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

March 16, 1966

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

March 16, 1966

SUMMARY AND OUTLOOK

Outlook for GNP

It now appears that the increase in GNP for the first quarter will be somewhat smaller than the $16 billion fourth quarter rise. A temporary slowing of the rise in consumption as the new Social Security taxes took effect and some reduction in inventory accumulation from the high fourth quarter rate seem to be chiefly responsible. Looking ahead, we would expect the second quarter to show another large GNP gain, perhaps on the order of the current quarter's increase.

The latest survey of business plans for spending on new plant and equipment has confirmed earlier estimates of sharp further advances in the first and second quarters and on throughout the year. Moreover, new orders for defense products and total military purchases of goods and services appear to be moving up rapidly, although some slowing is possible in the spring. But in the second quarter consumption should be rising somewhat more rapidly in view of the continuing stimulus to income from higher business investment and defense outlays.

Business inventory accumulation is expected to continue relatively large in the spring, possibly at or somewhat above the first quarter rate. The figure for January indicates a considerable slowing from the very high December rise, and manufacturers report anticipations of a first quarter increase only about three-fifths as large as during the fourth quarter. But this information provides a very incomplete basis for drawing an inference about the quarter as a whole. Pressures for expanding inventories in defense and business equipment industries remain strong. And manufacturers generally anticipate a pick-up in inventory accumulation during the second quarter.

Prices and costs

Rapid expansion in employment and production continued through the first two months of this year, and the unemployment rate declined further to 3.7 per cent in February, breaking through the lowest point reached in the boom of the mid-1950's. At the same time, operations in manufacturing industries have edged up above 92 per cent of capacity. Business expectations for intensified supply problems were already evident in the fourth quarter and have been reinforced by the high rate of new orders for business and defense equipment and now by the Commerce-SEC survey.

The behavior of the industrial price index thus far this year, however, has not differed greatly from that of last year; through the first quarter, the annual rate of increase apparently has remained at about 1.5 per cent. But increases have begun to appear in some commodity groups that had been relatively stable -- such as industrial chemicals, paper, and nonmetallic minerals -- and steel prices have been edging up. None of this yet suggests comparison with the breakout of prices in the summer of 1955, much less with the eruption after the Korean outbreak in the summer of 1950.

One reason for the limited price response to date is that unit labor costs have shown relatively little rise. In contrast with the upturns in late 1955 and late 1950, labor costs per unit of manufacturing output are little higher than a year ago or two years ago, even including the January 1 increase in social security taxes. But with some further slowing in productivity gains as pressures on manpower and plant resources mount, unit labor cost increases may become more pervasive.

On the other hand, the food price situation may be on the verge of reversal. In wholesale markets, prices of foodstuffs rose 10 per cent over the 12 months to February, accounting for nearly three-fourths of the rise in the total wholesale index. Some weather damage to crops of fruits and vegetables raised prices in January, but the main cause of the rise over the year was a reduction in meat supplies. The first quarter of this year is likely to see the low of per capita meat supplies, and through the balance of the year seasonal and cyclical forces in livestock markets will combine to yield a sizable increase in production. In early March, hog prices fell sharply and the average for livestock declined moderately despite further increases in cattle.

Bank loans and deposits

Continued high business spending and low corporate liquidity are expected to sustain a large business loan demand in coming months, even though the recent prime loan rate increase might divert some of the demand into capital markets. In this situation, banks may be required to make even larger portfolio adjustments than earlier this year. At large banks, Treasury holdings are already at low levels, so that increased liquidation of municipal securities may develop. Further, some reduction in acquisitions of mortgage loans may also materialize this spring.

Such portfolio adjustments are likely to be necessary in part because of continued difficulties in securing deposit inflows. Demand deposits may show further growth in coming weeks, due in part to heavy March and April tax period credit demands. But time and savings deposit inflows are not likely to pick up much from the reduced pace since year-end, despite the recent rise in posted rates on CDs. Indeed, with record near-term CD maturities, the larger banks may count themselves fortunate merely to replace CD run-offs this month and next.

This roll-over problem may be extended into coming months, since corporate buyers appear interested principally in short maturities because of the thinness of the secondary market and corporate liquidity needs. But banks for their part may be more anxious to attract longer-term funds, if necessary at rates approaching or equal to the Regulation Q ceiling. This week two large banks were reported to be securing funds at 5-1/2 per cent rates posted for CDs maturing in 1967.

Capital market outlook

With both bond yields and the spread between bond and stock yields at their highest levels in many years, investors recently appear to have become somewhat more willing buyers of bonds. At the same time a number of borrowers have elected to postpone or scale-down the size of their scheduled bond offerings.

These factors have contributed to the recent pause in the upward course of corporate yields and to declines in yields on municipal and Government bonds. The Government bond market has been technically strong as dealers have sought to cover sizable net short positions. Meanwhile, in corporate and municipal markets underwriters have attempted to reduce their inventories to a minimum, with the result that any pick-up in investor demand for bonds has tended to be quickly reflected in prices.

Looking beyond the immediate technical strength of bond markets, prospective strong business demands for capital market financing are likely to maintain upward pressure on bond yields as spring progresses. A few postponements of privately placed corporate issues have been reported, but business demands for funds are generally too pressing to be postponed. And the recent advance in the prime loan rate at banks will probably increase the share of business financing undertaken in the security markets.

In the municipal bond market the March calendar of new offerings has been unusually large, despite the number of recent postponements. In April, however, new offerings of municipals are expected to drop to a lower level. The strengthening market influence of such a decline could be more than offset, though, if commercial banks accelerate their efforts to cut back on holdings of municipals.

Balance of payments

Thus far this year the balance of payments on the liquidity basis has been in deficit, but on a significantly smaller scale than in the fourth quarter of 1965. The deficit on a quarterly basis, with certain adjustments, appears to have been in the $100 million to $300 million range, as compared with about $400 million in the fourth quarter last year. The comparison makes allowance for the postponements of Canadian security issues into early 1966, Canadian official repurchases of Canadian securities from U.S. holders this year, the omission of U.K. debt service payments at the year-end, and for seasonal tendencies.

Most factors, however, seem to point toward a growing rather than a diminishing deficit in the period ahead. Most importantly, a recent reexamination of import trends, assuming a higher GNP projection of $735 billion for the year, has led an interagency group to project 1966 imports at $25 billion, up 16 per cent from 1965. With a projected rise of 12 per cent in merchandise exports, the 1966 trade surplus is now projected by this group at $4.5 billion, compared with $4.8 billion in 1965 and $6.7 billion in 1964. Net exports of goods and services, civilian and military, are projected at $6.6 billion, compared with $7.2 billion in 1965.

Another factor worsening this group's projection of 1966 payments prospects is a reestimate of direct investment outflows, now put at $2.75 billion, net of Delaware subsidiaries' bond issue proceeds.

The Commerce Department's latest survey of plans for plant and equipment expenditures abroad by U.S. corporations' subsidiaries and branches indicates a 24 per cent rise in fixed capital outlays from 1965 to 1966. Investment on the scale indicated will require substantial increases in net borrowing abroad, of conventional sorts as well as through the new device of dollar-denominated convertible bonds, if the goals of the voluntary program laid out by the Department of Commerce are to be met.

Taking these factors into account, the group considered it possible that the balance of payments deficit on the liquidity basis could substantially exceed $2 billion this year, as against $1.3 billion in 1965. However, in evaluating the prospects, the potential impact of restrictive credit conditions in the United States may not have been fully allowed for. Tighter credit conditions should restrain bank credit outflows -- although probably not to the extent of January, when the reflux of bank loans and acceptance credits was $100 million larger than seasonal, in part because of other factors. More restrictive credit conditions here may also result in further repatriations of nonbank liquid funds and in additional borrowings abroad to finance direct-investment operations.

