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CONFIDENTIAL (FR)

CURRENT ECONOMIC
and
FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

January 5, 1966

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SUMMARY AND OUTLOOK

Outlook for GNP

GNP figures for the first three quarters of 1965 are being revised substantially upward by the Commerce Department, because of new information, particularly on plant and equipment outlays, inventory accumulation and State and local government spending. The fact that a revision will be announced shortly, as well as the revised numbers, must be kept strictly confidential. The revisions will be made public about mid-January.

Most analysts in recent weeks have been raising their projections of GNP for 1966, and this latest revision in the GNP base will probably result in even more optimistic forecasts for this year. Major uncertainty in any forecast continues to be the size of defense outlays and the course of hostilities in Vietnam and their impact on demands, resource availability, and expectations.

For the third quarter, revised GNP is now estimated at a seasonally adjusted annual rate of $681.5 billion, $4 billion higher than reported earlier. In line with currently available information on expenditure trends since the third quarter, we are now estimating GNP at $695 billion in the fourth quarter--up $13.5 billion from the third.

This would bring GNP for the year 1965 to $676 billion, $47 billion, or 7-1/2 per cent, above 1964. In real terms, the increase amounts to 5-1/2 per cent--somewhat above the 5 per cent increase in 1964, which was also the average for the years 1961-64.

Such an increase for the year 1965 was well above the upper range of projections by the Council of Economic Advisers made early in the year. Moreover, the magnitude of improvement in resource utilization -- particularly for labor -- also considerably exceeded expectations. By the end of the year, after the particularly large fourth quarter rise in GNP, the margin of unutilized resources was the narrowest in more than 8 years.

Even with the possibility that higher social security taxes will moderate the gains in consumer spending this quarter, rising business capital outlays and Federal purchases, particularly for defense should result in an increase of about $12 billion for total GNP, to a level of $707 billion.

<u>Outlook for prices and resource utilization</u>

With prospects favoring a continuation of large advances in aggregate demands this year, upward pressures on prices appear likely to be strong. So far, price increases have continued to be selective and moderate, but the rise has persisted and the wholesale price index for industrial commodities has risen about 2 per cent since the summer of 1964. The announced increase in structural steel prices seemed to threaten a broader increase in steel mill products and thus in costs to producers of metal products, but an increase smaller than that originally posted has been approved under the Administration's guideposts and it now appears that steel prices will remain relatively stable for some time. Unit labor costs are expected to rise somewhat this month as a result of the increase in employer contributions for social security tax.

Resources available for production are expected to expand considerably further in 1966, assuming that demands continue to rise at a rate close to that achieved in 1965. The fourth-quarter rate of capacity utilization in manufacturing (seasonally adjusted) is estimated at 90 per cent, the same as in each of the other quarters of 1965. The utilization rate climbed gradually from 1961 to 1965, and has now reached the highest level since 1956. The current utilization rate is not a record, however; it was exceeded during 1955 and during most of the Korean period.[1/]

It is expected that the capital spending boom will bring an extraordinarily rapid rate of increase in a manufacturing capacity in 1966 -- higher even than the estimated 6 per cent increase in 1965 and far above the postwar average of 4.3 per cent per year. Nevertheless, if the higher GNP forecasts being cited are realized, the pressure on these expanded plant and equipment resources could be as large or larger than in 1965.

Elasticity of the labor force in response to prospective increased demands for labor -- together with the tendency of expansion in the armed forces to bring additional youth into both the civilian and the military labor forces -- should provide sufficient manpower resources to permit a substantial increase in employment and real output this year.

1/ There are various estimates of capacity utilization. They differ as to level and occasionally as to movement, but they agree fairly well with the generalization above. See Appendix A.

According to staff studies, growth in real output this year at close to the 1965 rate would require an increase in civilian employment of about 2 million, assuming a further rise in productivity at close to the 1965 rate. The armed forces are assumed to increase by about 300,000. The total labor force is expected to increase by only 2 million, however, and the unemployment rate would decline to an average for the year below 4 per cent, from 4.5 per cent in 1965. At this level of overall unemployment, labor bottlenecks are more likely to arise, employing the need to continue to up-grade skills through in-plant training and to expand vocational and other educational programs to meet specialized skill requirements.

Bank credit

Total bank credit in January appears likely to continue to expand at the strong fourth quarter rate -- 11 per cent -- or possibly more if seasonal loan repayments are considerably less than usual and if banks participate actively in Treasury financings. With investment expenditures rising and corporate liquidity pressed, it is likely that external financing of businesses will be large, both in the capital markets and at banks. Business loans at banks may expand in the early months of 1966 at about or somewhat faster than the 11 per cent annual rate of October-November, but less than the very high December rate, when tax and divident pressures, occurring in the context of reduced corporate liquidity, swelled loan expansion. Other loans seem likely to continue expanding at about the fourth quarter rate.

With loan demand strong, it is likely that banks will not increase the moderate rate of municipal security acquisitions that has been in evidence since September. Bank participation in the Government securities market will be importantly determined by the nature of the imminent new Treasury financing, as well as by the speed with which banks liquidate the recently acquired tax bills.

Banks may become more aggressive in their search for time money in order to accommodate continuing strong loan demand. Banks in New York have so far exercised their flexibility under the new Regulation Q ceiling by issuing mainly short-term CD's. But it is likely that all banks in a buoyant economy may become more active in offering competitive rates on longer-term CD's and also various forms of other time deposits. This would tend to increase diversion of funds from other financial intermediaries and market instruments to banks, but in the process may generate upward interest rate pressures on substitutable assets.

Securities market outlook

Treasury note and bond yields have continued to edge higher in recent weeks, although these yield advances have been interspersed by short-lived market rallies. Upward rate pressures have been concentrated in the short-intermediate end of the market. In the coming weeks, current levels of note and bond yields generally will come under further testing, from increased corporate capital flotations and also from any continuing pressures in the short-term area generated in part by Treasury cash financings. Sources of strength for the longer-term end of the U.S. government market are the constraint of the interest rate ceiling on new Treasury bond issues, and the relatively strong technical position of dealers, who are currently carrying a net short position in bonds due in more than 5 years.

In the corporate bond market, downward yield pressures that have developed on recently offered issues since mid-December have reflected a combination of seasonal slack in new issue volume and a scarcity of underwriters' inventories. However, with an unusually large corporate calendar scheduled for January, consisting largely of utility and telephone company bonds, these yield declines seem likely to prove short-lived.

In the municipal bond market, end-of-year yield declines were less pronounced than those on recently offered corporate issues. But with new offerings also seasonally low in late December, dealers have substantially reduced their inventories. The January supply of new municipal offerings, however, is expected to be sizable, and the possibilities for any sustained seasonal easing of municipal bond yields appear to be minimal.

Balance of payments

Recent data, still incomplete, have not changed earlier impressions of the balance of payments position in the fourth quarter. The seasonally adjusted deficit on the "liquidity" basis was probably about $1/4 billion in the fourth quarter and about $1-1/4 billion in 1965 as a whole, or less than half as big as in 1964. On the "official settlements" basis there was a sharp deterioration between the third and fourth quarters, as the temporarily favorable effects of the summer sterling crisis were reversed and as swap operations between the Bank of Italy and Italian commercial banks were curtailed. Nevertheless, for the year 1965 the "official settlements" deficit will undoubtedly prove to have been substantially diminished from 1964's $1.2 billion. Though U.S. imports have continued buoyant, the trade surplus in October-November seems to have been at an annual rate over $1/2 billion larger than for the year 1965 as a whole. (There is still some uncertainty as to the proper adjustments to make for timing errors in the import statistics.) Prospects for bringing the "liquidity" deficit down toward zero in 1966 depend heavily on improvement over the October-November rate of trade surplus, presently computed at about $5-1/2 billion. Changes from recent levels in other current transactions and also in capital movements (other than settlement items) may roughly cancel out.

Export expansion may continue to be fairly rapid as renewed growth of demand in Japan, Italy, and France offsets slowdowns in some other areas. But import expansion slowed only moderately through November despite the ending of the steel-strike threat; in October-November, imports appear to have equalled about 3.3 per cent of GNP -- higher than at any time except briefly in 1959. If GNP rises as projected, rapid growth of imports may continue, especially if inventory investment continues large. Thus, while most analysts expect some increase in the trade surplus, the improvement may be small.

The net outflow of U.S. private capital should be expected to increase somewhat in 1966 from recent levels. The new Commerce Department program should reduce direct investment outflows as compared with the full year 1965, but not below the rate of the second half year. Since the voluntary program for banks has been a constraint on outflows of bank credit during 1965, and since U.S. exports are expected to be rising, renewed outflows of bank credit should be anticipated under the higher ceilings set for 1966.

On the other hand, shifts by the British Treasury from non-liquid to liquid U.S. assets in the third quarter of 1965, and the U.K. waiver of debt service payments in the fourth quarter, were adverse developments -- only partly offset by Italian purchases of "nonliquid" Roosa bonds -- that are not expected to be repeated in 1966.

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.'65	76.1	75.8	74.4	2.2	3.4
Unemployment (mil.)	"	3.2	3.3	3.7	-12.1	-24.7
Unemployment (per cent)	"	4.2	4.3	4.9	--	--
Nonfarm employment, payroll (mil.)	"	61.3	61.0	58.9	4.1	7.4
Manufacturing	"	18.3	18.2	17.5	4.5	7.2
Other industrial	"	8.0	7.9	7.7	2.9	5.8
Nonindustrial	"	35.0	34.9	33.7	4.1	7.9
Industrial production (57-59=100)	"	145.5	144.4	135.4	7.5	15.4
Final products	"	146.6	145.2	135.2	8.4	15.4
Materials	"	144.6	143.9	135.9	6.4	15.0
Wholesale prices (57-59=100)1/	"	103.5	103.1	100.7	2.8	2.8
Industrial commodities	"	102.7	102.5	101.3	1.4	2.1
Sensitive materials	"	103.3	103.0	100.8	2.5	6.1
Farm products and foods	"	104.3	103.6	97.8	6.6	4.6
Consumer prices (57-59=100)1/	"	110.6	110.4	108.7	1.7	3.0
Commodities except food	"	105.6	105.3	104.8	0.8	1.1
Food	"	109.7	109.7	106.8	2.7	4.4
Services	"	119.0	118.7	116.0	2.6	4.5
Hourly earnings, mfg. ($)	"	2.64	2.64	2.55	3.5	6.0
Weekly earnings, mfg. ($)	"	109.30	108.88	104.30	4.8	8.4
Personal income ($ bil.)2/	"	545.6	541.2	506.6	7.7	14.9
Retail sales, total ($ bil.)	"	24.0	24.0	21.7	10.9	16.8
Autos (million units)2/	"	9.0	8.4	6.9	31.1	20.4
GAF ($ bil.)	"	5.6	5.5	5.2	9.3	23.7
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	"	1,534	1,409	1,505	1.9	-5.8
Factory workweek (hours)	"	41.4	41.3	40.9	1.2	2.2
New orders, dur. goods ($ bil.)	"	22.4	22.4	19.5	15.2	23.7
New orders, nonel. mach. ($ bil.)	"	3.4	3.3	3.0	13.4	28.8
Common stock prices (1941-43=10)1/	Dec.'65	91.73	92.15	83.96	9.3	23.7
Inventories, book val. ($ bil.)	Oct.'65	117.7	117.0	108.5	8.4	13.4
Gross national product ($ bil.)2/	QIII'65	See GNP Table.				
Real GNP ($ bil., 1958 prices)2/	"					

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

SELECTED DOMESTIC FINANCIAL DATA

	Week ended Dec. 31	Four-Week Average	Last six months High	Last six months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent)	4.63	4.30	4.63	1.00
U.S. Treas. bills, 3-mo., yield (per cent)	4.47	4.42	4.50	3.77
Net free reserves 2/ (mil. $)	-79	-3	94	-233
Member bank borrowings 2/ (mil. $)	546	432	627	218
Security Markets (N.S.A.)				
Market yields 1/ (per cent)				
5-year U.S. Treas. bonds	4 82	4.76	4.88	4.13
20-year U.S. treas. bonds	4.51	4.52	4.53	4.20
Corporate new bond issues, Aaa	--	4.84	4.86	4.56
Corporate seasoned bonds, Aaa	4.73	4.69	4.73	4.46
Municipal seasoned bonds, Aaa	3.40	3.40	3.40	3.15
FHA home mortgages, 30-year 3/	5.51	5.51	5.51	5.44
Common stocks S&P composite index 4/				
Prices, closing (1941-43=10)	91.90	91.81	92.42	83.55
Dividend yield (per cent)	3.06	3.06	3.11	2.88

		Change in Nov.	Average change Last 3 mos.	Annual rate of change (%) 3 mos.	Annual rate of change (%) 1 year
Banking (S.A., mil. $)					
Total reserves	5/	338	116	6.3	5.1
Bank loans and investments:					
Total		2,600	1,800	7.5	9.8
Business loans		700	600	11.5	19.5
Other loans		1,100	700	7.0	12.3
U.S. Government securities		600	200	4.2	-6.5
Other securities		200	300	7.4	14.5
Money and liquid assets:					
Demand dep. & currency	5/	1,700	1,000	7.5	4.8
Time and savings dep.	5/	1,400	1,800	15.0	16.0
Nonbank liquid assets		1,700	1,200	5.6	6.3

N.S.A.--not seasonally adjusted. S.A.--seasonally adjusted.
1/ Average of daily figures. 2/ Averages for statement week ending December 29.
3/ Latest figure indicated is for month of November. 4/ Data are for weekly closing prices. 5/ Preliminary change in December.

