Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Content last modified 6/05/2009.

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

August 12, 1964

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

August 12, 1964

IN BROAD REVIEW

Markets for stocks, bonds, foreign exchange, and sensitive commodities showed remarkable resilience to the uncertainties created by the flare-up in military action in the Far East last week. Latest information indicates only small net changes in most of these markets since before the crisis, but the daily figures for some sensitive industrial materials, such as nonferrous metals and steel scrap, have continued advances already underway.

Economic activity has been maintained on its steadily expansive course. Recent search for developments of cyclical significance has been stimulated in part by hesitation among some of the series regarded as "leaders." Their behavior, however, has been too diverse to warrant a change in earlier general expectations of continued moderate growth in over-all activity.

Among the statistics recently becoming available, several are of special interest. The sharp decline in the rate of unemployment to below 5 per cent was not quite so favorable as it may have appeared because it was associated with a decline in the labor force. Employment rose moderately, but only to the April level according to the household survey. Long-duration unemployment declined only a little below the 1 million level and not much below a year earlier.

Industrial production rose further in July, probably by about 1 point, extending the rise since last December to 4-1/2 per cent and bringing the gain over a year earlier to 5-1/2 per cent. Increases in July were widespread among industries and market groupings.

Retail sales continued strong, rising by 1 per cent in July from a June total which, however, has been revised downward to show a decline of .5 per cent.

Private construction activity was little changed in July at a level about 5 per cent above a year earlier. A dip in public construction brought the total down slightly.

Business inventories rose in June and the amount of accumulation in the second quarter was larger than estimated earlier. The higher rate of inventory accumulation in the second quarter was centered at distributors where sales also rose. Stock-sales ratios generall continued quite low.

In financial markets, yields on Treasury, State and local, and corporate bonds were all essentially unchanged in the past few weeks but there has been some recent firming in 3-month Treasury bill rates to about the level of the discount rate.

Mortgage rates and terms also have changed little. Stock market prices have lost on net about 2-1/2 per cent since the beginning of the recent crisis but remain 3 per cent above the June lows.

The money supply, which had increased substantially in June, continued to rise in early July but fell back slightly in the latter half of July. For July as a whole, the rise averaged $1.1 billion and brought the annual rate of growth this year to 3.9 per cent. Time and savings deposits rose $900 million further in July, a little less rapidly than in May and June. The annual rate of growth so far this year has been 10.8 per cent, considerably less than for the year 1963. Free reserves rose somewhat in recent weeks while borrowings continued about as they have in recent months.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally Adjusted)

	Latest Period	Amount			Per Cent Change: 3/	
		Latest Period	Preceding Period	Year Ago	Year Ago	2 years Ago
Civilian labor force (mil.)	July'64	74.2	74.3	73.2	1.4	3.6
Unemployment (mil.)	"	3.6	4.0	4.1	-11.4	-6.4
Unemployment (per cent)	"	4.9	5.3	5.6	--	--
Nonfarm employment, payroll (mil.)	June'64	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	1.5	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	11.6
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/	"	108.0	107.8	106.6	1.3	2.6
Commodities except food	"	104.3	104.3	103.3	1.0	1.6
Food	"	106.2	105.5	105.0	1.1	2.6
Services	"	115.1	114.9	112.9	1.9	3.9
Hourly earnings, mfg. ($)	"	2.52	2.52	2.45	2.9	5.4
Weekly earnings, mfg. ($)	"	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.)	July'64	21.9	21.7	20.7	5.8	11.5
Autos (million units) 2/	"	7,195	7,383	7,227	- .4	9.9
GAF ($ bil.)	"	5.0	5.0	4.6	8.3	15.3
Selected leading indicators						
Housing starts, pvt. (thous.) 2/	June'64	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.)	"	19.9	19.9	17.7	12.6	19.6
New orders, nonel. mach. ($ bil.)	"	3.0	3.0	2.5	18.1	26.4
Common stock prices (1941-43=10)	July'64	83.22	80.24	69.07	20.5	46.1
Inventories, book val. ($ bil.)	June'64	105.9	105.8	101.7	4.1	8.1
Gross national product ($ bil.) 2/	Q II '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. 3/ Based on unrounded data.

SELECTED DOMESTIC FINANCIAL SERIES

Indicators	Week ended August 7	Four Week Average	Last six months High	Last six months Low
Money Market 1/ (N.S.A.)				
Federal funds (per cent)	3.50	3.38	3.50	1.50
Treasury bills 3 mo., yield (per cent)	3.48	3.46	3.60	3.42
Net free reserves 2/ (mil. $)	109	115	230	18
Member bank borrowings 2/ (mil. $)	260	265	460	135
Security Markets (N.S.A.)				
Market yields 1/				
5-year Government securities (per cent)	4.04	4.04	4.21	4.00
20-year Government securities	4.17	4.17	4.26	4.15
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)	3.08	3.08	3.16	3.07
FHA home mortgages-25-year (per cent)	n.a.	n.a.	n.a.	n.a.
Common stocks - S&P composite index 3/				
Prices, closing (1941-43=10)	81.86	83.02	83.55	76.94
Dividend yield (per cent)	3.03	2.97	3.08	2.94

	Change in July	Average change-- last 3 mos.	Annual rate of change (%) 3 mos.	Annual rate of change (%) 1 year
Banking (S.A., mil $)				
Total reserves	18	95	5.6	3.2
Bank loans and investments:				
Total	-900	800	3.8	6.8
Business loans	300	400	9.0	11.2
Other loans	300	1,000	11.4	11.2
U. S. Government securities	-1600	-800	-16.4	-6.9
Other securities	100	300	9.0	11.0
Money and liquid assets:				
Demand dep. & currency	1,100	700	5.2	3.8
Time and savings dep.	900	1,000	10.3	13.1
Nonbank liquid assets	1,500 4/	1,200	6.2	7.6

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 August 5.
3/ Data are for weekly closing prices. 4/ Change in June.

U.S. BALANCE OF PAYMENTS

	1964 June	1964 May	1964 Apr.	1964 Q-1	1963 Q-IV	1963 Year	1962 Year
	Seasonally adjusted annual rates, in billions of dollars						
Balance on regular trans.				- .7	- 1.6	- 3.3	- 3.6
Exports 1/	23.7	24.2	24.2	24.3	23.6	21.9	20.5
Imports 1/	-17.9	-18.4	-18.3	-17.4	-17.5	-16.9	-16.1
Trade Balance 1/	5.8	5.8	5.8	6.9	6.1	5.0	4.3
	unadjusted monthly averages, in millions of dollars						
Balance on regular trans.	-136	-43	-484	21	-146	-275	-298
Trade balance 1/	419	730	542	583	529	413	361
Securities transactions	- 11	- 76	-104	- 9	19	- 69	- 80
Bank-reported claims 2/	-360	- 77	-164	-211	-263	-117	- 39
Other	-184	-620	-758	-332	-431	-502	-540
Financing, total	136	43	484	- 21	146	275	298
Special receipts 3/	0	0	0	65	88	57	95
Liabilities increase:							
To nonofficial 4/	-333	-223	690	78	10	50	17
To official	205	223	-201	-147	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 banks.

THE DOMESTIC ECONOMY

Industrial production. Available data indicate a further increase of about 1 point in industrial production in July from the June level of 132 per cent of the 1957-59 average. Gains in output were widespread among consumer goods, business equipment, and materials.

Steel ingot production, which usually falls off about 10 per cent in July, declined only 4 per cent this year and was 17 per cent above a year earlier. Output of crude petroleum and activity at petroleum refineries changed about seasonally and paperboard production continued at record levels.

The Board's monthly output indexes for fabricated metal products and electrical and nonelectrical machinery are largely based on employment data. Production worker manhours in those industries showed gains of 1 to 2 per cent from June to July and average overtime hours were above a year earlier.

The cutbacks in auto assemblies in preparation for the model changeover have started earlier this year indicating a rather sharp shift in the production pattern for July through September. However, after allowance for the model changeover, and assuming settlement of labor negotiations without strikes, current schedules for the third quarter suggest that the seasonally adjusted auto index will increase somewhat from the June level.

A sharp pick-up in dealer deliveries of new autos in the final 10-days of July, reflecting partly the end of the trucking strike, increased the total for the month. On a seasonally adjusted basis, however, the July rate was 7.2 million, slightly below the June rate of 7.4 million units and the same as a year earlier. Dealers' stocks were reduced moderately in July and at 1-1/4 million were about 200,000 larger than a year earlier.

