent between the third quarters of 1968 and 1969, an increase not large enough to have caused loss of British export price competitiveness.

Potentially severe cost pressures due in large part to an ineffective incomes policy could, however, lead to a wage explosion in 1970 that would worsen the U.K's relative price position. Average weekly

earnings from wages are rising at an undiminished rate and unit labor costs appear to be increasing substantially. Recently very large wage increases have been given in both the public and private sectors. The Government has nevertheless indicated that it will shortly trim its powers to control or influence wage and price rises administratively.

The principal bar to a wage explosion and the accelerated inflation which it would engender is the government's commitment to maintain tight monetary and fiscal policies. Present policies are going to have an exceptionally severe impact on liquidity both of the banks and in the rest of the economy in the first quarter of 1970, when income tax payments are concentrated. However, with an election likely to be called next fall and required by March 1971, present policies may be eased by budget time next year.

Severe inflationary pressures persist in France although they are partially bottled up by price controls. Given sizable recent and prospective wage settlements and accelerated wholesale price increases, it is doubtful whether the situation will improve appreciably during 1970. Consumer prices, which rose 6 per cent between the third quarters of 1968 and 1969, have continued to rise since the franc was devalued by 11 per cent in August. These increases have occurred despite the imposition of price controls and the delay in application of the Common Market's Common Agricultural Policy (CAP) rules to domestic food prices. Wholesale prices for manufactured goods have risen almost 11 per cent over the year.

Prompted by the expectation of further cost and price inflation, as well as a desire to restore their profit margins, most French exporters have reduced their foreign currency prices only slightly since the devaluation, and prices to foreign buyers in general appear to have declined less than the 5 per cent officially expected.

Upward pressure on prices will probably continue to be substantial in 1970. Even if the government's stabilization program succeeds in slowing down the rise of demand, wage increases next year are likely to be well in excess of productivity gains, although probably considerably less than the 11 per cent year-to-year rise in 1969.

In Italy, rapidly rising demand pressures on resources and a sharp increase in labor costs, particularly during the second quarter, have contributed to a marked acceleration of wholesale and consumer price increases during 1969. This follows several years of exceptional stability. Increases in the prices of steel products and non-ferrous metals, reflecting strength in world markets, have been particularly rapid since the start of the year.

The labor-cost-push elements of this inflation are expected to become more intense in 1970. The OECD estimates that hourly earnings for the economy as a whole may increase 12 per cent over 1969, following a 9 per cent projected increase from 1968 to 1969, and unit labor costs might consequently rise about 7 per cent, or roughly double the present rate.

Although the institution of a price freeze in the Netherlands from April to September successfully arrested the highly inflationary pace of consumer prices which characterized the first quarter of this year, the Dutch authorities continue to grapple with the problem of dampening wage demands which could stimulate a new wage-price spiral. Productivity gains have sharply diminished, so that the expected high wage demands are likely to contribute to continued inflationary pressures. A 7-1/2 per cent increase in consumer prices is projected for all of 1969, and before the German mark revaluation the Dutch Planning Bureau estimated a 3-1/2 to 4 per cent increase in 1970. The revaluation--increasing the prices of German goods in the Netherlands and raising German demand for Dutch output with the economy already operating essentially at full capacity--is expected by the Bureau to add about one percentage point to their forecast of price increases for 1970.

Wholesale and consumer prices have continued to rise in Belgium at the more advanced pace in evidence since the autumn of 1968, primarily because of demand pressures. Although the 7.2 per cent increase in hourly earnings in mining, manufacturing and transportation in the 12 months to the third quarter of 1969 was typical of the rate of rise during the last three years, there is evidence that more rapid wage increases may be in the offing. These cost pressures, along with the inflationary impact of the German revaluation, could cause a greater rise in the GNP deflator during 1970 than the 4 per cent officially forecast.

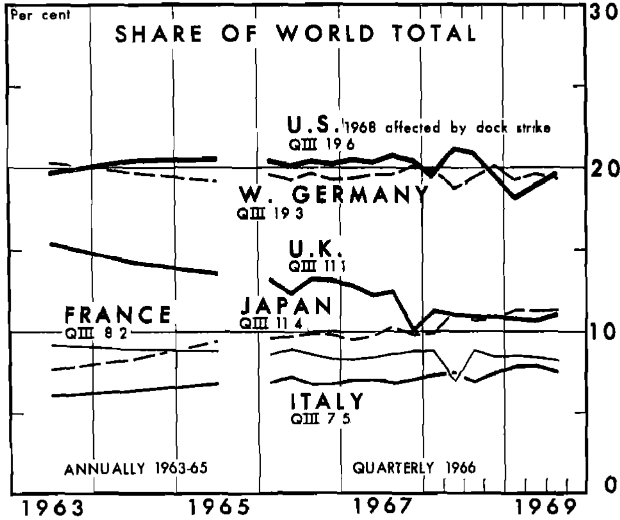
Wholesale and retail prices in Japan rose at sharply accelerated rates between March and October of this year. Investment-led demand, financed by expanding bank credit as well as by retained profits and depreciation funds, has been the primary cause of this inflation. A tightening of bank credit availability, signaled by the rise in the discount rate on September 1, should lead to some abatement of the investment demand and also of the rate of price inflation during the next 6 months.