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

	1965						1964	
	Nov.	Oct.	Sept.	QIII	QII	QI	QIV	Year (billions
				Seasonally adjusted				
Current account balance				1,615	1,705	1,284	2,005	7.7
Trade balance 1/	470	460		1,285	1,279	923	1,789	6.7
Exports 1/	2,370	2,320	2,260	6,806	6,748	5,586	6,690	25.3
Imports 1/ 2/	-1,900	-1,860		-5,521	-5,469	-4,663	-4,901	-18.6
Services, etc., net				130	426	361	216	1.0
Capital account balance (regular transactions)				-1,975	-1,528	-2,070	-3,126	-9.7
Govt. grants & capital 3/				-943	-974	-803	-1,014	-3.6
U.S. private direct investment				-515	-891	-1,159	-821	-2.4
U.S. priv. long-term portfolio				-356	100	-679	-833	-2.0
U.S. priv. short-term				49	424	297	-568	-2.1
Foreign nonliquid				-210	-187	274	110	0.4
Errors and omissions				-284	-77	-3	-430	-1.2
Balances, with and without seasonal adjustment (- = deficit)								
Bal. on regular transactions, S.A.				-644	100	-789	-1,551	-3.1
Seasonal component				-490	-42	529	-3	--
Balance, N.S.A.	-90	-319	-467	-1,134	58	-260	-1,554	-3.1
Liquidity bal., S.A.				-491	242	-709	-1,366	-2.8
Seasonal component				-490	-42	529	-3	--
Balance, N.S.A. 4/	-15	-319	-467	-981	200	-180	-1,369	-2.8
Official settlements bal., S.A.				259	205	-642	-783	-1.2
Seasonal component				-552	-166	661	35	--
Balance, N.S.A. 5/	-275	-98	-406	-293	39	19	-748	-1.2
Memo items:								
Monetary reserves (decrease -)	-90	-82	-130	-40	-68	-842	151	-.2
Gold purchases or sales (-)	-57	12	9	-124	-590	-832	-172	-.1

1/ Balance of payments basis which differs a little from Census basis.
2/ Figures for October-November tentatively adjusted for changes in carry-over of import documents. Third-quarter imports not adjusted by months.
3/ Net of associated liabilities and of scheduled loan repayments.
4/ Differs from balance on regular transactions by counting as receipts (+) debt prepayments, advances on military exports, and net sales of non-convertible Roosa bonds.
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 (+) increase in certain nonliquid liabilities to foreign official institutions.

THE ECONOMIC PICTURE IN RETAIL

The Nonfinancial Scene

Gross national product. The Department of Commerce has revised upward its earlier estimates of gross national product and related incomes for the first three quarters of 1965 to incorporate revisions in underlying data. The fact that a revision is pending, as well as the revised figures, must be held STRICTLY CONFIDENTIAL until released by Commerce (tentatively scheduled for around mid-January). Any premature use of the figures outside the System would be highly embarrassing to the Board's staff.

The new figures are shown in the following table, with our estimates for the fourth quarter of 1965 and our projections for the first quarter of this year. The revision was due in large part to the findings of the November Commerce-SEC survey of business plant and equipment expenditures and to a major upward revision (also tentatively scheduled to be released about mid-January) of the estimates of industrial, commercial, and other nonresidential construction -- a category only partly covered by the survey of plant and equipment expenditures. Business inventory investment has also been boosted substantially for the third and fourth quarters, reflecting higher accumulation of nonfarm inventories as well as large accumulation of farm inventories. In addition, State and local government expenditures have been rising more rapidly than reported earlier. The pattern of change in net exports has been altered to show: a much larger rise in the second quarter, a decline -- instead of a rise -- in the third quarter, and an increase subsequently. The level of consumption expenditures has been changed very little.

GNP is now estimated at a seasonally adjusted annual rate of \$681.5 billion in the third quarter, \$4 billion higher than reported earlier. The revised estimates now show an increase of \$16.5 billion in the first quarter of 1965 (instead of \$15.3 billion), \$11.2 billion in the second quarter (in lieu of \$9.5 billion), and \$12.7 billion in the third quarter (replacing the earlier figure of \$11.6 billion).

On the basis of currently available information on expenditure trends subsequent to the third quarter, we now estimate GNP at \$695 billion in the fourth quarter -- up \$13.5 billion from the third -- and we project a total of \$707 billion for the current quarter. The moderately slower rate of increase projected for the current quarter stems in part from an estimated smaller rise in total consumption expenditures. This reflects in part the effects of the increase in personal contributions for social insurance. Further expansion in business fixed investment (in line with the findings of the latest Commerce-SEC survey) and in Federal purchases -- particularly for defense -- are expected to play a major role in the early 1966 GNP rise. There is still considerable uncertainty about prospective Federal purchases during the first half of 1966 and our present estimate may prove to be too low.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditure and income figures are billions of dollars, seasonally adjusted annual rates)

	Year		1965				1966
	1964	1965 Esti-mated	I 1/	II 1/	III 1/	IV Esti-mated	I Pro-jected
Gross National Product	628.7	675.7	657.6	668.8	681.5	695.0	707.0
Personal consumption expenditures	398.9	428.6	416.9	424.5	432.5	440.5	447.1
Durable goods	58.7	65.0	64.6	63.5	65.4	66.4	66.6
Nondurable goods	177.5	188.8	182.8	187.9	190.5	194.0	197.6
Services	162.6	174.9	169.5	173.1	176.7	180.1	182.9
Gross private domestic investment	92.9	104.9	103.4	102.8	106.2	107.0	109.1
Residential construction	27.5	27.7	27.7	28.0	27.7	27.3	27.5
Business fixed investment	60.5	69.8	66.9	68.4	70.9	73.1	75.1
Change in business inventories	4.8	7.4	8.8	6.4	7.6	6.6	6.5
Nonfarm	5.4	7.1	9.2	6.6	7.0	5.4	5.5
Net exports	8.6	7.3	6.0	8.0	7.4	7.8	8.1
Gov. purchases of goods & services	128.4	135.0	131.3	133.5	135.4	139.7	142.7
Federal	65.3	66.6	64.9	65.7	66.5	69.4	70.7
Defense	49.9	49.9	48.8	49.2	49.8	51.8	52.7
Other	15.4	16.7	16.1	16.5	16.7	17.6	18.0
State and local	63.1	68.4	66.4	67.8	68.9	70.3	72.0
Gross National Product in Constant (1958) Dollars	577.6	609.3	597.7	603.5	613.0	622.4	630.1
Personal income	495.0	530.5	516.2	524.7	536.0	544.9	552.0
Wages and salaries	333.5	357.3	348.9	353.6	359.0	367.5	374.1
Farm income	12.0	14.2	12.0	14.5	15.0	15.3	15.3
Personal contributions for social insurance (deduction)	12.4	13.2	12.9	13.0	13.3	13.6	16.6
Disposable personal income	435.8	465.0	451.4	458.5	471.2	478.7	485.1
Personal saving	26.3	24.6	23.3	22.4	26.8	26.0	25.5
Saving rate (per cent)	6.0	5.3	5.2	4.9	5.7	5.4	5.3
Total labor force (millions)	77.0	78.3	77.7	78.2	78.5	78.9	79.6
Armed forces "	2.7	2.7	2.7	2.7	2.7	2.8	2.9
Civilian labor force "	74.2	75.6	75.0	75.5	75.8	76.1	76.7
Employed "	70.4	72.1	71.3	71.9	72.4	72.9	73.6
Unemployed "	3.9	3.5	3.6	3.6	3.4	3.2	3.1
Unemployment rate (per cent)	5.2	4.6	4.8	4.7	4.4	4.2	4.0

1/ Department of Commerce revised income and product figures (first three quarters of 1965). They are STRICTLY CONFIDENTIAL and may not be quoted until released by Commerce (tentatively scheduled for around mid-January).

Industrial production. In December industrial production is tentatively estimated to have increased about one point further from the preliminary November level of 145.5 per cent. Gains in output are expected in both final products and materials.

Reflecting strong consumer demands, auto assemblies continued at about a 9.3 million annual rate and first quarter output schedules are set at the same level. In early December, television production increased further. Output of business equipment is estimated to have increased as truck production was at record levels and unfilled orders for machinery and aircraft rose further in November. Also, output of defense equipment presumably continued to increase.

Steel ingot production rose in December and, seasonally adjusted, was 9 per cent above a month earlier. Other weekly data for materials--paperboard, crude oil, petroleum refining, and coal--all indicate high and rising levels of output.

The expected rise in December would bring industrial production for 1965 to an index of about 143, 8 per cent above 1964. Increases in output were widespread in both final products and materials, as shown in the following table. The table also includes indexes for 1963 and increases from 1963 to 1964 which were substantial, but not as large as in 1965.

Industrial Production
1957-59=100

	Annual Average e 1965	1964	1963	% Change 1964 to 1965	1963 to 1964
Total	142.7	132.3	124.3	7.9	6.4
Consumer goods	140	132	125	6.2	5.2
Consumer durables	159	143	134	11.1	6.3
Autos	184	151	150	22.0	0.7
Home goods	153	141	130	8.4	8.9
Apparel and staples	134	128	122	4.3	4.7
Business equipment	156	139	128	12.4	8.4
Defense equipment	114	108	110	5.4	-2.1
Materials	143	133	124	7.9	7.4
Durables	143	131	121	9.2	8.3
Iron and steel	134	127	110	5.6	15.4
Nondurables	143	134	126	6.7	6.3

e--estimated

The large increase shown for auto assemblies in 1965 reflects in part the strikes in late 1964. While at record rates in 1965, auto assemblies, at 9.3 million, showed little change in level during the year. Output of home goods reached a peak in March, drifted slowly downward through August, and then rose sharply to new highs by the end of the year. Output of business and defense equipment rose vigorously through the year with some further acceleration at year's end.

Iron and steel rose to a new high prior to settlement of the wage contract and then dropped sharply. In December, however, steel ingot production turned up.

Automobile sales and stocks. Sales of new domestic cars declined a little more than seasonally in the first 20 days of December and deliveries for the month as a whole were probably at an annual rate somewhat below the 9.0 million rate reported for November. During 1965 sales of domestic cars were 8.8 million and imports 550,000. The total of over 9.3 million cars sold represented a gain of 15 per cent from the 8.1 million sold in 1964. An estimated 0.3 million deliveries in 1965 were "borrowed" from the previous year because of auto strikes in late 1964.

In mid-December dealer inventories of new cars had risen to their September level, after allowing for seasonal influences. Representing about 45 days' supply at current sales rates, they were not considered excessive by industry standards.

Consumer credit. Consumers added $657 million to their instalment debt in November. This increase, which amounted to $8.0 billion on a seasonally adjusted annual rate basis, was well above that for October and one of the largest monthly increases in 1965.

All types of instalment credit contributed to the November rise. However, the sharpest increase came in auto credit, which moved up in response to the rise in new car sales and the return to a more normal pattern of credit purchases. Cash sales had been large in October, as is usual early in a new model year.

Loans to purchase appliances and other household goods were up a little at commercial banks but down at most other lenders. Consumer buying at furniture and appliance stores apparently slackened in

November despite continued strong demand for such items as colored television and stereo sets.

Demand for personal loans was stronger in November than in October but still less than in most other months of 1965. The increase in these loans in November amounted to $2.0 billion annual rate, compared with $1.3 billion in October and a record $3.0 billion at tax time last April.

Housing starts. Seasonally adjusted private housing starts turned up sharply in November from the 2-3/4 year low reached in October, and building permits were higher for the second consecutive month.

PRIVATE HOUSING STARTS AND PERMITS

	November 1/ (thousands of units)	Per cent change from: Month ago	Year ago
Starts (total)	1,534	+ 9	+2
Permits (total)	1,274	+ 1	+1
1- family	741	--	--
2-or-more family	533	+ 3	+3
North East	273	+ 3	+9
North Central	314	+ 3	+8
South	391	-12	-4
West	296	+19	-4

1/ Seasonally adjusted annual rate; preliminary.