Sales of used cars were up moderately in July and stocks were about the same as last year. Used car prices in the consumer price index for June rose 1 per cent and were 4 per cent above a year earlier.

Unemployment and labor force. The rate of unemployment declined sharply to 4.9 per cent in July, the lowest for the month since 1957. This rate compares with a 5.3 per cent rate in June and 5.6 per cent a year ago. The July reduction reflected both a rise in employment, following a decline in June, and some additional withdrawals from the labor force.

The civilian labor force in July, seasonally adjusted, was down 100,000 from June and nearly 400,000 from the high of 74.6 million reached in April and May. The July labor force was only 1.0 million above July 1963 whereas in other recent months the year-to-year gains in the labor force were substantially larger, averaging 1.6 million for the second quarter. In view of the rising trend in employment and production, the reduction in the labor force in July was unexpected and may have been due to some measurement problem.

Unemployment rates among teenagers most of whom had been looking for summer jobs, declined sharply between June and July and there were also declines indicated for adults, both men and women.

Unemployment rates for all three groups also were below year-ago levels. Most of the recent reduction was among persons with short-term unemployment; the number of workers who had been unemployed 15 weeks or more declined only moderately from the previous month and from a year earlier.

LABOR FORCE CHANGES, SELECTED PERIODS
(In millions of persons)

	Civilian labor force	Total employment	Unemployment
1964			
April-July 1/	-.4	.0	-.4
January-April	.9	1.0	-.1
Net	.5	1.0	-.5
1963			
April-July	.3	.3	*
January-April	.5	.5	*
Net	.8	.8	*

*--Change less than 50,000.

As indicated in the table, total employment in July, according to the Household Survey, was the same as in April and the decline in unemployment mainly reflected a reduction in the labor force. The developments since April have been in contrast to experience earlier

1/ Part of the decline in the labor force and unemployment in July may have reflected the lateness of the survey week. The reference week in the household sample is the week including the 12th of the month. This year the 12th was a Sunday and the survey week was the latest possible in a month--the week of the 12th-18th. In the three preceding years, the July survey week was earlier than this.

The labor force and unemployment tend to decline rapidly from week to week in July. Most summer workers enter the labor force in June or early July and as summer progresses they either find jobs or give up looking for work and leave the labor force. If this were the reason for part of the decline in seasonally adjusted unemployment this July, then the seasonally adjusted unemployment rate might rise in August.

in the year when there were substantial increases in both employment and the labor force and a small decline in unemployment. In the corresponding period last year, the employment increase, although smaller, was fairly steady and accompanied by an equivalent increase in the labor force and no change in unemployment.

Retail sales. According to the advance report, retail sales in July were up 1.2 per cent from June, after allowance for the normal seasonal variation. The July level was 1.4 per cent above the second quarter average, suggesting a further sizable increase for personal consumption expenditures in the third quarter.

Durable goods sales in July were up 2 per cent from their moderately reduced June level. Sales at nondurable goods stores were up about 1 per cent from June, continuing their steady advance of other recent months.

The June figures, which had been previously reported as maintaining the May level, have been revised downward and now show a decline of .5 per cent. Downward revisions were shown for both durable and nondurable goods.

RETAIL SALES
(Per cent increase)

	2nd quarter average to July	1st quarter to 2nd quarter	July '63 to July '64
Total	1.4	1.6	5.8
Durable	0.7	0.7	5.1
Nondurable	1.8	2.1	6.2

Consumer credit. The expansion of consumer instalment debt slowed markedly in June, the latest figures show. Increases continued in every major category but were uniformly the smallest for any month this year. The expansion fell from a $6 billion seasonally adjusted annual rate in the first quarter to $5 billion in the second. The second quarter rise in personal loans outstanding was the least for any quarter since early 1963; the rise in nonauto sales credit, the smallest since 1962.

While seasonally adjusted credit extensions were generally lower in June than in May, the total for the spring quarter as a whole was slightly higher than the January-March volume and were at a record level. The brake on debt growth during the quarter resulted from the increase in repayments. Moving up in the wake of the heavy borrowing of February and March--and perhaps fueled from March on by the tax cut--repayments on instalment credit in the second quarter were at a seasonally adjusted annual rate above $60 billion for the first time.

Construction activity. Seasonally adjusted new construction put in place dipped in July, according to preliminary estimates, but the decline followed a 2 per cent upward revision for June which brought the level back to about the record high reached in the spring. The upward revision for June was all in public activity and the preliminary July decline was also in that sector. In the private sector, residential construction outlays in July remained at their moderately reduced late spring rate. Business construction and most other types of nonresidential activity edged higher.

NEW CONSTRUCTION PUT IN PLACE

	July (billions) 1/	Per cent increase from Month ago	Per cent increase from Year ago
Total	$65.5	-1	5
Private	45.9	--	5
Residential	26.5	--	2
Nonresidential	19.4	+1	8
Business	13.6	+1	8
Public	19.6	-4	5

1/ Seasonally adjusted annual rate; preliminary estimate.

Mortgage markets. Competition for residential mortgages has continued strong this summer, though with scattered reports of greater selectivity among certain borrowers and types of properties than was the case last year. Contract interest rates on loans for both new and existing homes have remained under downward pressure. Loan-to-value ratios appear to have about stabilized while purchase prices, loan amounts, and average maturities have continued to increase.

AVERAGE TERMS ON CONVENTIONAL FIRST MORTGAGES

	1964 June	1964 May	Per cent increase in June from June 1963
New home loans			
Purchase price ($, thous.)	23.6	23.4	+5
Loan amount " "	17.3	17.0	+5
Downpayment* " "	6.3	6.4	+5
Loan/value (per cent)	74.3	73.7	+1
Maturity (years)	25.4	24.7	+6
Existing home loans			
Purchase price ($, thous.)	19.3	18.6	+6
Loan amount " "	13.6	13.2	+6
Downpayment* " "	5.7	5.4	+7
Loan/value (per cent)	70.9	71.1	--
Maturity (years)	20.2	19.8	+4

*--Indicated downpayment equals estimated price minus amount of first mortgage.

Delinquency rates on home mortgages declined again in the second quarter, according to the Mortgage Bankers Association survey. Rates of delinquency on FHA, VA, and conventional loans were nearly all somewhat below year-earlier levels. Foreclosure rates, however, were generally higher.

Business inventories. Seasonally adjusted book value of business inventories increased in June and there was a sizable upward revision for May. For the entire second quarter, business inventories now show an increase of $875 million, as compared with a $600 million increase in the first quarter.

The June increase and the larger accumulation for the quarter as a whole resulted mainly from expansion at distributors. The second quarter increase at distributors totaled over $800 million, double the first quarter rate and as high as in the fourth quarter of 1963. However, a large increase in sales accompanied the rise in inventories and distributors' stock-sales ratios generally remained low.

In contrast with distributors, manufacturers' inventories were reduced in June and the second quarter increase amounted to only $50 million, below the already sharply reduced first quarter rate. Nondurable goods inventories were down over $300 million in June and for the second quarter as a whole. This unexpected decline was associated with a 3 per cent rise in sales for the quarter--twice as large an increase as had been anticipated by nondurable goods producers in May. For durable goods producers, shipments in the second quarter rose half as much as anticipated in May (1 instead of 2 per cent) and inventories increased as much as expected (about $400 million).

While unexpectedly large increases in sales appear to have been one factor limiting the rise in manufacturers' inventories this year, other factors include a decline in inventories in defense industries, where shipments were relatively stable in the first half and cutbacks were in prospect, and a decline in stocks at textile mills which may be related to uncertainties connected with the "one-price" cotton law.

With increases in inventories small and gains in sales large, manufacturers' stock-sales ratios declined substantially in the first half of the year. During 1963 and 1962 these ratios had been relatively stable, which in itself was an unusually favorable development for a cyclical expansion period.

MANUFACTURING SALES AND STOCKS

	Per cent increase Q2 1964 from Q4 1963:		Stock-sales ratios		Per cent decline in stock-sales ratios
	Sales	Inventories	2nd Q. 1964	4th Q. 1963	
Manufacturing, total	4.8	1.2	1.63	1.69	-3.6
Durable goods	4.2	1.6	1.89	1.94	-2.6
Nondurable goods	5.5	.6	1.35	1.41	-4.3

Commodity prices. Although the official price indexes have generally continued to exhibit little change, there recently has been some revival of news comments suggesting the possibility of inflationary developments. These have reflected strikes and upward pressures in the nonferrous metal and steel scrap markets, statements by two major steel companies that higher prices are needed, price advances in some other markets, a continuing larger volume of new orders for most materials and equipment than is usual in the summer months, and the impact of foreign developments particularly in the Far East.

