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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

September 4, 1964.

The Domestic Economy

Changes in the labor force in August were small after allowance for seasonal factors. The unemployment rate increased from 4.9 per cent of the civilian labor force in July to 5.1 per cent in August, the same as the average since April. The unemployment rate for adult men was unchanged in August at 3.7 per cent and for married men it declined slightly to 2.6 per cent. Unemployment rates for adult women and teenagers returned to the June levels of 5.1 and 15.0 per cent, respectively, after declining somewhat in July.

The civilian labor force rose slightly and at 74.3 million was up 1,350,000 from a year earlier. This increase was 250,000 more than expected on the basis of long-run trends in labor force participation rates. Total employment was 1.5 million higher than a year ago.

For workers first covered under the minimum wage law by the 1961 amendments, the minimum wage increased on September 3 to $1.15 an hour from $1.00. The 1961 amendments extended coverage to 3.6 million workers, principally in large retail trade and service establishments. The change will affect about 565,000 workers who were receiving less than the new minimum.

Seasonally adjusted new construction activity dipped 1 per cent in August, following a 2 per cent upward revision to a new high in July. The annual rate of $66.0 billion in August was 4 per cent above the rising rate a year earlier; this compared with a year-to-year gain of 8 per cent in the first 8 months as a whole. Private construction expenditures changed little in August as residential activity continued at about its reduced earlier rate while nonresidential expenditures moved higher. Public construction, which was revised upward by 4 per cent for July, declined 3 per cent in August.

Nonfarm business has raised somewhat its plans to spend on new plant and equipment this year, according to the Commerce-SEC survey conducted in August. Outlays are now projected at $44.2 billion this year, up $5 billion or 12.7 per cent from 1963. Last May businesses were planning a 12.0 per cent rise and last February, a 10.1 per cent rise. Fixed capital outlays are now indicated to rise $5 billion (annual rate), or 12 per cent, from the fourth quarter of last year to the fourth quarter this year, compared with $4.2 billion, or 10.2 per cent, planned last May.

The new quarterly pattern of total expenditures is compared below with the pattern indicated by the May survey (figures are in billions of dollars, at seasonally adjusted annual rates):

	1963	1964			
	Q-IV	Q-I	Q-II	Q-III	Q-IV
May survey	41.20	42.55	43.35	44.30	45.40
August survey	41.20	42.55	43.50	44.55	46.15

The upward revision in planned expenditures for 1964 was primarily the result of small increases in fixed capital programs of all major nonmanufacturing industry groups. Within manufacturing, durable goods producers reported some expansion while nondurable goods firms revised earlier anticipations slightly downward.

NEW PLANT AND EQUIPMENT EXPENDITURES
(Billions of dollars)

	1963	1964	Per cent increase
All industries	39.22	44.21	12.7
Manufacturing industries	15.69	18.27	16
Durable goods	7.85	9.19	17
Nondurable goods	7.84	9.08	16
Mining	1.04	1.12	8
Railroad	1.10	1.46	33
Transportation (other than rail)	1.92	2.31	20
Public utilities	5.65	6.07	7
Communication, commercial and other	13.82	14.98	8

Note.--Based on August Commerce-SEC survey.

The Domestic Financial Situation

Bank credit, seasonally adjusted, is estimated to have shown a large rise in August, possibly as much as $4 billion, following a $900 million decline in July. For the two months combined, the $3 billion increase represents continuation of the 7 per cent annual growth rate which prevailed over the first half of this year.

The drop in July and large rise in August mainly reflects the unusual pattern of Treasury financing this summer, when the customary large July financing was omitted and some borrowing was scheduled in the usually dormant month of August. As a result, seasonally adjusted holdings of Government securities showed a sharp decline in July and probably about an offsetting rise in August. Holdings of municipal and other securities, after showing little change in July, also rose sharply in August, and for the two months increased considerably faster than the 7-1/2 per cent annual rate of the first half.

Loan expansion in August is estimated on a preliminary basis at \$1.6 billion, a little more than the average so far this year. But excluding security loans, the annual growth rate for July and August combined of 11 per cent is close to that in the first half and for the year 1963.

The rate of expansion in consumer and real estate loans is continuing at about the same rate that has prevailed all year and in 1963.

Business loan expansion, which had accelerated somewhat beginning in April after a first-quarter lull, has continued since the first quarter at a rate of about \$500 million per month or 11 per cent on an annual basis. While this is somewhat above last year's 9 per cent rise, the rate since December has been a little below 9 per cent.

The increased strength in business loan demand since the first quarter has stemmed mainly from construction, miscellaneous manufacturing, and more recently from public utilities. Outstanding loans to trade concerns, which had expanded rapidly for part of the second quarter, recently have been fluctuating widely, with no clear indication of trend. Loans to metals and to petroleum and chemicals companies continue to show about the usual seasonal movements, while those to the textiles and apparel group, where cash flows recently have been boosted substantially by equalization payments under this year's cotton legislation, have been increasing much less than seasonally.

Money supply now is estimated at $157.1 million in August, $400 million higher than in July. The rate of expansion slowed in August from the rapid rate of the two preceding months. Through August the seasonally adjusted annual rate of expansion for the year to date is 3.8 per cent.

Prices in the corporate bond market weakened further this week. The corporate new issue yield series rose to 4.46 per cent, 9 basis points above the summer low and within 7 basis points of the 2-1/2 year high reached in early May. This yield, however, was based entirely on the $40 million Southern California Gas Company issue which was re-offered at a yield level 3 basis points above those quoted on comparably rated recent offerings in the secondary market. In two days of trading 80 per cent of the issue was sold. Yields on seasoned, municipal bonds held unchanged in the current week, continuing the stability that has prevailed since early August.

International Developments

U. S. exports increased in July and by slightly more than imports. Both exports and imports had dipped in June. The July trade surplus was at a seasonally adjusted annual rate of $6.3 billion as compared with $6.0 billion in the second quarter, but was still below the $7.0 billion surplus recorded in the first quarter.