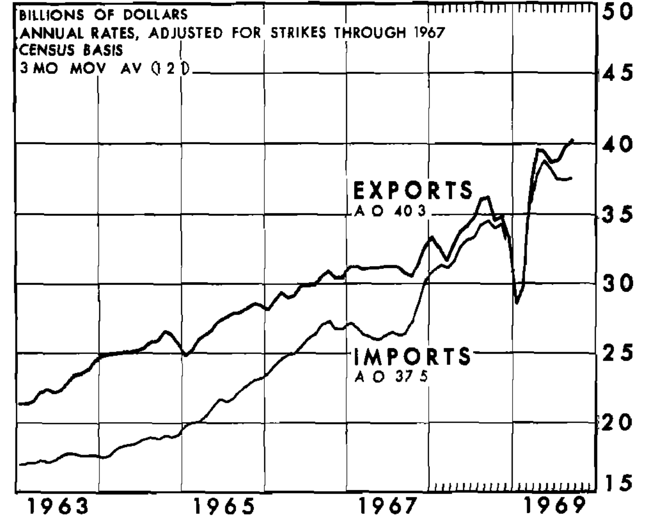
The easing of demand pressures in Canada during the second and third quarters, owing to widespread strikes and restrictive monetary and fiscal policies, has caused some slowing in the rate of increase in consumer prices and a leveling off in wholesale prices. The revival of demand associated with the ending of the strikes, however, and an acceleration in the rate of increase of labor costs per unit of manufacturing output may bring a renewed upward trend in prices in the near future.

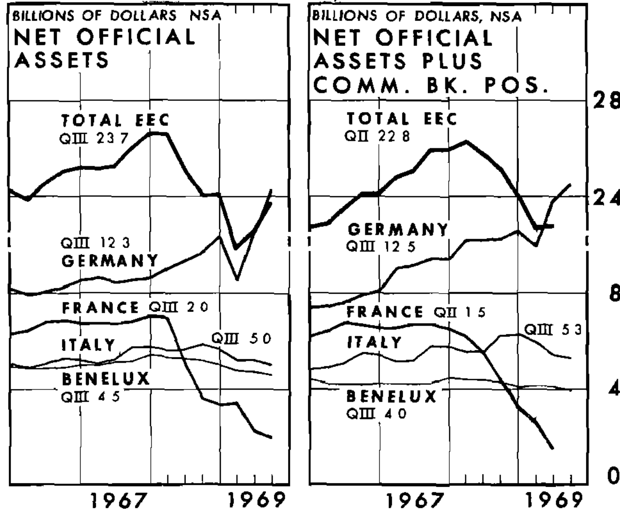
Unit labor costs increased at an annual rate of 10.6 per cent in the third quarter, compared to 6.6 per cent and 7.4 per cent in the first and second quarters, respectively. Although this third-quarter figure is exaggerated by the sharp drop in manufacturing output resulting from strikes, increases from wage settlements averaging almost 8 per cent per annum in the past quarter point to continued large advances in unit labor costs during the next few quarters.

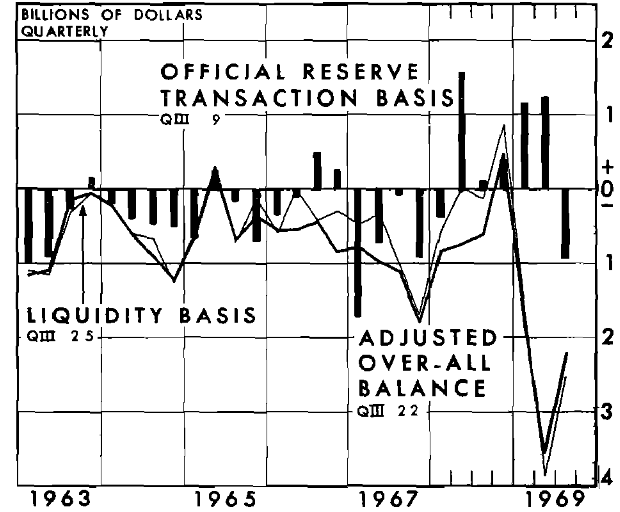
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

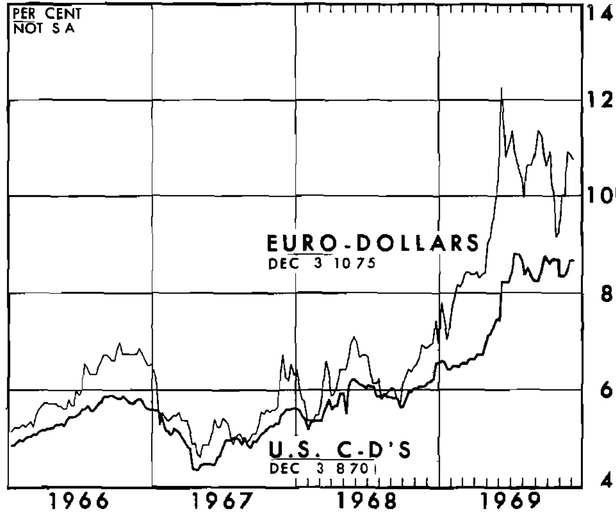
SEASONALLY ADJUSTED

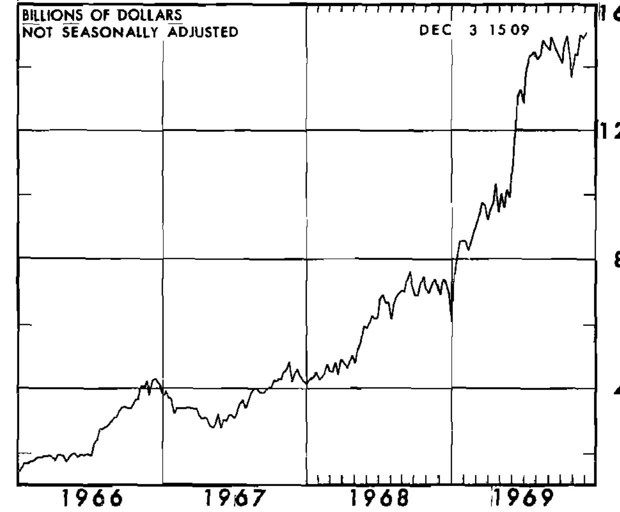












APPENDIX A: The Trade-Off Between Inflation and Unemployment*

Recent high rates of inflation have led many observers to question whether we are still confronted by the same order of trade-off between price inflation and unemployment witnessed earlier in the post-war period. One school of thought argues that as inflation accelerates, implicit or explicit cost-of-living escalators are built more and more into wage bargains and price determinations, with the result that the rate of inflation tends to accelerate at relatively low unemployment rates. Even if one does not accept this proposition, it still may be true that recent inflation has altered the trade-off between unemployment and inflation--or in technical terms, shifted the Phillips curve--in ways that will produce a less favorable relative performance over the next few years.