However, except mainly for metal products and some nondurable goods, commodity markets have not shown cumulative upward movements this year. Domestic supplies of goods have generally continued ample and processing costs have been held down by continued gains in productivity.

In the copper market dealer prices in New York and London have reached new peaks about 40 per cent above the major producers' quotation and prices of copper and brass products have been raised in recent weeks to cover the premium prices being paid for copper and zinc. Some of these advances in product prices will be reflected in the official price indexes but not the increases in premiums. Also, tin prices have risen again to reach $1.65 per pound as compared to $1.35 two months ago and $1.15 last year. Lead and zinc markets have been eased by the Congressional authorization to release a certain volume of supplies from the national stockpile.

Steel scrap at Chicago rose up to $7 per ton in early August and the Iron Age composite is up $5 or 15 per cent over the past month. Over the preceding year the increase had only been $7. Steel mills have reported heavy demands for their products and in the case of steel plate, which is used for heavy construction and railroad car building, sales are on an allocation basis. Purchasing agents report this item and five other materials, all metals, as being in short supply in July.

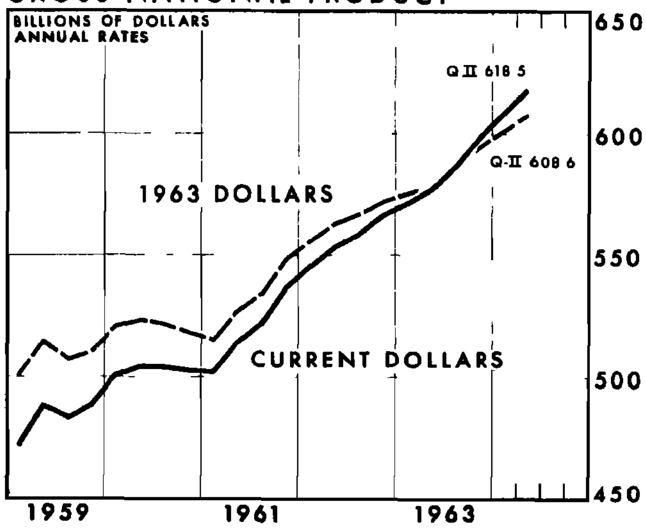
The BLS daily index of industrial materials, which is of limited coverage, has risen 4 per cent since June and 2.6 per cent since the end of July. The crisis in the Far East presumably was a factor in the recent rise. This index also had risen 4 per cent in April but subsequently lost part of that increase because of a temporary decline in copper scrap and a 25 per cent drop in raw cotton costs to domestic mills as a result of the new Federal subsidy program and the reduction in cotton farm support levels. Mill prices of cotton goods showed relatively small declines and mill margins increased substantially. Recently prices of some cotton and synthetic fabrics have been rising. This has reflected partly the reduced level of manufacturers' inventories in the textile-apparel industries and the strength in retail apparel purchases which during recent months have been 12 per cent larger than last year.

The consumer price index rose .2 per cent in mid-June and was 1.3 per cent higher than a year ago. The latest rise reflected mainly increases in foods and housing.

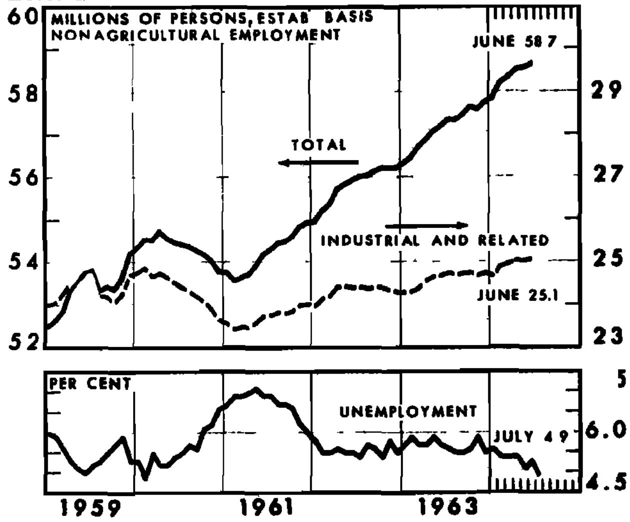
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

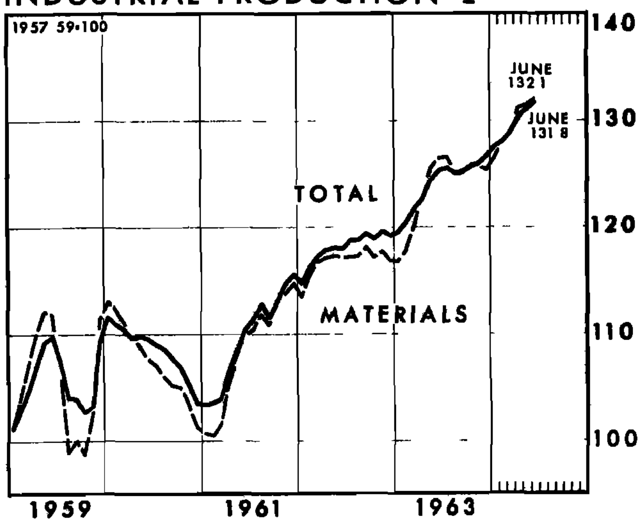
GROSS NATIONAL PRODUCT



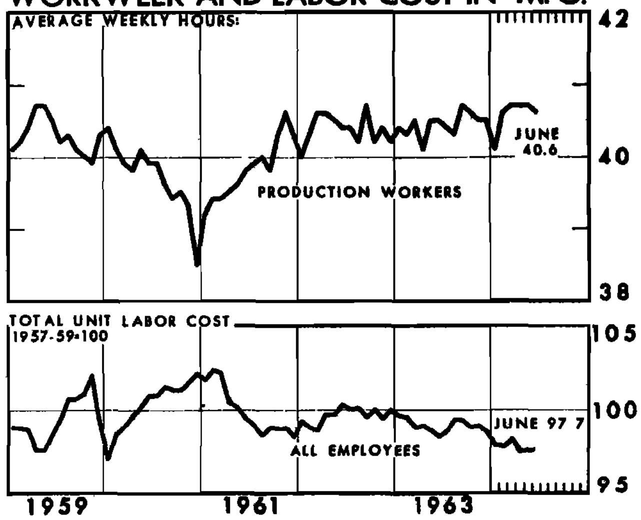
EMPLOYMENT AND UNEMPLOYMENT



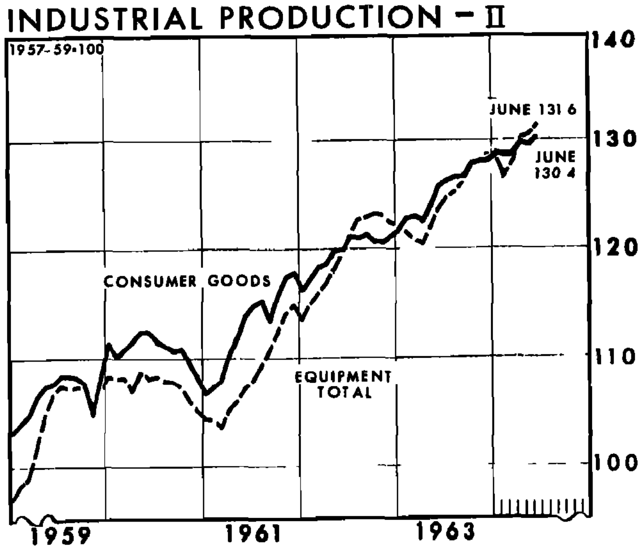
INDUSTRIAL PRODUCTION-I



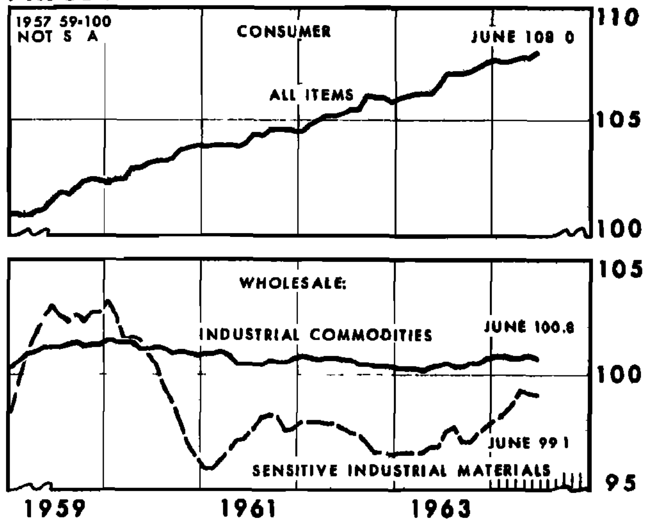
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION — II