Assuming housing starts in December continued near their advanced November rate -- not an unlikely possibility -- the total for 1965 would approach 1,490,000 private dwellings, including farm starts.

This would be about 4 per cent less than the 1964 total and 7 per cent below 1963, the recent yearly high.

Based on the same assumption for December, housing starts in the fourth quarter would somewhat exceed the third-quarter low, but would be an eighth under the recent quarterly peak reached in early 1964. This development is in line with most trade forecasts and other analyses which imply a level of housing starts in 1966 somewhat above the third-quarter 1965 low. However, uncertainty about the extent of the increase has developed recently as a result of increased interest rates and related developments in home-mortgage and institutional savings markets.

Although housing starts in 1965 were down for the second consecutive year, additions of newly-completed dwellings to the existing housing stock were probably only slightly below the recent high in 1964. It is likely that completions of apartment units in 1965 were the second most numerous on record. Indications through early fall were that the additional completions were generally being absorbed without great difficulty.

Orders for durable goods. New orders for durable goods in November held at the record October level as a large drop in defense orders was offset by sizable gains for most other goods. Orders for defense products had been at sharply advanced levels in September and October and a temporary decline was to be expected. Machinery and equipment orders continued to expand in November and for steel, fabricated metals, and miscellaneous durables orders showed large gains.

New orders for steel were back close to the level of shipments, and the order backlog, which had declined by almost one-half from February to October, showed only a small further decrease.

For durable goods as a group, including steel, the backlog of unfilled orders increased considerably further in November although at not quite so rapid a pace as in September and October when defense orders were in especially large volume.

The build-up in the unfilled order backlog this year has moderately exceeded the rise in shipments and the ratio of unfilled orders to shipments was 2.84 in November as compared with the 2.60 level that prevailed during most of the period from early 1962 to July 1964. From that time to February 1965, when the steel order backlog was rising sharply, this ratio rose from 2.58 to 2.70. Since February, despite the fall-off in the steel order backlog, the ratio has moved up further.

As shown in the table, ratios have increased appreciably since mid-1964 for fabricated metal products, machinery and equipment, and defense products but have shown little change for primary metals and "other" durable goods. To provide some comparative background figures also are shown for the 1955-56 period when the overall ratio of unfilled order to shipments of durable goods was also rising -- waiving the period around the 1956 steel strike when the ratio was exceptionally high. In general, most of the ratios have shown much less rise this time than in the 1955-56 period, Moreover, the levels of the 1964-65 ratios are well below those in 1955-56, suggesting a generally better balance of supplies and demands this time.

RATIO OF UNFILLED ORDERS TO SHIPMENTS OF DURABLE GOODS

	July 1964	Nov. 1965	June 1955	Oct. 1956
Durable Goods, total	2.58	2.84	3.45	4.15
Steel & other primary metals	1.5	1.6	2.7	3.0
Fabricated metal products	2.2	2.5	3.0	3.0
Machinery & equipment	3.4	3.8	3.8	4.5
Defense products	9.4	10.3	13.8	15.5
Other durable goods	1.0	1.1	1.4	1.6

Business inventories. Total business inventory accumulation apparently showed much less decline in late 1965 than had been estimated earlier. Book value of manufacturers' inventories increased $435 million in November despite continued rapid liquidation of steel stocks. For October and November combined the rise in inventories totaled more than $800 million -- double the amount anticipated by manufacturers for the whole fourth quarter, according to the Commerce November anticipations survey. In December, in view of the rise in steel output, liquidation of steel inventories appears to have slowed, and another sizable increase in manufacturers' inventories is to be expected.

Most of the November rise in factory stocks -- and all the excess over earlier anticipations -- was in durable goods industries. In that sector the November book value increase was $285 million and the October-November rise totaled over $500 million, whereas in the November anticipations survey a net decline of $100 million had been expected for the fourth quarter as a whole. Most of the recent rise in durable goods stocks was in machinery and equipment and defense products industries where unfilled orders have been increasing at a sizable pace. Stocks of durable materials were about unchanged in October and November, despite the large decline in steel stocks held by consuming manufacturers.

The book value of nondurable goods inventories increased about $150 million in November -- and also in October -- and this rise was in line with producers' anticipations for the fourth quarter as a whole.

Employment and labor force. Demands for labor were unusually strong at year end, with employment rising well above previous months. For the fourth quarter as a whole, total employment increased by 2.2 million from a year earlier, the largest-year-to-year rise of the year. The most important source of workers for expanding jobs has been the sharply growing labor force but workers also have been drawn from the ranks of the unemployed. Military demands for manpower have also been a factor in the decline in unemployment.

CHANGES IN LABOR FORCE FROM
A YEAR EARLIER
(Seasonally adjusted, millions of persons)

	Total	14-19 years	Men	Women
		Civilian labor force		
1965 Q1	1.2	.1	.5	.6
Q2	1.1	.4	.4	.3
Q3	1.6	.7	.2	.7
Q4	1.7 1/	1.0	-.1	.7
		Employment		
1965 Q1	1.6	.1	.8	.7
Q2	1.4	.4	.6	.5
Q3	2.0	.7	.4	.9
Q4	2.2	1.0	.3	.8
		Unemployment		
1965 Q1	-.4	*	-.2	-.2
Q2	-.4	*	-.2	-.1
Q3	-.4	*	-.3	-.1
Q4	-.5	*	-.4	-.1

Note: Estimates for December used in 4th quarter averages.
1/ The total labor force increase was 1.8 million reflecting the close to 100,000 rise in the armed forces from a year earlier.
* Change less than 25,000.

Over the past year, 1.8 million persons have been added to the total labor force, including a 100,000 increase in the armed forces. This is substantially above the official projection of 1.35 million for the period and also much higher than the previous years' increase of 1.1 million. The acceleration in labor force growth became apparent at the close of the school year last spring when a considerably larger than anticipated number of youths sought and found jobs. The upsurge in youth employment turned out to be more than a temporary seasonal phenomenon and the number of youths in the labor force continued to rise sharply during the remainder of 1965 in response to strong employment demands. Also after midyear there was a sharp step-up in the pace at which women were entering the labor force and their participation rates began to rise rapidly.

Especially significant has been the fact that the faster increase in labor force occurred as the available supply of adult men was tightening considerably. Not only has growth in the labor force of men in the central age groups been small -- because of low birth rates in the 1930's -- but the unemployment rate for adult men had declined sharply by midyear to 3.1 per cent and was further reduced to 2.7 per cent in the fourth quarter. Another factor reducing the number of men seeking work has been a relatively sharp increase in early retirements. There has been a particularly noticeable decline in recent months in participation rates of men 55-64 years of age so that the number of men in this age group is now below official projections -- in the fourth quarter, the shortfall was almost 200,000.

With employment gains exceeding even the very large growth in the labor force, unemployment has continued to decline steadily in recent months. Most of the reductions in unemployment have been among adult men reflecting continued requirements for experienced and skilled workers. Almost four-fifths of the half million decline in unemployment over the past year was among men, reducing their unemployment rate to the lowest level since the Korean War. Despite the large increase in employment among youth, the number of teenagers unemployed has changed little. In part, this reflects high job turnover among youths and relatively short spells of unemployment. But also evident is the persistent hard-core problem of inexperienced younger workers with inadequate education whose job opportunities are more limited even in periods of high levels of demand.

Earnings, productivity, and unit labor costs. Average hourly earnings in manufacturing continued to increase moderately in November. However, in nonmanufacturing industries, which are either largely unorganized, or where bargaining is concentrated in small units often widely dispersed geographically, wage increases have been higher than in manufacturing. The 3.3 per cent rise in hourly earning in manufacturing for the first 11 months of 1965, was about in line with gains reported in other recent years. But substantially larger increases, over 5 per cent, have been reported in retail trade, electric and gas utilities, and laundries, while increases of over 4 per cent have appeared in construction, hotels, and banking.

Recent revisions upward in output data for the economy as a whole have lifted output per manhour to higher rates of increase than were previously indicated. Final data for the fourth quarter are not yet available, but it now seems likely that the rise in output per manhour for the private economy will be about 3.0 per cent in 1965, somewhat below the 3.4 per cent increase in 1964. Including the current estimate for 1965 in the 5-year trend productivity calculation used by the Council for its guidepost, trend productivity for the period will rise to 3.6 per cent compared to the previously used 3.2 rate. Of the .4 per cent increase, half results from upward revisions in GNP and half from the substitution of 1965 for 1960 in the 5-year average.

The trend in output per manhour in manufacturing has been obscured in recent months by the decline in steel output and the effect of the auto strike in October and November of last year. For the year as a whole, however, the increase in output per manhour for all employees is estimated to average about 3.7 per cent, somewhat below the rise a year earlier, but about in line with the average gain for the past 5 years.

The movement of labor costs per unit of output in manufacturing also has been obscured by the steel and auto developments. Unit labor costs apparently remained relatively stable in the final months of 1965 around an index of 100 (1957-59 = 100), compared with an average of 99.6 for 1964. An increase of about .7 is expected in the unit labor cost index in January owing to an increase in employer contributions for social security. Productivity gains in trades and services have not appeared to have kept pace with rising wage rates and labor costs per unit of output in those activities apparently have increased.

Wholesale prices. The industrial commodity price index from mid-October to mid-November rose -- for the second consecutive month -- .2 per cent, and is estimated to have risen an additional .1 per cent to late December. The estimated December index, at 102.8 per cent of the 1957-59 average, was .7 per cent above the June level and 2.0 per cent above the level in the summer of 1964, before the upward drift began. Average prices of foodstuffs rose sharply from mid-October to late November, and the total wholesale price index in late December was about 1 per cent above the June level.

Much of the rise in the industrial index from October to November was attributable to further advances in metals and machinery. Most of the remaining increase was associated with the continued recovery of petroleum products, a further increase in wastepaper and hides and leather, and a rise in glass containers. The continuing price rise in hides and leather is partly the result of reduced Argentinean and Soviet supplies and a consequent shift of foreign demand to the United States. Synthetic fiber textile products, electical machinery, and gypsum products declined.

Two steel producers -- Bethlehem and Inland -- announced increases of $5 per ton or around 4 per cent on structural shapes which account for about 7 per cent of the steel market, and a third firm announced and then postponed a smaller increase. Subsequently, U.S. Steel announced an increase of $2.75 per ton for a number of structural products which, U.S. Steel said, account for 4 per cent of total domestic output. Simultaneously the corporation announced a reduction of $9 per ton or 6-1/2 per cent for steel sheet on the West Coast, and assessed the combined effect of these changes as an increase of 0.1 per cent in the average of all steel prices. The BLS price index for steel mill products has been stable in recent months at a level about 0.5 per cent higher than in the first four months of 1965. The Administration, which had attempted to force recision of the increases announced by Bethlehem and Inland by directing that all orders for structural steels by the Federal Government, by Government contractors, or by State and local governments in federally aided programs be placed with firms that have not raised prices, has termed the U.S. Steel changes as within the guideposts and acceptable.

Major foreign producers have raised the price of copper from 38 cents to 42 cents a pound. The price in the "free" market has been averaging between 65 and 71 cents per pound while domestic producers are maintaining the 36 cent price. Thus, the domestic price is now 14 per cent below the world producer price and around 45 per cent below the "free" market price. Prices of some copper mill products have been rising in domestic markets.

Hog prices continue to fluctuate near the record high levels reached in early December largely as a result of reduced pig crops induced by past low prices, and also because of current withholding of breeding animals induced by present high prices. A Department of Agriculture survey indicates that the pig crop planned for next spring will be up 7 per cent from the 1965 spring crop. Cattle prices have changed little since last summer. Egg prices are about a third higher than a year ago partly because of reduced laying flocks, while fresh fruits and vegetables are down substantially from a year ago.