I -- T - 1

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest Period	Amount: Latest Period	Amount: Preced'g Period	Amount: Year Ago	Per cent change: Year Ago*	Per cent change: 2 Yrs. Ago*
Civilian labor force (mil.)	Feb.'66	76.4	76.8	75.1	1.7	3.4
Unemployment (mil.)	"	2.8	3.0	3.7	-24.2	-28.7
Unemployment (per cent)	"	3.7	4.0	5.0	-	-
Nonfarm employment, payroll (mil.)	"	62.4	62.1	59.6	4.7	8.3
Manufacturing	"	18.7	18.5	17.7	5.4	8.9
Other industrial	"	8.1	8.1	7.8	3.1	6.0
Nonindustrial	"	35.7	35.5	34.0	4.8	8.6
Industrial production (57-59=100)	"	151.3	150.1	139.2	8.7	17.8
Final products	"	151.3	149.6	138.5	9.2	17.7
Materials	"	150.9	150.1	139.7	8.0	17.5
Wholesale prices (57-59=100) 1/	Jan.'66	104.6	104.1	101.0	3.6	3.6
Industrial commodities	"	103.0	102.8	101.5	1.5	2.1
Sensitive materials	"	103.7	103.2	101.3	2.4	5.8
Farm products and foods	"	107.6	106.5	98.1	9.7	7.9
Consumer prices (57-59=100) 1/	"	111.0	111.0	108.9	1.9	3.1
Commodities except food	"	105.3	105.7	104.9	0.4	1.0
Food	"	111.4	110.6	106.6	4.5	5.3
Services	"	119.5	119.3	116.6	2.5	4.6
Hourly earnings, mfg. ($)	Feb.'66	2.67	2.66	2.59	3.1	6.8
Weekly earnings, mfg. ($)	"	111.05	110.66	106.68	4.1	9.5
Personal income ($ bil.) 2/	"	556.3	552.3	515.2	8.0	15.1
Retail sales, total ($ bil.)	Feb.'66	24.6	24.6	23.2	6.2	15.3
Autos (million units) 2/	"	9.2	9.4	9.4	-2.3	17.6
GAF ($ bil.)	"	5.7	5.7	5.2	9.4	18.1
Selected leading indicators:						
Housing starts, pvt. (thous.) 2/	Jan.'66	1,537	1,763	1,442	6.6	-13.5
Factory workweek (hours)	Feb.'66	41.6	41.5	41.2	1.0	2.5
New orders, dur. goods ($ bil.)	Jan.'66	23.8	23.4	21.3	11.8	20.4
New orders, nonel. mach. ($ bil.)	"	3.4	3.5	3.1	10.7	21.9
Common stock prices (1941-43=10)	Feb.'66	92.69	93.32	86.75	6.8	19.8
Inventories, book val. ($ bil.)	Jan.'66	120.5	119.8	111.5	8.1	14.1
Gross national product ($ bil.) 2/	QIV'65	697.2	681.5	641.1	8.8	15.5
Real GNP ($ bil., 1958 prices) 2/	"	624.4	613.0	584.7	6.8	11.5

* Based on unrounded data. 1/ Not seasonally adjusted 2/ Annual rates.

SELECTED DOMESTIC FINANCIAL DATA

	Week ended Mar. 11	Four-Week Average	Last six months High	Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent)	4.60	4.62	4.63	1.00
U.S. Treas. bills, 3-mo., yield (per cent)	4.63	4.64	4.70	3.86
Net free reserves 2/ (mil. $)	- 219	- 162	98	- 243
Member bank borrowings 2/ (mil. $)	614	513	627	218
Security Markets (N.S.A.)				
Market yields 1/ (per cent)				
5-year U.S. Treas. bonds	e/ 4.97	e/ 4.99	5.03	4.22
20-year U.S. Treas. bonds	e/ 4.77	e/ 4.78	4.81	4.28
Corporate new bond issues, Aaa	5.38	5.22	5.38	4.63
Corporate seasoned bonds, Aaa	4.88	4.84	4.88	4.52
Municipal seasoned bonds, Aaa	3.61	3.51	3.63	3.25
FHA home mortgages, 30-year 3/	5.70	5.70	5.70	5.45
Common stocks S&P composite index 4/				
Prices, closing (1941-43=10)	88.60	90.70	94.06	88.04
Dividend yield (per cent)	3.22	3.16	3.22	2.88

	Change in Feb.	Average change last 3 mos.	Annual rate of change (%) 3 mos.	1 year
Banking (S.A., mil. $)				
Total reserves	24	160	8.7	4.4
Bank loans and investments:				
Total	100	1,900	7.7	9.2
Business loans	700	1,200	21.1	11.5
Other loans	-200	700	6.9	11.4
U.S. Government securities	1,100	-400	-9.0	-6.5
Other securities	700	400	10.9	13.3
Money and liquid assets:				
Demand dep. & currency	-300	800	5.8	5.3
Time and savings dep.	800	1,100	9.1	13.6
Nonbank liquid assets	5/ 1,900	1,200	5.5	6.2

N.S.A.--not seasonally adjusted. S.A.--seasonally adjusted. e. Estimated.
1/ Average of daily figures. 2/ Averages for statement week ending March 9.
3/ Latest figure indicated is for month of January. 4/Data are for weekly closing prices. 5/ Change in January.

U.S. BALANCE OF PAYMENTS
(In millions of dollars)

	1966	1965						1965
	Jan.	Dec.	Nov.	QIV	QIII	QII	QI	Year (billions)
				Seasonally adjusted				
Current account balance				1,434	1,590	1,746	1,332	6.1
Trade balance 1/	280	430	400	1,274	1,235	1,320	964	4.8
Exports 1/	2,270	2,330	2,380	7,029	6,829	6,800	5,627	26.3
Imports 1/ 2/	-1,990	-1,900	-1,980	-5,755	-5,594	-5,480	-4,663	-21.5
Services, etc., net				160	355	426	368	1.3
Capital account balance (regular transactions)				-1,708	-1,957	-1,549	-2,060	-7.3
Govt. grants & capital 3/				-973	-941	-988	-795	-3.7
U.S. private direct investment				-701	-515	-891	-1,159	-3.3
U.S. priv. long-term portfolio				-111	-357	159	-679	-1.0
U.S. priv. short-term				-41	53	417	299	0.7
Foreign nonliquid				118	-197	-246	274	--
Errors and omissions				-252	-316	-81	-10	-0.7
Balances, with and without seasonal adjustment (- = deficit)								
Bal. on regular transactions, S.A.				-526	-683	116	-738	-1.8
Seasonal component				50	-454	-69	473	--
Balance, N.S.A.	-33	-93	-83	-476	-1,137	47	-265	-1.8
Liquidity bal., S.A.				-384	-517	258	-658	-1.3
Seasonal component				50	-454	-69	473	--
Balance, N.S.A. 4/	-63	-8	-8	-334	-971	189	-185	-1.3
Official settlements bal., S.A.				-1,226	244	247	-564	-1.3
Seasonal component				104	-516	-193	605	--
Balance, N.S.A. 5/	303	-651	-345	-1,122	-272	54	41	-1.3
Memo items:								
Monetary reserves (decrease -)	-225	-98	-91	-271	-41	-68	-842	-1.2
Gold purchases or sales (-)	5	-73	-58	-119	-124	-590	-832	-1.7

1/ Balance of payments basis which differs a little from Census basis.
2/ Figures for November-January tentatively adjusted for changes in carry-over of import documents.
3/ Net of associated liabilities and of scheduled loan repayments.
4/ Differs from balance on regular transactions by counting as receipts (+) debt prepayments, advances on military exports, and net sales of non-convertible Roosa bonds.
5/ Differs from liquidity balance by counting as receipts (+) increase in liquid liabilities to commercial banks, private nonbanks, and international institutions (except IMF) and by not counting as receipts (+) increase in certain nonliquid liabilities to foreign official institutions.

