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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

July 22, 1964

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IN BROAD REVIEW

Steady expansion in economic activity with relative stability in commodity prices have continued while monetary expansion has accelerated. The Treasury has met with success in extending the maturity of the debt through its recent large advance refunding.

Economic strength is reflected in a wide range of indicators of demand, including the rise in industrial production, now estimated at 4 per cent for the six-month period since December; the apparent advance in retail sales in July from the record May-June level; the further expansion in backlog orders of durable goods producers; and the further marked rise in GNP in the second quarter, a rise limited by continued quite modest accumulation of business inventories.

These favorable indications of balanced strength are not, however, the full story. Unemployment is still high while the rate of expansion in employment has been tapering off. Available evidence suggests some downward tendency in housing construction despite the moderate June rise in starts. While backlogs rose again, new orders to producers of durable goods declined slightly further in June.

Few marked changes in the factors underlying the U.S. balance of international payments are evident, as the summer period of usual seasonal strain unfolds. French and Italian imports have continued to decline under the influence of anti-inflationary monetary and fiscal policies. British imports, however, rose sharply in June. Revised figures on the U.S. payments deficits in May and June are somewhat lower than those previously reported.

Interest rates abroad have tended to rise in recent months. To back up policies of domestic credit restraint, the Italian and

Japanese authorities have issued instructions to hold down Euro-dollar borrowings by their banks. Germany has raised bank reserve requirements, and acted at the same time to restrain foreign borrowing by its banks.

Looking to more specific facts of interest, it may be noted that:

-- Industrial production rose further in June to 131.8 per cent of the 1957-59 average, 5 per cent above June 1963.

-- GNP was $618.5 billion in the second quarter as compared with a revised $608.8 billion in the first quarter. In real terms, growth over a year earlier also was 5 per cent.

-- Inventory accumulation in the second quarter was estimated at a modest $3 billion annual rate and inventory-sales ratios were at new lows for this expansion period.

-- Personal income rose a little further in June to a level of 5.7 per cent above a year earlier.

-- Housing starts rose somewhat to nearly 1.6 million units, annual rate, but continued appreciably below their highs of last fall.

-- Nonfarm payroll employment rose 100,000 in June and was 1.5 million above a year earlier.

-- Hourly earnings of factory workers were unchanged in June and up less than 1 per cent since December.

-- The comprehensive wholesale price indexes showed no change in June for both the total and for industrial commodities. Industrial commodities continued stable through mid-July.

-- Repayments of business and finance company loans in the 3 weeks following the mid-June tax period were large, but the decline in total city bank credit was moderate.

-- Money supply growth in the first half of July continued large, amounting to $900 million.

-- Free reserves averaged $105 million in the 3 weeks ending mid-July, close to the average of most recent months.

-- The Treasury advance refunding of $27 billion of publicly held issues produced a record exchange of over $9 billion with only a mild initial reaction in U.S. Government securities market and with corporate and municipal markets remaining relatively steady.

-- The 3-month bill rate, after declining to a low of 3.42 in mid-July, returned to close to the discount rate in the latest week.

-- Stock market prices rose to new highs on increased volume but very recently have been below their peak.

Domestic Nonfinancial Data
(Seasonally Adjusted)

	Latest Period	Amount: Latest Period	Amount: Preceding Period	Amount: Year Ago	Per cent Change: Year Ago	Per cent Change: 2 years Ago
Civilian labor force (mil.)	June'64	74.3	74.6	72.9	2.0	3.4
Unemployment (mil.)	"	4.0	3.8	4.1	-4.1	0.1
Unemployment (per cent)	"	5.3	5.1	5.7	-	-
Nonfarm employment, payroll (mil.)	"	58.7	58.6	57.2	2.6	4.9
Manufacturing	"	17.3	17.3	17.1	1.6	2.4
Other industrial	"	7.7	7.7	7.6	2.0	3.5
Nonindustrial	"	33.6	33.5	32.5	3.4	6.6
Industrial production (57-59=100)	"	131.8	131.2	125.5	5.0	11.3
Final products	"	130.8	130.1	125.2	4.5	9.1
Materials	"	132.1	131.5	126.6	4.3	12.7
Wholesale prices (57-59=100)[1]	"	100.1	100.1	100.3	-0.2	0.1
Industrial commodities	"	100.8	100.9	100.5	0.3	0.1
Sensitive materials	"	99.1	99.2	96.8	2.4	1.5
Farm products and foods	"	97.1	96.8	99.1	-2.0	-0.6
Consumer prices (57-59=100)[1]	May '64	107.8	107.8	106.2	1.5	2.5
Commodities except food	"	104.3	104.3	103.0	1.3	1.6
Food	"	105.5	105.7	104.2	1.2	2.2
Services	"	114.9	114.8	112.6	2.0	3.8
Hourly earnings, mfg. ($)	June'64	2.52	2.52	2.45	2.9	5.4
Weekly earnings, mfg. ($)	"	102.25	102.46	99.18	3.1	6.4
Personal income ($ bil.)[2]	"	489.2	487.8	462.7	5.7	10.8
Retail sales, total ($ bil.)	"	21.7	21.7	20.5	6.2	12.6
Autos (million units)[2]	"	7,383	7,814	7,232	2.1	11.8
GAF ($ bil.)	"	5.0	5.0	4.5	10.5	19.2
Selected leading indicators						
Housing starts, pvt. (thous.)[2]	"	1,577	1,500	1,571	0.4	13.3
Factory workweek (hours)	"	40.6	40.7	40.5	0.2	0.5
New orders, dur. goods ($ bil.)	"	19.8	20.1	17.7	12.2	19.2
New orders, nonel. mach. ($ bil.)	"	2.9	3.0	2.5	15.8	23.9
Common stock prices (1941-43=10	"	80.24	80.72	70.11	14.4	44.2
Inventories, book val. ($ bil.)	May'64	105.4	105.7	101.3	4.0	7.7
Gross national product ($ bil.)[2]	QII'64	618.5	608.8	577.4	7.1	11.8
Real GNP ($ bil., 1963 prices)[2]	"	608.6	601.3	578.5	5.2	8.0

1/ Not seasonally adjusted. 2/ Annual rate.

GROSS NATIONAL PRODUCT

(Seasonally adjusted at annual rates)
Billions of dollars

	1964		1963		
	IIp	I	IV	III	II
GROSS NATIONAL PRODUCT	618.5	608.8	599.0	587.2	577.4
Final purchases	615.5	606.3	592.6	583.0	573.8
Personal consumption expenditures	396.0	390.0	381.3	377.4	372.0
Durable goods	56.6	55.9	53.6	52.2	51.5
Nondurable goods	175.7	172.9	168.9	168.6	166.6
Services	163.7	161.1	158.8	156.6	153.9
Gross private domestic investment	87.0	85.9	87.1	82.8	80.2
Residential,nonfarm	26.3	26.9	26.2	25.4	25.1
Other	22.7	22.3	22.1	21.9	20.8
Producers' durable equipment	35.0	34.2	32.4	31.4	30.7
Change in business inventories	3.0	2.5	6.4	4.2	3.6
Net exports of goods and services	6.0	7.7	5.8	4.2	4.3
Exports	N.A.	34.5	32.6	31.0	30.5
Imports	N.A.	26.8	26.9	26.8	26.3
Government purchases of goods and services	129.5	125.2	124.8	122.8	120.9
Federal	67.0	64.3	64.9	64.4	64.3
State and local	62.5	60.9	59.9	58.4	56.7
GROSS NATIONAL PRODUCT -- 1963 PRICES	608.6	601.3	594.7	586.6	578.5
PERSONAL INCOME	487.9	480.9	474.5	466.3	460.2
Disposable personal income	431.4	419.4	411.2	404.4	399.1
Personal saving/disposable income (per cent)	8.2	7.0	7.3	6.7	6.8
Corporate profits before tax	N.A.	56.6	54.3	51.3	51.1
Federal Government Finance N.I. accounts					
Receipts	N.A.	114.8	117.2	114.2	112.9
Expenditures	N.A.	117.2	116.6	114.9	113.9
Surplus or deficit (-)	N.A.	-2.4	.6	- .7	-1.0

p--Preliminary N.A.--Not available

SELECTED DOMESTIC FINANCIAL SERIES

Indicators	Week ended July 17	Four Week Average	Last six months High	Last six months Low
Money Market[1] (N.S.A.)				
Federal funds (per cent)	3.50	3.50	3.50	2.00
Treasury bills 3 mo., yield (per cent)	3.43	3.46	3.60	3.42
Net free reserves[2] (mil. $)	97	109	230	18
Member bank borrowings[2] (mil. $)	460	294	460	135
Security Markets (N.S.A.)				
Market yields[1]				
5-year Government securities (per cent)	4.01	4.01	4.21	4.00
20-year Government securities	4.16	4.16	4.26	4.16
Corporate new issues, Aaa (per cent)	n.a.	4.37	4.53	4.30
Corporate seasoned, Aaa (per cent)	4.41	4.41	4.41	4.35
Municipal seasoned, Aaa (per cent)	3.07	3.09	3.16	3.07
FHA home mortgages-25-year (per cent)	n.a.	n.a.	5.44	5.44
Common stocks - S&P composite index[3]				
Prices, closing (1941-43=10)	84.01	82.86	84.01	76.56
Dividend yield (per cent)	2.93	2.96	3.10	2.93
	Change in June	**Average change-- last 3 mos.**	**Annual rate of change (%) 3 mos.**	**Annual rate of change (%) 1 year**
Banking (S.A., mil. $)				
Total reserves	294	81	4.8	4.2
Bank loans and investments:				
Total	1,600	1,200	5.9	7.0
Business loans	500	600	12.9	10.1
Other loans	1,100	1,100	13.1	13.2
U. S. Government securities	-400	-700	-14.2	-7.0
Other securities	400	300	10.2	12.4
Money and liquid assets:				
Demand dep. & currency	1,100	500	3.6	3.6
Time and savings dep.	1,100	900	9.7	13.3
Nonbank liquid assets	1,100	1,100	5.6	7.4

N.S.A.--not seasonally adjusted. S.A.--seasonally adjusted. n.a.--not available.
1/ Average of daily figures. 2/ Averages for statement week ending July 15.
3/ Data are for weekly closing prices.

U.S. BALANCE OF PAYMENTS

	1964				1963		1962
	June	May.	Apr.	Q-1	Q-IV	Year	Year
Seasonally adjusted annual rates, in billions of dollars							
Balance on regular trans.				- .7	- 1.6	- 3.3	- 3.6
Exports 1/		24.2	24.2	24.3	23.6	21.9	20.5
Imports 1/		- 18.4	- 18.3	- 17.4	- 17.5	- 16.9	- 16.1
Trade balance 1/		5.8	5.8	6.9	6.1	5.0	4.3
Unadjusted monthly averages, in millions of dollars							
Balance on regular trans.	-108	- 38	-482	25	-146	-275	-298
Trade balance 1/		730	542	583	529	413	361
Securities transactions		- 91	-104	- 9	19	- 69	- 80
Bank-reported claims 2/		- 82	-159	-209	-263	-117	- 39
Other		-595	-761	-340	-431	-502	-540
Financing, total	108	38	482	- 25	146	275	298
Special receipts 3/	0	0	0	65	88	57	95
Liabilities increase:							
To nonofficial 4/	-156	-228	700	77	10	50	17
To official		223	-213	-149	50	136	59
Monetary reserves decrease	264	43	- 5	- 17	- 2	32	128
of which: Gold sales	(70)	(34)	(-177)	(15)	(13)	(38)	(74)

1/ Balance of payments basis; differs a little from Census basis.
2/ Adjusted for changes in coverage and for long-term claims taken over from nonfinancial concerns.
3/ Other than nonmarketable bonds, which are included in liabilities to official. Advances on military exports are assumed as zero for individual months in absence of information.
4/ Including international institutions (except IMF), commercial banks and private nonbank.