PRICES

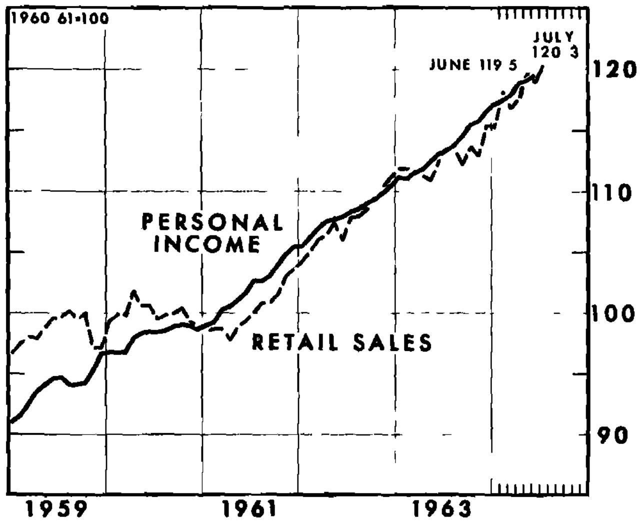


8/11/64

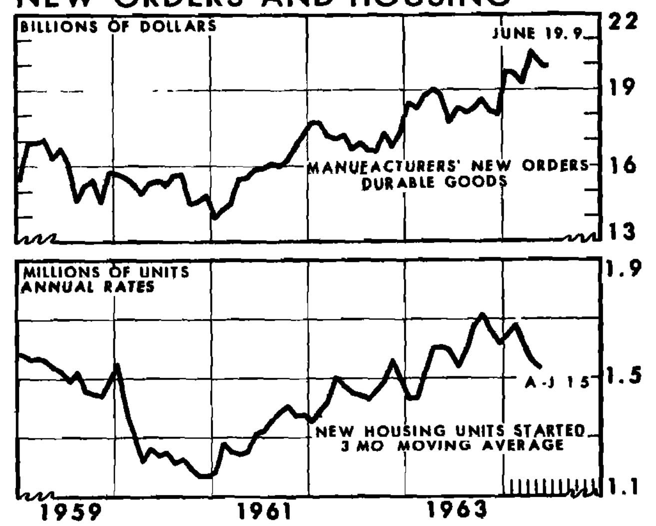
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

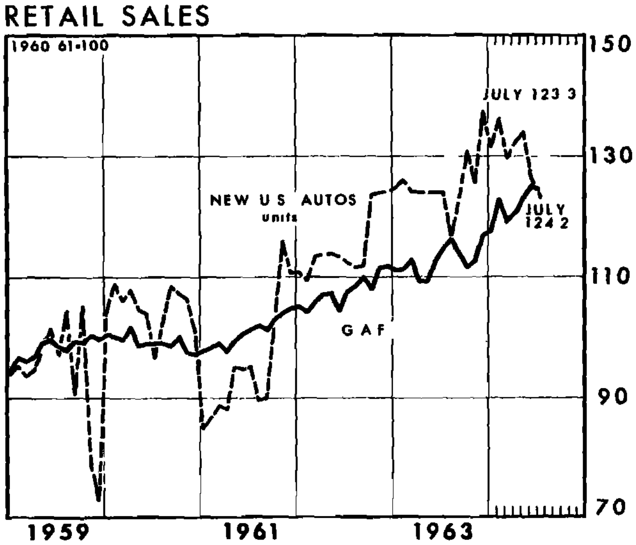
PERSONAL INCOME AND RETAIL SALES



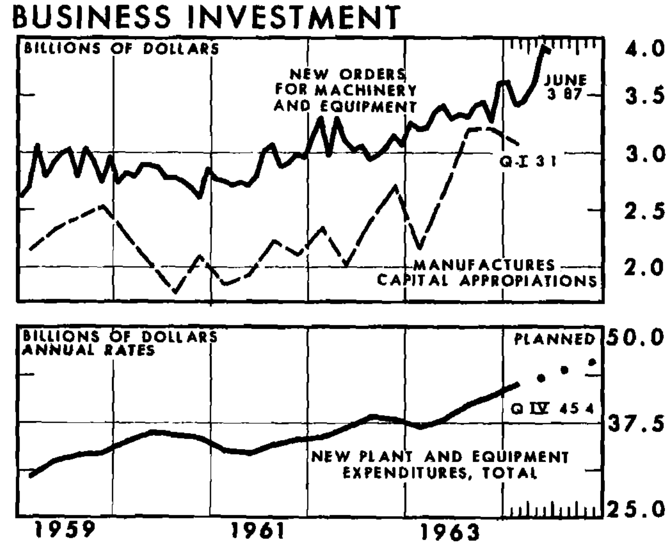
NEW ORDERS AND HOUSING



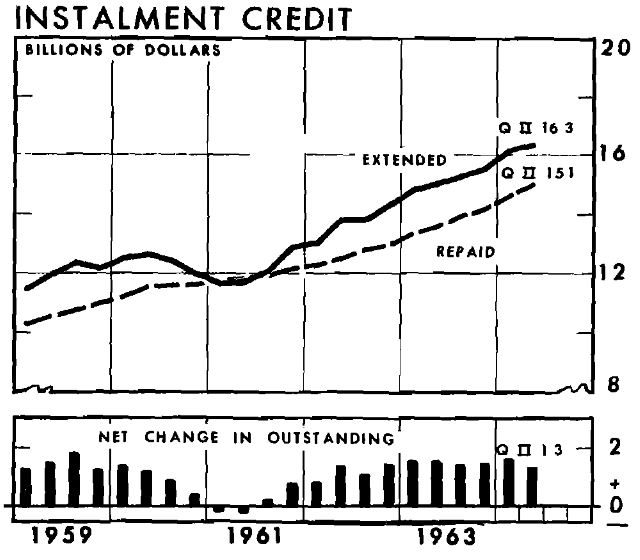
RETAIL SALES



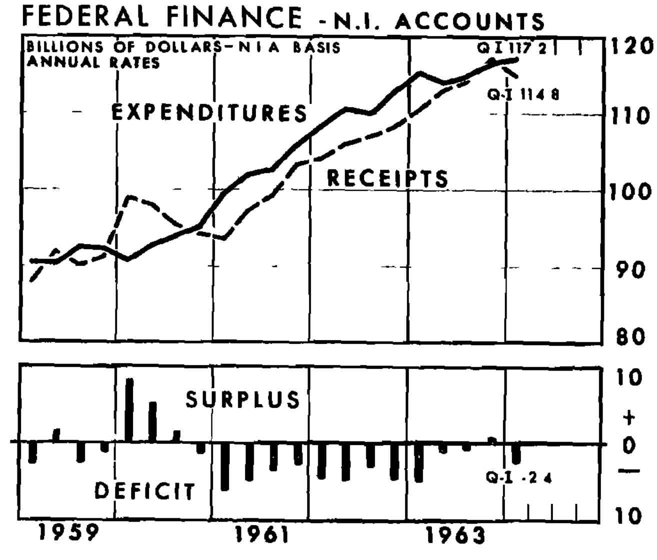
BUSINESS INVESTMENT



INSTALMENT CREDIT



FEDERAL FINANCE -N.I. ACCOUNTS



8/11/64

DOMESTIC FINANCIAL SITUATION

Bank credit. Seasonally adjusted loans and investments at all commercial banks declined in July following substantial increases in the two previous months. Heavy liquidation of U. S. Government securities was mainly responsible for the drop, but other investments (municipal and agency issues) and total loans also rose much less than in earlier months of the year. The smaller loan rise resulted in large part from reductions in security loans and in loans to finance companies.

