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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

May 19, 1967

SUPPLEMENTAL NOTES

The Domestic Economy

Personal income in April rose \$1.4 billion, to \$614.1 billion, seasonally adjusted annual rate. This was the smallest monthly rise in a year but, even so, total personal income was 7.6 per cent above a year earlier. Total wage and salary disbursements rose as payrolls in government and in service industries increased about in line with recent trends and offset small declines in payrolls in manufacturing and distributive industries.

A small decline occurred in transfer payments reflecting the effect of concentration of the payments of annual dividends on Veterans' life insurance policies in February and March. Small increases occurred in social security benefits and unemployment compensation.

New orders received by durable goods manufacturers in April edged up .5 per cent from March and were at about the monthly average for the first quarter, according to Census advance figures. April orders were 12 per cent below last September but, on balance, have changed little since January. Bookings by machinery and equipment producers were up 3.5 per cent in April, following a 2 per cent gain in March. Orders for defense products continued at about the February-March level. Orders for motor vehicles rose and orders for iron and steel also were higher but continued below those during most of last year. Orders for fabricated metal products declined as did orders for electrical machinery, aircraft, and nonferrous metals.

Shipments by manufacturers of durable goods declined nearly 2.5 per cent in April, according to the advance figures, and were less than in any month in more than a year. (This relatively large decline in shipments probably resulted in part from work stoppages in the trucking industry.) Of the major industry groupings only producers of motor vehicles and parts reported a rise from March. April shipments of nonelectrical machinery producers were unchanged while declines in the other major industry groupings ranged from 1.7 per cent in machinery and equipment to 6.8 per cent in fabricated metals.

Unfilled orders of durable goods producers taken together declined further in April, despite the relatively large decline in shipments, from the peak in December. Only order backlogs for aircraft and parts rose from March and this rise pushed their unfilled orders to a new high. Backlogs of machinery and fabricated metal products at the end of April were at the levels prevailing in late summer or early fall, while those of producers of primary metals have been worked down to the total at the end of 1965.

Capital appropriations of the manufacturing industry (confidential until release by NEWSWEEK Monday, May 22) declined 10 per cent in the first quarter of this year, according to the just-completed National Industrial Conference Board survey of the 1000 largest manufacturing companies. Capital expenditures by these manufacturers also declined--by 1.4 per cent. (This contrasts to the cutback of only about .5 per cent indicated by the February Commerce-SEC survey of business

plans for plant and equipment expenditures.) The backlog of unspent appropriations, as a result of this decline, was down 2.0 per cent; this was the first such decline in more than four years. Nevertheless, first quarter closing appropriation backlogs were 3-1/2 times peak expenditures in the final quarter of last year.

All of the first quarter decline in new capital appropriations was at durable goods manufacturers, where they declined nearly a fifth from the final quarter of 1966. New appropriations of durable-goods producers have been declining since the second quarter of last year, and this year's first quarter capital set-asides were 25 per cent less than at that time. First quarter capital expenditures of these durable-goods producers rose slightly further, in contrast to the small decline indicated by the February Commerce-SEC survey.

At nondurable goods industries, capital appropriations were unchanged from the fourth quarter and 8 per cent below the first quarter of last year. Capital expenditures continued to exceed net new appropriations and unspent appropriations, which began to be worked down after the second quarter of last year, declined further.

International developments

The \$1.3 billion U.S. deficit on official reserve transactions in the first quarter had a substantial counterpart in the improved position of sterling. The geographical counterparts to the U.S. deficit in the first quarter, as well as to the surplus in 1966, are illustrated in the table below. It will be noted that in both periods there were

substantial increases in net U.S. liabilities to Asian countries, reflecting expenditures connected with operations in Vietnam. Partial data for April on changes in foreign countries' reserves suggest that the pattern observed in the first quarter continued last month.

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U.S. OFFICIAL RESERVE TRANSACTIONS^{1/}
(Millions of dollars, not seasonally adjusted)

	Memorandum: Reported changes in foreign reserves				
	1966	1967 Q-1	1966	1967	
				Q-1	April (partial)
U.K.	-1,179	+1,020	+100	+160	+145
Other W. Europe	+190 ^{a/}	+ 20 ^{a/}	+1,300 ^{b/}	-700 ^{b/}	-200 ^{b/}
Canada	-570	- 60	-334	- 12	+ 15
Latin America	-200	+ 90	-130	+125	+180
Asia	+670	+140	+550	+ 75	+100
Other countries	+130	+ 70	+270	+140	-100
IMF and unallocated	+710	--	--	--	--
	-240	+1,280	+1,760	+500	+140
U.S. payments balance	+240	-1,280			

^{1/} Increases in U.S. liabilities to foreign official accounts (not including foreign holdings of U.S. securities other than Treasury securities), less U.S. acquisitions of gold and other reserve assets.

^{2/} From IMF International Finance Statistics; for 1967 Q-1 still incomplete.

^{a/} Includes B.I.S.

^{b/} Excludes B.I.S.