THE DOMESTIC ECONOMY

Gross national product in the second quarter. Gross national product increased to a seasonally adjusted annual rate of $618.5 billion in the second quarter from $608.8 billion in the first. (GNP has been revised through the first quarter. See the appendix for an account of the revision.) The increase of about $10 billion for the second quarter was the same as in the first quarter and larger than in the corresponding period a year earlier. In real terms, GNP in the second quarter was 5 per cent above a year earlier.

The second quarter gain was mostly attributable to a $6 billion increase in consumption expenditures and a $4.5 billion rise in Government purchases of goods and services. Gross private domestic investment was up only $1 billion as further significant gains in business fixed investment and only a small step-up in the pace of inventory accumulation from the very low first quarter rate were in part offset by a moderate decline in residential construction activity. Net exports of goods and services declined over $1.5 billion from the exceptionally high first quarter level.

The second quarter increase in consumption expenditures fell short of the nearly $9 billion increase in the first quarter, although disposable income increased 3 per cent as compared with 2 per cent in the first quarter. One possible explanation is that the tax reduction had been widely anticipated. Purchases of durable goods, which had increased sharply at the beginning of the year, showed only a small further gain in the second quarter. Nondurable goods were up about 1.5 per cent as compared with about 2.5 per cent in the first; these increases combined represent the largest 6-month run-up in nondurable goods expenditures since 1955.

The surprisingly large rise in Government outlays reflected an abrupt pick-up in Federal purchases after four quarters of near stability or decline, together with continued steady expansion at the State and local level. The spurt in Federal purchases presumably reflected to an important extent an unusual bunching of defense purchases at the end of the fiscal year.

Personal and disposable income. Personal income in June showed about the same small rise as it had in May and reached a seasonally adjusted annual rate of $489 billion, 5.7 per cent above a year earlier.

For the second quarter as a whole, owing in part to the sharp spurt in April, personal income increased $7 billion, or 1.5 per cent, slightly more than in the first quarter. Wage and salary disbursements were up $5.5 billion for the quarter, the largest rise in 2 years.

The reduction in Federal income taxes, which had augmented disposable personal income moderately in the first quarter, was fully effective in the second quarter and disposable income increased $12 billion, or 3 per cent. This large rise was equally divided between increased consumption expenditures and higher personal saving. Saving as a per cent of disposable income which, at 7.0 per cent in the first quarter, had held close to the rate prevailing in 1963, rose sharply to 8.2 per cent in the second quarter.

Retail sales. Retail sales in July, on the basis of data through July 11, appear to be up moderately from their record May-June level, after allowance for seasonal influences. Both durable and nondurable goods appear to be above June levels.

According to the advance report, total sales in June remained unchanged from the record May level. Nondurable goods sales, reflecting strength at food and apparel stores, were up 1.5 per cent but durable goods sales, reflecting declines at automotive outlets, were down 3 per cent.

RETAIL SALES
(Per cent change)

	1st Qtr. '64 to 2nd Qtr. '64	4th Qtr. '63 to 1st Qtr. '64	2nd Qtr. '63 to 2nd Qtr. '64
Total	1.7	2.4	6.4
Durable goods	0.7	2.7	7.1
Automotive	-0.5	2.8	5.0
Furniture & appliances	3.6	4.3	16.5
Nondurable goods	2.2	2.3	6.1
Apparel	3.6	5.6	12.0
Food	0.5	1.8	3.9
General merchandise	1.3	6.1	8.6

Consumer credit. Consumer instalment debt continued to rise in the second quarter, although at a somewhat slower pace than earlier in the year. June data on credit changes are still incomplete, but it appears that auto credit was up somewhat less than in the preceding month. This is consistent with the reduced volume of new car sales. On the other hand, GAAF sales showed some improvement in June and credit expansion in this area may have been larger than in May.

In April and May, credit sales of new passenger cars accounted for about three-fifths of the total number sold, about the same as last year. The proportion almost always rises during the summer months and by September--if the seasonal pattern of recent years prevails--credit purchases are likely to account for three-fourths of all new car contracts.

Employment. Gains in nonfarm employment have been smaller in recent months than earlier this year. This tendency toward a slowing in the rate of increase is particularly apparent when observed on a year-over-year basis. In June nonfarm establishment employment was 1.5 million above a year ago, compared to a rise of over 1.7 million in February. During the first half of 1963, year-over-year gains were somewhat smaller but more stable.

YEAR-OVER-YEAR INCREASE IN NONFARM ESTABLISHMENT EMPLOYMENT
(In thousands of persons)

	1963-64	1962-63
February	1,725	1,235
March	1,621	1,338
April	1,629	1,170
May	1,491	1,238
June	1,471	1,286

In June nonfarm establishment employment rose about 100,000 while the household survey reported a substantial decline. Month-to-month discrepancies between the establishment and household data are not uncommon. When viewed over a longer period, however, the employment increases in both series have been similar. Thus, if domestic servants, the self-employed and unpaid family workers--which are not included in the establishment data--are excluded from the household survey, both series show employment gains of 1 million since November 1963 and about 1.5 million from June of last year.

With the rate of gain in nonfarm employment apparently slowing down, the number of additional workers hired each month has tended to come more in line with growth in the labor force. In June, the civilian labor force was 1.5 million above a year ago and for the first 6 months the average increase was 1.4 million. Since this rate of labor force growth is likely to be maintained it will be necessary for employment increases to accelerate if there is to be any appreciable reduction in unemployment in coming months.

Most of the June rise in nonfarm employment was in State and local government and in service industries. For the second consecutive month construction and trade employment showed little change. Manufacturing employment continued to rise slowly with most of the improvement concentrated in metal-working industries. In transportation equipment industries, employment declined for the second month reflecting some slowing down in auto production and defense activity.

Unemployment of youths. Between April and June, 3.2 million persons 14-24 years of age were added to the labor force, about the same number as in 1962 and 1963. Most of this increase occurred between May and June when students entered the labor force at the end of the school year. The unemployment rate for teenagers, which rose markedly during 1963, has been fluctuating around the 15 per cent mark this year. Among those 20-24 years of age, unemployment rose in June to 9.2 per cent reflecting greater difficulty in finding jobs in the nonfarm sector than in previous years. For nonwhite teenagers, the unemployment rate in June was 33 per cent; for the 20-24 year group, the rate was 15 per cent.

Approximately one-third of the younger workers who entered the labor force between April and June were unable to find jobs. For teenagers the proportion was slightly less than last year, but substantially more than in 1962. In contrast, among those 20-24 years of age an increasing proportion has been unable to find jobs in the past two years. About 1 out of 3 of those who entered this summer were unemployed in June compared to only 1 out of 5 in 1962.

STATUS OF YOUTHS ADDED TO THE LABOR FORCE
BETWEEN APRIL AND JUNE 1962-1964

	1964	1963	1962
14-19 year-olds:			
Total additions (thousands)	2,766	2,668	2,778
Per cent distribution	100	100	100
Employed	65	61	73
Unemployed	35	39	27
20-24 year-olds:			
Total additions (thousands)	411	494	552
Per cent distribution	100	100	100
Employed	68	75	81
Unemployed	32	25	19

Hours and earnings. Average hours of work in manufacturing have remained relatively high and in June were 40.6 hours, down only .1 from May. The combination of relative stability in both hours and employment has meant that manhours of production workers have not increased since April. With output rising steadily, output per manhour for all employees in manufacturing continued to increase in the second quarter and was about 4 per cent above a year earlier.

Hourly earnings remained unchanged in June at $2.53 and were up 7 cents or about 3 per cent from a year ago. Since December 1963, hourly earnings have gone up only 2 cents or less than 1 per cent. This was the smallest first half year rise in hourly earnings since the recession year of 1954. In part, the slower rise reflects continued emphasis of unions on pensions and other benefits rather than on wage rate increases.

In the oil industry, a two-year agreement was recently negotiated with one major producer providing for earlier retirement and increased vacation benefits. There was no wage rate increase in the new contract. This agreement is expected to set the pattern for other companies in the industry. A similar agreement emphasizing improved pension and insurance benefits was signed by the three major firms in the rubber industry. In both industries full retirement will be at age 62 rather than at 65, with substantially higher pension payments than before.

Production. Industrial production rose further in June to 131.8 per cent of the 1957-59 average--one-half per cent above May and 4 per cent above December 1963. In June output of final products and materials increased.

Among consumer goods, production of television sets recovered from a strike and output of furniture and of consumer staples rose. Auto assemblies remained at record levels, and production schedules for July indicate little change. In the business equipment industries, output of industrial machinery increased appreciably further in June. Production of iron and steel changed little but small increases were widespread among other materials.

Seasonal factors for the industry groupings of the production index have been revised back to January 1961. The revision of the seasonal factors has tended to raise the total index in the first quarter of the year and to lower it in the third quarter as shown below for 1963.

INDUSTRIAL PRODUCTION
(Seasonally adjusted)

	Revised	Old
1963 - 1st Quarter	120.7	120.2
2nd "	124.2	124.3
3rd "	125.4	126.0
4th "	126.3	126.7
1964 - 1st Quarter	128.3	127.9
2nd "	131.1	n.a.

Dealer deliveries of new domestic autos in the first 10 days of July, on a daily average basis, were 7 per cent below a month ago and unchanged from a year earlier. Deliveries of new cars to some Eastern auto dealers have been curtailed by a trucking strike. Stocks increased and at 1,327,000 units were 29 per cent above last year. Output has not been curtailed and the undelivered cars, stored on manufacturers' lots, are credited to dealers' inventories.

Sales of used cars declined less than seasonally in early July and were at about the year-ago level. Stocks declined somewhat and were 3 per cent below a year earlier.

Prices. Comprehensive mid-month statistics show that from May to June the wholesale price index was unchanged as both industrial commodities and foodstuffs were essentially stable. Through mid-July, according to the weekly estimates, industrial commodities remained stable while prices of foodstuffs increased, chiefly because of seasonal reductions in supplies of meats and eggs. Thus the total index rose somewhat, but the mid-July level of 100.5 (1957-59=100) was about the same as a year earlier.

Increases in prices of hogs and choice cattle since early June reflect a variety of factors, some temporary and some likely to persist for a time. Through the rest of 1964 hog prices are likely to be above year earlier levels because of sharp reductions in pig crops since the fall of 1963. The major factor in the upswing in fed cattle prices has been a substantial decrease in supplies, a situation that is not likely to be sustained beyond the summer period because of the record numbers of beef cattle reaching marketing age.

The June price statistics show that the nonferrous metals group has been stable since April, following a rise of 6 per cent in the preceding year. For lead and zinc, the supply situation has been improved by significant increases in domestic production this year and by the recent legislation that permits the sale of specific quantities of these metals from the U.S. stockpile. For copper, supplies apparently were great enough to permit increases in stocks as a strike-hedge. Since labor contracts expired at the end of June, production of copper has been reduced by strikes affecting a third of the domestic industry.

Tin prices have increased very sharply again, despite the passage of legislation to permit the sale of the remaining "surplus" tin in the U.S. stockpile.

