Not to be released until
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PRESS RELEASE

Talk by Mr. Darryl R. Francis, President, Federal Reserve Bank of St. Louis to the Mortgage Bankers Association of St. Louis at the Chase Park Plaza Hotel on February 27, 1969

The chief domestic economic problem of the country is inflation. Over-all prices which were rising at just over 1 per cent per year in the early 1960's are now rising at about a 4 per cent annual rate. Inflation creates inefficiencies, increases speculation, and reduces our ability to compete with foreign producers. In addition, inflation redistributes the real income of the country. It bears heavily on holders of money, saving accounts, bonds, and other fixed dollar claims. It hurts those on pensions and relatively fixed incomes. Inflation causes higher interest rates which bear heaviest on the real estate mortgage market and other areas where interest cost is a large percentage of total cost.

Many times workers feel that they are better off with inflation because it seems easier to find jobs and because wages tend to rise faster; however, when wages are adjusted for the rise in the cost of living, these apparent benefits usually vanish. In the period of relative price stability from 1958 to 1964, average weekly earnings of contract construction workers rose at a 4.1 per cent annual rate. Adjusted for the rise in the consumer price index, this amounted to an increase in "real" wages at a 2.9 per cent rate. In the period of inflation since 1964, average weekly earnings have risen at a 5.5 per cent annual rate, but in real terms the gain has been at a 2.5 per cent rate.

The inflation has been caused by an excessive amount of spending relative to the country's ability to produce. The stimulation to spending has come in great part from a very rapid growth in the money supply. Since the early 1960's federal spending and taxing programs have also been expansionary, but since these actions were reversed in mid-1968, there has not yet been much affect on growth of spending.

Charts

for

Current Economic Conditions

by

Darryl R. Francis, President
Federal Reserve Bank of St. Louis

to

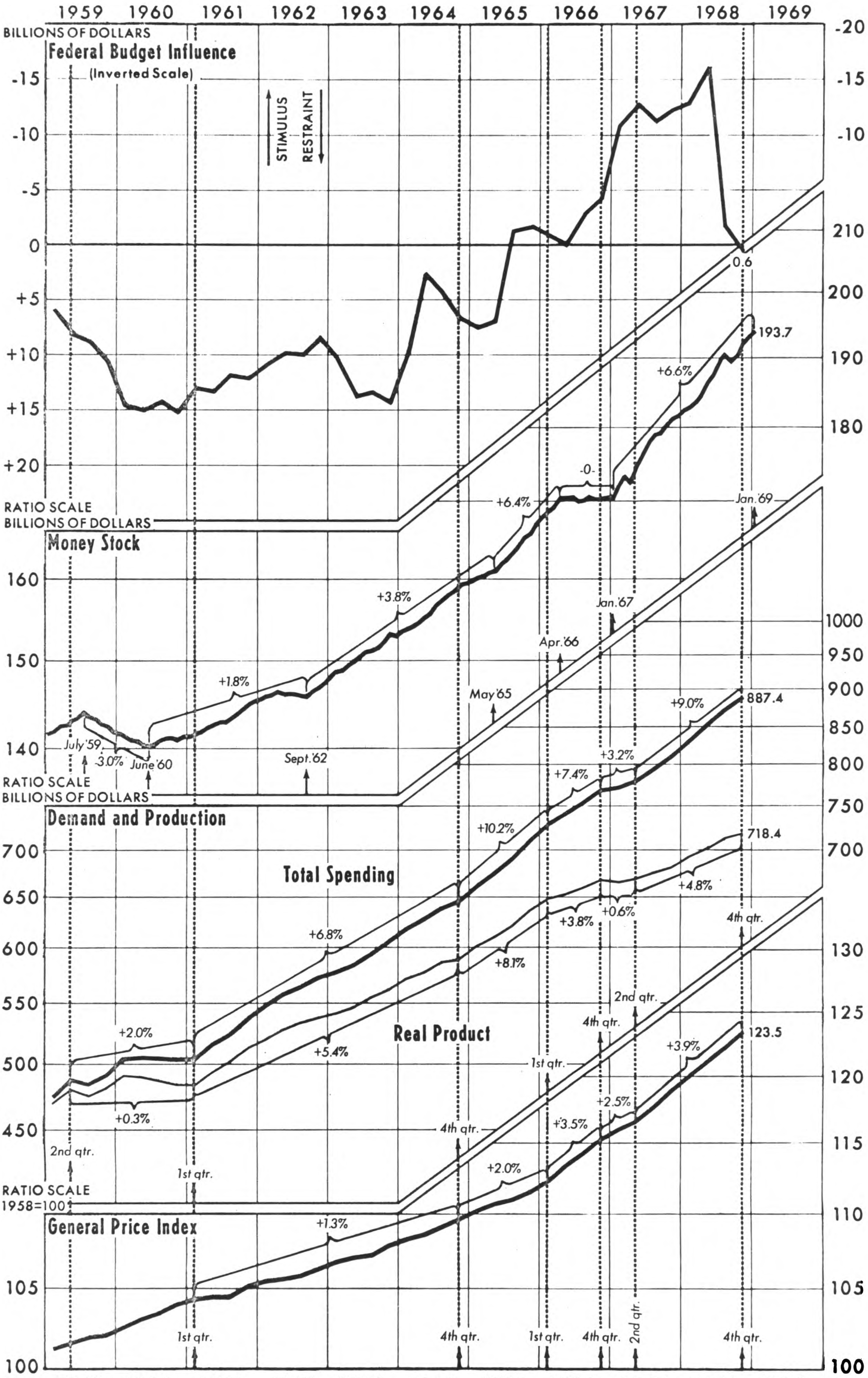
Mortgage Bankers Association of St. Louis