NET CHANGES IN COMMERCIAL BANK CREDIT

Item	Dollar amount (billions)		Annual rate (per cent)		
	July 1964	Average first 6 months of 1964	First 7 months of 1964	Last 5 months of 1963	First 7 months of 1963
Total loans and investments	-0.9	1.4	5.4	8.6	7.3
Total loans	0.6	1.6	11.6	11.4	11.1
U.S. Government securities	-1.6	-0.4	-10.5	-1.9	-6.8
Other securities	0.1	0.2	6.9	16.1	21.1
Business loans	0.3	0.4	7.9	12.6	5.0
Total loans minus security loans	1.0	1.3	10.8	11.6	11.3

Through July the annual rate of commercial bank credit growth was 5.4 per cent, well below growth in the last five months of 1963 and somewhat below expansion earlier in that year. Loans rose at an annual rate of nearly 12 per cent--slightly above the 1963 expansion--but liquidation of U. S. Government securities accelerated and purchases of other securities moderated sharply.

In the first week of August, credit expanded sharply at weekly reporting banks in leading cities; an increase of $1,300 million compared with declines in the $100 - $1,200 million range in the corresponding week of most other recent years. Holdings of U. S. Government securities increased contraseasonally reflecting in part bank allotments of the $1 billion Treasury bill on August 4. Security loans and loans to finance companies, which often decline, also rose.

Holdings of U. S. Government securities at all commercial banks, after allowance for seasonal changes, declined $1.6 billion in July, the fourth and largest consecutive monthly reduction in these holdings. Declines at city banks were concentrated around the mid-month and were associated with substantial sales of short and intermediate term coupon issues eligible in the advance refunding. In addition, heavy sales of bills were made at depressed yield levels and bill holdings also declined as a result of the July 15 maturity. Bill sales and redemptions were offset only in part by moderate bank allotments of the $1 billion Treasury bill on July 7 and the $1 billion bill strip on July 29.

CHANGES IN U. S. GOVERNMENT SECURITIES AT WEEKLY REPORTING BANKS
(In millions of dollars)

Week ending:	Total	Bills	Notes and bonds maturing:		
			Within 1 year	1-5 years	After 5 years
July 8	-335	-274	+ 13	- 69	- 5
15	-772	-388	-130	-233	- 21
22	-209	-256	+138	-366	+275
29	+396	+314	-1,024	-1,127	+2,233

On July 24, all commercial banks shifted about $5.5 billion of issues maturing within 3 years into those maturing in over 5 years through participation in the Treasury advance refunding. This represented a somewhat larger transfer of securities into the long-term category than had occurred in either the January 1964 or September 1963 advance refundings.

Business loans at all commercial banks, seasonally adjusted, increased $300 million in July, a little below the average monthly increase over the first half of the year. So far in 1964, growth has been faster than in the corresponding months of 1963 but slower than in the latter months of that year. At city banks, repayments in recent weeks by metals and petroleum concerns have been heavier than usual although borrowing in June had been relatively light. On the other hand, loans to miscellaneous manufacturing and mining groups and to public utilities, which frequently decline in July, have increased. Borrowing by the construction industry has continued high. Purchases of bankers acceptances have also been larger than usual.

Real estate and consumer loans rose further in July at about the same rate as in other recent months. Growth in real estate lending, however, has been somewhat smaller than in the corresponding months of 1963. Loans to nonbank financial institutions declined more than seasonally in July following heavier-than-usual borrowing by sales finance companies over the June tax and dividend period. Security loans also dropped in July following two months of increase. Substantial borrowing by U. S. Government security dealers associated with the advance refunding and other Treasury financing was paid down somewhat by month-end, while other security loans declined more than usual for this period.

Money supply and time deposits. The seasonally adjusted money supply increased $1.1 billion further in July; unusually rapid expansion in the first half of the month was followed by a small decline in the second half. This brought the annual rate of growth since December to 3.9 per cent, about the same as in the second half of 1963. Taking the past two months combined, the rapid growth in privately-held money supply does not appear to have been associated with unusual changes in U. S. Government deposits at commercial banks. While these deposits declined more than usual in July, they had also increased more than usual in June.

Seasonally adjusted time and savings deposits at all commercial banks increased $900 million in July, a little less rapidly than in May and June. Growth was small in the first half of July, as it had been in late June, but subsequently accelerated markedly. So far this year, these deposits have increased at an annual rate of 10.8 per cent, 4 percentage points below the 1963 expansion.

Bank reserves. Free reserves averaged $135 million over the four weeks ending August 5; this was a little higher than in most other recent months, mainly because of the unusually high $200 million figure in the week of July 29. Over the period excess reserves at $400 million were also a little higher than earlier but borrowings at $265 million were about the same as the average of most other recent months. The effective rate on Federal funds fell below 3-1/2 per cent on only two days in the four week period. Some transactions, however, took place below that rate on 10 days.

Seasonally adjusted reserves against private demand deposits increased substantially over the four weeks ending August 5 with most of the expansion in the final week. Reserves required against U. S. Government deposits dropped sharply as Treasury balances were drawn down in July. Total required reserves, not adjusted for seasonal, declined $335 million, somewhat more than in the corresponding week of the two past years.

Corporate and municipal bond markets. Yields on both new and outstanding issues of corporate and municipal securities have continued stable in recent weeks. The most recent yield quotation for new corporate bonds--for the week ending July 31--was the same as in early July and 4 basis points below yields on comparable seasoned bonds. Reported yields on outstanding issues have been substantially unchanged since May. In the municipal market, yields have moved within a narrow range over recent weeks and are now slightly above the recent lows reached in mid-July.

BOND YIELDS
(In per cent)

	Corporate Aaa		State & local governments	
	New	Seasoned	Moody's Aaa	Bond Buyer (mixed quality)
1964 - High	4.53(5/8)	4.41(7/17)	3.16(3/26)	3.32(4/21)
Low	4.30(2/21)	4.35(2/28)	3.07(7/16)	3.13(1/20)
June high	4.45	4.41	3.11	3.21
July low	4.37	4.40	3.07	3.16
Latest week available 1/	4.37	4.41	3.08	3.19

1/ Latest week in which relevant issues of new corporate bonds were offered was July 31; yields in other series are for the week ending August 7.

The relative stability of yields has not reflected strong investor demand. In fact, initial reception of closely priced issues has been slow. But the recent supply of publicly offered corporate bonds has been small and the calendar of prospective offerings is very light through August, and unsold syndicate balances remain under $50 million. Although yields thus far do not appear subject to immediate upward pressure, the substantially heavier volume of offerings in prospect after Labor Day, when a number of utility issues will be offered to underwriters at competitive bidding, could bring a change in the situation.

BOND OFFERINGS 1/
(Millions of dollars)

	Corporate				State & local govt.	
	Public offerings		Private placements			
	1964	1963	1964	1963	1964	1963
Jan.-June ave.	399	416	463	521	921e/	975
July	235e/	279	380e/	431	925e/	928
Aug.	175e/	336	350e/	318	500e/	764

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

In the market for State and local securities, some pressure on current yield levels is already in evidence. Recent new issue volume has been comparatively high. Dealers' advertised inventories of unsold securities have risen sharply since mid-July. They reached a level above $700 million for the first time in more than a year and are still in excess of $650 million. Although the volume of prospective offerings between now and Labor Day is light, underwriters of some recent issues which met an unfavorable response are already reported to be offering price concessions. Unsold balances of the large New York and California issues apparently are concentrated at the long end of the maturity range.

Stock market. Common stock prices, which reached a new peak in mid-July, declined 2-1/2 per cent to 81.76 on August 11 as measured by Standard and Poor's composite index of 500 stocks. International developments, and particularly the Vietnam crisis, appear to have exerted a dominant influence in this movement, although some market analysts thought the decline was partly the result of technical factors. Sharpest reactions during the Asian crisis took place on moderate trading volume and trading averaged less than 4.5 million shares daily in each of the past three weeks. At current levels, prices remain about 3 per cent above their June low.

U. S. Government finance. Treasury bond yields have changed little since late July while Treasury bill rates have edged higher. The Treasury's cash refinancing of maturing August issues proved highly successful as subscriptions exceeding $14.8 billion were received for the $4 billion offering of 18-month notes.