THE ECONOMIC PICTURE IN DETAIL

The Nonfinancial Scene

Gross National Product. Expansion in economic activity is continuing, but the increase in gross national product in the current quarter, and also in the next quarter, now appears likely to fall short of matching the sharp rise in the final quarter of last year. Our present projection of GNP of $711 billion, seasonally adjusted annual rate in the first quarter reflects two months of underlying data for some major expenditure sectors, but only one month's figures for two particularly critical sectors -- government purchases of goods and services and change in business inventories. We are tentatively projecting a GNP of $724 billion for the second quarter.

Our present projection for the first quarter is $2 billion less than the projection presented here three weeks ago. The very high rate of nonfarm business inventory accumulation in the fourth quarter apparently is not being maintained in the current quarter. In January the annual rate of increase in book value of nonfarm business inventories was $7.2 billion, as compared with a rise of $11.5 billion in the fourth quarter. Assuming the January figure will be revised up later and that February and March will remain high, we are showing the projected change in nonfarm inventories at $8.0 billion down from the published figure of $8.9 billion in the fourth quarter. In addition to this revision, net exports of goods and services are now projected \$.5 billion less than before, because of a somewhat greater increase in imports than assumed then; State and local government purchases are projected at a rate nearly \$.5 billion less than earlier because Federal grants-in-aid have been smaller than was indicated in the January Federal Budget; and the projected rise in Federal government nondefense purchases is less because of a smaller rise in net CCC outlays for farm commodities, in part due to large sales of CCC-held corn.

Our earlier projections of national defense outlays, fixed private investment, and personal consumption expenditures are consistent with currently available data. However, consumer outlays for durable goods now appear a little stronger and spending for nondurable goods a little weaker. The new plant and equipment spending survey shows an increase in the first quarter similar to that in our projections.

The projected increases of nearly \$14 billion in the first quarter and \$13 billion in the second are somewhat less than the \$15.7 billion now published for the fourth quarter. Nevertheless, the underlying strength of economic expansion is virtually undiminished. Rapidly increasing defense purchases of goods and services in support of our efforts in Vietnam and outlays for business fixed investment, as noted before, provide the major stimulant for rising incomes.

Reflecting higher personal incomes consumption expenditures are projected to rise substantially. The smaller increase in the first quarter than in the fourth quarter, still projected at \$7.3 billion (annual rate) in contrast to the $8.5 billion actual gain in the fourth quarter, apparently reflects the marked step-up ($2.9 billion annual rate) in social insurance contributions which became effective the beginning of the year.

For the second quarter the increases now projected for major demand sectors are virtually the same as in our previous projection. Business fixed investment in the second quarter is projected in line with the increase shown by the recent Commerce-SEC survey. Nonfarm businesses are assumed to increase inventories at the same rate as in the first quarter, thus maintaining stability in the stock-sales ratio. Residential construction activity as projected is down a trifle from the first quarter, reflecting the substantial dropback in housing starts in January. And personal consumption expenditures are projected to rise a little more than in the first quarter.

According to the Bureau of the Budget projections, the increase in defense purchases of goods and services will be considerably smaller in the second quarter than in the current one, $1.2 billion in contrast to $2.5 billion. However, it now appears possible that the second quarter increase may be a little larger than indicated by the Budget projections and shown in our table.

A GNP in the second quarter of $724 billion as projected would imply an increase in real output in the quarter to a level more than 6 per cent above a year earlier.

March 15, 1966

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditure and income figures are billions of dollars, seasonally adjusted annual rates)

	1964	1965	1965 II	1965 III	1965 IV	1966 Projected I	1966 Projected II
Gross National Product	628.7	676.3	668.8	681.5	697.2	711.0	724.0
Personal consumption expenditures	398.9	428.7	424.5	432.5	441.0	448.3	456.5
Durable goods	58.7	65.0	63.5	65.4	66.4	67.5	68.5
Nondurable goods	177.5	189.0	187.9	190.5	195.0	198.5	202.0
Services	162.6	174.7	173.1	176.7	179.6	182.3	186.0
Gross private domestic investment	92.9	105.7	102.8	106.2	110.3	111.9	113.3
Residential construction	27.5	27.6	28.0	27.7	27.2	27.9	27.6
Business fixed investment	60.5	69.8	68.4	70.9	73.0	75.0	77.0
Change in business inventories	4.8	8.2	6.4	7.6	10.1	9.0	8.7
Nonfarm	5.4	7.9	6.6	7.0	8.9	8.0	8.0
Net exports	8.6	7.1	8.0	7.4	6.9	7.0	7.0
Gov. purchases of goods and services	128.4	134.8	133.5	135.4	139.0	143.8	147.2
Federal	65.3	66.6	65.7	66.5	69.2	72.3	74.0
Defense	49.9	49.9	49.2	49.8	52.0	54.5	55.7
Other	15.4	16.7	16.5	16.7	17.2	17.8	18.3
State and local	63.1	68.2	67.8	68.9	69.8	71.5	73.2
Gross National Product in Constant (1958) Dollars	577.6	609.6	603.5	613.0	624.4	633.0	641.8
Personal income	495.0	530.7	524.7	536.0	546.0	556.0	566.3
Wages and salaries	333.5	357.4	353.6	359.0	368.1	376.5	383.9
Personal contributions for social insurance (deduction)	12.4	13.2	13.0	13.3	13.6	16.6	16.8
Disposable personal income	435.8	465.3	458.5	471.2	480.3	488.4	497.5
Personal saving	26.3	24.9	22.4	26.8	27.1	27.6	28.2
Saving rate (per cent)	6.0	5.4	4.9	5.7	5.6	5.7	5.7
Total labor force (millions)	77.0	78.4	78.2	78.5	78.9	79.5	79.9
Armed forces "	2.7	2.7	2.7	2.7	2.8	2.9	3.0
Civilian labor force "	74.2	75.6	75.5	75.8	76.1	76.6	76.9
Employed "	70.4	72.2	71.9	72.4	72.9	73.7	74.3
Unemployed "	3.9	3.5	3.6	3.4	3.2	2.9	2.6
Unemployment rate (per cent)	5.2	4.6	4.7	4.4	4.2	3.8	3.5

Industrial production. Industrial production advanced further in February to 151.3 per cent, 0.8 per cent above January, which was revised up to 150.1, and 9 per cent above a year earlier. Output of both final products and materials continued to rise.

Production of most types of business equipment reached new highs, output of defense equipment rose further, and output of consumer goods as a whole increased. Apparel production recovered from the curtailed level in January brought about by the New York transit strike. Output of some household goods and consumer staples advanced further. Auto assemblies declined slightly, due to a strike at Chrysler and production curtailments by American Motors, and were at an annual rate of 9.1 million units. Production schedules for March are set at an annual rate of about 9.5 million. Output of color television expanded further in February but that of black and while sets declined.

Iron and steel production increased again. Production of most other durable materials rose further and output of nondurable materials changed little from the advanced December-January level. In early March, steel ingot output continued to advance, and trade papers report estimates of steel output for the year around last year's record total.

Personal income. Personal income in February advanced substantially to a further seasonally adjusted annual rate of $556 billion, a level 8 per cent higher than a year earlier. As in most recent months, increases in wages and salaries accounted for most of the rise, with gains in manufacturing payrolls contributing significantly to the rise. Other types of personal income edged up in line with trends over recent months, or were unchanged.