at

Chase-Park Plaza Hotel
St. Louis, Missouri

FEDERAL RESERVE BANK OF ST. LOUIS
INCORPORATED MAY 18, 1914

February 27, 1969

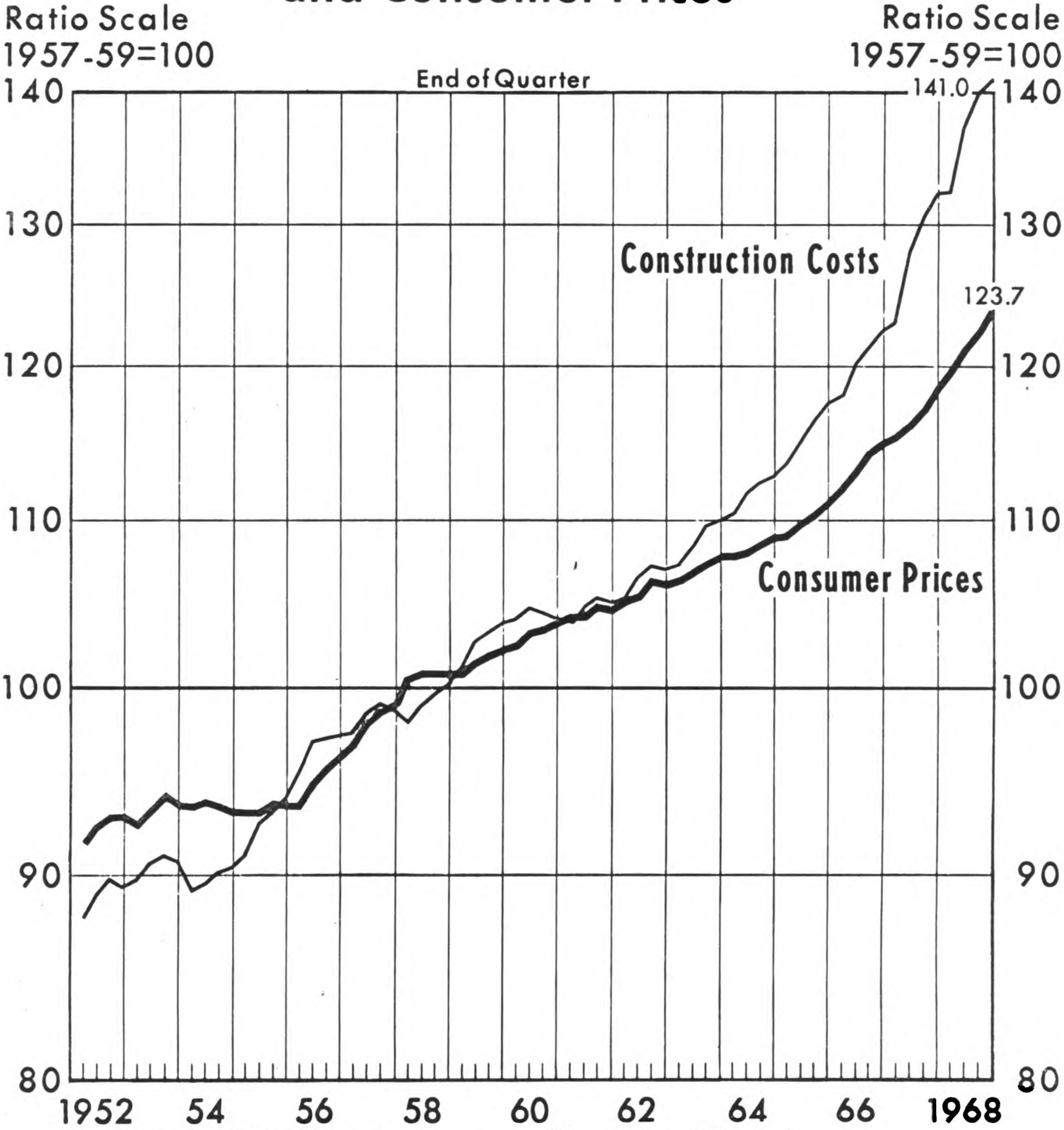


Percentages are annual rates of change between periods indicated. They are presented to aid in comparing most recent developments with past "trends."