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

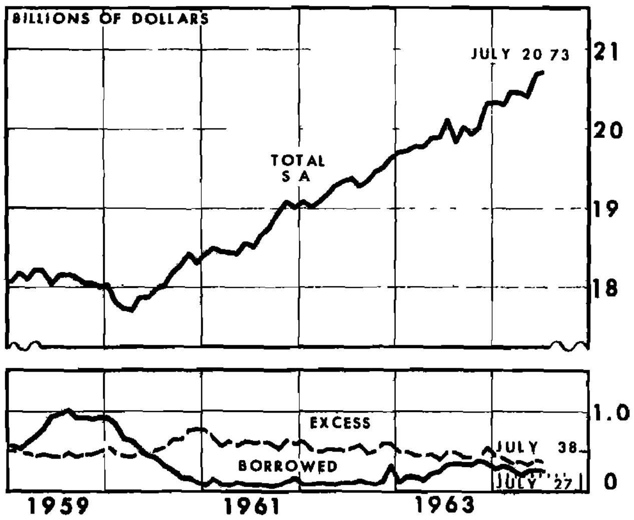
Date (closing bids)	3-month bills	6-month bills	3 years	5 years	10 years	20 years
1963						
June 28	2.99	3.06	3.61	3.82	4.00	4.03
Dec. 31	3.51	3.64	4.05	4.06	4.14	4.19
1964						
Mar. 31	3.51	3.68	4.16	4.16	4.23	4.24
June 30	3.47	3.52	3.95	4.01	4.15	4.15
July 28	3.46	3.57	3.93	4.04	4.20	4.17
Aug. 11	3.50	3.61	3.95	4.06	4.20	4.18

The recent impressive performance of the Treasury bond market, which is still digesting the mammoth July advance refunding as well as the Treasury's August refinancing, has continued in the face of uncertainties created by the military crises in Southeast Asia and the Eastern Mediterranean. Moreover, the market has been subjected to growing press discussion of potential inflation in the domestic economy and worsening in the international balance of payments. Against this background, retail selling in the market has remained limited and has been offset by net investor buying. This buying was supplemented in the first week of August by System Account purchases of coupon issues totaling $130 million, including about $85 million of bonds due in over 5 years. Dealer positions in these longer-term bonds were still a substantial $916 million on August 10, down from $1,177 million on July 16. The dealers have also built up sizable positions in shorter-term coupon issues during the August refinancing. The dealers were allotted about $430 million of the new 3-7/8 per cent notes of February 1966 and on August 10 they held $684 million of notes and bonds due in 1-5 years.

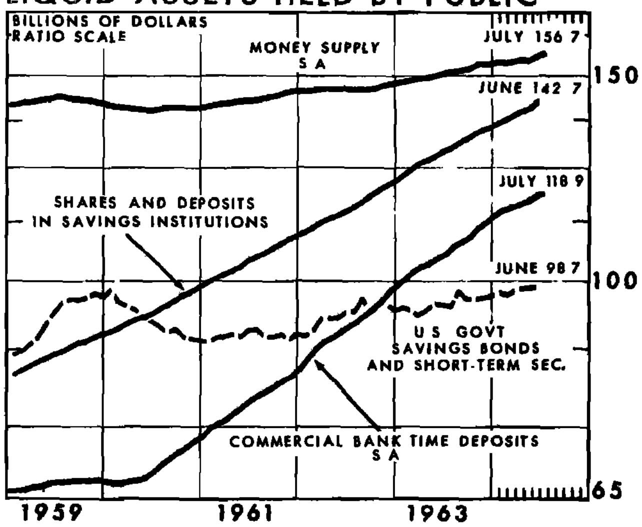
Treasury bill rates came under some upward pressure in late July and early August, as the market absorbed bills from a $1 billion bill strip auction on July 24 and a $1 billion auction of 1-year bills on July 30. The 18-month notes offered in the August refinancing also tended to compete for short-term funds. At the same time, market demand for bills slackened while the return of a firm money market atmosphere in early August made it somewhat more difficult for dealers to finance their positions. Working to maintain upward pressure on short-term rates in the weeks ahead will be the liquidation of short-term assets by automobile companies during the period of production build-up following model changeovers. Treasury plans to auction $1 to $1-1/2 billion of March tax bills later this month should also exert some firming influence on Treasury bill rates.

FINANCIAL DEVELOPMENTS - UNITED STATES

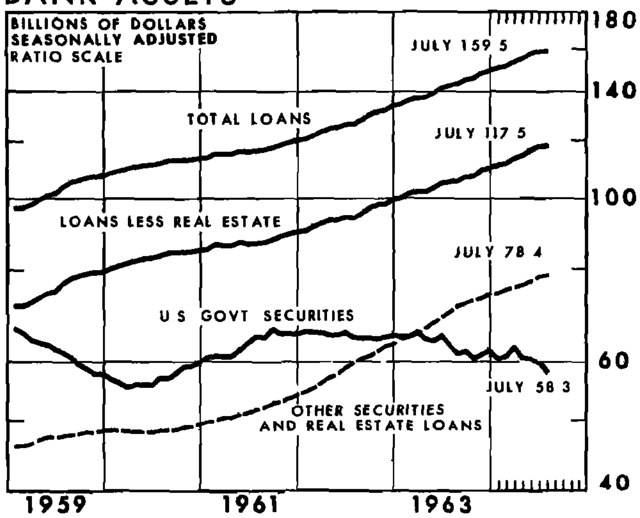
BANK RESERVES



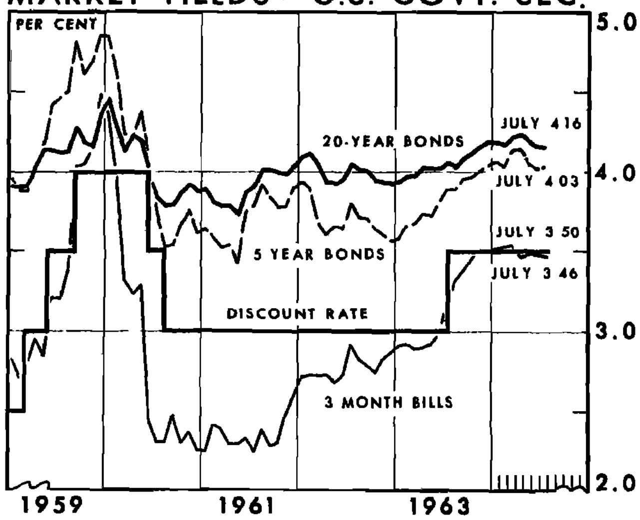
LIQUID ASSETS HELD BY PUBLIC



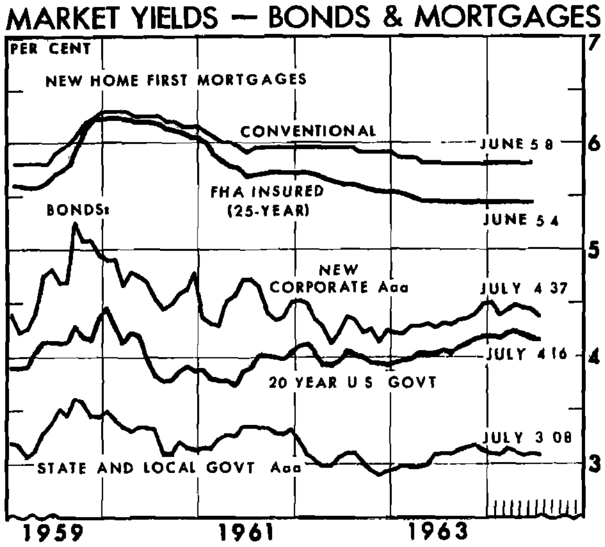
BANK ASSETS



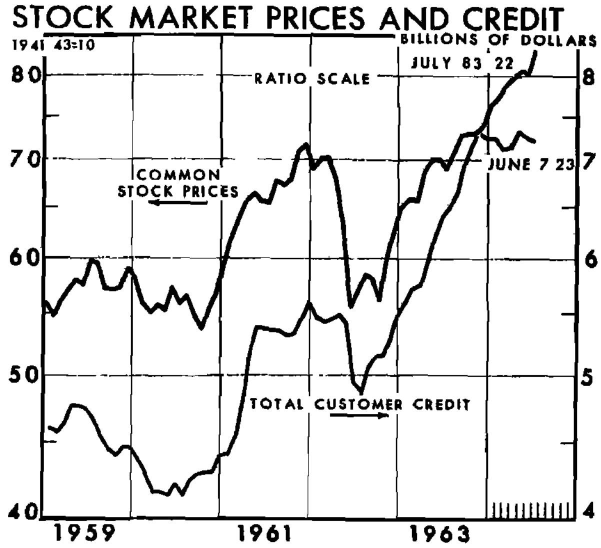
MARKET YIELDS - U.S. GOVT. SEC.