Since last September, wage and salary disbursements in manufacturing have risen at an average annual rate of more than 12 per cent. Government payrolls have also increased at about that rate partly reflecting the Federal pay raise. Substantial increases have also been registered by farm proprietors' income and by "regular" transfer payments.

Retail sales. Retail sales have exhibited a marked change in pace recently. Following a sharp run-up in late 1965 (4.3 per cent from September to December), sales declined slightly in January and were about unchanged in February. The January and February figures are both preliminary and the chances are they will be revised upward, so that the contrast between late 1965 and early 1966 may not be so striking as it now appears.

According to presently available figures, sales of durable goods stores have edged down slightly since December in large part because of somewhat lower sales by auto dealers. Sales of furniture and appliance stores have been maintained. Sales of nondurable goods stores, following a slight dip in January, returned in February to the advanced December level. Food stores sales, which are reported to have risen

7 per cent and accounted for two-thirds of the increase for total nondurable goods between last September and December, declined slightly from December to February. On the other hand, sales of general merchandise stores increased further in early 1966.

Average retail sales in January and February were about unchanged from their fourth quarter average, while personal income was up 1.5 per cent.

Consumer credit. Consumers borrowed rather heavily in January to purchase appliances, furniture, television sets, and other household goods. The net increase in this type of instalment debt was the largest in several months. Consumers also increased their cash borrowing to finance other personal needs. Here too, the rise in outstanding balances was the largest in a number of months.

However, less credit than usual was used in buying autos. The increase in auto credit balances -- $236 million -- was sharply less than in December and less than in any month last year. New car sales were up in January and this might ordinarily have engendered a continued high level of credit extensions. But used car sales were off and provided something of an offset.

Moreover, while the evidence is fragmentary, it appears that auto terms have become a little tighter. The proportion of "liberal" contracts -- those with the lowest downpayments and longest maturities -- turned down in January, the average car note was smaller, and the proportion of cars bought on credit declined.

With auto credit slowing down, the growth in total instalment credit in January was held to $622 million or $7.4 billion seasonally adjusted annual rate. The rate for the fourth quarter of last year was $7.6 billion and for all of 1965 it was $7.8 billion.

Construction activity. Seasonally adjusted new construction expenditures edged higher in February from the already advanced rate reached at the turn of the year. In the private sector, residential expenditures moved closer to their peak in early 1964 while -- with the boom in business capital investment continuing -- nonresidential construction expenditures apparently touched another new high. Public construction dipped somewhat in February and remained below its recent peak in November.

Reflecting in part increased labor costs, the year-to-year advance in February was 8 per cent; in 1957-59 dollars the rise was only half that.

NEW CONSTRUCTION PUT IN PLACE

	February 1/ (billions)	Per cent change from	
		Month ago	Year ago
Total	$75.9	1	8
Private	54.4	1	11
Residential	27.5	1	3
Nonresidential	26.9	2	21
Public	21.5	--	--

1/ In current dollars, seasonally adjusted annual rates, preliminary.

Plant and equipment. Substantial further increases in business spending for new plant and equipment are now planned for this year, according to the survey conducted in late January and February by Commerce-SEC. Fixed capital outlays now planned for 1966 as a whole total $60.2 billion, 15.9 per cent more than last year's record.

At this time last year businesses planned an 11.7 per cent increase in plant and equipment expenditures for 1965. Actual outlays turned out to be 4 percentage points higher. Outlays anticipated in early 1964 also understated the actual rise of that year by 4 percentage points. Reflecting the influence of overstatements in some earlier years, the average understatement of the rise over the last six years has been only 1 percentage point.

Plant and equipment outlays of all major industries are indicated to be up this year by the Commerce-SEC survey and for both manufacturing and nonmanufacturing as a whole the increases are strikingly similar to those last year. Within manufacturing, this year's relative increase is considerably smaller than last year's for chemicals, motor vehicles and parts, primary metals, and nonelectrical machinery. Relative increases larger than last year are indicated for textiles, paper, and transportation equipment other than motor vehicles.

NEW PLANT AND EQUIPMENT EXPENDITURES
Percentage increase

	Planned 1965-1966	Actual 1964-1965
ALL INDUSTRIAL	15.9	15.7
Manufacturing	19.2	20.8
Durable goods	18.4	20.9
Nondurable goods	19.9	20.6
Nonmanufacturing	13.5	12.1
Mining	16.2	9.2
Railroad	5.8	22.7
Transportation other than rail	12.1	18.1
Public utilities	15.9	11.6
Communications	13.0	14.9
Commercial and other	13.3	8.9

The survey indicates that business outlays for new plant and equipment apparently will continue to rise throughout the year, as increases are now anticipated in the second half by most of the major industries. Exceptions are indicated for producers of electrical machinery and equipment and petroleum and by the nonrail transportation industry. A pattern of expenditures rising throughout the year is supported for manufacturers as a whole by the very large increase in backlogs of uncompleted capital projects in the fourth quarter of 1965. The recent National Industrial Conference Board survey of fourth quarter capital appropriations of the 1,000 largest manufacturers showed such backlogs to be at an all-time high.

Manufacturers reported to Commerce-SEC a carry-over of plant and equipment projects at the end of 1965 (unexpended funds on projects already underway) a third larger than a year earlier; the carry-over for public utilities was two-fifths larger.

All major manufacturing industries expect higher sales this year than last -- durable goods producers, 8.5 per cent, and nondurable goods producers, 7 per cent. These are both slightly smaller gains than were actually realized last year. Retailers anticipate a sales gain of 8 per cent, the same as in 1965.

Business inventories. After accelerating sharply in the late months of 1965, business inventory accumulation slackened in January. The book value of manufacturers' and distributors' inventories increased $600 million in January, as compared with a near-record $1,350 million in December and a fourth quarter monthly average of $960 million. January figures, however, are preliminary and subject to revision; preliminary figures for other recent months have been revised appreciably upward, as shown in the table. The January decline in inventory accumulation is hard to reconcile with increased production and little change in trade.

The slowing in January occurred for both manufacturers and distributors but was more striking at distributors: the January book value increase for manufacturers was about two-thirds of the fourth quarter rate while that for distributors was only about one-half.

Distributors' inventories increased nearly $200 million in January, and the increase was centered in durable goods, where inventories had increased only moderately in the fourth quarter. Retail (and wholesale) stocks of nondurable goods were unchanged in January after a sharp run-up in the fourth quarter. Half the fourth quarter rise at retail outlets for nondurable goods had been at food stores and in January food stocks edged off somewhat. Inventories at other nondurable goods stores also declined except for general merchandise stores, where stocks showed a large further increase.

Manufacturers' inventories increased about $400 million in January, with half in durable goods and half in nondurable goods. As in other recent months a major part of the durable increase was in work-in-process stocks in business equipment and defense industries. Also work-in-process stocks rose appreciably in the steel industry. Liquidation of consumers' steel stocks continued in January although at not so fast a pace as in late 1965.

Change in Book Value of Manufacturers' and Distributors' Inventories
(In millions of dollars, seasonally adjusted)

	Preliminary estimate	Final estimate	Amount of upward revision
1965			
July	841	963	122
August	638	671	33
September	56	284	228
October	582	686	104
November	643	847	204
December	1,180	1,347	167
6-month average	657	800	143 (+22%)
1966			
January	604		

Inventory anticipation. According to the latest Commerce quarterly survey, conducted in February, manufacturers anticipate an inventory book value increase of $1 billion in the first quarter and an increase of $1.3 billion in the second quarter. The fourth quarter increase totaled $1,750 million. In the last half of 1965, actual inventory accumulation far exceeded manufacturers' anticipations. However, the first quarter 1966 started off with a book value increase in January more or less in line with anticipations for the quarter.