The latest monthly statistics also showed a further decline in the cotton products group to a point 2-1/2 per cent below the first-quarter level as markets responded to the lower cost of raw cotton for domestic use. More recently, however, prices of some cotton textiles have turned up.

Orders for durable goods. New orders received by manufacturers of durable goods declined slightly further in June from the record April level but for the second quarter as a whole were up 3 per cent from the first quarter.

June was featured by two large and mostly offsetting changes: a drop in the electrical machinery and aircraft industries, which presumably reflected one of the typical large fluctuations in defense orders; and a recovery in new orders for primary metals to about the advanced April level. New orders for nonelectrical machinery edged off but were up substantially for the quarter as a whole.

NEW ORDERS FOR DURABLE GOODS
(Per cent change)

	May to June	First to second quarter
Total	-1	3
Primary metals	13	11
Nonelectrical machinery	-2	6
Elec. mach. & transp. equip.	-7	2
Other durables	-1	-1

New orders remained well above the level of shipments in June and unfilled orders increased for the sixth successive month. At the end of the month the order backlog was up 7 per cent from the end of 1963.

Business inventories and sales. Seasonally adjusted book value of inventories decreased about $250 million in May, with declines reported by producers and distributors. The April inventory increase has been revised substantially upward to $625 million. For the two months accumulation averaged as low as in the first quarter when book value increased $200 million a month. In the GNP accounts, inventory accumulation was estimated at an annual rate of $3.0 billion in the second quarter compared with $2.5 billion in the first.

In May, as in April, business sales rose substantially. The April rise had been concentrated in manufacturing, whereas the bulk of the May increase was at wholesale and retail distributors. In all three sectors, stock-sales ratios in May were at lows for this expansion period.

The table below compares changes in sales and inventories in the first quarter and in April-May this year with corresponding changes a year earlier. In the first 5 months of this year, sales increases were larger than in 1963 (particularly at distributors), while the over-all inventory increase was similar in both years.

INCREASE IN BUSINESS SALES
(In per cent)

	Q4 1963 to Q1 1964	Q1 1964 to Apr.-May avg.	Q4 1962 to Q1 1963	Q1 1963 to Apr.-May avg.
Total	2.6	1.9	1.6	1.2
Manufacturers	2.7	2.4	2.0	2.2
Wholesalers	2.7	1.4	0.9	1.4
Retailers	2.4	1.7 1/	1.4	-0.2 1/

INCREASE IN BOOK VALUE OF INVENTORIES
(Billions of dollars)

	Q1 1964	Apr.-May 1964	Q1 1963	Apr.-May 1963
Total	.61	.38	.55	.50
Manufacturers	.18	.08	.38	.38
Wholesalers	.13	.10	.05	.13
Retailers	.30	.19	.13	-.01

1/ Includes entire 2nd quarter.

Construction and real estate. New construction put in place changed little in June following a downward revision in May. At $65.1 billion in June, the seasonally adjusted annual rate was only moderately below the highs reached in March and April, and was 5 per cent above a year earlier. For the first half year, the gain over a year earlier was 8 per cent.

Private housing starts, which had declined appreciably in April and May, returned to a 1.6 million seasonally adjusted annual rate in June. The second quarter average of 1.5 million was 8 per cent below the high first quarter rate and 4 per cent below the second quarter of 1963.

Building permits also recovered somewhat in June. Permits on structures of 5-or-more units, which had declined sharply in recent months, accounted for most of the rise.

PRIVATE HOUSING STARTS AND PERMITS

	June (thousands of units) 1/	Per cent change from: Month ago	Year ago
Starts (total)	1,577	+ 5	--
Permits (total)	1,306	+ 5	- 4
1 family	727	+ 1	- 6
2-4 - "	105	+ 7	-28
5 or more	474	+11	+ 7

1/ Seasonally adjusted annual rate; preliminary.

Vacancy rates for rental properties in the second quarter edged up to 7.4 per cent of total units available and fit for use. This compared with a year-earlier rate of 7.5 per cent and a high of 8.1 per cent in the second quarter of 1961. Inside metropolitan areas, vacancy rates declined further to 7.2 per cent; outside such areas, they rose sharply to 7.8 per cent after a decline of nearly two years. Rates in the West turned up--in part seasonally--almost to their advanced year-earlier level, while in the North Central states they dropped to a 5-year low.

<u>Mortgage markets</u>. Secondary market yields on 30-year, FHA-insured, 5-1/4 per cent mortgages on new homes remained at an average of 5.45 per cent in June, for the fourteenth consecutive month. Contract rates on conventional mortgages also continued unchanged in June, according to the Federal Housing Administration, at an average of 5.80 per cent for loans on new homes and 5.85 per cent for loans on existing homes.

Other terms on conventional first mortgages on homes tended to firm slightly in May, the latest month for which data from the Home Loan Bank Board are available. But they generally remained easier than a year earlier.

AVERAGE TERMS ON CONVENTIONAL MORTGAGES

	May	April	Per cent increase from May 1963
New home loans			
Maturities (years)	24.7	24.8	+3
Loan/value (per cent)	73.7	73.9	+1
Loan amount (thousands of dollars)	23.4	23.5	+4
Existing home loans			
Maturities (years)	19.8	19.9	+3
Loan/value (per cent)	71.1	71.1	--
Loan amount (thousands of dollars)	18.6	18.6	+5

Incomplete data for the second quarter suggest that the net expansion of mortgage debt outstanding remained near the first quarter rate but below the record rate in the last two quarters of 1963. Expansion in 1-4 family property debt apparently was unchanged while the rate of increase of debt on multifamily and commercial property continued below the fourth quarter peak.

CHANGES IN MORTGAGE DEBT OUTSTANDING
(Seasonally adjusted annual rates in billions of dollars)

	Total	1-4 Family	Multi & commercial	Farm
1962 - II	24.7	13.7	9.8	1.2
1963 - I	26.7	14.8	10.5	1.4
II	29.2	16.0	11.6	1.6
III	30.2	16.0	12.4	1.8
IV	30.3	15.4	13.3	1.5
1964 - I	29.7	16.4	11.4	1.9
II p	29.3	16.4	11.2	1.7

<u>Crop prospects</u>. The survey of crop conditions on July 1 indicated that another year of large production is in prospect. Total acreage of crops harvested will probably be slightly above that of 1963, and 2 per cent above the low for the century reached in 1962. Hay and pasture conditions averaged somewhat better than a year ago.

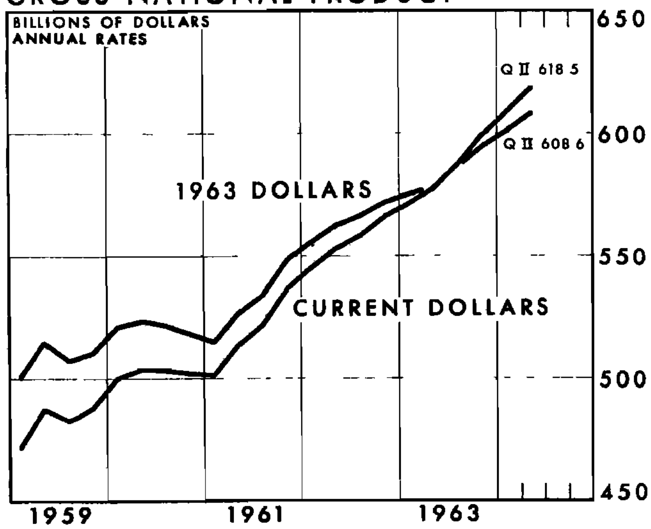
Increased production is in prospect for food grains, soybeans and sugar crops. Production of feed grains somewhat less than in 1963 is indicated by a reduction of 4 per cent in acreage planted. Participation in the feed grain acreage retirement program is a record high this year; diversion payments may run as much as $950 million.

No estimate of production of cotton was made, but planted acreage was only 1 per cent less than in 1963. This suggests that relatively few farmers elected to retire acreage under the new cotton stabilization program enacted in April. The Act reduced the basic price support on the 1964 crop by 10 per cent and gave farmers a choice among three planting plans. They could (1) plant their full allotment and receive the basic price support of 30 cents per pound; (2) plant two-thirds of their allotment and receive 15 per cent additional price support on their normal yield; (3) plant 5 per cent in excess of their allotment, with the production on the additional acreage tagged for export at the world price. Neither of the new options, 2 or 3, has been chosen by many farmers, probably because of the late date of enactment of the program.

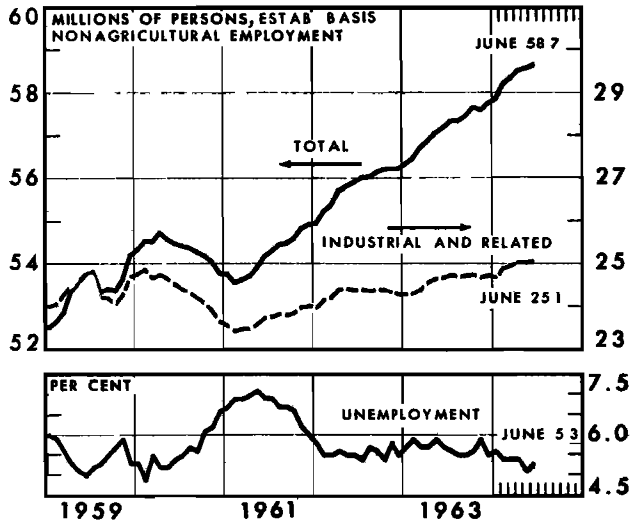
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