Reported changes in foreign countries' gross reserves have differed markedly from data on U.S. net liabilities because of short-term assistance (United Kingdom), gold transactions not involving the United States, and changes in other reserve assets that are not liabilities of the United States (sterling, Euro-dollars, etc.). Nevertheless, except for the U.K. and for other Western Europe, the direction of reported reserve changes generally parallels the direction of change in net U.S. liabilities.

Corrections to Greenbook, May 18, 1967

Page II - 6, line 5 of table: Personal consumption expenditures for durable goods in Quarter III, 1967, should read 70.9.

Page II - 7, line 13 of table: Per cent change in personal consumption expenditures for durable goods in Quarter III, 1967, should read 8.6.

Page II - 7, line 18 of table: Per cent change in business fixed investment in Quarter III, 1967, should read 2.0.

Page II - 17, line 3. Change March to April.

Attached is an updated version of the page I - T - 1 table. Also attached is the table on page III - 7 with the figures lined up with the stubs.

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.)	Apr'67	76.7	76.5	75.3	1.9	3.5
Unemployment (mil.)	"	2.8	2.8	2.8	1.1	-20.6
Unemployment (per cent)	"	3.7	3.6	3.7	-	-
Nonfarm employment, payroll (mil.)	"	65.6	65.5	63.4	3.6	9.1
Manufacturing	"	19.2	19.4	18.9	1.6	7.8
Other industrial	"	8.1	8.2	8.0	0.7	4.3
Nonindustrial	"	38.3	38.0	36.4	5.2	10.8
Industrial production (57-59=100)	"	155.9	156.4	153.9	1.3	10.6
Final products	"	156.5	156.5	152.9	2.4	12.2
Materials	"	155.9	156.4	154.5	0.9	9.4
Wholesale prices (57-59=100) <u>1/</u>	Apr'67	105.3p	105.7	105.5	-0.2	3.5
Industrial commodities	Mar'67	105.1	105.1	103.6	1.4	3.4
Sensitive materials	"	101.3	101.9	105.4	-3.9	-0.1
Farm products, foods and feeds	Apr'67	103.6e	104.6	108.7	-4.7	3.4
Consumer prices (57-59=100) <u>1/</u>	Mar'67	115.0	114.8	112.0	2.7	5.5
Commodities except food	"	107.8	107.6	105.6	2.1	2.9
Food	"	114.2	114.2	113.9	0.3	6.8
Services	"	126.3	125.9	120.1	5.2	7.9
Hourly earnings, mfg. (\$)	Apr'67	2.80	2.79	2.70	3.7	8.1
Weekly earnings, mfg. (\$)	"	112.90	112.44	111.57	1.2	6.4
Personal income (\$ bil.) <u>2/</u>	"	614.1	612.7	570.5	7.6	17.5
Corporate profits before tax(\$bil.) <u>2/</u> QI'67		77.3	81.8	82.7	-6.5	3.8
Retail sales, total (\$ bil.)	Apr'67	25.7	25.8	24.9	2.9	12.3
Autos (million units) <u>2/</u>	"	7.6	7.2	7.9	-3.6	-7.8
GAF (\$ bil.)	"	6.3	6.1	5.8	9.4	22.0
Selected leading indicators:						
Housing starts, pvt. (thous.) <u>2/</u>	"	1,171	1,161	1,502	-22.0	-24.5
Factory workweek (hours)	"	40.5	40.4	41.5	-2.4	-1.2
New orders, dur. goods (\$ bil.)	"	22.2	22.1	24.2	-8.1	0.9
New orders, nonel. mach. (\$ bil.)	"	3.5	3.4	3.5	-2.0	11.7
Common stock prices (1941-43=10)	"	90.96	89.42	91.60	-0.7	3.4
Inventories, book val. (\$ bil.)	Mar'67	136.9	136.8	123.6	10.8	20.5
Gross national product (\$ bil.) <u>2/</u> QI '67		763.7	759.3	721.2	5.9	15.6
Real GNP (\$ bil., 1958 prices) <u>2/</u>	"	656.7	657.2	640.5	2.5	9.4

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

Corrected form of Greenbook table on page III - 7

SOURCES OF CREDIT TO TOTAL BORROWING
(Billions of dollars at seasonally adjusted annual rates)

	1966	1966		1967
		I	IV	I
Total borrowing	71.1	84.1	53.5	70.1
Sources of credit:				
Private domestic nonfinancial sectors	<u>44.2</u>	<u>55.3</u>	<u>40.5</u>	<u>60.6</u>
Demand deposits and currency	2.9	2.8	7.5	7.6
Time and savings deposits at banks	12.3	15.1	4.6	32.4
Savings accounts at savings institutions	7.3	9.7	9.4	16.4
U.S. Gov. securities	8.1	13.0	7.5	-14.0
Other securities	13.6	14.6	11.5	18.3
Federal loan programs	7.5	11.3	1.9	.9
Federal cash balances	-0.5	-5.1	-4.0	-2.4
Other sources	19.9	22.6	15.1	11.0

Correction is in alignment of stubs and figures. No new figures.