To test this possibility, we have estimated a simple Phillips curve relationship for the U.S. economy, using quarterly data over the 1954-1969 period. This relationship could be expressed either in terms of wages or prices, using any of a variety of indices of labor or product market tightness. For convenience, this appendix focuses on an equation which relates the annual percentage rate of increase of the GNP deflator ($\Delta P/P$) to the percentage unemployment rate of the civilian labor force (U), the percentage rate of increase of Federal wage rates ($\Delta F/F$) and the percentage rate of increase in farm prices and world materials prices ($\Delta X/X$). The variable ($\Delta X/X$) is assumed to be given, and to be unaffected by labor market conditions in the U.S. The unemployment rate used in this equation is in both current and lagged form to test the possibility of delayed responses of prices, and it is entered as a reciprocal to give the characteristic curvilinear shape of the Phillips curve. The estimated equation is:

$$\frac{\Delta P}{P} = 3.3329 - \frac{35.2340}{U} + \frac{136.9314}{U^2} + .0243 \frac{\Delta F}{F}$$

$$+ .0206 \frac{\Delta X}{X} \; ; \; R^2 = .682, \; SE = .767, \text{ with}$$

all variables at least marginally statistically significant.

The unemployment terms U and U^2 included in this equation are weighted averages of current and past values. The average lag between unemployment and price change proves to be only about one quarter. The standard error (SE) and the R^2 indicate that two-thirds of the time (on average) this equation will miss the annual rate of inflation by less than .8 of one per cent in any given quarter.

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* Prepared by Edward M. Gramlich, Economist, Special Studies Section, Division of Research and Statistics.

This equation is graphed in Chart 1, where the long-run relation between the unemployment rate and the rate of price change is shown for given (constant) values of Federal pay rates, farm prices, and world materials prices.[1/] The chart indicates that annual rates of inflation slightly in excess of 3 per cent are associated with 4 per cent unemployment rates, while the rate of inflation drops to about 2 per cent with 5 per cent unemployment rates. There would even be some inflation with unemployment rates in the 8 to 9 per cent range, according to this equation, although the validity of this conclusion is questionable because there are no historical observations in this range in the sample.

This Phillips curve indicates little present possibility of keeping the unemployment rate below 4 per cent without perpetuating rather large rates of inflation. Again, however, the points on the curve below unemployment rates of 3.3 per cent should be questioned because there were no sample observations in this range. On the whole, this Phillips curve is steeper than others in the literature which did not include 1969 in their data sample--suggesting that prices begin to rise rather rapidly at relatively low rates of unemployment. But this might also be interpreted to mean that moderately higher unemployment rates than we have experienced in 1968 and 1969 would ultimately succeed in reducing inflationary pressures substantially.

Evidence that the unemployment--price inflation trade-off could be worsening may be gained from an examination of the residuals of the equation, which are shown in Chart 2. Comparison of the predicted and actual values indicates that there is no systematic bias in the equation in any period except 1956-1958. In 1956, which was the most inflationary year before 1969, the equation does seem to have gotten out of line, possibly because of a shift in inflationary expectations, and it seems to have stayed out of line throughout the entire 1958 recession. Thus, the equation underpredicted inflation in 1956 and went on to underpredict inflation in the subsequent recession.

There is no firm evidence that a similar tendency is at work now, but it is instructive to look at the three residuals for 1969. It can be seen that the equation began the year over-predicting rates of inflation by a small amount, and since then it has been predicting declining rates of inflation because of the gradually rising

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1/ To the extent that these price variables assumed to be constant tend to increase over time, higher rates of increase in the GNP deflator would be associated with any given unemployment rate.

unemployment rate (measured on a quarterly average basis). But actual rates of inflation this year have shown just the reverse pattern, rising from 4.8 per cent in the first quarter to 5.3 per cent in the third. Thus, although the equation did not make significant errors over the first three quarters of 1969, it looks as if it soon may. Whether the 1956-1958 pattern of greater relative inflation will be repeated is not yet clear; nor is it possible to assign very convincing causes to supposed shifts in the curve. Nonetheless, it is not too early to say that there is some danger that our unemployment--inflation trade-off may again be in process of becoming more unfavorable than indicated by the calculated Phillips curve.

Chart 1

Plillips Curve, Based on 1954-1969 Data
Long-run relation, assuming
no change in Federal pay rates,
farm prices, and materials prices.