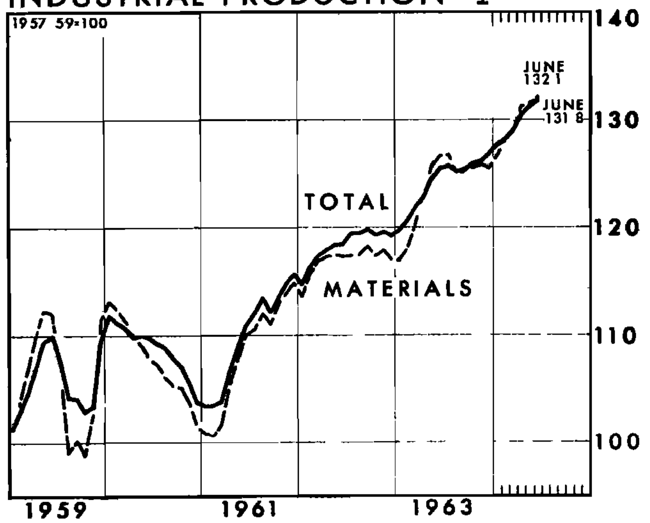
GROSS NATIONAL PRODUCT



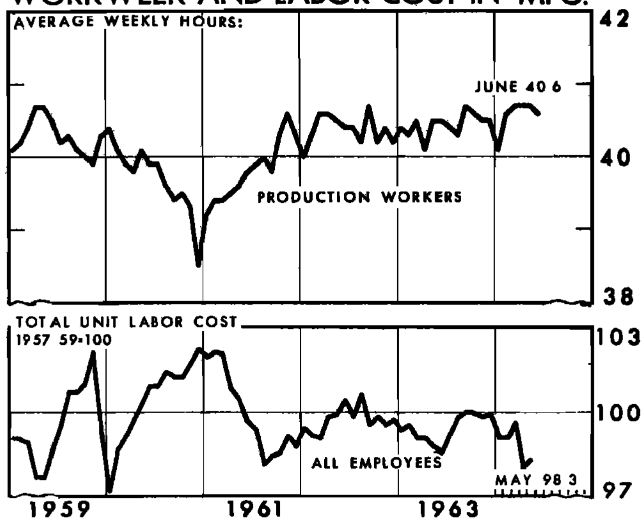
EMPLOYMENT AND UNEMPLOYMENT



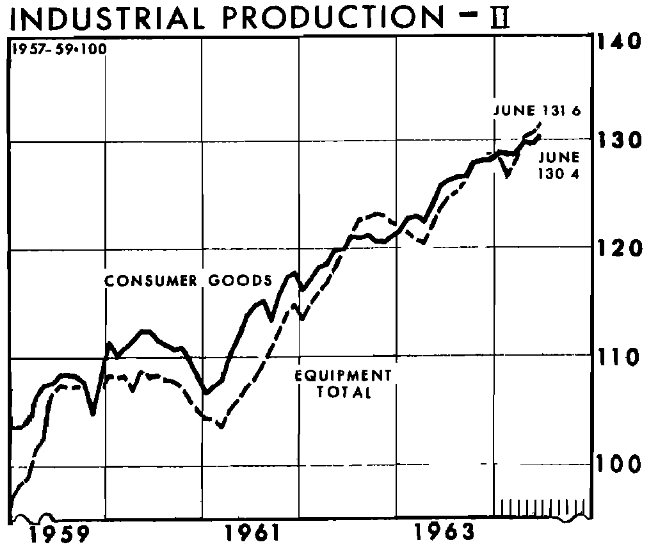
INDUSTRIAL PRODUCTION - I



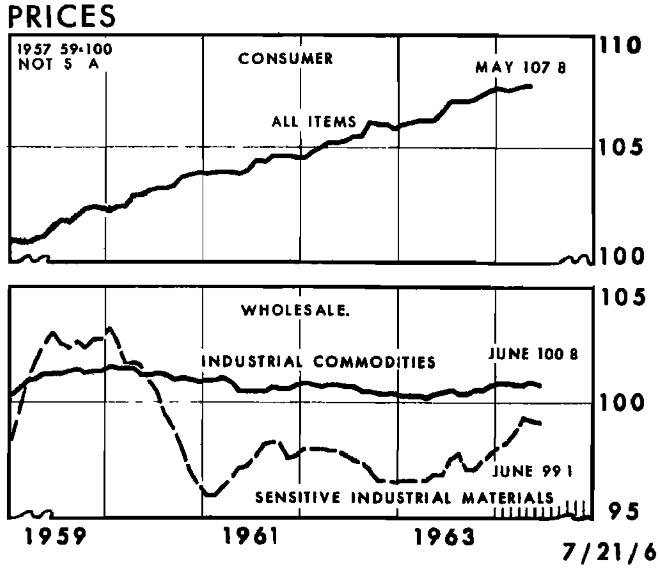
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION - II



PRICES



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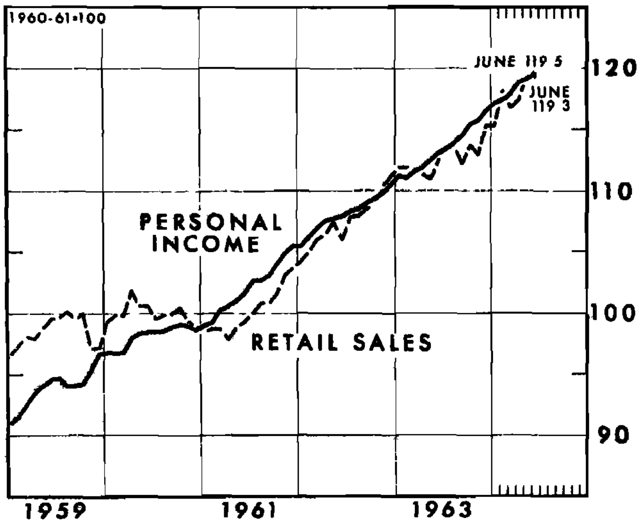
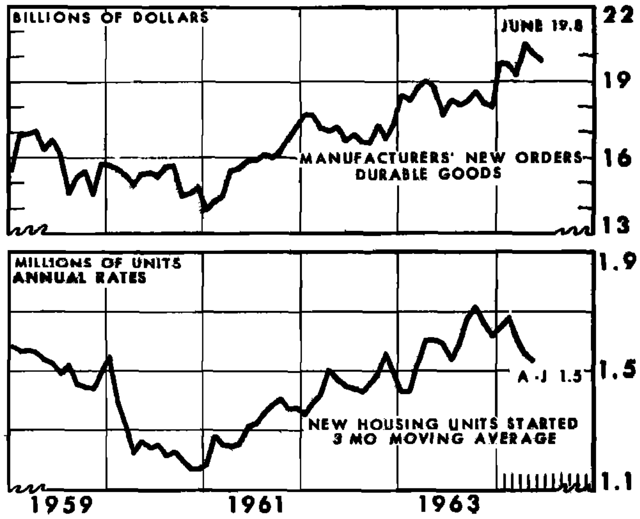
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

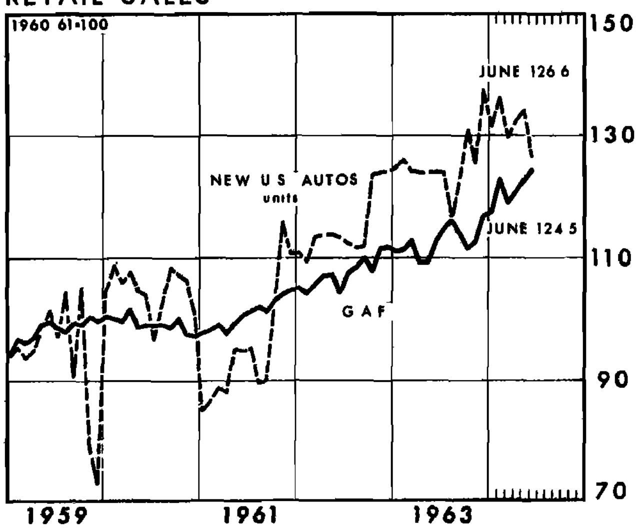
PERSONAL INCOME AND RETAIL SALES



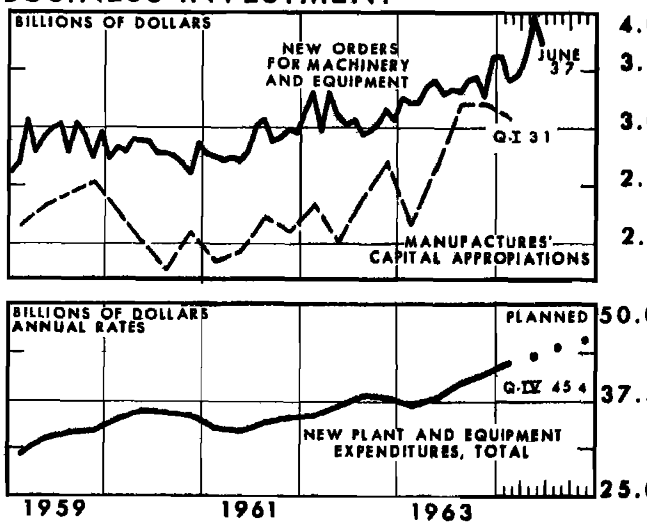
NEW ORDERS AND HOUSING



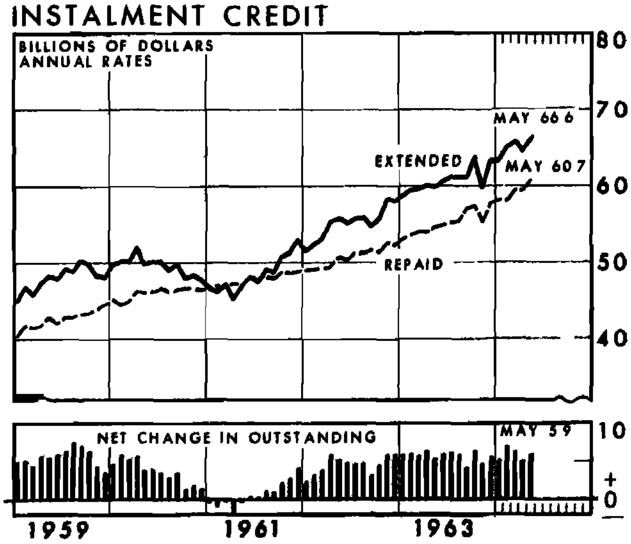
RETAIL SALES



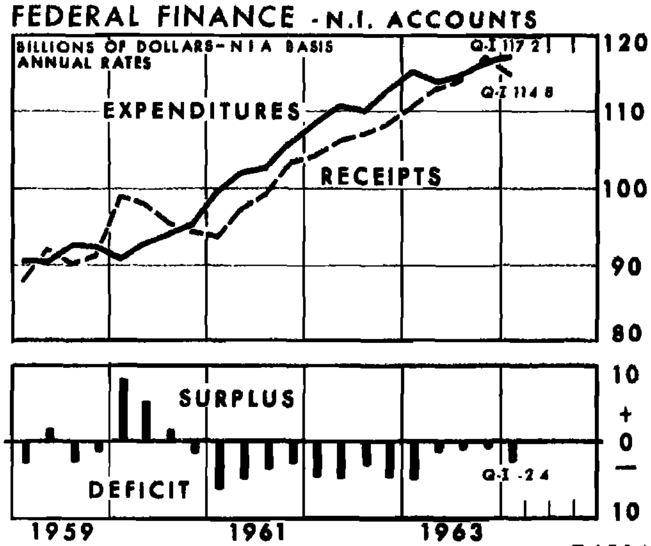
BUSINESS INVESTMENT



INSTALMENT CREDIT



FEDERAL FINANCE - N.I. ACCOUNTS



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DOMESTIC FINANCIAL SITUATION

Bank credit. In the three weeks following the June tax and dividend period, total loans and investments at city banks declined about $400 million. This was in line with the changes in the comparable weeks of the previous two years, after allowance for the large Treasury financing in late June of 1963. Credit expansion during the tax and dividend periods of the three years also had been about the same.

CHANGES IN SELECTED ITEMS AT WEEKLY REPORTING BANKS
DURING AND FOLLOWING
THE MID-JUNE TAX AND DIVIDEND PERIOD
(In millions of dollars)

	1964		1963		1962	
	Post	Tax	Post	Tax	Post	Tax
Total credit	-416	+2,222	+77	+2,290	-366	+2,056
Loans	-379	+1,915	-222	+1,779	-486	+1,348
Business	-317	+642	-158	+527	-50	+537
Finance companies	-634	+642	-111	+352	-199	+234
Govt. security dealers	+207	+21	-111	+271	-366	+290
All other	+365	+610	+158	+629	+129	+287
U.S. Govt. securities	-214	-67	+123	+131	-289	+260
Other securities	+177	+374	+176	+380	+409	+448

The contraction in total loans since the tax period has been quite moderate relative to the expansion during the tax period. Holdings of investments also have shown a small decline, with a moderate rise in holdings of other securities about equalling a reduction in holdings of U.S. Government securities.

Recent repayments on loans extended directly or indirectly to businesses during the tax period have been unusually large, suggesting that the flow of internal funds relative to current outlays of businesses continues highly favorable. In the latest three weeks, the total decline in business loans and loans to finance companies offset about three-fourths of the mid-June rise, compared with offsets of less than one-third during the comparable weeks of the two preceding years.

