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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

July 14, 1967

SUPPLEMENTAL NOTES

The Domestic Financial Situation

Yields on FHA-insured mortgages sold in the secondary market rose further in June as average discounts exceeded 4 per cent for the first month since January. Contract rates on conventional first mortgages also continued higher--by another 5 basis points--in the case of new homes, but those for existing homes were unchanged, according to official estimates from the Federal Housing Administration.

As in May, the increase in yields on FHA-insured mortgages, the most sensitive of the mortgage yield series, was less than the rise in returns on new issues of high-grade corporate bonds. As a result, the yield spread which in May was already unusually low narrowed even further--to 72 basis points.

AVERAGE RATES AND YIELDS ON SELECTED NEW-HOME MORTGAGES

	Primary Market:		Secondary Market:	
	Conventional loans		FHA-insured loans	
	Level (Per cent)	Change (Basis points)	Level (Per cent)	Change (Basis points)
<u>1966</u>				
November	6.70	0	6.81	n.a.
December	6.65	- 5	6.77	- 4
<u>1967</u>				
January	6.60	- 5	6.62	-15
February	6.50	-10	6.46	-16
March	6.45	- 5	6.35	-11
April	6.40	- 5	6.29	- 6
May	6.45	5	6.44	15
June	6.50	5	6.51	7

NOTE: FHA series; interest rates on conventional first mortgages (excluding additional fees and charges) are rounded to the nearest 5 basis points; secondary market yields are for certain 6 per cent FHA-insured Sec. 203 loans.

Yields on new corporate bonds continued to decline this week, but issues at these lower yield levels were accorded a mixed response from investors. Of the five new, non-convertible offerings this week, two negotiated issues were quick sellouts while all three competitive utility issues have large unsold balances. Municipal bond yields advanced again this week, although most recently have shown signs of leveling off.

Common stock prices--as measured by Standard and Poor's index of 500 stocks--closed at 92.42 on July 13, little changed from the July 11 close cited in the Greenbook. At this level prices are still two per cent below the May peak but, nonetheless, nearly two per cent above the end of June level. Trading volume this week has been extremely heavy, averaging more than 11.6 million shares in the first four trading days.

International Developments

The French Government on July 12 unexpectedly announced certain expansionary fiscal measures. A series of decrees making use of the special powers recently obtained from the parliament had been expected some time this summer, and on Wednesday several decisions were announced. But the unexpected addition to this list of some actions intended to have early expansionary effects is a sign that the Government is aware of the marked softening in the French economy in recent months.

Family allowances, which in France are paid for all dependent children on an ascending scale and exceed wage earnings in many households, are to be increased immediately by 4.5 per cent. About 800 million francs are to be committed this year and charged to next year's budget, for public housing, highway construction, and telephone system expansion. A substantial sum is to be available for loans to private businesses investing in depressed areas. Institution of the value added tax system is to occur ahead of schedule for certain industries for whom the change represents a tax cut.

Among the other measures announced were the highly controversial plan for profit sharing in industry and actions to reduce the deficit of the social security system. Details of amounts and timing of the latter are not yet available; obviously the effects will be anti-inflationary or, under present conditions, deflationary.

Corrections

Table I -- T - 1: Latest figures shown in the Greenbook for wholesale and consumer prices are for May, not June. The wholesale prices for industrial commodities and sensitive materials are the FRB groupings; the FR groupings for industrial commodities showed a rise of .1 percentage point in May. The Department of Labor preliminary estimate of wholesale prices of all commodities for June is 106.3 (1957-59 = 100) as compared with the final estimate of 105.8 in May; for the industrial commodities grouping the BLS June estimate is 106.0, unchanged from May, April, and March. The combined index of farm

products and processed foods and feeds rose again in June by about the same amount as in May, according to BLS preliminary indications.