WHOLESALE PRICE INDEXES
1957-59 = 100

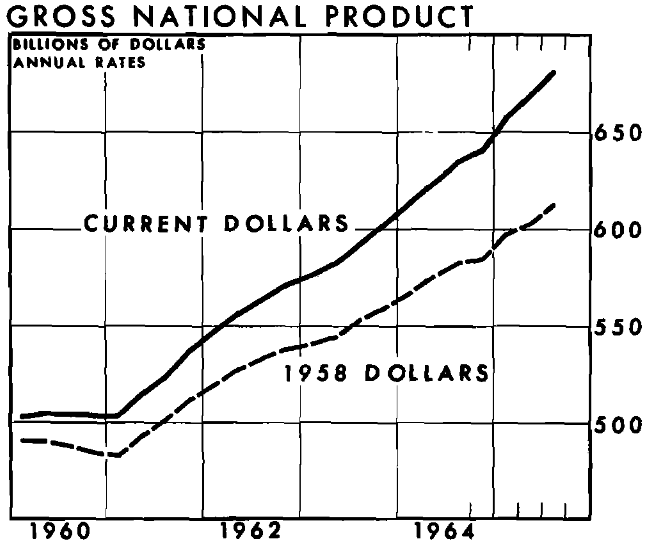
Commodity group	Per cent increase Feb. 1961 to Sept. 1964	Sept. 1964 to June 1965	June 1965 to Nov. 1965	Index November 1965
	(43 months)	(9 months)	(5 months)	
Total index	-0.3	2.1	0.7	103.5
Industrial commodities	-0.3	1.4	0.6	102.7
Industrial materials	-0.4	1.7	0.5	101.9
Industrial products	-0.2	1.0	0.6	103.4
Consumer nonfood	-1.1	1.0	0.6	102.2
Producer goods	1.6	1.2	0.5	105.8
Foodstuffs	-0.6	4.3	1.0	105.8
Industrial commodities				
Less metals and machinery	-1.4	1.1	0.6	100.7
Metals and machinery	1.3	1.7	0.5	105.4
Nonferrous metals	8.3	8.6	2.1	118.6

Consumer prices. The consumer price index from mid-October to mid-November rose .2 per cent to 110.6 per cent of the 1957-59 average, and was 1.7 per cent above a year earlier. Food prices, usually stable or declining in the fall, were unchanged for the second consecutive month. Increases in dairy products and restaurant meals were offset by declines in meats and eggs; both meats and eggs, however, rose substantially in wholesale markets in December. Nonfood commodities advanced .3 per cent in November as new car prices rose seasonally while further increases occurred in apparel. Household durables were unchanged while used car prices declined about seasonally. Services rose .3 per cent further, and, at 119.0 per cent of the 1957-59 average, the service index was 2.6 per cent above a year earlier.

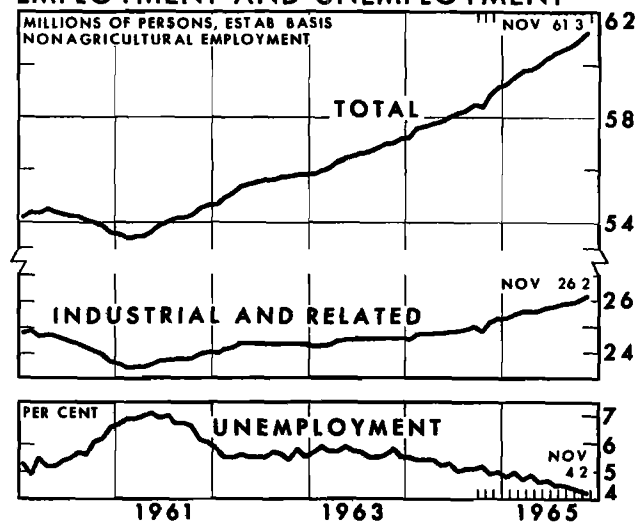
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

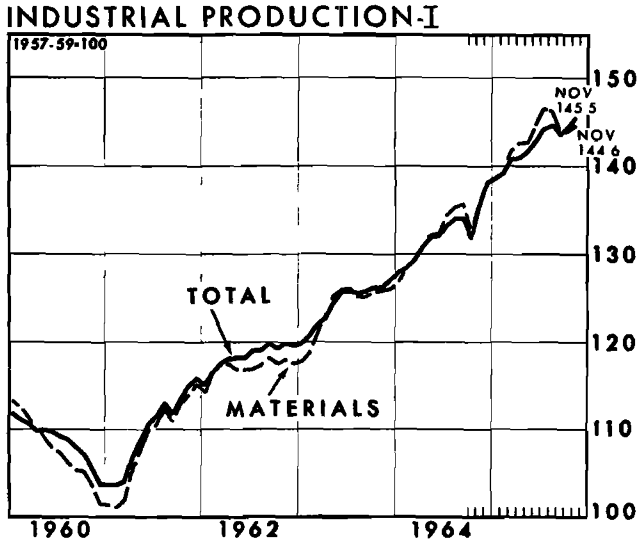
GROSS NATIONAL PRODUCT



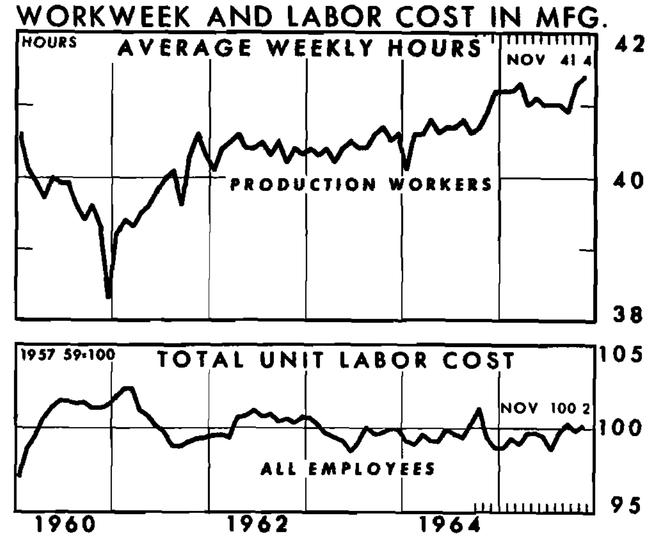
EMPLOYMENT AND UNEMPLOYMENT



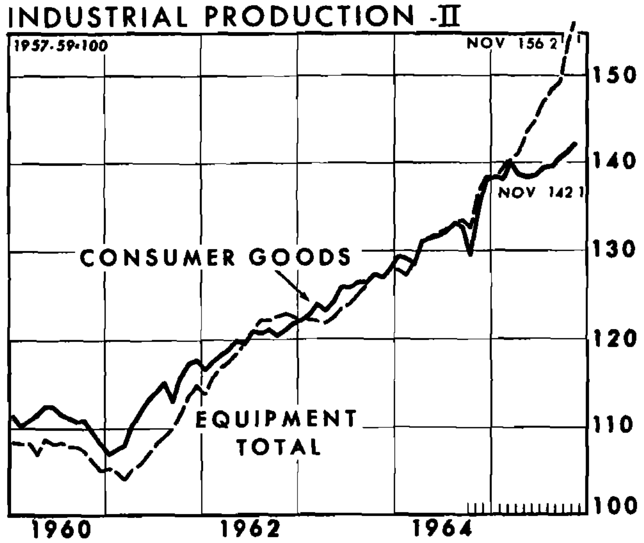
INDUSTRIAL PRODUCTION-I



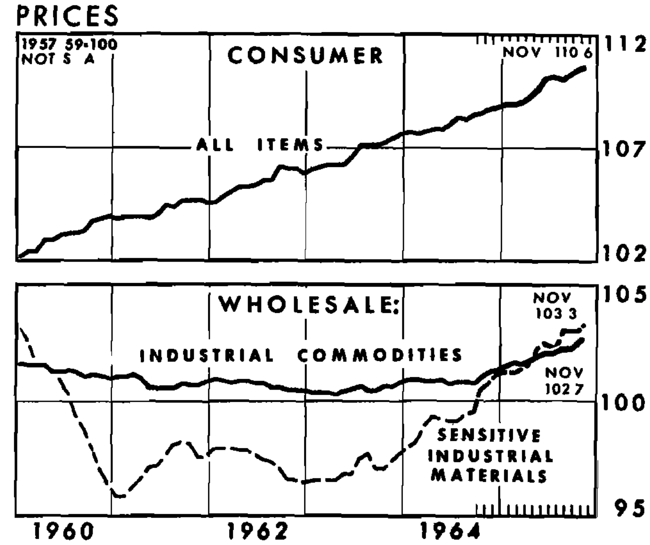
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION -II



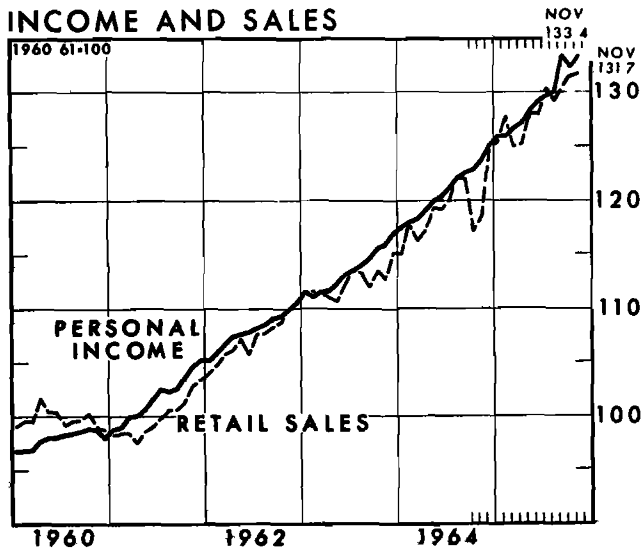
PRICES



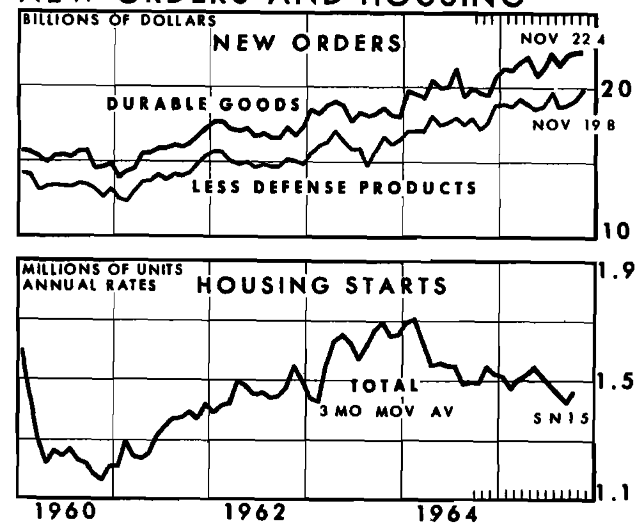
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