Business loan repayments have been particularly heavy in the metals and trade groups, where outstandings already are considerably below the pretax period level, which is unusual. On the other hand, outstanding loans to public utilities and the miscellaneous manufacturing and mining group advanced further after the tax period, which is also unusual.

Loans to U.S. Government securities dealers advanced contra-seasonally in late June and early July, presumably associated with payment for the 1-year bill on July 7 and acquisition of issues which dealers expected might become rights in a possible advance refunding. Real estate loans continued to rise steadily, but "other" loans, which are mainly consumer loans, rose much more than usual.

Money supply and time deposits. Incomplete data suggest that growth in the seasonally adjusted money supply in the first half of July was about $900 million. This followed a $1.1 billion increase from May to June and little increase in other recent months. Between the first half of May and the first half of July, the annual rate of growth was 9.3 per cent, but between December and the first half of July, the rate was 4.2 per cent. U.S. Government deposits declined slightly in early July as is usual for this period.

Seasonally adjusted time and savings deposits at all commercial banks are estimated, also on the basis of preliminary data, to have increased about $300 million in the first half of July. This is about the same as in late June but well below that of early June and May. In recent weeks, the increase in savings deposits at city banks continued to be less than a year earlier; expansion in other time deposits was also less, although through May, these deposits had increased slightly more than in comparable months of 1963. Outstanding negotiable CD's rose $240 million in the three weeks ending July 8 after declining $320 million over the tax period. At New York City banks, the increase has been larger than the tax-period decline, while at outside banks it has been considerably less.

The seasonally adjusted annual rate of turnover of demand deposits at banks in 343 centers outside New York averaged 35 in June, down a little from May. In the second quarter, however, turnover increased, averaging 3.3 per cent above the first quarter and 7.7 per cent above the second quarter of 1963.

Bank reserves. Free reserves averaged $105 million over the three weeks ending July 15, close to the average of most recent months. Both excess reserves at $420 million and member bank borrowings at $315 million, however, were higher than in earlier months. The effective rate on Federal funds remained at 3-1/2 per cent during the 3 weeks ending July 15 and transactions took place below that rate on only one day.

Seasonally adjusted reserves against private demand deposits increased somewhat further over the three weeks ending July 15;

sharp expansion in the week of July 8 was offset in part by earlier and subsequent reductions. Reserves required against U.S. Government deposits declined, as reductions in the two latter weeks of the period more than offset an earlier rise associated with the build-up of Treasury balances in late June.

U. S. Government finance. The U. S. Government securities market has been dominated by the Treasury advance refunding announced July 8. The refunding involved a record $26.6 billion of publicly-held eligible issues and produced record exchanges of $9.3 billion. These conversions amounted to about 35 per cent of public holdings, which was higher than in the two previous advance refundings of September 1963 and January 1964, but about in line with earlier experience. Taken in the exchange were $3.7 billion of the reopened 4's of 1969, $4.4 billion of the new 4-1/8's of 1973, and $1.2 billion of the reopened 4-1/4's of 1987-92.

The scope of the advance refunding and the subsequent size of the exchanges were larger than had been anticipated. But the market reaction remained generally mild throughout the exchange and in the first trading sessions thereafter. From the time of the offering announcement to July 20, when preliminary results were given, yields in the intermediate- and long-term area rose from 3 to 6 basis points. At the same time yields declined in the short coupon area.

It seems probable that some time will be required before permanent investors absorb the new bonds issued in the advance refunding. The dealers came out of the refunding with net holdings of nearly

$950 million of the new issues, and on July 16, total dealer positions in bonds due in more than 5 years stood at a record $1,177 million. The previous record of $951 million was set after last September's advance refunding. Apart from dealer positions, speculative interest in the two longer-term bonds is reported by a few market participants to be slightly above normal.

YIELDS ON U. S. GOVERNMENT SECURITIES
(Constant maturity series)

Date (closing bids)	3-month bills	6-month bills	3 years	5 years	10 years	20 years
1963						
June 28	2.99	3.06	3.61	3.82	4.00	4.03
Dec. 31	3.51	3.64	4.05	4.06	4.14	4.19
1964						
Mar. 31	3.51	3.68	4.16	4.16	4.23	4.24
July 8	3.50	3.56	3.93	4.00	4.15	4.15
July 16	3.42	3.55	3.91	4.01	4.20	4.16
July 21	3.46 1/	3.61 1/	3.95	4.05	4.21	4.18

1/ Quote for old bill. New issues quoted at 3.50 for 3-month bill and 3.63 for 6-month bill.

The advance refunding put downward pressure on short-term rates and in mid-July the key 3-month bill rate declined to a 1964 low of 3.42-3.39 per cent. A strong demand for bills developed from sellers of rights to the advance refunding, and this demand was supplemented at mid-month by reinvestment demand from holders of $2.0 billion maturing 1-year bills. Between July 7 and July 16, total dealer bill holdings were reduced from a record $4.0 billion to less than $1.9 billion. Their trading position fell to $825 million, the lowest level in nearly a year. Dealers showed little concern over their comparatively small positions, however, as most thought that the bill rate was only temporarily low.

Since mid-July, bill rates have edged higher, reflecting caution in the market over the increasing spread between U.S. and U.K. bill rates, substantial sales of bills to the market by the System and the Treasury, and the Treasury announcement of a $1.0 billion bill strip auction on July 24.

The bill strip auction as well as the announced $1.0 billion auction of 1-year bills in late July will anticipate most of the Treasury's cash requirements for the third quarter. The Treasury indicated that it would announce on July 29 plans for a short-term financing to replace the $2.2 billion of maturing August issues which were not exchanged by public holders in the advance refunding. After this, the first large fall cash need will occur in October, when there is a seasonally large monthly deficit.

Corporate and municipal bond markets. Markets for corporate and municipal bonds showed little immediate response to the Treasury's advance refunding. Although trading in recently offered corporate issues tapered off while books were open on the Treasury operation, demand for such issues picked up some thereafter, and their prices edged higher. No recent quotation is available for the yield series on new issues of corporate bonds--due to an absence of relevant offerings; in the week of July 10, however, the series dropped to its lowest level since February, and the yield spread between new and seasoned issues turned negative.

In the State and local government bond market yields have declined a little further recently despite the advance refunding, reducing the average yield on high-grade issues to the 1964 low reached in mid-May.

BOND YIELDS
(In per cent)

	Corporate Aaa		State and local govt.	
	New	Seasoned	Moody's Aaa	Bond Buyer (mixed qualities)
1964 - High	4.53(5/8)	4.41(5/1)	3.16(3/26)	3.32(3/19)
Low	4.30(2/21)	4.35(2/28)	3.07(7/16)	3.13(1/30)
May low	4.43	4.41	3.07	3.16
June high	4.45	4.41	3.11	3.21
Latest week available 1/	4.37	4.41	3.07	3.18

1/ Latest week in which relevant issues of new corporate bonds were offered was July 10; yields in other series are for the week ending July 17.

Recent strength in the corporate bond market has reflected both the small current supply and the limited volume of prospective offerings. Unsold syndicate balances are less than $50 million, and present estimates indicate that public offerings of new issues are likely to remain light at least until Labor Day. In addition, recent comments by Treasury officials have created expectations among corporate underwriters that there will be no further competition from long-term Treasury debt offerings over the remainder of the year.

On the other hand, the immediate technical position of the corporate market may be a little weak. The spread between yields on corporate bonds and the longest-term Treasury obligations has been narrowed by the advance refunding, and secondary distribution of the unexpectedly large volume of new longer-term issues growing out of that operation may exert some further upward pressure on Treasury yields.

BOND OFFERINGS 1/
(Millions of dollars)

	Corporate				State & local govt.	
	Public offerings		Private placements			
	1964	1963	1964	1963	1964	1963
Jan.-April avg.	340	372	413	440	990	954
May	470	550	507	694	650e/	961
June	460e/	459	650e/	675	850e/	1,074
July	250e/	279	350e/	431	900e/	928

1/ Includes refundings--data are gorss proceeds for corporate offerings and principal amounts for State and local government issues.

In contrast with the calendar for new corporate issues, the immediate supply of municipal offerings is quite large for the summer season, nearly as large as last year's record when volume was swelled by a $200 million advance refunding. In August, however, new issue supply is likely to be substantially smaller; moreover, a significant share of the remaining July volume is relatively short-term and should attract a good demand from banks.

While municipal offerings in some earlier weeks this month were also quite sizable, dealers' inventories of unsold securities have been cut back from the rather high end of June level. Commercial banks have reportedly been more active buyers of municipals in recent weeks, and very recently a stepped up demand from fire and casualty companies has been reported.

During the first five months of 1964 net acquistions of municipal securities by commercial banks apparently accounted for a little over half of the net increase in outstanding municipals. While this proportion was down substantially from both the nearly 90 per cent net acquisition ratio for 1962, and the 75 per cent ratio for all of 1963, it was above the 30 per cent bank share taken in the final quarter of 1963. Since bank purchases of municipals are reportedly concentrated in issues of relatively short maturity, one would expect a drop in the bank net acquisition ratio to be reflected in a narrowing of spreads within the municipal yield curve. As the table shows, such a narrowing did in fact occur, particularly after mid-1963.

AVERAGE YIELD SPREAD BETWEEN 5-YEAR AND 20-YEAR
STATE AND LOCAL GOVERNMENT BONDS

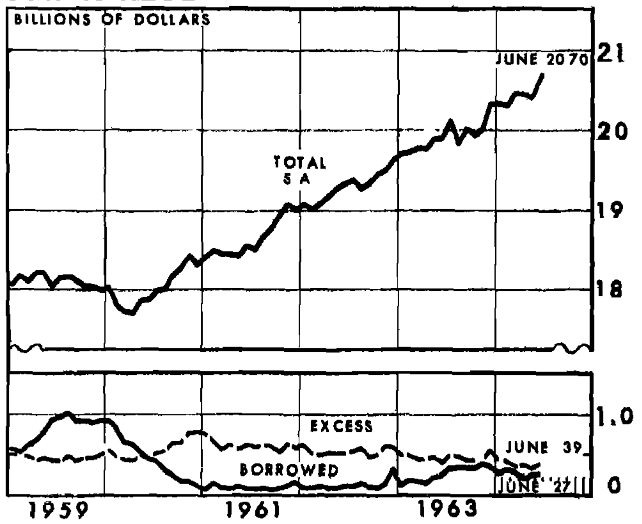
	Spread in Basis Points (Monthly average)
1962 - Jan.-Dec.	92
1963 - Jan.-June	87
July-Dec.	69
1964 - Jan.-April	59

Stock market. Stimulated by the further expansion of economic activity and by favorable initial reports on second quarter corporate earnings, common stock prices have continued to advance. The further advance has been less rapid than in June, however, and has been punctuated by occasional declines, reflecting profit taking and market consolidation. Standard and Poor's composite index of prices on 500 stocks closed on July 21 at 83.54, up more than 6 per cent from the early June low and up about 3 per cent above the earlier peak, for this year, reached in mid-May. Trading volume averaged 4.9 million shares a day in the first three weeks of July, 0.5 million shares greater than the daily average for June.