MARKET YIELDS — BONDS & MORTGAGES



STOCK MARKET PRICES AND CREDIT



8/11/64

INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. Preliminary data show a U.S. payments deficit in July of slightly less than $600 million, and almost as large as that recorded for the second quarter as a whole. The July outturn would be affected by the substantial seasonal deterioration that occurs between the second and third quarters. Also, these figures swing widely from month to month; for example, in April a payments deficit of $485 million was recorded to be followed in May by a deficit of only about $40 million.

In June, according to preliminary figures, the outflow of short-term capital totaled about $300 million, bringing the total for the second quarter ($600 million) back to the high first quarter rate. Two-thirds of the June outflow represented movements of liquid funds -- into dollar-denominated time deposits, foreign currency money market assets, and also U.S. banks' sterling deposit balances. The outflow of short-term bank credit was up somewhat from the moderate level that had prevailed since February.

Long-term bank loans in June remained at the low April/May rate. New foreign securities issues totaled $50 million, down sharply from the April/May rate of more than $100 million a month.

Both total exports and imports declined somewhat in June, leaving the trade surplus unchanged at nearly a $6 billion annual rate, about $1 billion lower than in the first quarter.

Business and financial developments abroad. Continuation of recent trends in foreign economic activity is indicated by the latest information. In France and Italy, there is evidence of further reactions to government stabilization efforts. British and Japanese reserves declined further in July.

French labor market pressures are continuing to ease. The ratio of unfilled job vacancies to unemployed declined further during June to 0.47 from 0.50 at the end of May. One automobile manufacturer recently cut the average work week in its plants, and Renault -- the largest producer -- has announced a substantial reduction in working hours to take effect on 31st August. Automobile production in April-June was no higher than a year earlier. Total industrial production fell back slightly in May, -- perhaps reflecting an unusual incidence of holidays -- and was equal to the January-April average. On the other hand, prices have continued to move upwards with a further moderate rise in retail prices and a much less than seasonal decline in wholesale prices in June.

Official external reserves rose by $67 million in July following accruals of $293 million in the second quarter. The trade deficit in May-June was about the same as the average for the two preceding months. Imports, though down from the peak reached early in the year, have shown little net change recently.

Industrial production in Italy is reported to have declined in May, bringing the reduction in output since last December to a little more than 2 per cent. Wholesale prices were unchanged in June. The balance of payments surplus in June has now been revised upwards to total $154 million. Latest trade figures for May show imports remaining at the reduced level of March-April.

The new Italian Government has announced a program for tighter control over Government expenditures. The rise in expenditures is to be much smaller than in recent years, and together with selected tax rate increases this is expected to reduce the budget deficit. On the other hand, tax incentives and other measures are to be proposed to mitigate some of the effects of the tight money policy on private investment.

Japanese reserves fell by $22 million in July. On August 1st, the Bank of Japan raised the percentage of liquid foreign exchange assets that banks must maintain as reserves against their short-term foreign liabilities. This measure supplements the quantitative limits placed early in July on short-term foreign liabilities in the form of Euro-dollars and free yen deposits.

Japanese industrial production rose 2.5 per cent in June, after having shown no net increase from February to May.

British reserves fell by $28 million in July following a decrease of $56 million in June. Sterling has remained under intermittent pressure over the last three weeks and the spot rate has remained at about 278.85 cents.

Some easing of British labor market pressures is indicated by a small rise in unemployment and fall in job vacancies in July. Industrial production in May remained unchanged from the level of the preceding four months. But latest data on orders in engineering industries continue to indicate expanding domestic investment demand. The sharp rise in imports in June reflected a continuing rise in imports of semi-manufactures and finished manufactures, together with a new pickup in imports of basic materials.

For <u>Germany</u>, recent information continues to indicate a strong demand situation. The unemployment rate declined to 0.5 per cent in June and the number of job vacancies rose further. Industrial production, though down in June, averaged nearly 2 per cent higher in May-June than in the preceding two months. Total new industrial orders in May-June averaged 3 per cent below the very high levels of the preceding four months: export orders declined further and total orders for basic materials and nondurable consumer goods fell back; however, new orders are still rising in the investment goods industries, and order backlogs in these industries have lengthened further.

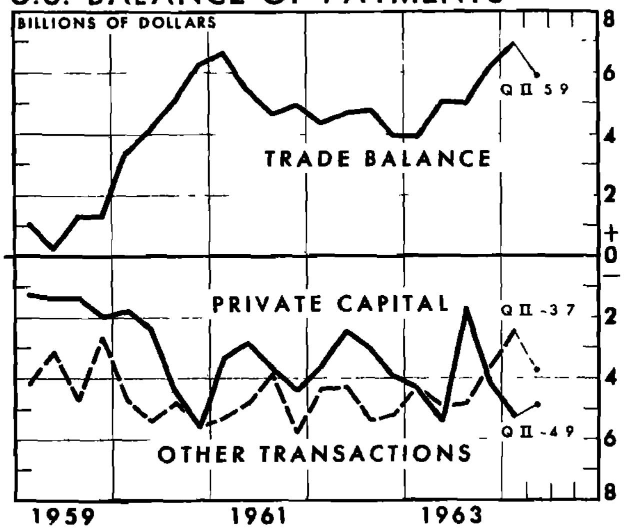
<u>Canadian</u> economic indicators for May were less buoyant than in earlier months. Industrial production, employment, and building permits showed declines. Employment fell further in June for the third consecutive month, and the unemployment rate jumped to 5.2 per cent from the 4.7 per cent rate of April/May.

However, exports rose further in May and very sharply in June. Retail trade also picked up in May after falling off slightly in the two preceding months. Capital spending intentions for 1964 have been revised upwards by about 7 per cent, according to a recent survey; in the business sector, anticipated capital expenditures were up 10 per cent from six months ago, but for residential construction and government capital outlays the revisions are smaller. The prospective volume of investment expenditures may encounter supply shortages and other bottlenecks, but, if realized, total capital spending would be 16 per cent higher than in 1963.

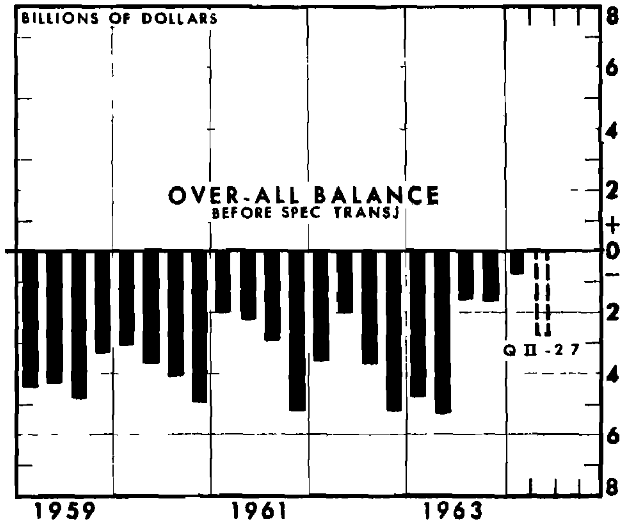
U.S. AND INTERNATIONAL - ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED, ANNUAL RATES

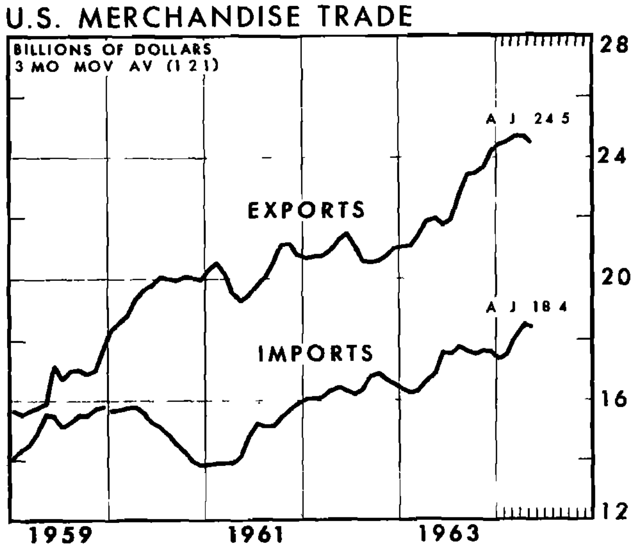
U.S. BALANCE OF PAYMENTS



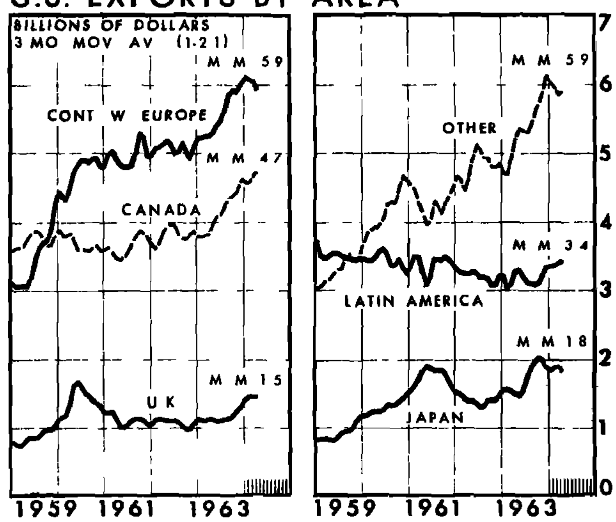
U.S. BALANCE OF PAYMENTS-CONT.