Table I -- T - 2: The section on new security issues should read as follows:

	Date	Amount	Avg. 3 latest months	Change from year earlier	
				Latest month	Avg. 3 latest months
New Security Issues (N.S.A.) (Millions of dollars)					
Corporate public offerings	July '67	1,850 ^e	1,610 ^e	1,300 ^e	696 ^e
State & local gov. public offerings	"	1,100 ^e	1,224 ^e	399 ^e	309 ^e
Com. & fin. co. paper, change in outstandings	May '67	818	623	620	266
N.S.A. - Not seasonally adjusted; e - estimated by Federal Reserve					

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SECOND SUPPLEMENT
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Changes in some of the components, however, are more significant. These include the following:

(1) With personal income raised and total consumer purchases little changed, personal saving and its ratio to disposable income have been increased significantly. In the second half of 1966 and the first quarter of this year, the ratio was raised by almost a full percentage point, and in the first quarter was 7.3 per cent.

(2) Inventory accumulation in 1966 and the first quarter of 1967 now total almost \$2 billion more than shown by the earlier figures.

(3) Corporate profits before tax was revised up by 1.8 per cent in 1966, to \$83.8 billion, with an increase -- rather than a leveling off -- shown in the second half of the year.

The Commerce preliminary second quarter figures indicate a rise in current dollar expenditures of \$9.0 billion and in final sales of \$14.0 billion; these rises are somewhat less than projected in last week's Greenbook. Real GNP in the second quarter advanced at an annual rate of 2.4 per cent, with the deflator also rising at a rate of 2.4 per cent per year. Significantly smaller-than-expected increases occurred, according to the preliminary figures, in residential construction, business fixed investment, net exports, and defense purchases of goods and services. Total consumption expenditures also increased slightly less than expected, with a smaller

increase in nondurable goods being about offset by a larger rise in durable goods expenditures. The smaller rise in GNP was reflected in a somewhat smaller-than-expected rise in personal income and, despite a significant drop in Federal personal tax payments, the saving rate declined to 6.9 per cent from the exceptionally high first quarter rate.

The staff projection for the third quarter has been recast to take into account the revised figures and for the third quarter we now show a rise of \$14 billion in current dollar GNP, rather than \$15 billion. Final sales are still projected to rise about \$17 billion. We still expect some net liquidation of inventories in view of continued high inventory-sales ratios in manufacturing industries and the prospects for substantial drawing down of auto stocks with the possibility of a strike in the industry. With liquidation projected at \$1.0 billion annual rate the downdrag on GNP will be a little more than projected last week because of the higher inventory change figures now shown for the second quarter. Other changes are about the same as shown in the July 12 projection. With an increase of \$14 billion in expenditures and a projected rise of 2.7 per cent in the deflator, real output rises at an annual rate of 4.3 per cent. Consumer expenditures are again projected to increase more rapidly than disposable income and the saving rate declines to 6.5 per cent from 6.9 per cent in the second quarter.

SUPPLEMENTAL NOTE: GNP REVISION

Revised gross national product and related income figures from the first quarter of 1964 through the first quarter of this year and the preliminary estimates for the second quarter were released today by the Department of Commerce. This is the usual July 3-year revision which incorporates newly available data. The attached tables on "Gross National Product and Related Items" update those in the Greenbook of July 12, 1967, and show the revised figures, the preliminary estimates for 1967-II, and the staff's projection for 1967-III recast in terms of the revised data.

The revision raises only slightly earlier estimates of gross national product in both current and constant dollars, and personal income; for 1966 the upward revision in these series was only about 1/2 to 3/4 of 1 per cent. The revised GNP estimates also depict basically the same quarterly pattern of over-all developments as did the former ones. The annual rate of increase in current dollar GNP in the fourth quarter of last year, however, is now indicated at 7.1 per cent instead of 7.5 per cent, and in real terms 3.8 per cent instead of 4.5 per cent. For the first quarter of this year, the over-all effect of the revision is relatively small, and annual rates of change are 2.2 per cent for current dollar GNP and -.2 per cent for constant dollar GNP.