Labor market. With unemployment declining to 3.7 per cent in February -- the lowest rate in almost 13 years -- all major manpower series now indicate labor market conditions at their tightest since the Korean conflict. In February, nonfarm employers continued to add workers to their payrolls in large numbers; the average workweek in manufacturing rose further to a new postwar high; the voluntary quit rate advanced; and the number of economic part-time workers was the lowest on record.

Gains in nonfarm establishment employment of 250,000 in February was about the same as in the previous month with increases fairly widespread among industries. Demand was particularly strong in manufacturing where employment increased faster in February than in the previous month and accounted for half of the gain in all nonfarm jobs. In part, the sharper rise in February was due to a catch-up in apparel employment following the transit strike in New York City. The metal using and producing industries also continued to rise sharply especially electrical equipment, machinery and aircraft.

In nonmanufacturing industries, trade, services and government each added about 50,000 employees. Construction declined slightly from the high December-January levels. Federal government employment has maintained a steady upward trend in recent months and in February was about 100,000 above a year ago; earlier in the expansion it had been stable. The armed forces added about 35,000 men in February and at 2,924,000, were 230,000 larger than when the military build-up began in August. Present plans call for a total strength of about 3.1 million, which should be reached in early summer at the present rate of increase.

CHANGES IN NONFARM EMPLOYMENT
(Seasonally adjusted, thousands of persons)

	Average monthly change		
	Dec. 1965 to Feb. 1966	Oct. 1965 to Dec. 1965	Year 1965
Total nonfarm	260	442	188
Manufacturing	112	133	60
Durables	89	92	47
Nondurables	23	41	13
Nonmanufacturing	149	309	128
Construction	-19	92	13
Trade & service	96	130	71
Government	62	79	36
Other	9	8	8

Average gains in nonfarm employment in the past 2 months have been somewhat smaller than the extremely large increases reported at year-end. However, at an annual rate of over 3 million, the January-February rise was still substantially greater than the monthly average increase for 1965 and well above the increase implied in the staff projection for the current year.

The slower rate of increase is mostly due to a slight decline in construction employment following a very sharp run-up at yearend. In other industries there has been a small reduction in the rate of increase. In some industries this may reflect the unavailability of skilled and experienced workers; in others, it may result from some slowdown following a period of unusually large and possibly anticipatory hiring. The expansion of an already long workweek in almost all manufacturing industries, however, provides little evidence of manpower hoarding.

AVERAGE WEEKLY HOURS IN MANUFACTURING
(Seasonally adjusted)

	Feb. 1966	Oct. 1965	Feb. 1965	Feb. 1953
All industries	41.6	41.2	41.2	40.9
Durable goods	42.5	42.0	42.1	41.7
Nondurable goods	40.5	40.1	40.2	39.8
Overtime	4.1	3.8	3.6	n.a.

Average hours in manufacturing again rose in February to a new postwar high of 41.6 hours, continuing the steady up-trend since last October. The current workweek is more than a half hour longer than during the Korean period in both durable and nondurable goods industries. Overtime also edged up further in February to 4.1 hours, a half hour above last year and the highest since the data have been published.

<u>Unemployment</u>. The decline in February marked the sixth consecutive month that unemployment has fallen. At 3.7 per cent, the rate was almost a full percentage point below late summer 1965 -- a decline about equal to the entire reduction in unemployment over the two preceding years. The most recent decline occurred mainly among women and teenagers continuing the trend of recent months. The teen-age rate fell by nearly one percentage point in February to below 11 per cent, finally returning to the levels achieved in 1957. The jobless rate of adult men, which had been declining rapidly, continued stable for the third month (at 2.3 per cent) and blue-collar unemployment continued to drift downward. Secondary workers have improved their unemployment position relative to primary workers, and the composition of unemployment rates is moving toward the less divergent pattern of the Korean period. This would seem to indicate experienced unemployed manpower is close to a frictional rate and a more equitable demographic matching of supplies and demands is taking place.

The nonwhite unemployment rate which had also been falling, failed to share in the latest decline in total unemployment. Consequently the differential between white and nonwhite workers widened in February. Nevertheless, at 7.0 per cent, the nonwhite unemployment rate was at its lowest point since this series was started in 1954.

Earnings and labor costs. Hourly earnings in manufacturing, seasonally adjusted, rose further in February to $2.67 per hour but showed little sign of acceleration over the steady moderate gains of recent months. This relative stability in wage gains may partly reflect the offsetting effects of wage increases and expanding employment. New workers tend to be hired at comparatively low entry wages -- this is particularly true of young workers and women whose employment in manufacturing has been increasing rapidly. Thus, the effect of the increase in low entry wage would tend to pull down somewhat the average wage of all factory workers. The fact that average wages have resisted this downward pressure implies that there probably has been an offsetting rise in the wage rates of experienced workers. However, the major factor in the relative stability of wage increases continues to be the limited number of new contracts open for renegotiation.

Unit labor costs in January rose by nearly one percentage point; but this was a one-time effect due to a rise in the level of Social Security taxes. Even at this level unit costs were slightly higher than in 1965. Output per manhour in manufacturing has shown sharp variations in recent months in part due to steel inventory liquidation and it has been difficult to determine the current trend with complete confidence. Over the past three months, however, output per manhour averaged around 2.8 per cent above the same months last year, a rise below the 3.6 per cent for 1965. If the lower rate continues, moderate upward pressure on unit labor costs will follow. For February, with increases in hourly earnings small but with productivity gains reduced, unit labor costs show a further rise.

Wholesale prices. The industrial commodity price index is estimated to have edged up about .2 per cent further into mid-March from the mid-January level of 103.0 per cent of the 1957-59 average. The index is about 1.6 per cent above both the level of a year ago and also the cyclical high reached early in 1960. Average prices of foodstuffs have changed little since mid-February, after rising sharply and accounting for much of the rise in the total wholesale price index over the previous year. The total wholesale price index in mid-March is little changed from a month ago, but roughly .5 per cent above the mid-January level.

Although the BLS weekly estimates of the industrial index have shown little change since January, evidence from numerous other sources suggests continuation of the moderate upward price trend characteristic of the previous 16 months. While the rise in non-ferrous metals -- a major contributor to the industrial increase last year -- has slowed markedly, price increases have been appearing recently for commodities relatively stable previously and not included in the BLS weekly estimates. West Coast newsprint producers advanced prices $10 to $134 a ton -- a price which was in effect from 1957 to late 1964. East Coast producers announced advances ranging from $5 to $10 a ton. Tire manufacturers raised prices of replacement tires by up to 3 per cent, citing labor costs and also rubber prices which have edged up slightly from the low of late 1965. Chemical producers have announced substantial price increases among organic chemicals which have recently averaged about 12 per cent below the 1957-59 level.

Prices of hides, now about 80 per cent above a year ago, and leather have risen further this year primarily because of sharply rising export demand. Argentina, the world's largest supplier, has exported almost no hides so far this year because of an extended and widespread drought. The Commerce Department, as a consequence, has imposed export quotas on hides such that estimated domestic consumption in 1966 will be fully met by domestic supplies.

The copper situation, according to observers, is expected to tighten further as the "setasides" -- the fraction of capacity immediately usuable for priority Government orders -- are increasingly used for defense orders. Copper scrap prices have continued to rise to new highs, and as one result, producers of brass and bronze ingot have discontinued price quotes, and have tied the product price to the scrap price.

Substantial steel price adjustments -- both upward and downward -- have been taking place, and estimates indicate a small net rise in the index for steel mill products. To meet import competition, one producer has announced the discontinuing of price lists and the consequent selling on a negotiated basis.

Average prices of livestock, at the February high over a third above a year ago, declined about 3 per cent. Hog prices fell sharply by around 17 per cent, while beef cattle prices rose moderately further.