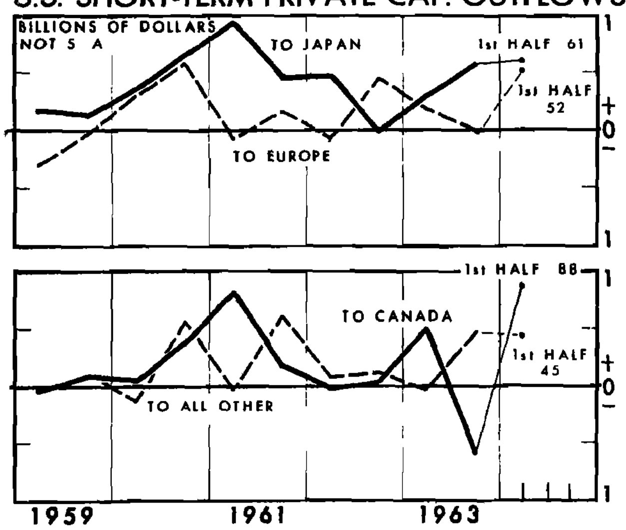
U.S. MERCHANDISE TRADE



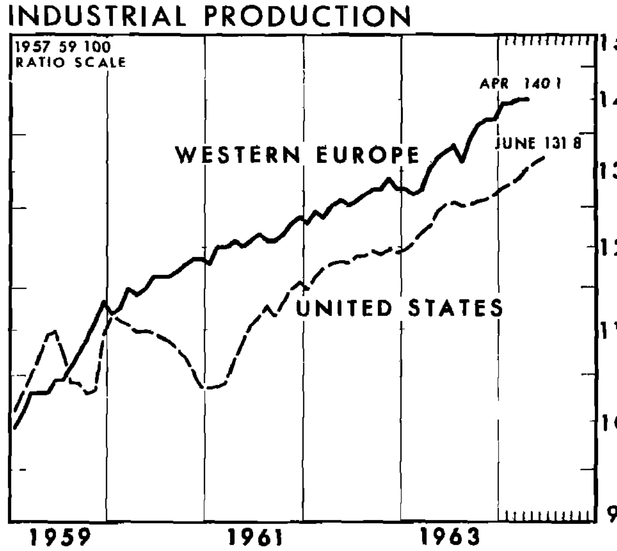
U.S. EXPORTS BY AREA



U.S. SHORT-TERM PRIVATE CAP. OUTFLOWS



INDUSTRIAL PRODUCTION



APPENDIX A: SECOND QUARTER CORPORATE PROFITS

Corporate profits before taxes, according to our present estimates, were at a seasonally adjusted annual rate of $57 billion in the second quarter of 1964. While this is a new peak, and 12 per cent above the level in the second quarter of last year, it represents very little further rise from the surprisingly high level now shown for the first quarter of this year. Profits of companies in non-manufacturing industries are estimated to have risen further, after seasonal adjustment, from the first to the second quarter, but manufacturing earnings appear to have increased no more than, and probably less than, seasonally.

Second quarter earnings reports are now available for about 600 manufacturing companies that account for two-thirds of all manufacturing corporate profits. These reports indicate a year-to-year increase of 14 per cent in profits after taxes of all manufacturing corporations. Part of the rise reflects the cut in Federal income tax rates this year. On a before-tax basis, manufacturing profits are estimated to have increased 11 per cent from second quarter to second quarter, with all major industries except iron and steel participating in the rise.

In the first quarter of 1964 the year-to-year increase in profits of manufacturing companies had been much larger: 27 per cent for profits after taxes and 22 per cent for profits before taxes. However, the second quarter shrinkage in the rate of year-to-year gain, which occurred to some extent in almost all manufacturing industries, reflected in part the sluggishness of profits in the first quarter of last year and the subsequent marked rise in the second quarter.

The fact that our present estimates indicate a decline in seasonally adjusted manufacturing profits from the first to the second quarter of this year, and almost no rise in total corporate profits, does not necessarily mean that the peaking-out in profits that usually occurs after a year or so of expansion in economic activity has at last arrived. It may represent only another of the pauses which, as may be seen from the table, have marked the generally upward course of profits since 1961.

On the other hand, the failure of profits to rise much may reflect lack of comparability between our estimates for the second quarter and the official estimates for the first. We do not have all the information we would need to estimate the corporate profits series exactly as Commerce estimates it, but such information as we have yields a significantly ($1 billion or so) lower figure for the first quarter of this year than the official estimate for this period.[1/] We do not know at present whether this difference reflects some special adjustment or, if so, whether it could be expected to affect the second quarter as well. Using our estimates for both the first and second quarters gives a relatively smooth upward movement in profits before taxes since the fourth quarter of last year.

CORPORATE PROFITS
(Seasonally adjusted annual rates, in billions of dollars)

Year and quarter	Profits before taxes	Profits and inventory valuation adjustment			
		All industries	Manufacturing		Nonmanu-facturing
			Durable	Nondurable	
1962 - I	47.2	47.1	12.8	11.2	23.2
II	47.9	48.0	12.7	11.3	23.9
III	48.1	48.3	13.5	11.3	23.4
IV	49.4	50.3	13.8	12.3	24.2
1963 - I	48.9	49.1	13.2	11.6	24.3
II	51.1	50.2	14.5	12.1	23.6
III	51.3	51.4	14.7	13.1	23.6
IV	54.3	53.1	15.4	12.4	25.3
1964 - I	56.6	56.4	16.6	13.9	25.9
II est.	57.0	56.5	16.5	13.3	26.7

Source.--Department of Commerce, except second quarter of 1964 figures which are Capital Markets Section estimates.

1/ In particular, as may be seen from the table, the official estimate of profits for nondurable goods manufacturers shows a sharp increase from the fourth quarter to a level 20 per cent above the first quarter of 1963. The FTC-SEC series (the extrapolating series used in deriving the manufacturing component) shows for nondurable goods groups a year-to-year increase of 15 per cent, and of only 12 per cent when the FTC-SEC data are converted to the National Income Industry weights and definition of profits.

APPENDIX B: EMPLOYMENT OPPORTUNITY ACT OF 1964

The President's program to combat poverty through: educational and vocational training of young persons in low income families; community action programs; job training for recipients of aid to dependent children; adult education programs; assistance to families of migrant workers; grants and loans to small farmers; and loans to small businesses was passed August 11, substantially as proposed (see FOMC Notes of 3/20/64). The Act authorizes expenditure of $947.5 million for operation of the program in fiscal 1965. An expenditure of $962.5 million was included in the 1965 budget. The funds are divided as follows:

Programs	Authorizations for Fiscal 1965 (in millions)
Job Corps	$190.0
Community Service	315.0
Work-training (high school students)	150.0
Work-study (college students)	72.5
Adult Education	25.0
Work-experience (public assistance recipients)	150.0
Aid to Rural Areas	35.0
Administration and volunteer workers	10.0
Total	$947.5

Of the $315 million authorized for community action programs, the $189 million to be allotted to State projects will be divided into three equal parts and a State's share of each third is based on its relative position with respect to: (1) the number of public assistance recipients, (2) average unemployment, and (3) the number of children under 18 living in families with incomes of less than $1,000. A similar method will be used to distribute the $72.5 million appropriation to provide job opportunities for college students from low income families. The criteria for a State's share are based on: (1) the number of full-time college students, (2) the number of high school graduates, and (3) the number of children in families with incomes under $3,000.