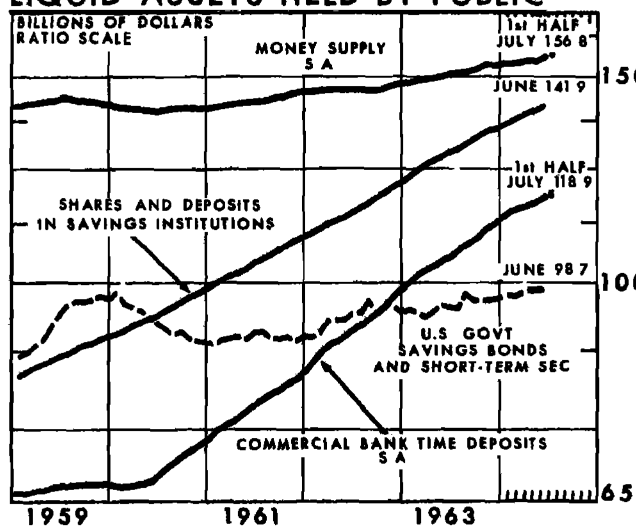
Stock market credit continued to edge lower during June, dropping another $45 million to $7.2 billion at month-end. A decline of $66 million in customers' net debt balances at brokerage firms was only partly offset by a $21 million increase in weekly reporting bank loans to others than brokers or dealers.

FINANCIAL DEVELOPMENTS - UNITED STATES

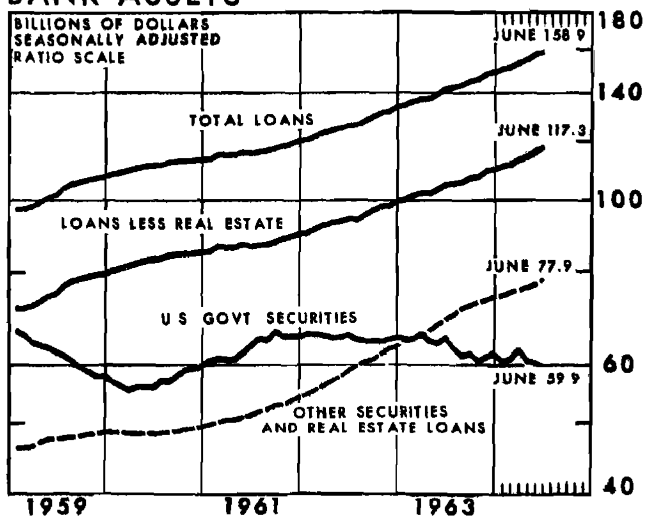
BANK RESERVES



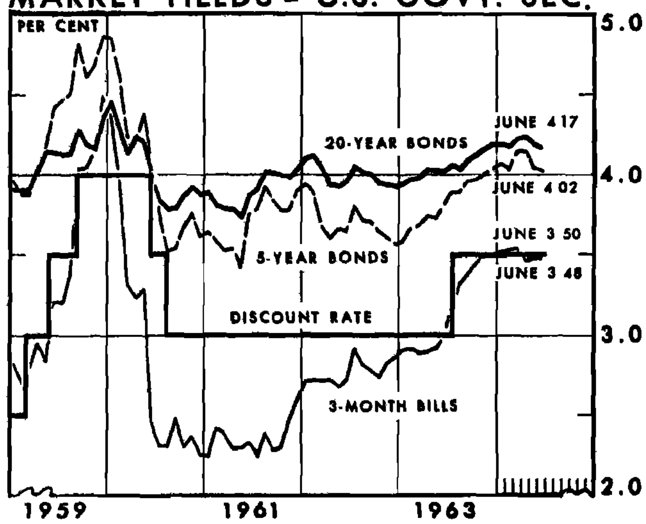
LIQUID ASSETS HELD BY PUBLIC



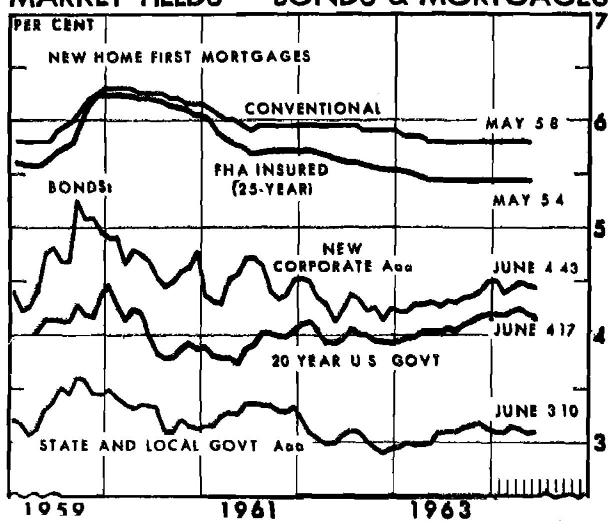
BANK ASSETS



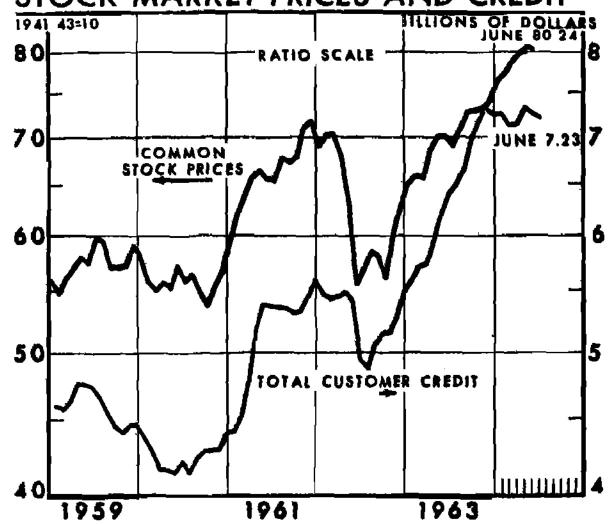
MARKET YIELDS – U.S. GOVT. SEC.



MARKET YIELDS — BONDS & MORTGAGES



STOCK MARKET PRICES AND CREDIT



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. Revised data for May and preliminary data for June show a payments deficit, after special transactions, of about $150 million for the two months, down sharply from previous indications. The deficit on this basis for the second quarter is now estimated at about $630 million before seasonal adjustment, and at something over $700 million after adjustment.

There are indications that military export cash receipts fell short of deliveries during the quarter. Thus the results given above probably reflect a run-down of military advance payments, and the seasonally adjusted balance on regular transactions may have been less, perhaps well under $700 million. This compares with a deficit of $180 million in the first quarter.

In May, the outflow of short-term and long-term bank credit continued at the moderate April rate. Outflows of liquid funds into short-term investments (as reported by banks and by nonfinancial concerns) were still large, at $70 million compared with $130 million in April. Exports remained at the April level while imports inched up slightly, and the trade balance was little changed. These elements do not explain much of the sharp decline between April and May in the over-all deficit.

Although total exports were unchanged in May, there were some notable changes in composition. Exports to Japan declined approximately 10 per cent from the March/April average. On the other hand, exports to Latin America continued to recover, reaching a rate about 10 per cent above the low of last October; and exports to other nonindustrial countries, which had fallen since December, were up sharply in May, reflecting in part increased P.L. 480 shipments. Exports to Europe and Canada were unchanged from April.

The slight May increase in imports was wholly in imports of materials; imports of finished manufactures remained at the advanced April level, while imports of foods declined a little. There was no further advance in the unit value (price) of coffee imports in May.

Business and financial developments abroad. In major industrial countries there has been little further expansion in industrial production in recent months -- i.e. through April or May -- except in Germany and Canada. French and Italian imports have continued to decline, and one consequence has been an easing of export orders in Germany. Business capital expenditures are now the major expansive force in Germany, as they are also in Britain. In Germany, Britain, and Japan, imports were fairly stable from February through May, but in June British imports jumped to a new high.

The French budgetary deficit for the first five months of 1964 was only 200 million francs, much less than in the corresponding period in 1963. Increasing effectiveness of the stabilization program is seen in the import decline, and also in the easing of labor market pressures: from March to May the ratio of unfilled job vacancies to unemployed fell from .6 to .5. After a further seasonal rise in food prices in May, the over-all index of retail prices was up only 0.5 per cent from January, compared to 1.5 per cent from January to May in 1963.

The Bank of Italy has kept a very tight rein on the money supply. In the three months through April the money supply declined 1.1 per cent, as against a 3.6 per cent rise the year before. Consumer prices continued to rise through May, but the four-month increase from January was only 1.4 per cent, compared with 2.3 per cent last year. Wholesale prices of nonagricultural products declined a little in April and May.

A new labor contract recently signed in the chemical industry extends over two years. A pattern of much reduced increases in hourly earnings could develop if escalation of minimum rates is checked by stabilization of the cost of living, and if differences between actual earnings and minimum rates become narrower than in the past.

The Italian balance of payments showed a surplus of about $100 million in June. Though this surplus was more than accounted for by an exceptional inflow of long-term private capital, there has been an underlying shift from large deficits in the first quarter to near balance in recent months, due primarily to the sharp reduction in imports.

To back up restraint of domestic credit expansion, the Bank of Italy has directed banks not to increase their net foreign liabilities beyond the level of either June 15 or June 30, whichever was lower.

The German economic situation remains strong, with capital outlays by industry expected to rise further. Industrial production rose in May, and for April/May averaged one-half per cent higher than in February/March; the advance was mainly in output of materials. Total new orders also averaged slightly higher in April/May than in the preceding two months, despite declines in export orders and in total orders received by nondurable consumer goods industries.

For the first time since the boom years of 1959 and 1960, the Bundesbank in early July raised reserve requirements against domestic deposits. Requirements were raised by one-tenth -- from 13.0 to 14.3 per cent for demand deposits at the largest banks. It was announced at the same time that rediscount quotas will be cut for banks that increase their borrowings abroad above recent average levels. The Bank also lowered the cost of forward cover for banks placing funds in U.S. Treasury bills. Although the increase in reserve requirements is expected to result in some increase in interest rates by August, the inflow of foreign capital will continue to be restrained by the proposed tax on nonresident incomes from fixed-interest-bearing securities, and by the ban on interest payments on foreign-held time deposits, as well as by the new sanction against foreign borrowing by the banks.

The $236 million rise in official gold and foreign exchange reserves in June reflected speculative inflows of foreign funds, as well as mid-year repatriation of funds by German banks for window dressing. The current account surplus has been large, but fairly stable, in recent months.

British imports, after holding steady at a high level from January to May, jumped sharply in June -- by 5 per cent. Exports, which have been fluctuating widely, averaged 2 per cent higher in May/June than in the preceding two months; they declined from May to June.

Official gold and foreign exchange reserves fell by $56 million in June, following gains in April and May that were largely attributable to a payments surplus of overseas sterling countries with the nonsterling world. Sterling weakened steadily in June, under pressure of repatriation of funds by Continental commercial banks, and it has declined further this month, to 278.85 cents on July 21.

A rise in Japanese exports, together with the leveling off of imports, resulted in a narrowing of the trade deficit from an annual rate of $2.1 billion in the first quarter of this year to $1.5 billion in the second quarter. Industrial production continued steady in May, although both exports and new orders for machinery have been rising.

To back up its tight money policy, the Bank of Japan in early July put a new curb on inflows of volatile funds, limiting each bank's liabilities for Euro-dollar money and free yen deposits to a percentage of its foreign exchange assets.

Canadian imports were extraordinarily large in April. After rising 18 per cent from the first quarter of 1963 to the first quarter of this year, seasonally adjusted imports jumped nearly one-fifth further in April. Industrial production rose to a new high in April, 36 per cent above the 1957-59 average. Unemployment in April and May was 4.7 per cent, substantially below the 5.6 per cent average for these two months a year earlier.