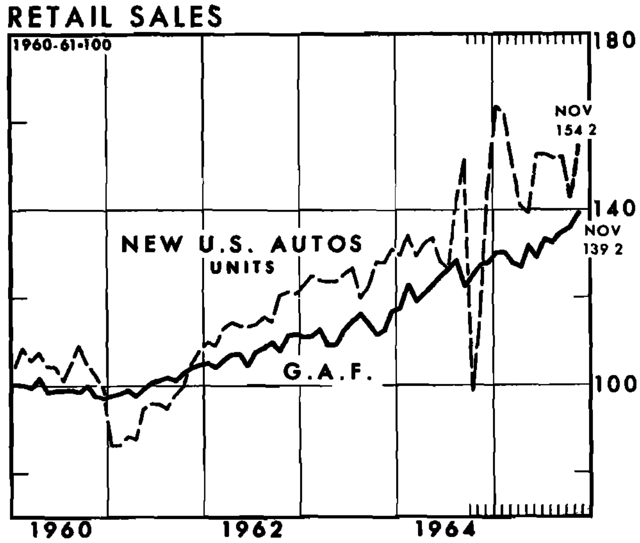
INCOME AND SALES



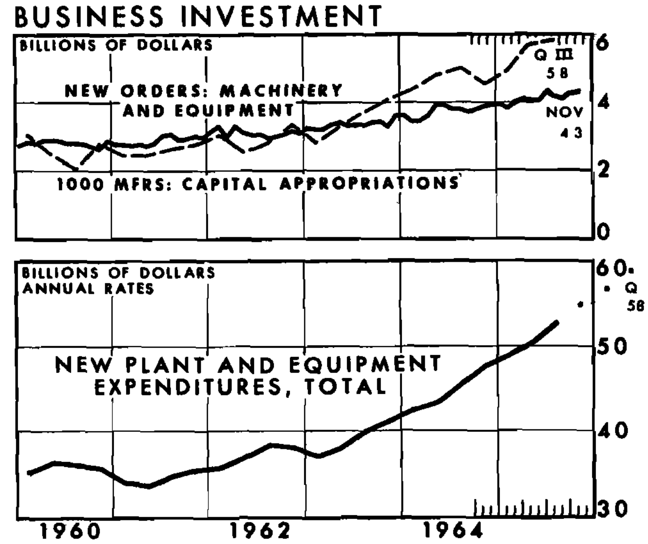
NEW ORDERS AND HOUSING



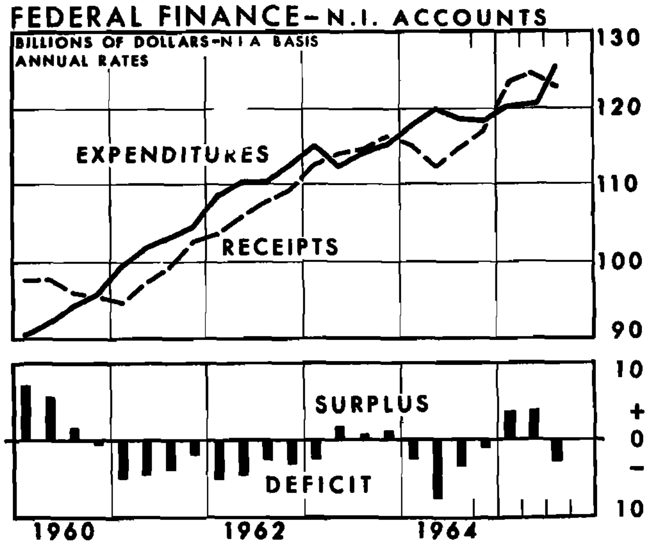
RETAIL SALES



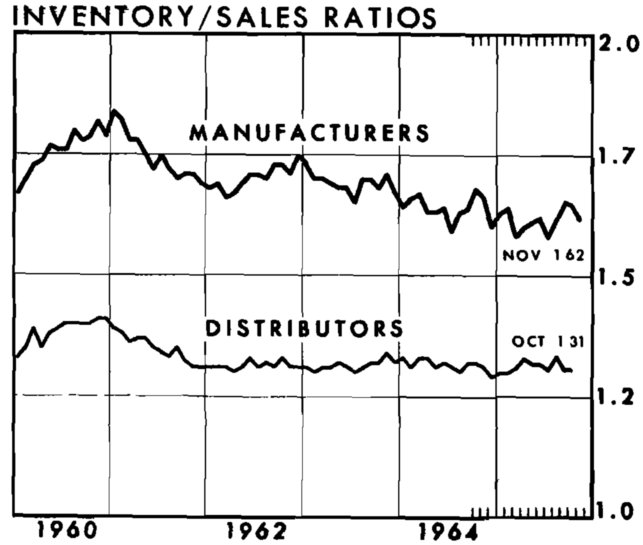
BUSINESS INVESTMENT



FEDERAL FINANCE—N.I. ACCOUNTS



INVENTORY/SALES RATIOS



DOMESTIC FINANCIAL SITUATION

Bank credit. Business demands for bank loans over the December tax and dividend dates were heavy. Mainly reflecting the strength of business loans, total bank credit continued to rise at around the 11 per cent annual rate of the two preceding months, when bank credit expansion was swollen by Treasury financing and security loans. For the year 1965 as a whole, bank credit rose at about a 10 per cent rate, as compared to 8.4 per cent in 1964.

Preliminary estimates suggest that business loans at all commercial banks rose $1.4 billion in December, slightly less than the record $1.5 billion of January. The very large increase partly reflected strong tax and dividend pressures at a time when corporate liquidity was pressed, but the December increase in business loans seems too large to be explained by temporary year-end factors alone. It would appear, therefore, that growth in business bank loans accelerated further from the moderate pace that was seen immediately following the steel strike settlement this summer.

Consumer and real estate loans at banks continued to increase at about the same rate in December as in other recent months. Bank loans to security dealers and finance companies, despite a larger than normal rise around the tax and dividend dates, appear to have shown little change for the month as a whole on a seasonally adjusted basis.

Commercial bank holdings of Treasury issues showed little change last month, even though a large volume of newly issued Treasury bills were acquired late in November. Loan demand encouraged banks to begin liquidating the newly issued bills early in December, and weekly reporting banks reported taking into position somewhat less than the normal amount of bills during the tax and dividend dates. Bank acquisitions of municipal and agency securities in December continued at the reduced rate of October-November. For the fourth quarter, such holdings rose at an annual rate slightly over 8 per cent or about half of the rate of the first 9 months of the year.

Deposits. From the end of November through the tax date, weekly reporting banks lost $865 million of CD's, over twice as much as in the same period last year. About one-half of this year's run-off occurred in New York City, but by the end of the month these banks had replaced almost two-thirds of their CD loss. Last year, New York CD's outstanding after tax run-offs showed no rebound until year end. However, banks outside of New York, in the first week after the tax date, replaced only $32 million of their $426 million decline in CD's.

So far, most New York banks are offering 4.75 per cent across the CD maturity spectrum, with one bank offering 4.80 for 90-day money. This rate pattern suggests that New York banks have probably replaced maturing CD's with relatively short maturities. Since maturities already scheduled for this month are large, such an emphasis may give rise to a particularly heavy CD run-off in January and early February.

Mainly as a result of heavy CD run-offs in December, growth in time and savings deposits declined to an estimated 11.5 per cent annual rate in December--considerably below the growth rate of October-November. However, for the year as a whole, bank time and savings deposits grew at a 16 per cent rate, the largest since the more than 18 per cent gain of 1962.

The money stock in December rose at about a 12 per cent annual rate, according to preliminary estimates, paralleling the large increase in bank credit, while seasonally adjusted Treasury deposits showed little change during the month. Growth in the money stock during all of 1965 is now estimated to be about 4.8 per cent, as compared to 4.3 per cent in 1964. A much slower growth in the money stock would now not be unlikely over the next two or three months, reflecting the impact of sharp increases in yields on time deposits and other money substitutes on the public's demand for cash. This is a pattern which has been characteristic of periods immediately following previous changes in Regulation Q.

Corporate and municipal bond markets. With new issue volume at a seasonally low level, yields on recently offered corporate and municipal bonds turned down during the closing weeks of 1965. On some corporate issues, this decline erased virtually all of the rise that followed the early December discount rate action. Yields on seasoned corporate bonds, however--which typically lag behind other bond yield series--continued to rise, and yields on municipal issues, although edging down somewhat, maintained most of their earlier advances.

BOND YIELDS
(Per cent per annum)

	Corporate Aaa		State and local Government	
	New	Seasoned	Moody's Aaa	Bond buyer (mixed qualities)
Previous Postwar High	5.13(9/18/59)	4.61(1/29/60)	3.65(9/24/59)	3.81(9/17/59)
End of 1964 1965 Low	4.33(1/29)	4.41(3/12)	2.94(2/11)	3.04(2/11)
Weeks ending:				
July 23	4.56	4.48	3.16	3.25
Dec. 3	4.79	4.60	3.37	3.50
Dec. 10	4.80	4.64	3.40	3.56
Dec. 31	4.86 1/	4.73	3.40	3.54

1/ Week of December 17--the latest for which a new issue quotation is available.

In the corporate bond market, with dealer inventories of older issues already at minimum levels, the quick sell-out of the $100 million Consolidated Edison Bond in the week following the discount rate increase, along with the indefinite postponement of another $75 million offering previously planned for December, swept the immediate market virtually bare of investment grade issues. In the face of this supply vacuum, even the limited volume of year-end demand was sufficient to depress yields on recently offered issues. Yields on seasoned issues did not respond to this essentially short-run technical pressure, partly because of their typical tendency to lag current market developments, but also because the calendar of new offerings scheduled for January is unusually heavy.

The January volume of publicly offered corporate bonds is expected to total about $500 million for more than the January volume a year ago and the largest turn of the year supply since 1958. Moreover, although the volume of private placements typically turns down sharply in January from a seasonal high reached in December, reports of heavy continuing private placement activity suggest that take-downs on such commitments will continue to place heavy demands on the available supply of long-term funds in the months ahead.

BOND OFFERINGS 1/
(In millions of dollars)

	Corporate				State & local govt.	
	Public offerings		Private placements			
	1965-66	1964-65	1965-66 e/	1964-65	1965-66 e/	1964-65
1965						
Yearly						
Average	474	300	707	604	938	904
October	280	181	700	642	800	852
November	630	30	700	645	950	578
December	310	320	1,300	1,342	800	1,078
1966						
January	500 2/	161	600	575	950	803

1/ Includes refundings -- data are gross proceeds for corporate offerings and principal amounts for State and local government issues.
2/ It should be noted that monthly totals do not include stock offerings. In January 1966 scheduled preferred stock offerings amount to $100 million.

In the municipal bond market the seasonal slowing of offerings in the latter half of December gave dealers an opportunity to reduce inventories. At year end, their advertised holdings totaled only $460 million, down $150 million from late November and the lowest level reached since March 1963. Although this inventory reduction was accomplished only after substantial price cutting to bring yields on older issues into line with those on recent offerings, demand for municipals at these higher yields appears to have been somewhat stronger than it was in late November immediately prior to the Regulation Q action.

The improved technical position of municipal dealers places them in a better position to bid for January offerings of new issues, at a time when the supply of funds available for security investments sometimes shows a seasonal rise. However, the January calendar of municipal offerings is expected to remain at least as large as it has been in recent months and, with Treasury and corporate demands for funds particularly large, any seasonal rise in the supply of available investment funds seems likely to meet a strong demand. Moreover, since municipal dealers generally experienced an unprofitable year in 1965, they are not likely to bid aggressively to rebuild positions in the hope of profiting from any temporary seasonal turn in market yields.

Home mortgage markets. The general updrift of yields on home mortgages--which began late last summer for FHA and VA underwritten loans--has reportedly accelerated since the Federal Reserve actions taken in early December. While firm data are not yet available to measure the extent of further increases, some analysts estimate that yields on sensitive FHA and VA home loans may have increased as much as 10 or more basis points in December. This would be a good deal more than in the immediately preceding months.

In response to the further general upward pressure on mortgage rates, the Federal National Mortgage Association cut prices paid by 1 per cent on most FHA and VA loans offered to them under its secondary market operations, effective December 10. This step followed additional increases in mortgage offerings to FNMA during November and early December. Much of the buildup in offerings apparently came from mortgage companies seeking to dispose of warehoused loans, at a time when the fixed FNMA prices were increasingly attractive relative to declining prices on mortgages traded in the private secondary market.

Statistical evidence of the upward pressures already present on mortgage rates before the Federal Reserve actions in early December continues to accumulate. In November, average yields in the private secondary market on certain FHA-insured new-home loans rose for the third consecutive month, bringing the average yield to 5.51 per cent. This was 6 basis points above the August level which had prevailed for more than two years.

Contract interest rates for conventional first mortgages on new homes as measured by the FHA also rose somewhat further in November to levels 10 basis points above those prevailing in late summer. In this series to the late summer rates had previously held about unchanged for more than two years. Adjustments in nonrate terms, on the other hand, apparently moved counter to contract rates during November for conventional home loans covered by the Federal Home Loan Bank Board series.

Nonfarm foreclosures--mainly on homes--rose further in the third quarter of last year, continuing an uptrend which has lasted throughout the current business expansion. As in the second quarter, however, the year-to-year increase was appreciably less than in the corresponding period a year earlier. Moreover, the number of foreclosures in relation to the increased number of outstanding loans apparently changed little, if at all.

NONFARM MORTGAGE FORECLOSURES

	Thousands 1/	Rate per thousand mortgaged homes
Third quarter		
1965	116.3	4.8
1964	112.0	4.8
1963	98.8	4.5
1962	87.2	4.2
1961	74.0	3.7
1960	53.8	2.8

1/ Annual rate, not seasonally adjusted.

Stock market. Common stock prices, as measured by Standard and Poor's composite 500 stock index, showed a small further net rise in December and ended the year at a new all-time high of 92.43. Over the full year the index rose 9 per cent--which compares with a 12 per cent rise in 1964. Trading volume during the year averaged 6.2 million shares a day, up sharply from the 4.9 million daily average posted in 1964 and the largest volume on record.

Stock prices moved through three distinct phases in 1965. From late 1964 to mid-May they rose on balance--by 6-1/2 per cent in the

Standard and Poor's index. Then in the next month and a half they dropped back 9-1/2 per cent. During the latter half of the year, prices staged a strong recovery which carried the index up more than 13 per cent. Because profits of the 500 companies included in the index rose relatively more than the index itself, however, the price-earnings ratio declined from 18.7 at the end of 1964 to 17.6 at the end of 1965, assuming fourth quarter earnings at Standard and Poor's projected level.

Since late summer, stock trading has exhibited a more speculative temper. And stock market credit--after trending downward from the spring of 1964--has turned up. While some of this rise in credit use is attributable to increased trading and an associated expansion of temporary credits related to clearings, the bulk of the rise apparently represents enlarged margin trading. Total stock market credit rose $400 million from August through November, about to the $7.3 billion high reached in April 1964 at the time of the large AT&T "rights" offering. Three-quarters of this rise occurred in customers net debit balances with brokers. But the November total of such balances--at $5.2 billion--was still nearly $400 million below the level prevailing when margin requirements were raised two years before.

<u>U.S. Government securities market</u>. Yields on U.S. Government securities have risen further since their initial adjustment to the discount rate increase in early December. The largest rate increases in recent weeks have occurred in the shorter-term maturity area, where the impact of prospective Treasury cash financings is expected to be concentrated.