REVISED
GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of dollars, with quarterly figures at annual rates)

	1964	1965	1966	1966		1967		
				III	IV	I	IIp	Proj. III
Gross National Product	632.4	683.9	743.3	748.8	762.1	766.3	775.3	789.3
Final sales	626.6	674.5	729.9	737.4	743.6	759.2	773.2	790.1
Private	497.9	538.1	575.6	579.7	581.9	588.8	598.0	610.1
Personal consumption expenditures	401.2	433.1	465.9	470.1	473.8	480.2	488.9	497.9
Durable goods	59.2	66.0	70.3	70.9	70.6	69.4	72.1	73.6
Nondurables goods	178.7	191.2	207.5	209.5	210.3	214.2	216.6	220.8
Services	163.3	175.9	188.1	189.8	192.9	196.6	200.2	203.5
Gross Private domestic investment	94.0	107.4	118.0	116.4	122.2	110.4	106.1	105.9
Residential construction	27.1	27.0	24.4	23.7	20.9	21.4	22.7	24.5
Business fixed investment	61.1	71.1	80.2	81.2	82.8	81.9	81.3	82.2
Change in business inventories	5.8	9.4	13.4	11.4	18.5	7.1	2.1	-.8
Nonfarm	6.4	8.4	13.7	12.0	19.0	7.3	2.2	-1.0
Net Exports	8.5	6.9	5.1	4.6	4.3	5.3	5.2	5.5
Gov't purchases of goods & services	128.7	136.4	154.3	157.7	161.7	170.4	175.2	180.0
Federal	65.2	66.8	77.0	79.5	81.5	87.1	89.5	92.2
Defense	50.0	50.1	60.5	63.0	65.6	70.2	72.6	75.1
Other	15.2	16.7	16.5	16.6	15.9	16.8	16.9	17.1
State & local	63.5	69.6	77.2	78.1	80.2	83.3	85.6	87.8
Gross National Product in								
Constant (1958) dollars	581.1	616.7	652.6	654.8	661.1	660.7	664.6	671.7
GNP Implicit deflator (1958=100)	108.8	110.9	113.9	114.4	115.3	116.0	116.7	117.5
Personal income	497.5	537.8	584.0	589.3	601.6	612.9	618.9	629.5
Wage and salaries	333.7	359.1	394.6	399.6	407.4	414.7	418.0	426.0
Disposable income	438.1	472.2	508.8	512.4	522.0	532.7	540.2	547.0
Personal saving	26.2	27.2	29.8	29.2	34.6	38.8	37.1	35.5
Saving rate (per cent)	6.0	5.8	5.9	5.7	6.6	7.3	6.9	6.5
Corporate profits before tax	66.8	76.6	83.8	84.0	83.9	79.0	n.a.	n.a.
Federal government receipts and								
expenditures (N.I.A. basis)								
Receipts	115.0	124.8	143.2	145.6	148.6	149.1	n.a.	n.a.
Expenditures	118.1	123.4	142.9	146.3	151.9	160.9	163.2	n.a.
Surplus or deficit (-)	-3.0	1.4	.3	-.7	-3.3	-11.9	n.a.	n.a.
Total labor force (millions)	75.8	77.2	78.9	79.1	79.8	80.3	80.2	80.7
Armed forces "	2.7	2.7	3.1	3.2	3.3	3.4	3.5	3.5
Civilian labor force "	73.1	74.5	75.8	76.0	76.5	76.9	76.7	77.2
Unemployment rate (per cent)	5.2	4.5	3.8	3.8	3.7	3.7	3.8	3.9
Nonfarm payroll employment (millions)	58.3	60.8	63.9	64.1	64.8	65.5	65.5	65.8
Manufacturing	17.3	18.0	19.1	19.2	19.4	19.4	19.2	19.3
Industrial production (1957-59=100)	132.3	143.4	156.3	157.6	158.8	157.0	155.6	157.4
Capacity utilization, manufacturing								
(per cent)	86	89	91	91	90	87	85	85
Housing starts, private (millions, A.R.)	1.56	1.51	1.22	1.09	.98	1.21	1.26	1.36
Sales new U.S.-made autos (millions, .R.)	7.62	8.76	8.38	8.47	8.13	7.33	7.83	8.25

n.a. -- not available

July 17, 1967

REVISED
**CHANGES IN GROSS NATIONAL PRODUCT
 AND RELATED ITEMS**
 (Quarterly changes are at annual rates)