Money market rates. Increases since March in money market rates in various countries are shown in the table. In most cases, any effects on U.S. capital flows would be expected to occur via increased demands for Euro-dollar funds, for U.S. bank loans, and for direct investment financing of U.S. subsidiary companies, rather than through attraction of U.S. nonbank liquid funds to foreign currency money markets. The recent course of Euro-dollar interest rates is shown in a chart on p. IV-C-1.

MONEY MARKET AND DISCOUNT RATES
(In per cent)

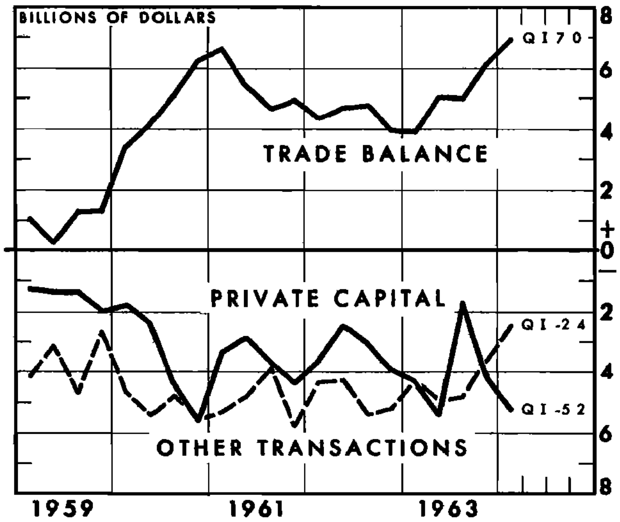
	July 17 1964	Changes from: March 27 1964	Changes from: June 28 1963
Money market rates			
United Kingdom 1/	4.44	+ .28	+ .81
Germany 2/	3.63	+ .13	- .25
France 3/	4.56 (7/16)	-1.38	-1.69
Netherlands 1/	4.25 (7/8)	+1.25	+2.25
Switzerland 4/	3.25 (7/10)	+ .06	+ .39
Canada 1/	3.52	- .27	+ .28
U.S. 1/	3.39	- .13	+ .40
Central bank discount rates 5/			
Belgium	4.75	+ .50	+1.25
Sweden	4.50	.00	+ .50
Denmark	6.50	+1.00	.00
Japan	6.57	.00	+ .73 6/
South Africa	4.00	+ .50	+ .50

1/ 3-mo. Treas. bills.
2/ 3-mo. interbank deposits.
3/ Day-to-day money.
4/ 3-mo. bank deposits.
5/ Basic discount rates.
6/ Increased in March 1964.

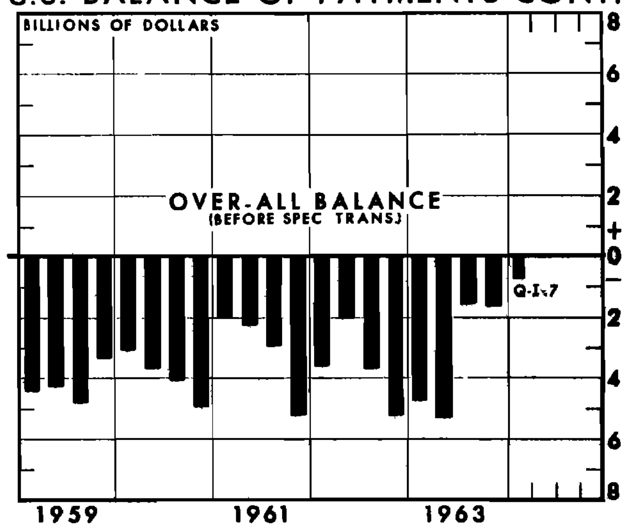
U.S. AND INTERNATIONAL - ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED, ANNUAL RATES

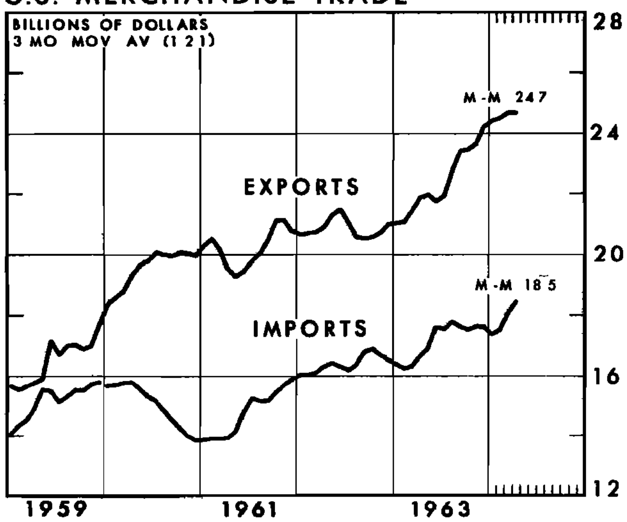
U.S. BALANCE OF PAYMENTS



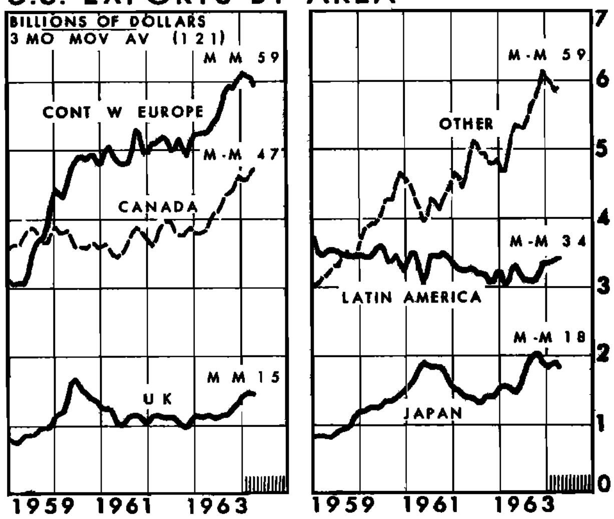
U.S. BALANCE OF PAYMENTS-CONT.



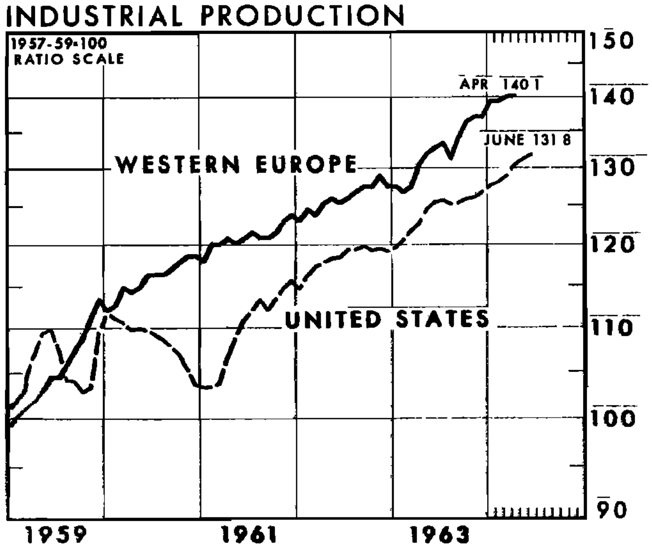
U.S. MERCHANDISE TRADE



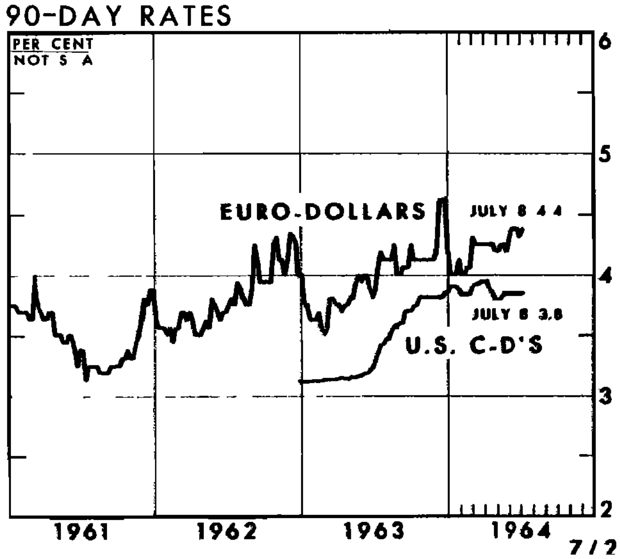
U.S. EXPORTS BY AREA



INDUSTRIAL PRODUCTION



90-DAY RATES



APPENDIX A: ANNUAL REVISION OF NATIONAL INCOME AND PRODUCT ACCOUNTS

New GNP and national and personal income figures for the period 1961 to early 1964 were released by the Commerce Department on July 15, as part of their regular annual revision. (Complete details will be in the July Survey of Current Business.) As usual, changes in the over-all totals were small as revisions in components were for the most part moderate and largely offsetting.

This annual revision, like earlier ones, is based primarily on routine adjustment of the original quarterly estimates to annual benchmarks which become available after a considerable lag. In addition, a change has been made in the quarterly estimating basis for Federal purchases of goods and services, which is discussed below. This revision does not incorporate the benchmark results of the 1958 censuses or the comprehensive revisions of postwar residential construction series of recent years. These and other important revisions, of both a statistical and conceptual nature, will be incorporated in a comprehensive revision of the income and product accounts for the entire postwar period which is likely to be completed by the end of this year.

Gross national product. GNP in the first quarter this year was revised upward only slightly, from $608 billion to $608.8 billion, and the total increase from the recession low in early 1961 remains unchanged. (The first quarter 1961 also was revised moderately upward and this makes the already mild 1960-61 recession even milder.)

From quarter to quarter within the expansion period, the magnitude of the upward revisions (which predominated) varied and a number of revisions were downward. The result has been some modification of the quarterly increases shown earlier and of the pace of expansion over certain periods. Thus, the new GNP estimates show: (1) a somewhat larger rise in the third quarter 1962; (2) an appreciably slower increase from the fall of 1962 through the first half of 1963; and (3) faster increase from mid-1963 to early 1964. Changes in real GNP were generally similar to those in GNP before deflation, but, on balance, the revised GNP in 1954 dollars now shows a fractionally larger increase for the entire expansion to date.

The table below shows the amount of revision in GNP (first column) and the quarterly changes in the new GNP estimates (second column) as compared with the former quarterly changes (third column).

REVISIONS IN GNP
(Seasonally adjusted annual rates in billions of dollars)

	Amount of revision in GNP	Quarter-to-quarter change: In revised GNP	Quarter-to-quarter change: In former GNP
1961 - I Quarter	1.0	-.7	-1.7
II "	1.4	12.5	12.1
III "	.5	8.5	9.4
IV "	-.9	14.5	15.9
1962 - I "	1.0	8.6	6.7
II "	1.0	7.9	7.9
III "	2.2	5.6	4.4
IV "	1.4	7.6	8.4
1963 - I "	0	5.2	6.6
II "	-2.2	5.6	7.8
III "	-1.5	9.8	9.1
IV "	-1.1	11.8	11.4
1964 - I "	.8	9.8	7.9

These changes represent the net effect of revisions in all major expenditure components, of which the largest were in personal consumption expenditures (upward) and Government purchases of goods and services (downward).