YIELDS ON U.S. GOVERNMENT SECURITIES
(Per Cent)

Date (closing bids)	3-month bills	6-month bills	3 years	5 years	10 years	20 years
1959 - 1961						
Highs	4.68	5.15	5.17	5.11	4.90	4.51
Lows	2.05	2.33	3.08	3.30	3.63	3.70
1965-66						
Highs	4.56	4.73	5.00	4.89	4.67	4.53
Lows	3.76	3.81	4.00	4.08	4.17	4.17
1965-66						
July 28	3.81	3.88	4.09	4.15	4.20	4.21
Dec. 3	4.12	4.26	4.54	4.52	4.52	4.44
Dec. 6	4.30	4.45	4.69	4.69	4.61	4.50
Dec. 20	4.50	4.67	4.82	4.71	4.61	4.49
Jan. 4	4.56	4.73	5.00	4.89	4.65	4.52

Yields on intermediate and long-term Treasury bonds have moved higher in recent weeks despite a number of short-lived rallies. While continuing to probe for a new trading level and buffeted to some extent by professional activity, the Treasury bond market has retained a hesitant undertone. Major influences on the market have been the expectation of a large volume of capital market financing in the early months of 1966 and prospects of possible inflationary developments in the general economy. In this market environment, dealers have reduced their holdings of bonds due in over-5-years to net short positions of around $50 million in late December. Concomitantly, however, dealer positions in notes and bonds due within 5 years rose around $150 million in the second half of December, reflecting in part selling by investors on switches into Treasury bills.

Treasury bill rates advanced sharply further from about mid-December to early January despite sizable market demand for bills, including year-end demand by banks and corporations for window-dressing purposes. The upward pressure on bill rates appears to have been induced mainly by aggressive dealer efforts to reduce their bill inventories in light of high financing costs and the expectation of additions by the Treasury to market supplies of short-term securities to meet cash needs in early 1966. A measure of recent bill rate movements is given by 3- month bill auction results which have ranged from an average rate of 4.115 per cent in late November to 4.391 per cent in mid-December and 4.532 per cent in early January 1966 when a first $100 million addition was made to the weekly 3-month bill auction.

Other short-term rates have also continued to move higher since their initial adjustment to the discount rate increase in early December. Rates on selected short-term securities are shown in the table which follows:

SELECTED SHORT-TERM INTEREST RATES[1/]
1965

	Dec. 3	Dec. 10	Dec. 31
Commercial paper 4-6 months	4.38	4.62	4.75
Finance company paper 30-89 days	4.38	4.50	4.75
Bankers' Acceptances 1-90 days	4.25	4.50	4.75
Certificates of deposit (prime NYC) Most often quoted new issue			
3-months	4.50	4.60	4.75
6-months	4.50	4.70	4.75
Secondary market:			
3-months	4.49	4.75	4.90
6-months	4.57	4.80	5.00
Municipal Note 1-year	2.70	2.80	2.85
Federal Intermediate Credit Bank 9-month	4.58	4.70	4.88

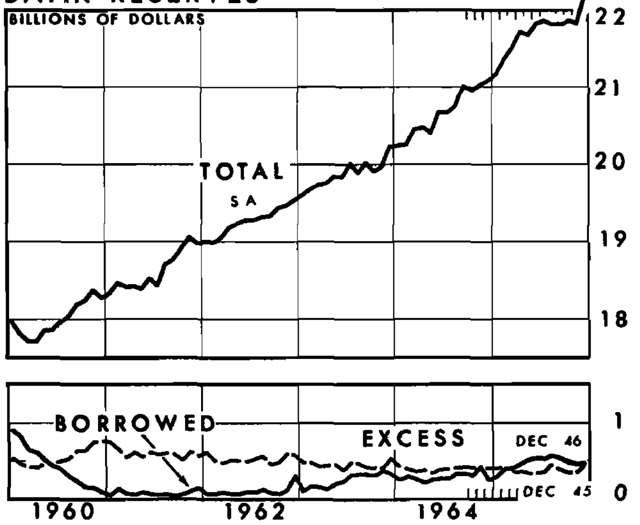
1/ Rates are quoted on offered side of market; rates on commercial paper, finance company paper, and bankers acceptances are quoted on a bank discount basis while rates on the other instruments are on an investment yield basis.

Treasury finance. On December 22 the Treasury announced its cash financing plans for early 1966 and indicated that it might need to raise a total of around $5 billion during the first few months of the new year. The financing package includes a $1 billion addition to the June tax bill, already auctioned on December 29, a $100 million addition to the weekly 3-month bill auction which will probably be continued through a full 13-week cycle covering the first quarter of 1966, and a $1.5 billion financing in short-term area during January. The Treasury is expected to announce the details of the latter financing this week.

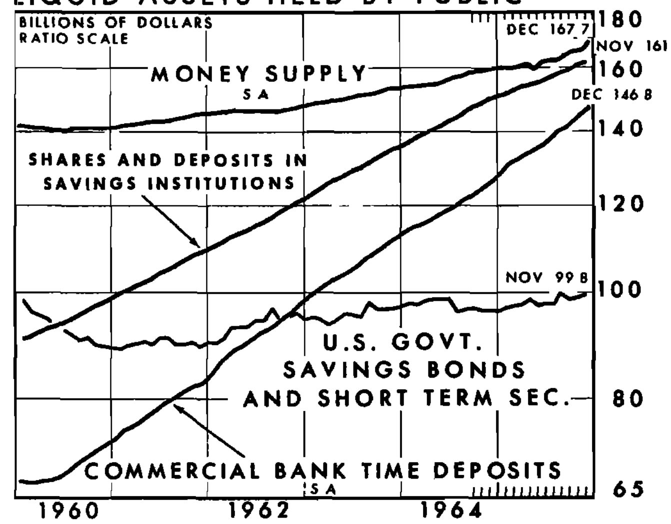
Some of the Treasury's remaining cash needs may possibly be raised in conjunction with the regular February refunding which will involve a relatively light $2.5 billion of maturing debt held by the public.

FINANCIAL DEVELOPMENTS - UNITED STATES

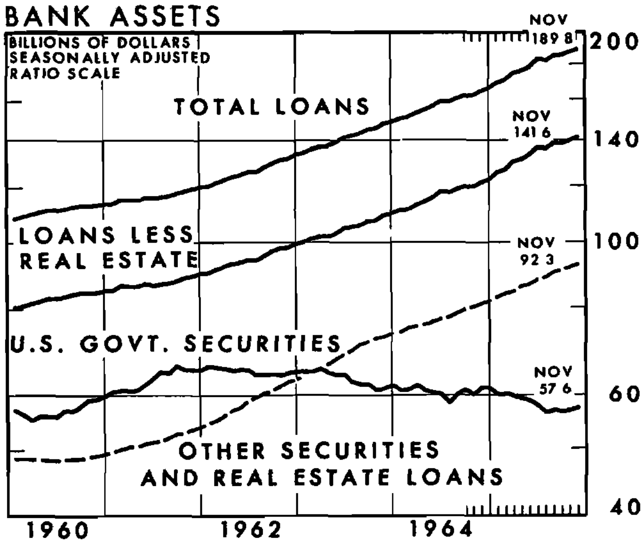
BANK RESERVES



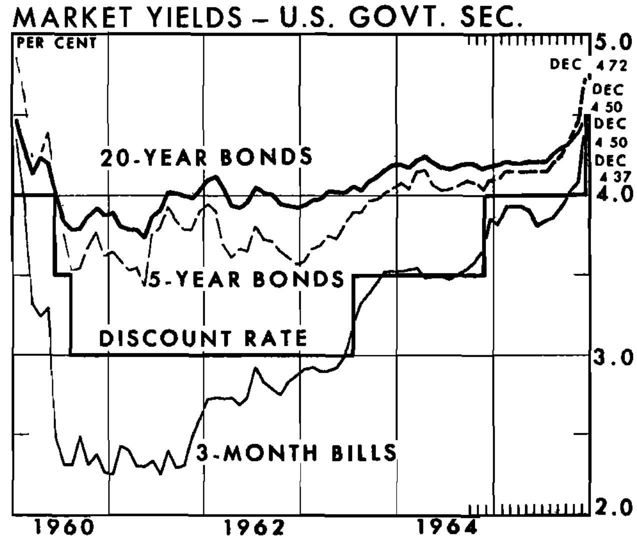
LIQUID ASSETS HELD BY PUBLIC



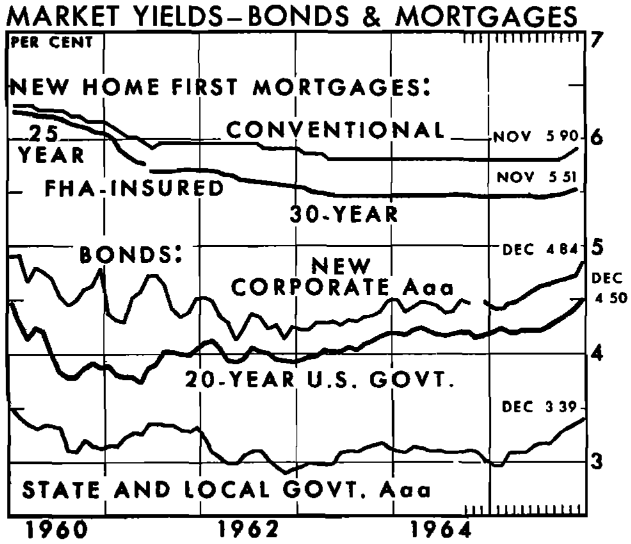
BANK ASSETS



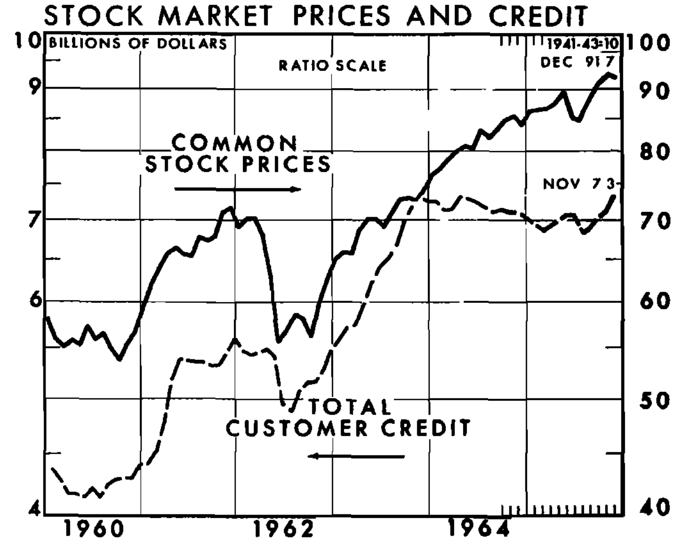
MARKET YIELDS – U.S. GOVT. SEC.



MARKET YIELDS–BONDS & MORTGAGES



STOCK MARKET PRICES AND CREDIT



INTERNATIONAL DEVELOPMENTS

U.S. Balance of Payments. Monthly figures for October and November, together with preliminary weekly indicators for almost all of December, suggest that the U.S. payments position for the fourth quarter may show:

(1) a small deficit on the liquidity basis -- probably about \$1/4 billion

(2) a somewhat larger deficit on regular transactions

(3) a fairly sizable deficit on official settlements -- on the order of \$1/2 billion or more

Compared with the results for the third quarter, and for the first 9 months of 1965, these figures would represent an improvement on the liquidity basis and on regular transactions (which differs from the liquidity basis by inclusion of debt prepayments, advance receipts on military exports and sales of non-convertible Roosa bonds among the items that measure the deficit). On the other hand, the fourth quarter will show a substantial deterioration on official settlements, reflecting the ending and reversal of temporary developments in the third quarter. In that quarter, movements out of sterling into the Euro-dollar market and shifts of funds from the Bank of Italy to Italian commercial banks were largely responsible for the appearance of a surplus on official settlements; in the fourth quarter, the reflux into sterling and the drastic curtailment of swap operations between the Bank of Italy and Italian banks in the face of a continuing payments surplus have been major elements contributing to the substantial deficit on official settlements. Taking the third and fourth quarters together, the deficit on official settlements is not expected to differ substantially from the results for the first half of the year. The deficit for the year 1965 on regular transactions and on official settlements is expected to be about half the 1964 figure -- that is, about $1-1/2 billion regular transactions and perhaps as much as $3/4 billion on official settlements. The improvement, compared to 1964, in the balance on the liquidity basis will probably be slightly greater than on regular transactions, owing to a rise in special receipts in 1965.

In the fourth quarter of 1965, we know of $160 million of such receipts, representing purchases by the Italian authorities of non-convertible U.S. dollar notes, which will be redeemed as payment is made for Italian purchases of U.S. military equipment.

The postponement into 1966 of some new Canadian bond issues helped the U.S. payments position in the fourth quarter, while the postponement of year-end payments by British had an adverse effect of approximately the same magnitude.

Net extensions of bank credits under the VFCR in November only partly offset net reflows of such credits in October; the $110 million net reflow of bank credits in these two months together was sufficient to outweigh outflows of other bank-reported claims on foreigners.