$$\frac{\Delta P}{P} = 3.3329 - \frac{35.2340}{U} \quad \frac{136.9314}{(U)^2}$$

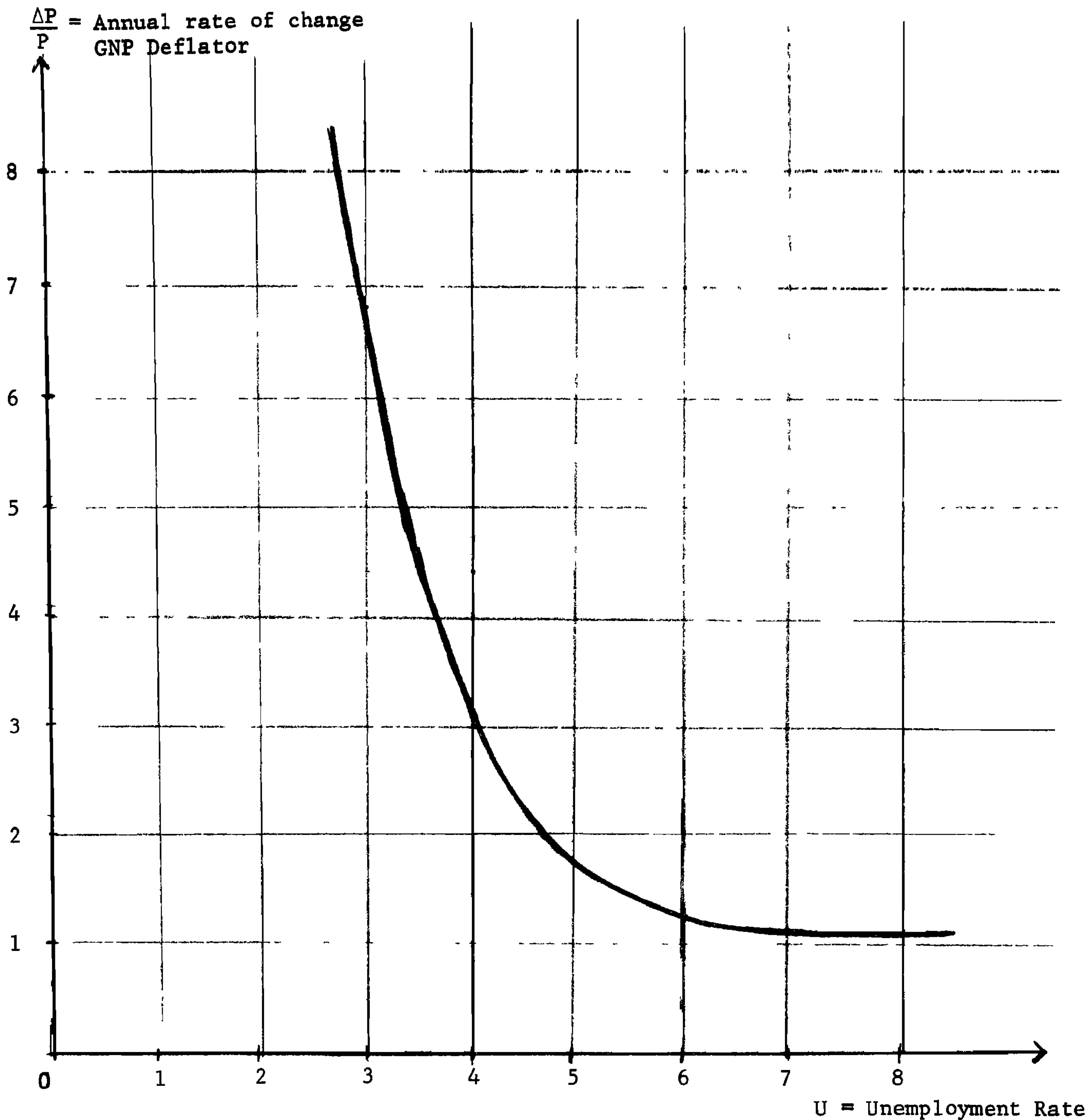
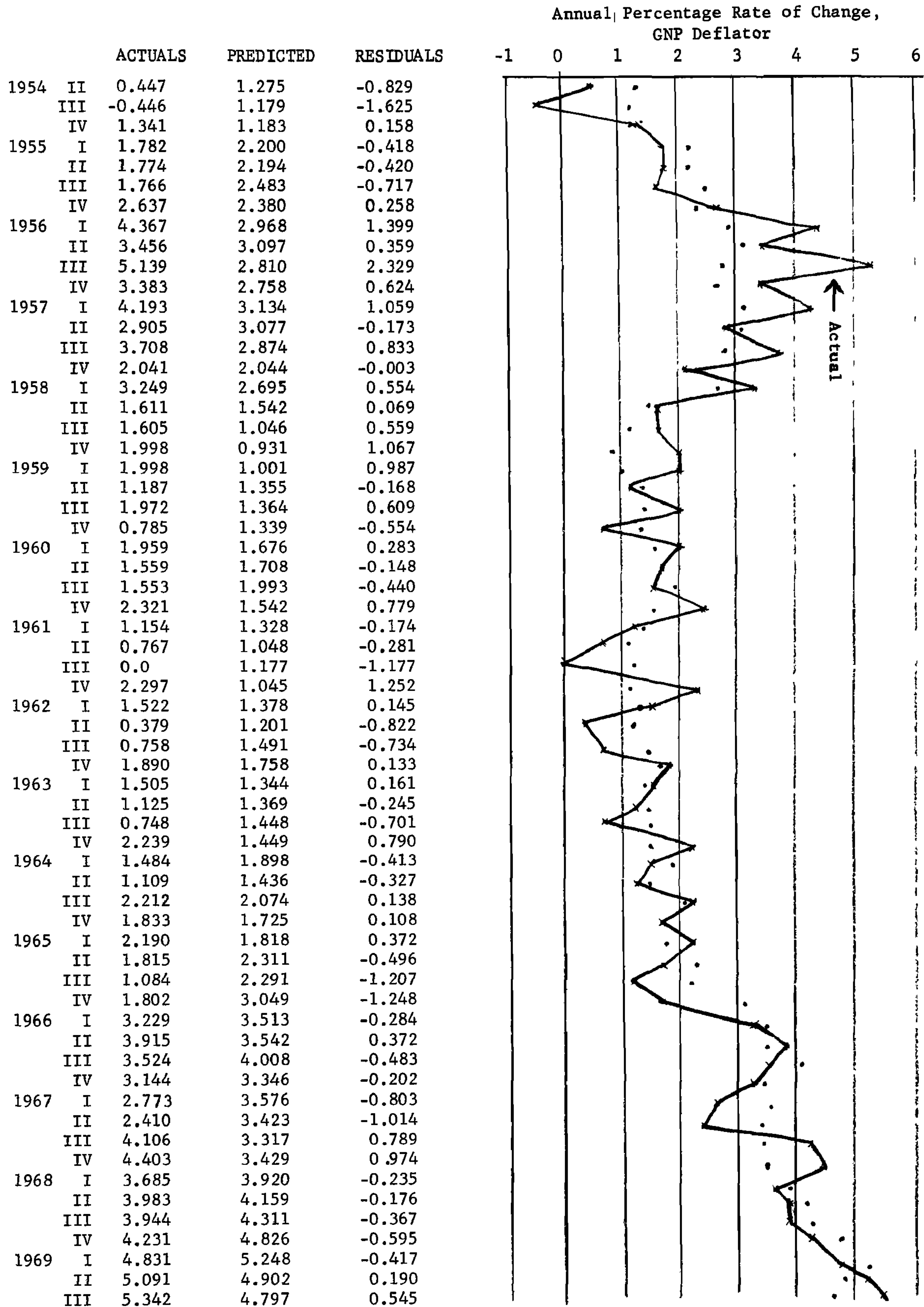