REVISIONS IN GNP MAJOR COMPONENTS
(Billions of dollars at seasonally adjusted annual rates)

	Amount of revision: I Q 1964	1963	1962	1961
GNP	.8	-1.2	1.3	.5
Personal consumption expenditures	2.1	1.9	1.4	.5
Gross private fixed domestic investment	.7	0	-.1	-.2
Net change in inventories	.4	-.3	.4	0
Net exports	1.1	-.1	.2	.2
Government purchases of goods and services	-3.6	-2.5	-.7	.1
Federal Government	-2.6	-1.6	.5	0
State and local government	-1.0	-.9	-1.1	0

Some comments are in order on the revisions of GNP components shown in the above table:

1) The progressive--though moderate--upward revision of personal consumption expenditures reflects increases for all three major consumer categories, durable and nondurable goods and services, with roughly half of the total reflecting an upping of service expenditures.

2) Underlying the small revisions in gross private fixed domestic investment were generally offsetting increases in producers' durable equipment and decreases in construction. The first quarter 1964 revision was dominated by a rather large boost in producers' durable equipment to take account of the results of the latest Commerce-SEC survey of fixed investment outlays.

3) On a quarterly basis revisions in the inventory component were rather large in the 1961-63 period, but these changes tended to (nearly) balance out on an annual basis. In both 1962 and 1963, the amount of accumulation was considerably lowered in the first half and raised in the second half. These revisions are apparently based primarily on the comprehensive Census revision of manufacturers' inventories released last December.

4) The pronounced reduction in government purchases of goods and services, particularly for 1963 and early 1964, reflects mainly revision of Federal outlays but also a downward adjustment in State and local outlays as a result of routine adjustment to benchmark levels. The lowering of Federal outlays stems from a combination of a shift to a Treasury checks-issued, from a checks-posted, basis for estimating defense expenditures and an apparent rather large revision which developed in the routine adjustment, as fuller information became available, of the basic quarterly defense estimates to allow for changes in net receivables of defense contractors.

National and personal income. Revisions in major income series are shown below annually, 1961-63, and for the first quarter 1964.

REVISIONS IN INCOME SERIES
(Billions of dollars, seasonally adjusted annual rates)

	Amount of revision			
	1Q 1964	1963	1962	1961
National income	1.3	.4	1.9	.8
Corporate profits before taxes (IVA)	.4	-.3	1.4	.3
Personal income	1.8	1.1	.3	.2
Disposable personal income	.7	.1	.2	.3
Personal savings	-1.4	-1.8	-1.3	-.3
Memo:				
Savings as a per cent of disposable income				
New	7.0	6.8	7.2	7.5
Old	7.4	7.3	7.6	7.6

In the July 1963 revision incorporation of the effects of the new depreciation guidelines (and the investment tax credit) resulted in a substantial downward revision in corporate profits for the year 1962. In the current revision an important part of that reduction was rescinded. The upward adjustment in personal income, particularly beginning in 1963, stems from small upward revisions in most major components except wages and salaries which were not changed. With upward revision in personal consumption expenditures and generally little change in disposable personal income, personal savings were reduced moderately throughout the period. The saving rate (saving as a per cent of disposable income) now averages 7.2 per cent for the period affected instead of 7.5 per cent, and the spending rate is correspondingly higher.

Federal surplus or deficit. The large downward revision in Federal purchases of goods and services in 1963 and early 1964 has led to a marked reduction in the size of the indicated Federal deficit (on GNP account): from $2.8 to $1.5 billion in calendar 1963 and from a seasonally adjusted annual rate of $5.3 billion to $2.4 billion in the first quarter of 1964.

APPENDIX B: CONSTRUCTION ACTIVITY IN MID-1964

The recent leveling off of construction activity has raised the question of whether a "cyclical" peak has been passed and whether a decline in this key sector of activity is likely. This question has been raised at least twice before since early 1961--in the first quarter of 1962 and again in the first quarter of 1963. In those instances, extremely unfavorable weather proved to be the major inhibiting factor.

Interpretation of the current data is made difficult by the inherent volatility of most of the underlying series and the possibility of major revisions by the Census Bureau. Only part of the results of a recent major revision in back data have so far been completed. Despite these sources of uncertainty the evidence seems strong that there already has been some downward readjustment in the residential sector. Not only was there a downturn in residential construction outlays during the second quarter, but the rate of housing starts held appreciably below its autumn high. More significantly, permit rates have tended sharply downward. The shift has been notable for multifamily units, which accounted for virtually all of the expansion after early 1961, and was centered in the West, where the expansion had been most pronounced.

Nonresidential construction. In contrast, available data suggest that there has been no significant over-all shift in seasonally adjusted rates of private nonresidential and public building this year. (Each of these broad groups accounts for three-tenths of total expenditures, while private residential activity accounts for four-tenths.) Contracts reported by F. W. Dodge in May fell below a year earlier for total nonresidential, as well as residential activity, but they were still unusually high and the backlog was sufficiently great to assure a high level of all types of building throughout the year. Also, the May Commerce--SEC survey of business plant and equipment investment indicated such outlays would be 12 per cent higher than a year earlier compared with a previous estimate of 10 per cent. Reports on advance planning from Engineering News-Record and other sources also have been favorable to sustained high levels.

The possibility of some downward adjustments in the seasonally adjusted rate of nonresidential construction expenditures still cannot be ruled out. Outlays for most nonresidential activities have been at unusually high rates this year, and in most cases these rates have been appreciably above levels initially projected for 1964, as can be seen in the table which compares the Commerce forecast of year-to-year changes released last December with the June figures. Most types of construction moved substantially upward in the latter part of 1963. Less favorable year-to-year comparisons in the second half year, therefore, may not represent any drop from first half of 1964 rates on a seasonally adjusted basis.

CONSTRUCTION EXPENDITURES IN 1964

	June p (Billions of dollars) 1/	Per cent change from year ago: First half p	Per cent change from year ago: Commerce forecast for year as a whole
Total construction	65.1	+ 8	+5
Total private	45.6	+ 8	+4
Residential	26.4	+ 7	+3
Nonresidential	19.2	+10	+5
Business	13.4	+10	+4
Industrial	3.2	+ 8	+9
Commercial	5.6	+13	+4
Public utilities	4.6	+ 6	+2
Farm	1.2	- 1	-3
All other private	4.5	+13	+9
Total public	19.5	+ 9	+8

1/ Seasonally adjusted annual rate

Within the total there is considerable possibility of offsetting movements in the private and public nonresidential sectors. Increased strength, for example, in industrial and public utility building could offset any weakening in office and shopping center construction. In the final analysis, the major determinant of aggregate construction activity this year, as in the past, is likely to be the movement of residential activity.

Residential activity. Housing starts in the first half of this year, were at a seasonally adjusted annual rate of 1.6 million, including farm units. This rate reflected a drop from a first quarter of 1.7 million to a second quarter rate of 1.5 million. Although the first half was still 5 per cent above a year earlier, it was very near the average for all of 1963. In 1963, seasonally adjusted starts rose 7 per cent from the first half to the second half. In the light of this, the year-to-year comparison this fall is not expected to rise. But, considering the backlog of unused permits and other factors, a decline in the average rate for the rest of the year much below the second quarter seems unlikely. This judgment is broadly consistent with the results of an experimental survey, based on forecasts of housing starts in 24 metropolitan areas, recently conducted by the National Association of Home Builders.

Regionally, the decline has been clearly concentrated in the West and Northeast states, with the South and especially the North Central states running well above a year earlier. Nor has all of the recent decline occurred in multifamily starts.

PRIVATE HOUSING STARTS
(Per cent change from year ago)

	First Half, 1964(p)	Second Quarter, 1964
Total	+ 2	- 4
1 family	--	- 6
2 or more	+ 6	- 4

Over the first six months of this year, multifamily starts (2 or more) accounted for 37 per cent of total starts, compared with 36 per cent over the same period in 1963 and in June the proportion was estimated at 34 per cent, just below a year earlier.

The longer-term outlook. The recent downturn in housing starts and permits is of interest not only because of its implications for the rest of this year but also for the period beyond. This, after all, is the first postwar adjustment in which basic demand forces have been the overriding influence, rather than availability of mortgage money. Moreover, considering demographic conditions alone, there is no basis for expecting an unusually high level of residential activity for some time ahead. This factor, as well as the large stock of building accumulated over the postwar period has led some observers (especially those who emphasize the influence of the "long cycle") to the view that construction activity is now particularly vulnerable to a decline in general economic activity. So long as there is no significantly unfavorable shift in general economic conditions, however, the following considerations would appear to be of countervailing importance:

First, there is nothing in the demographic pattern--especially in a period of high and rising incomes--that suggests any fundamental diminution in potential demands over the next few years from the recent trend. Household formation has continued to run at a level close to 1 million and probably will not change much over the next few years. In addition, disappearance of existing structures owing to scrappage and related influences apparently has been running well in excess of 500,000. Consequently, annual starts of at least 1.5 million units--the second quarter rate--may well be sustainable.

Second, except for the more recent period, the average rate of starts had not exceeded a 1.5 million average since the expansion began in 1961. And the composition of starts has been roughly consistent with growth in household formation which has been, and will for several years continue to be, concentrated among the youngsters and oldsters primarily in the market for apartments. Single family starts have been unusually stable at about 1 million a year and well below earlier highs in spite of the availability of mortgage money on very attractive terms. While the upsurge in multifamily starts, which reached nearly 600,000 last year, has in some cases apparently involved "overbuilding," it also has involved a significant upgrading of housing standards. Nationally, rental vacancy rates in the first and second quarters of this year have continued below earlier peaks, at 7.3 and 7.4 per cent of total units available and fit for use, compared with highs of 8 and 8.1 per cent in the first two quarters of 1961 when the further rise in apartment starts was already underway. Meanwhile, rents have tended higher.

While the long lead-time required to bring new construction to the market and other factors make short-term adjustments of supply to demands difficult, it is apparent that some adjustments already are going on. In New York, for example, where a change in zoning regulations effective in ~~late~~ 1961 induced an unsustainable volume of permit and building activity in 1962, the decline began last year; and this year there have also been downward adjustments in other important areas, particularly in the West which dominated the expansion last year. Most important, these shifts are coming at a time when increases are occurring in some other areas, and providing an offsetting element within the multifamily totals.

Third, the unprecedented availability of mortgage money, unique for such an advanced stage of economic expansion, has continued, and while savings inflows to deposit-type institutions have moderated further in recent months, competition among lenders has remained intense. As a result, even though mortgage debt expansion has continued near a record high, interest rates have not risen and terms have eased somewhat further.

INTEREST RATES ON HOME MORTGAGES
(Per cent)

	FHA-insured mortgages (Secondary market yield)	Conventional first mortgages (Contract rate)	
		New	Existing
1961 June	5.68	5.90	6.00
1962 "	5.59	5.95	6.00
1963 "	5.45	5.80	5.85
1964 "	5.45	5.80	5.85

As has been the case throughout the recent expansion in mortgage lending, lenders have continued to rely on loans on existing as well as on new construction to meet their portfolio requirements. This reliance has tended to moderate the direct stimulus of ample funds on new construction. At the same time, it has also provided continuing support to housing demands and real estate values generally. Thus, while foreclosures have risen, the rate of rise has slowed and, nationally, there has been no indication that lenders have not been able to absorb them.

The volume of activity so far has not been associated with a general depreciation in capital values. Land prices have continued to rise and transaction prices of both new and used homes have increased. While the special depreciation allowances and other tax advantages introduced for income properties in 1954 were moderated somewhat in early 1964, they still provide a substantial support to real estate values. In this context, an April survey of real estate appraisers by the Chase-Manhattan Bank is worth mentioning. According to this survey, 60 per cent of those sampled felt overbuilding of apartments was a problem in their areas and over a third said office structures and motels were overbuilt, but 74 per cent thought property values were basically sound.