Direct investment is the principal capital account item on which there is no information available past the third quarter. In that quarter there was a sharp reduction in the net outflow to $0.5

billion from a rate of $1 billion per quarter (including some special transactions) in the first half. Much of the third-quarter decline was accounted for by reduced outflows to Europe.

U.S. merchandise exports have continued the strong advance that became evident last summer. At an annual rate of $28.1 billion (balance of payments basis) exports in October/November were more than 3 per cent above the third quarter rate. The October/November gain reflected a rise in non-agricultural exports. Agricultural exports continued close to the high third quarter rate, following recovery from a slump in the first half of the year; sales of coarse grains and soy beans to Europe have been high, reflecting poor European harvests.

Data on merchandise imports require substantial correction for variations in the carryover of statistical documents from one reporting period to the next. After tentative adjustment for this, imports in October/November appear to have been at an annual rate of $22-1/2 billion, up about 2 per cent from the third quarter and 16 per cent from a year earlier. The trade surplus for the two months was about $5-1/2 billion at an annual rate, up about $1/4 billion from the third quarter.

U.S. FOREIGN TRADE
(In billions of dollars, seasonally adjusted annual rates)

	1964		1965		
	Jul.- Sep.	Oct.- Dec.	Jan.- Jun.	Jul.- Sep.	Oct.- Nov.
Exports					
Agricultural	6.3	6.6	5.7	6.7	6.6 p/
Non-agricultural	19.2	20.2	19.0	20.5	21.5 p/
Total	25.5	26.8	24.7	27.2	28.1
Imports	18.8	19.6	20.3	22.1 1/	22-1/2 1/
Trade balance	6.7	7.2	4.4	5.1	5-1/2

Note: Balance of payments basis. October/November figures for agricultural exports have been adjusted using quarterly seasonal factor for fourth quarter.

p/ Preliminary.

1/ Corrected for changes in the carryover of import documents. The adjustment for October/November is tentative.

Prices and wages in industrial countries. Over the past year the domestic stabilization efforts in France and Italy, which began to show results in 1964, have brought a further slowing of price and wage advances. Rises in the Netherlands have continued fairly large, but not as large as in 1963-64 when the Dutch wage-regulation system broke down. Of the Common Market countries, only Germany has had larger rises in wage rates and consumer prices this year than last, and even in Germany the rise in wholesale prices of manufactures has slowed a little.

In Britain and Japan the pace of consumer price rises has shown no moderation, and for Britain the same may be said of industrial prices. Average changes of industrial prices in Japan have been small in both the past two years. In Canada, as in the United States, price and wage advances have been greater this year than last.

ANNUAL PRICE INCREASES IN SELECTED INDUSTRIAL COUNTRIES
(per cent)

Country	Month	Consumer Prices				Wholesale Prices of Manufactures	
		Total		Food			
		1964-1965	1963-1964	1964-1965	1963-1964	1964-1965	1963-1964
Less rapid in 1965:							
France	Oct.	2.3	2.6	1.7	3.6	-0.3	2.9
Italy	Sept.	4.1	6.5	5.1	6.1	1.1	3.6
Netherlands	Oct.	4.4	6.5	n.a.	n.a.	a/2.8	a/7.9
More rapid in 1965:							
Japan	Nov.	5.7	4.5	5.3	4.5	1.2	-0.7
Canada	Nov.	3.2	1.4	4.7	0.9	3.2	-0.2
Germany	Oct.	3.8	3.8	4.5	2.3	2.0	2.4
U.K.	Sept.	4.8	2.5	3.3	5.0	4.2	4.0

a/ 12 months to August.

In each of the Common Market countries, the advance shown in the wholesale price index for manufactures over the past year has been considerably smaller than the country's consumer price increase. This behavior may help to explain some relatively moderate increases in indexes of export prices (or of unit values): only about 2 per cent in France and Germany, and a 3 per cent decline in Italy. In Britain, too -- but in this case despite a larger rise in the domestic prices of manufactures -- the export unit value index has risen at a rate of only 2 per cent. In contrast, for whatever the comparison may be worth, the not very reliable U.S. unit value indexes for manufactures and semimanufactures show rises of nearly 4 per cent from September 1964 to September 1965 (not yet published); these increases occurred in late 1964 and early 1965, with a peak in February.

ANNUAL WAGE INCREASES IN SELECTED INDUSTRIAL COUNTRIES
(per cent)

Country	Month	1964-1965	1963-1964
Less rapid in 1965:			
France a/	September	5.9	6.7
Italy b/	October	6.9	16.3
Netherlands c/	September	8.1	18.4
More rapid in 1965:			
Canada d/	August	4.0	3.6
Germany d/	July	10.3	8.3
United Kingdom e/	October	7.0	7.3

a/ Hourly wage rates, all private sector occupations except agriculture.
b/ Hourly wage rates.
c/ Hourly wage rates in industry.
d/ Average hourly earnings in manufacturing (Canada) or industry (Germany).
e/ Average weekly earnings; the rise in hourly earnings was somewhat greater than the figure shown for 1964-65, slightly less for 1963-64.

Italy. The effects of the stabilization program are apparent in a further slowing of rise this year in most price indexes. In the twelve months to September 1965, prices of non-food consumer goods rose only 1.7 per cent compared with 5.6 per cent a year earlier; at the wholesale level the increase in prices of industrial goods was also smaller. However, consumer food prices continued to climb rapidly.

Wage rates in Italy have recently shown a much lower rate of increase than in the previous three years. In part, this slowing reflects the small number of contracts which have come up for renegotiation in the past year, but it also reflects (with a lag) the effects on labor demand of the 1964 Italian recession.

France. Price increases have continued to be moderate compared with prestabilization years. In the year to October, prices of non-food consumer goods rose about as much as a year earlier, but the rise in consumer food prices slowed down. Wholesale prices rose only a little more than 1 per cent; wholesale prices of manufactures in fact declined fractionally.

Hourly wage rates (in all occupations except agriculture and government service) rose about 6 per cent in the 12 month through September, compared with about 7 per cent in the previous 12 months.

Germany. Persistently strong demand influences are largely responsible for the more rapid pace of consumer price advances in the twelve months to October. Tight labor market conditions have been reflected in a continuing rapid rise in hourly earnings in industry. The rise in wholesale prices of manufactures accelerated considerably in the last several months of 1964, but since early 1965 has been somewhat slower, particularly for investment goods.

United Kingdom. The pace of upward price and wage movements in the United Kingdom seems hardly to have moderated. Retail prices rose almost 5 per cent in the year ending in September, partly because of higher drink and tobacco taxes imposed in April. The increase in average weekly earnings in the 12 months to October exceeded gains in agreed weekly wage rates by about 2 per cent. As the year ended, the British Trades Union Congress voted to support the Government's income policy in agreeing to consult in the drafting of legislation incorporating some compulsory features of prices and wages review.

Canada. Under the influence of continued high levels of economic activity and tight labor markets, there has been some acceleration of upward price and wage movements. The 3.2 per cent increase in consumer prices in the year ending in October reflected in part the effects of a sharp rise in food prices, particularly beef and vegetables. Wholesale prices of manufactures, which were almost unchanged in the year through October 1964, rose by 3.2 per cent in the following twelve months.

Japan. Differential movements within the Japanese price structure in the past year have reflected differences in the strength of demand for consumer goods and investment goods. Prices of non-food consumer goods, both at retail and wholesale, have been rising, while investment goods prices have been declining. The total consumer price index rose especially sharply up to April 1965, as the result of a run-up in food prices, which have since then held at below-peak levels.

Interest rates in foreign markets. Following the U.S. and Canadian discount rate increases on December 6, U.K. Treasury bill rates

SELECTED INTEREST RATES, DECEMBER 1965
(per cent per annum)

	Dec. 3	Dec. 10	Dec. 17	Dec. 24	Dec. 31
Money market rates a/					
Canada b/	4.16	4.46	4.55	4.56	4.54
France b/	4.81	4.62	3.69	4.63	4.69
Germany	6.25	6.25	6.25	6.25	6.25
U.K.	5.24	5.33	5.36	6.36	f/5.36
Long-term yields					
Canada c/	5.45	5.50	5.50	5.48	5.45
France d/	5.86	5.85	5.83	5.81	n.a.
Germany d/	7.78	7.92	7.98	8.02	7.99
U.K. (war loan) b/	6.49	6.57	6.61	e/6.60	g/6.61

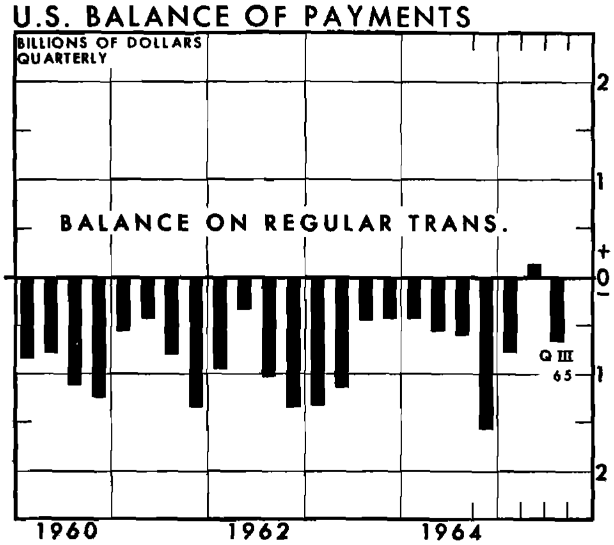
a/ Canada and U.K.: 90-day Treasury bills; Germany: 90-day interbank loan rate; France: call money.
b/ Thursday data.
c/ 4-1/2 per cent, September 1983; mid-market yields at Wednesday closing.
d/ Composite yields, public sector bonds; weekly averages for France, yield at date shown for Germany.
e/ December 22.
f/ December 30.
g/ December 29.

rose about 1/8 per cent in the first half of December. There were also advances of about 1/8 per cent in long-term bond yields in the United Kingdom and in Germany. Bond prices declined in Britain because the U.S. action marked the end of hopes for an early cut in Bank rate. In Germany, the uptrend in bond yields in this period mainly reflected continued selling generated by borrowing difficulties of the German public authorities.

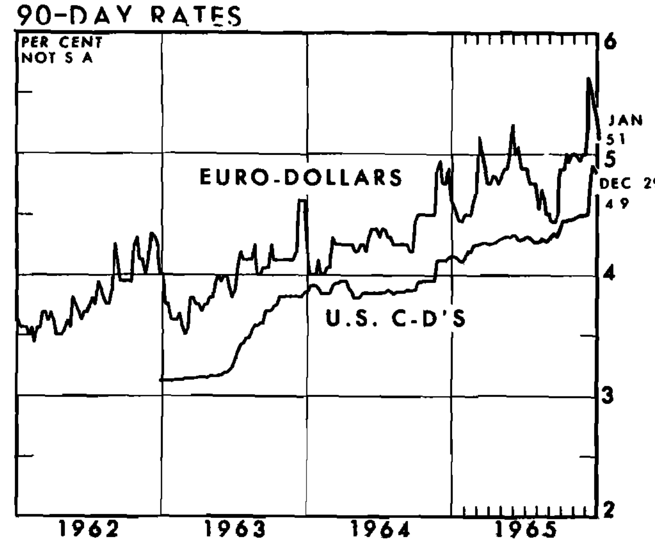
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