Consumer prices. The consumer price index was unchanged from mid-December to mid-January at 111.0 per cent of the 1957-59 average, 1.9 per cent above a year ago. Contributing to the stability were the reductions in excise taxes -- from 10 per cent to 3 per cent for telephone services, and from 7 per cent to 6 per cent for autos. Both taxes have been restored and this will affect the April index.

Foods increased .7 per cent further from December to January as meats rose 2.9 per cent, with pork showing a 6.5 per cent rise. Since mid-February, however, hog prices in wholesale markets have begun a decline from advanced levels, and consequently, some fall in retail pork prices is now expected. Price increases among fresh vegetables, which resulted from adverse weather in growing areas, also contributed to the January rise in foods.

Nonfood commodities decreased .4 per cent mainly as a result of seasonal declines in apparel and new cars, the excise tax reduction, and also a further drop in used cars.

Services rose .2 per cent despite the effect of the tax reduction on telephone rates. Except for the tax cut, the average for services would have increased about .5 per cent. Medical care rose .5 per cent, and transportation services, reflecting a rise in automobile insurance, rose 1 per cent.

CONSUMER PRICE INDEXES
1957-59=100

Commodity Group	Index January 1966	Per cent change to January 1966 from:	
		Dec. 1965	Jan. 1965
All items	111.0	0	1.9
Foods	111.4	0.7	4.5
Meats	116.6	2.9	16.5
Nonfood commodities	105.3	-0.4	0.4
Apparel	106.2	-0.9	1.4
Footwear	115.6	0	3.7
Household durables	96.1	0	-1.7
New cars	97.4	-1.3	-4.0
Used cars	114.8	-2.9	-7.2
Services	119.5	0.2	2.5
Transportation	122.5	1.0	4.1
Medical care	129.5	0.5	3.6

Protein food prospects. The annual census of livestock on farms which is taken each January 1 is a revealing indicator of the quantities of high-protein foods likely to be produced during the year. A weighted index of the livestock count this January 1 showed livestock numbers down 1 per cent from a year earlier. The value of the inventory was up 22 per cent to $17.5 billion. Numbers of milk cows and hogs were down the most from a year earlier with cows down 6 per cent and hogs down 4 per cent to the lowest figure since 1955. There also were fewer chickens, particularly egg-type pullets, (broilers were not counted) and fewer sheep. Turkey numbers were up 9 per cent. Contrary to expectations of many analysts, the beef cattle herd was 1 per cent larger than a year earlier.

LIVESTOCK AND POULTRY INVENTORY
January 1, 1966

	Number (millions)	Per cent change from a year ago	Value (millions of dollars)	Per cent change from a year ago
Beef cattle	81.4	1	10,755	20
Milk cattle	25.2	-6	3,443	5
Hogs	51.2	-4	2,303	76
Sheep	26.5	-1	524	24
Poultry	--	0	496	6
Total	--	-1	17,521	22

Department of Agriculture forecasts of 1966 production of high-protein foods made before the livestock census data became available projected output of beef, poultry meat, and eggs for 1966 as a whole moderately above 1965 and output of pork, veal, lamb, and milk below 1965. The livestock inventory data generally support these projections and suggest that, barring severe drought, production sights might be lifted a little for the second half of the year. Of course we will know far more about farmers' production plans for the second half of the year when new pig crop information becomes available on March 22 and the number of cattle on feed is reported on April 15.

A commodity by commodity examination of seasonal and cyclical influences affecting the flow of production by quarters throughout 1966 suggests that we are now experiencing the tightest supply of these foods of the year, with per capita supplies about 4 per cent smaller than a year earlier. Per capita supplies are likely to begin to rise in the second quarter, and to continue to rise to a level 4 per cent or more above a year earlier in the fourth quarter.

Production of beef is expected to be up enough to provide per capita supplies throughout 1966 equal to the high levels of 1964 and 1965. Fed beef will probably make up a somewhat larger proportion of the total supply than in 1965. Pork supplies are expected to increase beginning in May or June when pigs from the larger November-May pig crop begin to reach market.

Apparently, the trough in the 4-year cycle in hog numbers was reached in the last quarter of 1965 and the first quarter of 1966, with pork production from October through February down about a fifth from year earlier levels. Substantial withholding of marketable hogs to add to breeding stock apparently contributed to these short supplies. This suggests that the turn-around in farrowings that began in November may proceed more rapidly than the planned 7 per cent increases in the spring crop (November-May) reported by hog producers surveyed in December.

Supplies of eggs are already easing as production moves toward the seasonal production peak in April. The buildup of the laying flock as indicated by hatchings of egg-type chickens is expected to boost production in the second half of 1966. Broiler production increased throughout 1965 and at the end of the year was at a level 12 per cent above a year earlier. Substantially larger hatching egg supply flocks this year will support further expansion of broiler output. A record turkey crop 10 per cent above the crop of 1965 is expected.

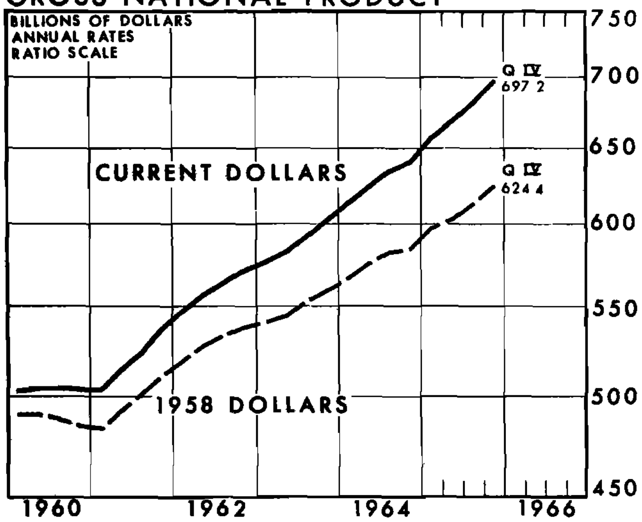
The USDA is currently projecting milk production in 1966 at 2 per cent below 1965 with production rising above a year earlier in the second half. Any short-fall in supplies will occur in milk used for manufacturing, probably in nonfat dry milk and butter, since milk tends to flow to its highest valued use, the fluid milk market.

Purchases of manufactured dairy products by the CCC will probably be less than in 1965 when such purchases were equivalent to 5 per cent of total milk production. Consequently, domestic donations and P.L. 480 shipments abroad will probably be reduced somewhat.

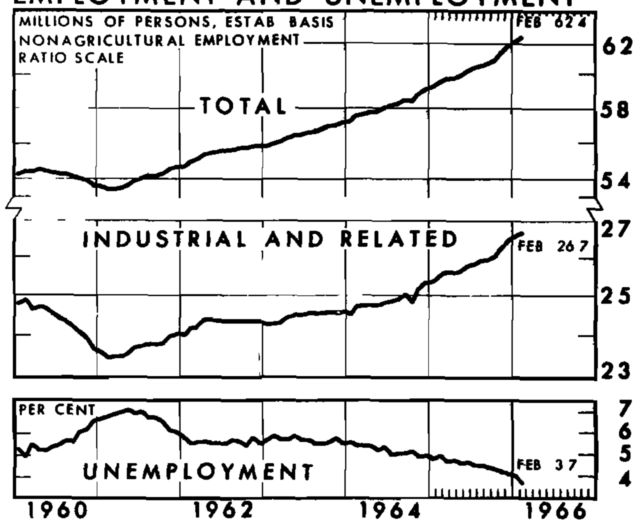
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