Chart 2

Phillips Curve Residuals, 1954 - 1969
Taking account of movements in
Federal pay rates, farm prices and
materials prices



		ACTUALS	PREDICTED	RESIDUALS
1954	II	0.447	1.275	-0.829
	III	-0.446	1.179	-1.625
	IV	1.341	1.183	0.158
1955	I	1.782	2.200	-0.418
	II	1.774	2.194	-0.420
	III	1.766	2.483	-0.717
	IV	2.637	2.380	0.258
1956	I	4.367	2.968	1.399
	II	3.456	3.097	0.359
	III	5.139	2.810	2.329
	IV	3.383	2.758	0.624
1957	I	4.193	3.134	1.059
	II	2.905	3.077	-0.173
	III	3.708	2.874	0.833
	IV	2.041	2.044	-0.003
1958	I	3.249	2.695	0.554
	II	1.611	1.542	0.069
	III	1.605	1.046	0.559
	IV	1.998	0.931	1.067
1959	I	1.998	1.001	0.987
	II	1.187	1.355	-0.168
	III	1.972	1.364	0.609
	IV	0.785	1.339	-0.554
1960	I	1.959	1.676	0.283
	II	1.559	1.708	-0.148
	III	1.553	1.993	-0.440
	IV	2.321	1.542	0.779
1961	I	1.154	1.328	-0.174
	II	0.767	1.048	-0.281
	III	0.0	1.177	-1.177
	IV	2.297	1.045	1.252
1962	I	1.522	1.378	0.145
	II	0.379	1.201	-0.822
	III	0.758	1.491	-0.734
	IV	1.890	1.758	0.133
1963	I	1.505	1.344	0.161
	II	1.125	1.369	-0.245
	III	0.748	1.448	-0.701
	IV	2.239	1.449	0.790
1964	I	1.484	1.898	-0.413
	II	1.109	1.436	-0.327
	III	2.212	2.074	0.138
	IV	1.833	1.725	0.108
1965	I	2.190	1.818	0.372
	II	1.815	2.311	-0.496
	III	1.084	2.291	-1.207
	IV	1.802	3.049	-1.248
1966	I	3.229	3.513	-0.284
	II	3.915	3.542	0.372
	III	3.524	4.008	-0.483
	IV	3.144	3.346	-0.202
1967	I	2.773	3.576	-0.803
	II	2.410	3.423	-1.014
	III	4.106	3.317	0.789
	IV	4.403	3.429	0.974
1968	I	3.685	3.920	-0.235
	II	3.983	4.159	-0.176
	III	3.944	4.311	-0.367
	IV	4.231	4.826	-0.595
1969	I	4.831	5.248	-0.417
	II	5.091	4.902	0.190
	III	5.342	4.797	0.545

APPENDIX B: THE BUDGET OUTLOOK FOR FISCAL 1970*

The budget surplus of $5.9 billion projected by the Administration in the Summer budget review would now appear to be unlikely of attainment given recent Congressional action on taxes and appropriations and assuming the Board staff forecast of budget receipts for the current fiscal year.

I. Expenditures for fiscal 1970

A review of Congressional action and of recent trends in outlays suggests that the Administration's current projection of total budget outlays for fiscal 1970 is at the low end of a reasonable range of estimates. Only if further budget cuts beyond those already announced are undertaken would the Administration's $192.9 billion ceiling still appear to be attainable. A rough estimate of the size of further budget cuts the Administration may have to make in order to keep expenditures under its self-imposed ceiling is indicated in Table I; this table shows the expenditure increases, above the Administration estimate, that are expected to result from Congressional action and from other circumstances not easily controlled by the Administration.

A. Congressional action

As of December 1 Congress had completed action on only four of the regular appropriations bills, covering roughly 14 per cent of expenditures for fiscal 1970, and these will have a negligible effect on outlays planned by the Administration. Nevertheless Congress appears to be headed toward the enactment of

* Prepared by William Beeman, Economist, Government Finance Section, Division of Research and Statistics.

Table I

EXPENDITURE INCREASES ABOVE THE AMOUNTS BUDGETED
BY ADMINISTRATION FOR FISCAL 1970

Category		Billions
Due to likely Congressional action on 1/		2.1
Social security benefits	1.1	
No postal rate increase (negative expenditure)	.3	
Veterans benefits 2/	.3	
Other, net 3/	.4	
Items not subject to tight control		.9
CCC	.7	
Interest	.2	
Total		3.0
Memo: Additional possible increase resulting from failure to make planned asset sale (negative outlay)		3.0

1/ This excludes a federal pay raise recently approved by a Senate Committee ($700 million in fiscal 1970) and $1 billion for education the House recently added to a continuing resolution providing stop-gap spending authority for those agencies whose budget authority is still pending.
2/ Average of Senate and House actions.
3/ Includes $.5 billion passed by the House for the Labor, Health Education and Welfare bill partially offset by other reductions.

legislation that could add substantial amounts to the fiscal 1970 budget request and could test the Administration's determination to stick to its self-imposed spending ceiling of $192.9 billion. The expenditure categories in which fiscal 1970 outlays may exceed Administration estimates, identified in Table I, are discussed briefly below.