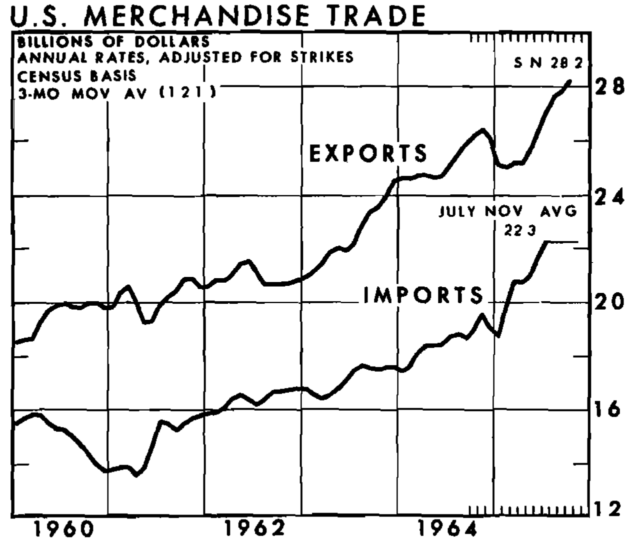
U.S. BALANCE OF PAYMENTS



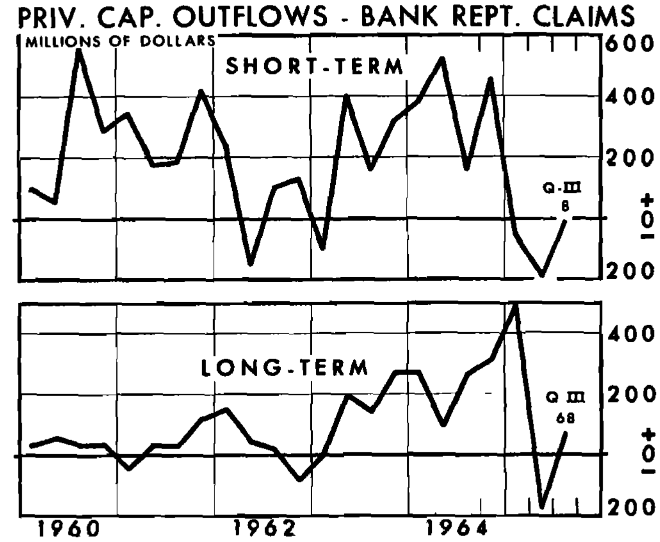
90-DAY RATES



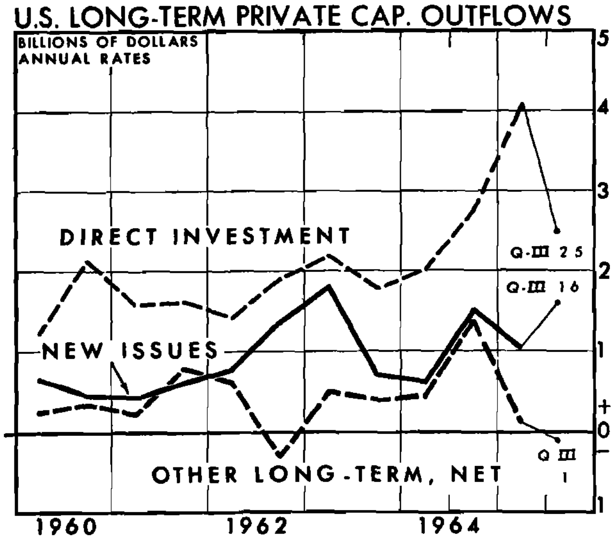
U.S. MERCHANDISE TRADE



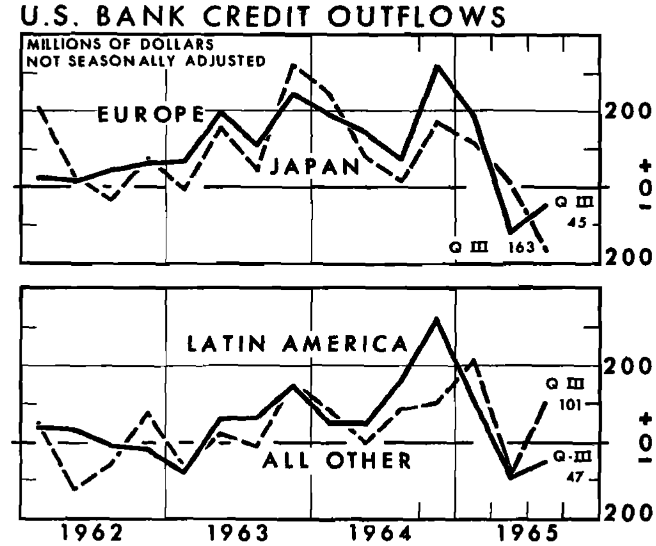
PRIV. CAP. OUTFLOWS - BANK REPT. CLAIMS



U.S. LONG-TERM PRIVATE CAP. OUTFLOWS



U.S. BANK CREDIT OUTFLOWS



APPENDIX A: MEASURES OF CAPACITY UTILIZATION*

At least three measures of industrial capacity utilization are in widespread use as tools for analyzing the current economic situation. The McGraw-Hill monthly measure for manufacturing is the most recent entry into the field, having been announced in the December 25th edition of Business Week. The Wharton School quarterly measure for manufacturing, mining, and utilities is an older series but has recently been overhauled and revised. And our own measure for manufacturing continues to be widely quoted in spite of its "not for publication" tag. Our measure for "major materials" is not so widely publicized but may have special relevance as an indicator of inflationary pressures. Fortunately -- and in contrast to the situation a few years ago -- these measures tell pretty much the same story; namely, that utilization rates have been fairly stable this year at the highest rates since the mid-fifties, but are still below the peak quarters of that period.

A. The McGraw-Hill Measure -- The new McGraw-Hill measure (see attached table) takes as its starting-point the answers to its survey question addressed to a sample of manufacturing companies a little over a year ago, "What per cent of your capacity were you operating in September 1964?" From the September starting-point output is moved by per cent changes in the relevant components of our industrial production index (seasonally adjusted); capacity is changed by per cent changes implied by answers to an earlier McGraw-Hill survey question, "How much do you plan to increase your capacity this year?"

Twice a year this battery of utilization rates is confronted with the results of a new survey of operating rates; and for manufacturing as a whole the discrepancies to date (December 1964 and September 1965) have been very minor. For the components, the McGraw-Hill procedure has been to average the extrapolation results and the survey results and then proceed from the average rates as before.

Quarterly average utilization rates for all manufacturing according to this measure are as follows:

1964 -	IV	86
1965 -	I	89
	II	89
	III	89-
	IV	88-89

The measure could be carried back before September 1964 -- all the ingredients, in fact, exist back to December 1954 -- but it has not been done. The new monthly rates of operation are shown in Table 1.

---

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

B. Our measure for manufacturing -- Our manufacturing measure is based largely on McGraw-Hill and industrial production data and is therefore quite similar to the McGraw-Hill measure. The basic trend of capacity in our series is derived by dividing the manufacturing production index by McGraw-Hill operating rates for all manufacturing. Year-to-year movements in this capacity indicator are smoothed through the use of a capital stock series and the McGraw-Hill survey results on yearly capacity change. Our output series is the manufacturing component of the industrial production index.

Recent quarterly results for our series, together with some historical figures, are as follows. Complete results appear in Table 2.

CAPACITY UTILIZATION FOR MANUFACTURING, FEDERAL RESERVE
(Seasonally adjusted)

1964 - IV	88	1953 - I	96
		II	96
1965 - I	90		
II	90	1955 - III	91
III	90	IV	92
IVe	90		
		1956 - I	90
		II	89
		III	87
		IV	89

The quarterly movements in our series parallel those of the McGraw-Hill series. The difference in level arises because McGraw-Hill assumes that its respondents provide seasonally adjusted operating rates whereas we have assumed that they provide unadjusted rates. There is some evidence that the McGraw-Hill assumption is superior, so we plan to shift our measure to that basis next time it is revised.

C. The Wharton School measure -- The Wharton School measure for manufacturing, mining, and utilities, formerly was calculated by drawing straight lines between cyclical production peaks and calling these lines "capacity". This procedure is still followed for many of the component industries, but for about half of them a complex new procedure involving factor shares and unemployment by industry is followed. Results for recent and selected past quarters follow:

CAPACITY UTILIZATION FOR MANUFACTURING, WHARTON SCHOOL

1964 - IV	90	1953 - I	95
		II	95
1965 - I	92		
II	92	1955 -III	93
III	93	IV	94
		1956 - I	93
		II	93
		III	92
		IV	93

The Wharton School also has recently introduced a measure of capacity utlization for "services" based on ton-miles for transportation, residential housing vacancies, and office-rental vacancies. The new measure shows much less fluctuation than the industrial measure, but it is also currently at a level which has not been equaled or exceeded since the 1955-57 expansion.

D. Major materials indexes -- Our capacity and output indexes for seventeen industrial materials, based on surveys (trade association or government) of rated capacity and physical output records, has been crippled since the Iron and Steel Institute discontinued its capacity surveys five years ago. But it is still possible to present results based on "low" and "high" estimates of steel capacity. These results follow:

CAPACITY UTILIZATION: MAJOR MATERIALS, FEDERAL RESERVE

	Low steel	High steel		
1964 - IV	90	88	1951 - I	96
			II	96
1965 - I	90	88		
II	92	89	1955 -III	91
III	92	89	IV	92
IV	86 1/	83 1/		
			1956 - I	92
			II	90
			III	80 2/
			IV	90

1/ Steel cutback
2/ Steel strike

E. <u>Other measures</u> -- Bert Hickman of Brookings, the National Industrial Conference Board, <u>Fortune</u>, Peter Tinsley of our staff, and perhaps others have all experimented with aggregative utilization measures in addition to the widely used ones described above.

The Office of Business Economics has had nearly two years' experience now with a "capacity evaluation" question attached to its plant and equipment survey. Each respondent is asked whether his plant and equipment facilities are "adequate" to meet current and prospective demands, whether more plant and equipment is needed, or whether existing plant and equipment exceeds needs. Results of the survey (which may include seasonal forces as well as cyclical pressures) for all manufacturing follows:

SURVEY EVALUATION OF CAPACITY, OFFICE OF BUSINESS ECONOMICS

	Per cent of total respondents		
	More plant and equipment needed	About adequate	Plant and equipment exceeds needs
1964 - March 31	36	58	6
June 30	38	56	6
Sept. 30	39	56	5
Dec. 31	43	51	6
1965 - March 31	42	52	6
June 30	47	47	6
Sept. 30	49	45	6

These results seem to indicate more tightening of capacity pressures during the year 1965 than do the aggregative measures described earlier. The metal fabricating industries have been responsible for a large share of the tightening, with their proportion under "more plant and equipment needed" rising from 32 per cent in September 1964 to 61 per cent in September 1965. The McGraw-Hill detail also suggests more tightening for these industries than for the total.

In spite of the lack of perfect agreement among various measures, it is heartening that widely different approaches to capacity measurement give broadly consistent descriptions of the current situation. To many of us, it is surprising as well as heartening; it seems to be possible to squeeze much more information out of unpromising data than we would have believed.

TABLE 1: NEW MCGRAW-HILL MEASURE

MANUFACTURING INDUSTRY OPERATING RATES

	1964				1965										
	SEPT.	OCT.	NOV.	DEC.	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEPT.	OCT.	NOV.
All Manufacturing	86	84	86	88	88.5	88.5	89	89	89	89	89.5	89	87	88.5	88.5
Steel	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Nonferrous Metals	95	91	95	98	97	97.5	98.5	99.5	99	94	88	91	95.5	95	96.5
Machinery	84	84	85.5	87	87	87.5	87.5	88	88.5	89.5	90.5	90.5	88.5	91	92
Electrical Machy.	81	82	83	84	84	85	86	86.5	87	87.5	87.5	87.5	87	89.5	90.5
Autos, Trucks & Parts	91	59	88	95	95.5	94	98.5	96	96.5	97.0	96.0	95.5	95.5	93.5	93.5
Other Trans. Equip.	71	69	72	80	80	78.5	79.0	81.5	83.5	84.5	84.5	86.5	81.5	89	90
Fabricated Metals	85	82	86	88	88	91	91	92	91	91	91.5	91	87	92.5	92
Instruments	85	84	85.5	83	86.5	88	88.5	87	87.5	89	90	90	87.5	92.5	92
Stone, Clay & Glass	83	82.5	83	80	86	85	83	83	83	83.5	84	84.5	84.5	83	83
Chemicals	83	81	80.5	85	81.5	81.5	82	81	80.5	80.5	81.5	81.5	83	81.5	81
Paper & Pulp	92	94	92	94	95	93	93.5	93.5	93.5	92	93.5	92.5	95	91	91.5
Rubber	93	92.5	92.5	96	92.5	96	96.5	93	93	93	93	92.5	92	92	92.5
Petroleum Refining	92	94	93	91	91	93	93.5	93	94	93	95	96	93.5	96	97
Food & Beverages	82	81.5	83.5	86	83.5	82.5	82	81	80	80	80	79	81	84	84
Textiles	95	96.5	97	96	99	99	98.5	99	98.5	99	99.5	99	97	99.5	99.5
Misc. Manufacturing	90	91.5	92	88	93	93	92	92	93	92	91.5	92	89	90	91

NOT FOR PUBLICATION

Table 2

Manufacturing Output As A Per Cent of Capacity, Federal Reserve
(Quarterly, Seasonally Adjusted)

	I	II	III	IV
1948	87	86	86	84
1949	80	77	77	76
1950	80	86	92	93
1951	93	92	89	88
1952	89	88	89	95
1953	96	96	94	87
1954	83	82	82	84
1955	87	90	91	92
1956	90	89	87	89
1957	88	86	86	80
1958	74	73	77	80
1959	83	87	84	82
1960	87	85	83	79
1961	78	81	83	85
1962	85	86	86	85
1963	85	87	87	87
1964p	87	88	88	88
1965p	90	90	90	90

Note: Estimates based on data from Federal Reserve Board, Department of Commerce, and McGraw-Hill Economics Department.

p -- Preliminary.