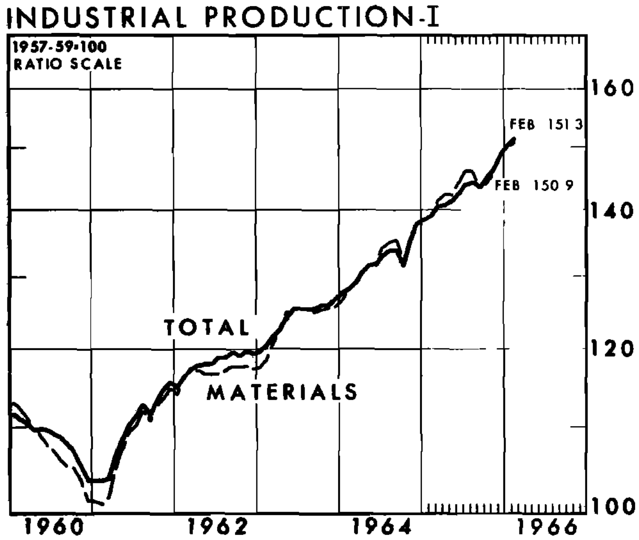
GROSS NATIONAL PRODUCT



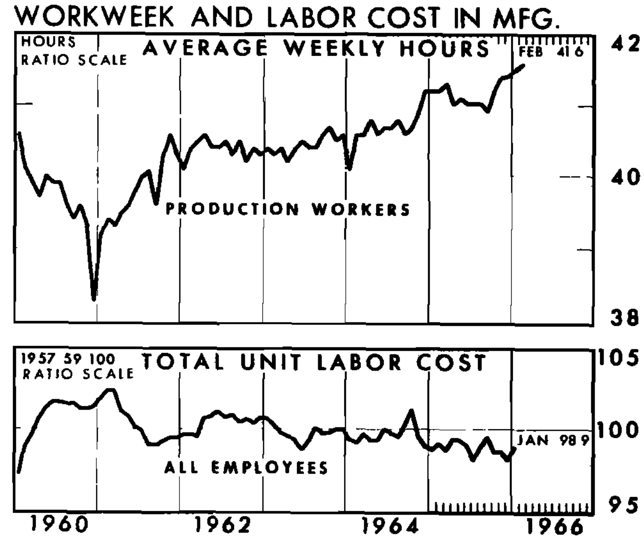
EMPLOYMENT AND UNEMPLOYMENT



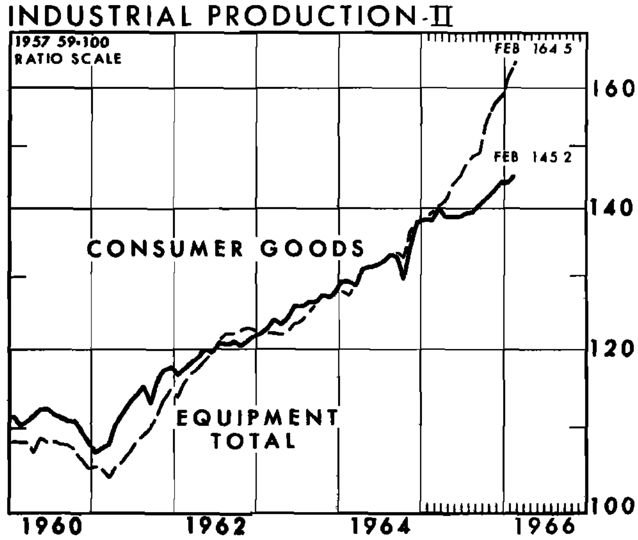
INDUSTRIAL PRODUCTION-I



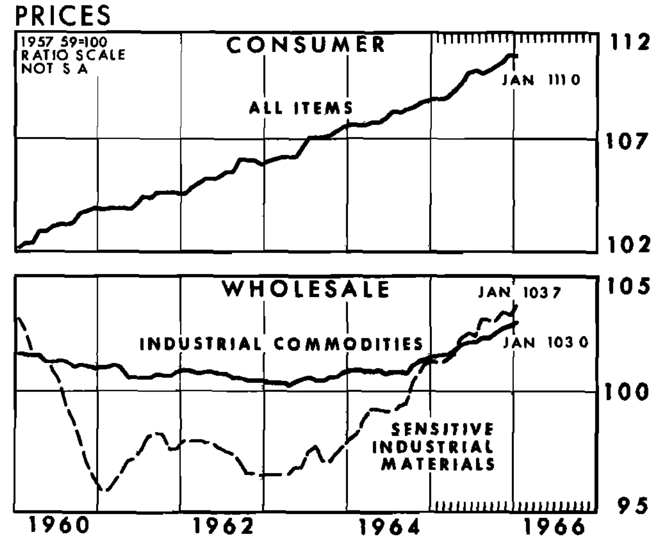
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



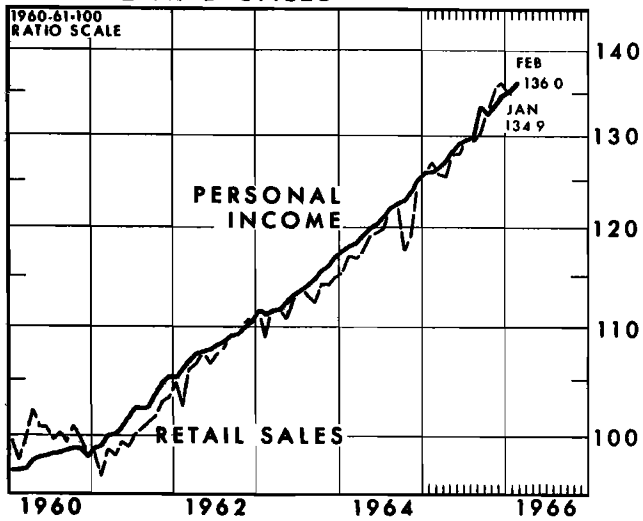
PRICES



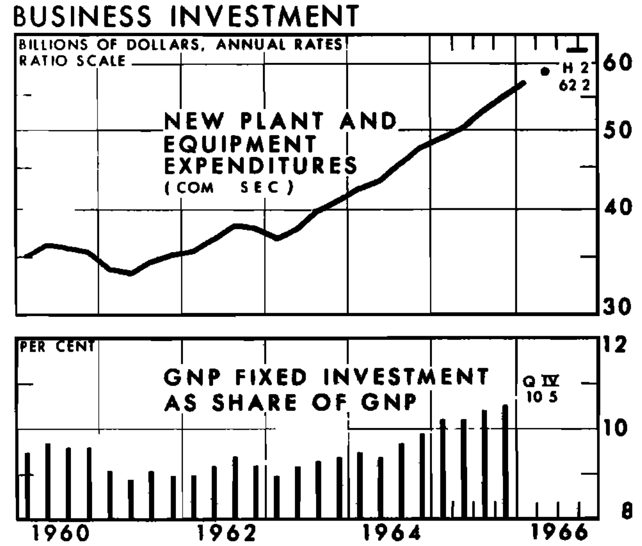
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