Of course, a net addition to expenditures is not inevitable. There is still an opportunity for Congress to make substantial cuts in appropriations bills not yet passed. Also, the Administration does not believe that it is obliged to spend all funds appropriated by Congress. Thus, the $1 billion for education the House recently tacked on to a continuing resolution" providing stop-gap spending authority for those agencies whose budget authority is still pending, will not be spent by the Administration unless this can be done without breaking the $192.9 billion ceiling.

The $5.3 billion cut in appropriations for National Defense recently made by the House is not expected to significantly change the Administration's planned fiscal 1970 outlays. About $3.0 billion in fiscal 1970 outlays are affected by the House action, but these reductions are reported to be the decreases previously announced by Defense Secretary Laird and included in the Summer Budget Review. Recent expenditure trends and continuing low levels of contract awards and other defense indicators appear to be consistent with the Administration's $77.0 billion target for defense outlays in the current fiscal year.

(1) Social Security. The largest increase above the Administration's budget request is expected to be for Social Security. The Summer Budget Review includes $600-700 million for a 10 per cent increase in social security benefits that would affect payments in the last quarter of fiscal 1970. The Board staff's present estimate includes an additional $300 million on the assumption that the 10 per cent increase in benefit payments will begin a month earlier.

However, the Senate has recommended a 15 per cent increase in benefits effective retroactively to January 1, 1970. Similar legislation has been approved by the House Ways and Means Committee and there appears to be little opposition in the House. Quick action on this Social Security measure was made possible by the postponement of action on most of the more controversial supplementary reform measures contained in the Administration's Social Security proposal. The 15 per cent increase in Social Security benefits is tentatively estimated to cost $1.7 billion in fiscal 1970. 1/ Thus, the Administration's estimate of increased outlays for social security appears to be understated by at least $1 billion.

(2) Postal rate increase. The Administration and Board staff estimates of expenditures assume an increase in postal rates (a negative expenditure) effective January 1, 1970. The proposed rate increase would have reduced outlays in fiscal 1970 by more than $.3 billion. However, prospects for legislative action and implementation before July 1, 1970 are now remote.

(3) Veterans assistance. Both the Senate and House have voted increased appropriations--$.4 and .2 billion, respectively--for education assistance to Vietnam veterans above the amount requested by the Administration. The Board staff expenditure estimate includes $.3 billion for this program.

(4) Other bills passed by House or Senate. A few other bills have passed in the Senate or House with provisions for fiscal 1970 outlays above the amounts requested by the Administration.

1/ This estimate excludes the increase in minimum benefits passed by the Senate but not expected to survive Senate-House conference.

The net effect of enactment of these bills would be an increase in outlays of about $.4 billion. 1/ The largest increase is $.5 billion passed by the House for the Labor, Health, Education and Welfare bill, which is partially offset by reductions in other categories.

(5) Asset sales. In addition to the expected increases mentioned above, ther is a possibility that the Administration will have difficulty in completing certain asset sales that appear as neagtive outlays in the fiscal 1970 budget. In a recent speech Budget Director Mayo stated that, if credit conditions do not become easier, it will be "extremely difficult" to sell much of the $4 billion of loans of the Farmers Home Administration, the Export-Import Bank and the Veterans Administration that had been planned. 2/

B. Hard to control items

There are two categories of "uncontrollable" expenditures that seem to be running well ahead of Administration estimates. The largest is outlays by the Commodity Credit Corporation, which the staff expects to exceed Administration estimates by about $.7 billion. Apparently, the Administration's projections of crop yields were substantially below current staff estimates. The second category is interest on the debt, which the staff estimates will run about $.2 billion above budget figures.

II. Receipts.

The Board staff is now projecting fiscal 1970 receipts about $2.6 billion lower than the Administration's $198.8 billion estimate. The staff's estimate is based on lower estimates of corporate profits. The eseential provisions of the Administration's tax proposals relating to the income tax surcharge, to the investment tax credit (with a possible exemption mentioned below) and to excise taxes are expected to be adopted. This legislation involves about $4.0 billion in fiscal 1970 revenues.

The House has voted to retain the surtax at the 5 per cent level through June, 1970, as requested by the Administration. Recent Senate action indicates that it will do the same. Congress also is expected to repeal the investment tax credit retroactively to April, 1969, as requested by the Administration, with a possible exemption voted by the Senate that would continue the investment tax credit.on

1/ This excludes a possible Federal pay raise. The House passed a pay raise estimated to cost more than $.5 billion in fiscal 1970. The Administration vigorously opposed the House measure. On December 8, however, the Senate Post Office and Civil Service Committee approved a drastically amended version of the House bill, estimated to cost $.7 billion in fiscal 1970, which may receive Administration approval.

2/ The Budget Bureau identifies $3.2 billion in planned asset sales as follows: $2.3 billion for the Farmers Home Administration; $.3 billion for the Export-Import Bank; $.4 billion for the Veterans Administration; and $.1 billion for the Department of Housing and Urban Development. The FHA recently announced that it will make $350 million in asset sales sometime early next year.

a firm's first $20,000 of equipment expenditures. The impact of this exemption is not yet clear but preliminary estimates suggest that its enactment would not substantially decrease fiscal 1970 revenues. Together these Administration proposals involve more than $3 billion of receipts in fiscal 1970 as shown in Table II. The House and Senate Committees also have recommended the extension of the excise tax ($.5 billion) as requestion by the Administration; and a protion of the user chrage ($.2 billion), proposed by the Administration, has been enacted.