	1964	1965	1966	1966		1967		
				III	IV	I	Projected	
							II	III
(Billions of Dollars)								
Gross National Product	41.9	51.5	59.4	12.1	13.3	4.2	9.0	14.0
Final sales	42.0	47.9	55.4	14.7	6.2	15.6	14.0	16.9
Private	35.8	40.2	37.5	8.2	2.2	6.9	9.2	12.1
GNP in constant (1958) dollars	30.1	35.6	35.9	5.5	6.3	-.4	3.9	7.1
Final sales	30.0	32.6	32.1	8.3	-0.3	10.1	8.7	9.9
Private	28.4	29.5	21.9	4.4	-2.8	3.7	5.7	6.8
(Per Cent)								
Gross National Product	7.1	8.1	8.7	6.6	7.1	2.2	4.7	7.2
Final sales	7.2	7.6	8.2	8.1	3.4	8.4	7.4	8.7
Private	7.7	8.1	7.0	5.7	1.5	4.7	6.2	8.1
Personal consumption expenditures	7.0	8.0	7.6	7.4	3.1	5.4	7.2	7.4
Durable goods	9.8	11.5	6.5	15.8	-1.7	-6.8	15.6	8.3
Nondurable goods	6.0	7.0	8.5	4.6	1.5	7.4	4.5	7.8
Services	7.2	7.7	6.9	7.5	6.5	7.7	7.3	6.6
Gross private domestic investment	7.9	14.3	9.9	-7.1	19.9	-38.6	-15.6	-0.8
Residential construction	0.4	-0.4	-9.6	-32.6	-47.3	9.6	24.3	31.7
business fixed investment	12.5	16.4	12.8	12.7	7.9	-4.3	-2.9	4.4
Gov't purchases of goods & services	5.1	6.0	13.1	17.2	10.1	21.5	11.3	11.0
Federal	1.6	2.5	15.3	24.6	10.1	27.5	11.0	12.1
Defense	1.6	0.2	20.8	31.5	16.5	28.0	13.7	13.8
Other	12.6	9.9	-1.2	0.0	-16.9	22.6	2.4	4.7
State & local	9.1	9.6	10.9	10.0	10.8	15.5	11.0	10.3
GNP in constant (1958) dollars	5.5	6.1	5.8	3.4	3.8	-.2	2.4	4.3
Final sales	5.5	5.7	5.3	5.2	-0.2	6.3	5.3	6.0
Private	6.5	6.4	4.4	3.4	-2.2	2.9	4.4	5.2
GNP Implicit deflator	1.5	1.9	2.7	3.2	3.1	2.4	2.4	2.7
Personal income	6.9	8.1	8.6	8.3	8.3	7.5	3.9	6.9
Wage and salaries	7.3	7.6	9.9	9.6	7.8	7.2	3.2	7.7
Disposable income	8.3	7.8	7.8	7.2	7.5	8.2	5.6	5.0
Corporate profits before tax	12.4	14.6	9.5	1.9	-.5	-23.4	n.a.	n.a.
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	.5	8.5	14.7	11.3	8.2	1.3	n.a.	n.a.
Expenditures	3.7	4.5	15.8	22.8	15.3	23.7	5.7	n.a.
Nonfarm payroll employment	2.9	4.2	5.1	3.3	4.0	4.3	0.0	1.8
Manufacturing	1.6	4.4	5.8	3.5	4.0	0.0	-4.1	2.1
Industrial production	6.4	8.4	9.0	6.2	3.0	-4.5	-3.6	4.6
Housing starts, private	-3.2	-3.4	-18.9	-81.3	-39.3	88.4	16.5	31.7
Sales new U.S.-made autos	3.8	15.0	-4.4	33.6	-15.8	-39.6	27.3	21.5

n.a. -- Not available.