All data are seasonally adjusted.

Prepared by Federal Reserve Bank of St. Louis

Comparison of Construction Costs and Consumer Prices



Latest data plotted: Construction Costs-4th quarter estimated
Consumer Prices-4th quarter

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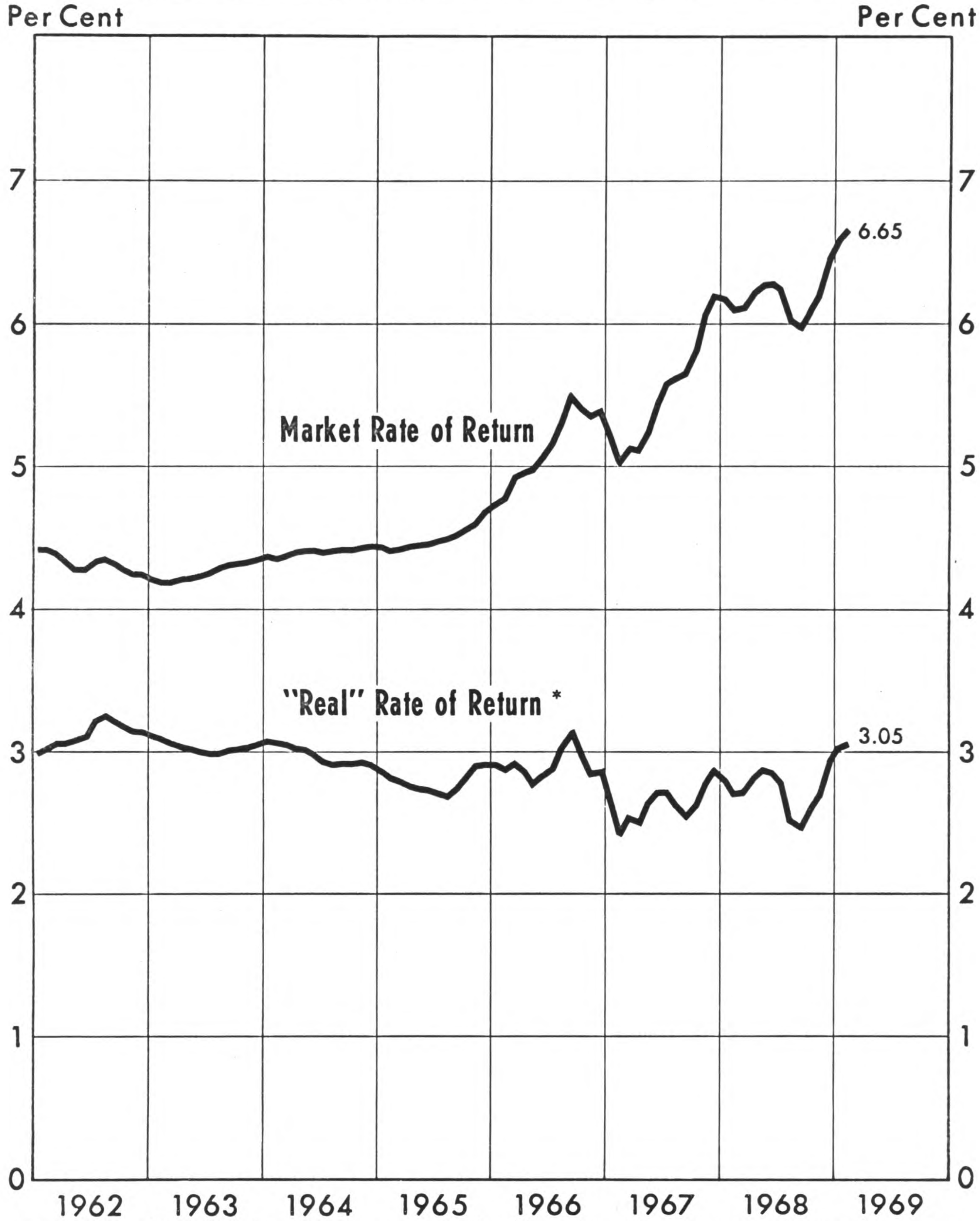
Yields on Highest-Grade Corporate Bonds



*Estimates of "real" interest rates were obtained by subtracting the annual rate of increase in the implicit GNP price deflator in the preceding twenty-four months from the market rate on corporate Aaa bonds. The price deflator for the first and third months of each quarter was estimated by linear interpolation. Implicit price deflator for first quarter 1969 is estimated.

While this is an important phenomenon, there is no perfect agreed upon way of calculating and presenting it, and the series may be considered an illustration or approximation of what has been going on.

Latest data plotted: February estimated

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