Table II

ESTIMATED EFFECT OF THE ADMINISTRATION'S PROPOSED TAX LEGISLATION ON FISCAL 1970 RECEIPTS

(In billions of dollars)

Legislation	Administration estimate*
Extension of income tax surcharge at 5%	2.0
Repeal of investment tax credit	1.3
Excise tax extension at present rates after 1/1/70	.5
Proposed user charge (6 months only)	.2
	4.0

* Summer Budget Review.

However, the tax reform and relief bills being debated in Congress could affect fiscal 1970 revenues. Committee reports indicate that reform and relief provisions adopted by the House would have no net effect on fiscal 1970 revenues, while the bill adopted by the Senate Finance Committee would result in a net reduction of $.4 billion. However, Senator Gore's substitute tax relief proposal, which includes an increase in personal income tax exemptions, tentatively estimated to cost about $1.7 billion this fiscal year, was recently adopted by the Senate. If this entire proposal survives the Senate-House conference, revenue losses in fiscal 1970 may be more than $1.4 billion, as shown in Table III. However on December 8, the President stated that he would veto a bill that included both an increase in personal income tax exemption to $800 (contained in Senator Gore's proposal adopted by the Senate) and a 15 per cent increase in Social Security benefits. Since there is wide support for

the Social Security benefit increase, the entire Gore tax relief proposal probably will not survive the Senate-House conference. Other provisions being considered by the Senate could result in further revenue loss in fiscal 1970 if enacted.

Table III

ESTIMATED REVENUE IMPACT IN FISCAL 1970 OF TAX REFORM AND RELIEF MEASURES CONTAINED IN HOUSE AND SENATE REVENUE BILLS
(In billions of dollars)

	House bill	Senate committee	Gore substitute relief proposal 1/
Tax reform			
Corporate	0.4	0.3	0.3
Individual	0.3	0	.0
	+0.7	+0.3	+.3
Tax relief			
Corporate	0	0	0
Individual	-0.7	- .7	-1.7
Net effect of reform and relief	0	- .4	-1.4

1/ Assumes adoption of Senate Committee tax reform proposals

III. Summary.

It now appears that expenditures may be $3.0 billion above the Administration's $192.9 billion ceiling for fiscal 1970 unless substantial further budget cuts are made. 1/ On the revenue side the Board staff's current projection of total receipts is about $2.6 billion less than the Administration's 198.8 billion estimate because of a lower staff estimate of corporate profits. Consideration must also be given to the possible reduction in revenues that may result from pending tax relief and reform legislation. As shown in Table IV a combination of the revenue and expenditure measures discussed above could result in a significant reduction in the budget surplus, if no further budget cuts are made.

1/ The amount could be substantially greater, if asset sales, discussed above, are not completed.

FISCAL IMPACT OF ALTERNATIVE REVENUE
AND EXPENDITURE MEASURES
(In billions of dollars)

	Administration estimate 1/	Last staff estimate 2/	Alternative A 3/	Alternative B 4/	Alternative C 5/
Receipts	198.8	196.2	196.2	194.8	194.8
Outlays	192.9	192.9	195.9	195.9	198.9
Surplus	5.9	3.3	.3	-1.1	-4.1

1/ Summer Budget Review, Sept. 17, 1969.
2/ The staff forecast of receipts differs from the Administration estimate because the staff projection of corporate profits is lower. The Administration's expenditure estimate is presumed to be accurate.
3/ Assumes adoption of House Tax reform and relief measures, which have no net revenue impact, and a $3.0 billion net increase in outlays not offset by further budget cuts.
4/ Assumes a $1.4 billion revenue loss due to adoption of Senate Committee tax reform and relief bill as amended by Senator Gore and a $3.0 billion net increase in outlays.
5/ In addition to assumptions indicated in footnote 3 it is further assumed that the Administration is not able to make $3.0 billion of the planned asset sales (a negative outlay).

APPENDIX C: SURVEY OF BANK LENDING PRACTICES, NOVEMBER 1969[1/]

About one-third of the respondents in the November 15 Bank Lending Practices Survey reported stronger demand for business loans during the preceding three months (Table 1). In the prior survey, half of the respondents had indicated stronger loan demand in the preceding three-month period. The balance of the respondents in the current survey stated that loan demand had remained essentially unchanged. Moreover, about 85 per cent of the banks expected loan demand to be unchanged or stronger over the next three months.

In keeping with the continued restrictive credit situation, many banks further firmed terms and conditions on loans to nonfinancial businesses (Tables 1 and 2A). From 50-60 per cent of the respondents reported higher interest rates and more stringent compensating balance requirements on such loans. Moreover, about one-third of the respondents had adopted stricter standards with regard to credit worthiness and maturity of term loans. Credit lines and loan applications of new and nonlocal service area customers, of course, continued to come under increasing scrutiny, with 55-60 per cent of the banks having firmed lending policies with regard to such customers. And about one-third of the respondents reported more restrictive lending policies to established and local service area customers. Factors such as the intended use of the loan and the potential value of the borrower as a source of deposits were also being considered more carefully by 40-45 per cent of the banks.

The tight credit situation was also reflected in the terms and conditions on loans to "noncaptive" finance companies. Almost half of the respondents indicated greater reluctance to establish new or enlarge existing credit lines for these borrowers. Moreover, 25-35 per cent of the banks had adopted tighter policies with regard to compensating balance requirements and about one-fifth had raised interest rates on finance company loans.

From 30-50 per cent of the respondents also reported that their willingness to make certain other types of loans had been reduced during the quarter. About half of the banks stated a greater reluctance to grant term loans to businesses, and 30-40 per cent were less willing to make mortgage loans. Approximately one-third of those reporting were less willing to grant loans to brokers or participation loans to correspondent banks. Moreover, even the relatively profitable consumer instalment area felt the pressures of monetary restraint with 25 per cent of the banks reporting greater reluctance to make this type of loan.

1/ Prepared by Marilyn Connors, Research Assistant, Banking Section Division of Research and Statistics.

The responses in the current survey generally were similar among banks in various size groups (Table 2). However, lending policies of smaller banks (deposits of less than $1 billion) were somewhat more restrictive than those of larger banks (deposits of $1 billion or greater) on term loans to businesses, on loans to nonlocal customers, on credit lines to finance companies, and on consumer instalment loans.

Table 2A

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

	Nov. 1967	Feb. 1968	May 1968	Aug. 1968	Nov. 1968	Feb. 1969	May 1969	Aug. 1969	Nov. 1969
Strength of loan demand1/									
(compared to 3 months ago)	18.8	-8.0	64.8	-2.4	25.6	54.4	60.0	30.6	28.0
Anticipated demand in next 3 months	71.2	50.0	66.4	--	20.8	49.2	41.8	5.7	8.9
LENDING TO NONFINANCIAL BUSINESSES2/									
Terms and Conditions									
Interest rates charged	30.4	34.4	93.6	0.8	-27.2	86.2	91.0	78.3	49.6
Compensating or supporting balances	25.0	16.1	56.8	4.8	10.4	64.3	75.6	68.3	57.6
Standards of credit worthiness	8.9	7.3	32.8	4.8	4.8	32.8	41.4	40.6	36.0
Maturity of term loans	12.1	1.6	32.8	1.6	1.6	30.3	42.3	42.2	35.2
Reviewing Credit Lines									
Established customers	6.4	-0.8	28.0	-5.6	-1.6	32.5	47.2	51.6	36.8
New customers	21.6	10.5	64.8	-5.6	6.4	61.7	80.2	81.4	60.8
Local service area customers	6.5	2.5	30.0	-5.6	-4.1	30.9	46.7	48.8	32.0
Nonlocal service area customers	18.9	11.6	56.9	10.6	15.4	49.5	71.3	68.8	56.5
Factors Relating to Applicant (Net percentage indicating more important)									
Value of depositor as source of business	20.0	19.2	54.4	12.8	16.0	58.6	67.2	65.0	46.0
Intended use of loan	14.4	12.0	44.4	8.1	6.4	54.5	71.6	68.5	39.2
LENDING TO NONCAPTIVE FINANCE COMPANIES2/									
Terms and Conditions									
Interest rates charged	10.4	22.4	60.5	2.4	-26.4	53.3	50.8	48.0	19.3
Compensating or supporting balances	11.2	5.6	25.0	2.4	2.4	22.9	27.9	35.0	26.7
Enforcement of balance requirements	17.6	12.8	32.3	8.1	3.2	29.5	42.6	42.3	34.7
Establishing new or larger credit lines	14.4	7.2	53.2	15.3	4.8	54.9	62.4	62.0	48.4
WILLINGNESS TO MAKE OTHER LOANS3/									
Term loans to businesses	11.2	-4.0	49.6	4.8	-0.8	48.8	64.3	65.9	48.0
Consumer instalment loans	-16.1	-22.6	-0.8	-11.3	-15.3	4.2	17.2	26.9	24.2
Single-family mortgage loans	4.1	-4.9	32.0	-14.1	-3.3	30.8	45.5	49.7	30.4
Multi-family mortgage loans	14.0	7.4	36.4	8.2	4.1	40.1	57.5	58.3	36.3
All other mortgage loans	14.0	--	43.4	3.4	1.7	42.5	62.0	62.5	42.3
Participation loans with correspondent banks	-4.8	8.8	16.0	1.6	--	18.7	38.4	48.4	31.5
Loans to brokers	3.2	1.6	23.4	6.5	1.6	34.2	40.0	59.3	36.1

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 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.

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S. 1/
(STATUS OF POLICY ON NOVEMBER 15, 1969 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	5	4.0	37	29.6	76	60.8	7	5.6	0	0.0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	123	100.0	1	0.8	26	21.1	80	65.1	16	13.0	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	13	10.4	49	39.2	63	50.4	0	0.0	0	0.0
COMPENSATING OR SUPPORTING BALANCES	125	100.0	20	16.0	52	41.6	53	42.4	0	0.0	0	0.0
STANDARDS OF CREDIT WORTHINESS	125	100.0	14	11.2	31	24.8	80	64.0	0	0.0	0	0.0
MATURITY OF TERM LOANS	125	100.0	17	13.6	28	22.4	79	63.2	1	0.8	0	0.0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	125	100.0	8	6.4	38	30.4	79	63.2	0	0.0	0	0.0
NEW CUSTOMERS	125	100.0	47	37.6	30	24.0	47	37.6	1	0.8	0	0.0
LOCAL SERVICE AREA CUSTOMERS	125	100.0	8	6.4	32	25.6	85	68.0	0	0.0	0	0.0
NONLOCAL SERVICE AREA CUSTOMERS	124	100.0	42	33.9	28	22.6	54	43.5	0	0.0	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, 1969.

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	13	24	33	22	54	54	0	0	0	0
INTENDED USE OF THE LOAN	100	100	11	26	28	14	61	60	0	0	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	4	4	22	12	74	84	0	0	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	9	6	22	18	69	76	0	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENTS	100	100	11	13	26	21	63	66	0	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	100	100	22	39	16	16	62	45	0	0	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	9	26	30	29	61	44	0	1	0	0
CONSUMER INSTALMENT LOANS	100	100	2	4	17	26	77	70	4	0	0	0
SINGLE FAMILY MORTGAGE LOANS	100	100	7	21	18	13	75	66	0	0	0	0
MULTI-FAMILY MORTGAGE LOANS	100	100	20	24	20	11	60	65	0	0	0	0
ALL OTHER MORTGAGE LOANS	100	100	17	25	24	19	59	55	0	1	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	100	100	6	9	28	22	66	68	0	1	0	0
LOANS TO BROKERS	100	100	9	13	32	20	59	67	0	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.