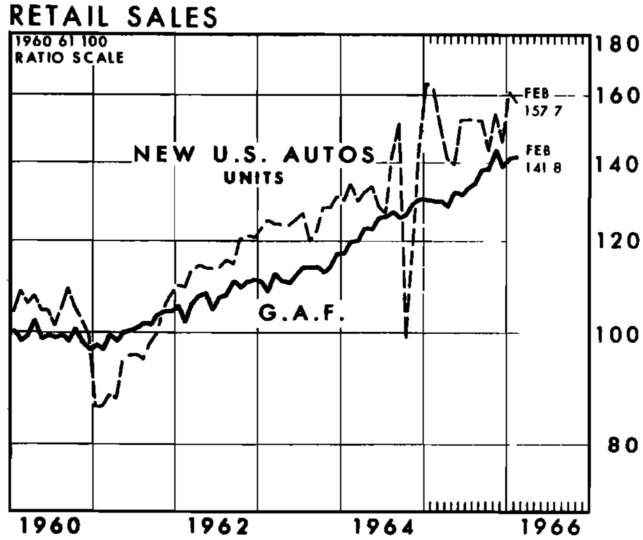
INCOME AND SALES



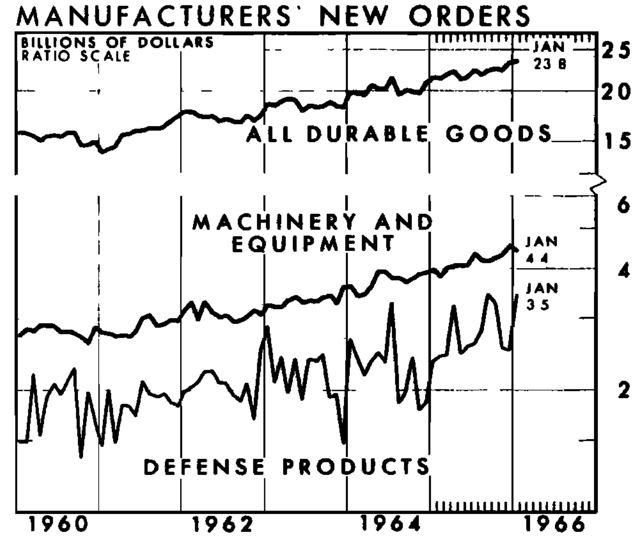
BUSINESS INVESTMENT



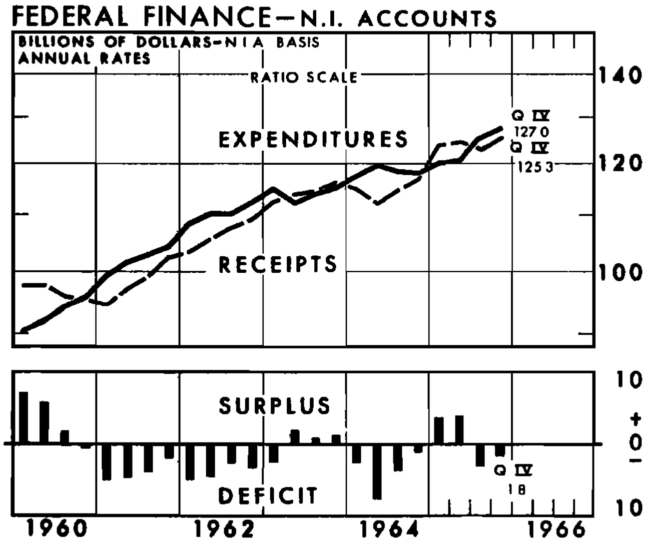
RETAIL SALES



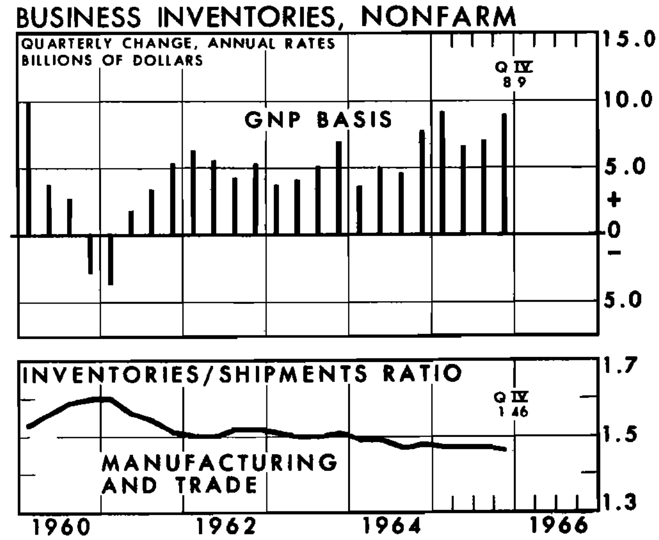
MANUFACTURERS' NEW ORDERS



FEDERAL FINANCE—N.I. ACCOUNTS



BUSINESS INVENTORIES, NONFARM



DOMESTIC FINANCIAL SITUATION

Bank credit. In early March, total bank credit appeared to be continuing to expand at the modest February rate. In line with sustained demands to finance inventories and capital outlays, business loans at city banks remained strong early in the month. But in meeting strong loan demands city banks have had to reduce their investment portfolios further. After rough allowance for seasonal movements, holdings of Treasury securities at weekly reporting banks recently have been declining about as rapidly as in February. These banks also have been reducing their holdings of other securities -- mainly municipals -- contraseasonally.

Credit demands on banks at midmonth are expected to be quite strong as businesses increase their borrowing for tax and dividend purposes. Tax payments, estimated at $6.7 billion, may be no larger than last year, but outstanding tax anticipation bills due this month are $500 million larger than a year ago. Nonetheless, demands for bank loans may be greater because of reduced corporate liquidity.

One indication of the recent tightness at larger banks is their limited acquisitions of Export-Import Bank participation certificates issued late last month. Although the issue had certain technical disadvantages, it was attractively priced to yield 5-1/2 per cent, yet banks took only about half of the $700 million offered. Moreover, New York banks, which took about $200 million of the issue, evidently served principally an underwriting function -- selling most of these certificates within a very few days.

Another more important indication of tightness was the increase in the prime rate to 5-1/2 per cent at banks throughout the country late last week. Business loan demands have remained strong since the December System policy actions, and banks generally expect continued strength in such demands. Reports suggest that the earlier December prime rate increase was not sufficient to significantly deter business loan expansion, due in part to the sharp run-up of yields in the corporate bond market. Yields on Aaa corporate new issues rose above the prime rate last month.

Bank deposits. In deciding to raise the prime rate, another important factor that banks may have considered was the record near-term maturities of negotiable CDs -- $4.1 billion this month and over $3 billion in April. Although accustomed to CD run-offs at tax dates, this time banks face problems of greater than usual magnitude. In March and April, they must roll-over more than $7 billion of CDs in a market in which corporate liquidity is reduced, credit demands are large, and accelerated tax payments are due in mid-April. It is also a market in which secondary trading in CDs has been made increasingly difficult because CDs are available from banks with maturities as low as 30 days.

These factors have already led to some increases in CD offering rates; early this week at least two New York banks were reported to be paying 5-1/2 per cent for CDs due in 1967. A prime rate increase makes such actions more palatable, but increased CD rates would have been likely even without an increase in the prime rate -- not so much to increase outstandings as to counter CD run-offs.

Large CD maturities were an important factor in the modest growth in the seasonally adjusted total of time and savings deposits at all commercial banks in early March. But savings deposits at weekly reporting banks also continued to grow slowly, while time deposits other than CDs rose more rapidly than last year. Country banks, however, apparently are still showing more rapid inflows of total time and savings deposits than are the larger banks.

After declining in February, private demand deposits rose somewhat early in March, in part because of a reduction in Treasury balances to unusually low levels. It is estimated that the seasonally adjusted money stock rose quite sharply at midmonth, however, to the highest level of the year -- about 6 per cent greater than a year ago. It is likely that the March average money stock will be substantially above the February level. As a result, the annual rate of growth for the first quarter will be at an annual rate of approximately 5.5 per cent -- a rate of growth smaller than the 7.5 per cent of the final quarter of 1965.

U.S. Government securities market. Yields declined in all maturity sectors of the U.S. Government note and bond market during the first half of March. Treasury bill rates fluctuated over a fairly wide range in this period but were little changed on balance.

YIELDS ON U.S. GOVERNMENT SECURITIES
(Per cent)

Date (closing bids)	3-month bills	6-month bills	3 years	5 years	10 years	20 years
1959-1961						
Highs	4.68	5.15	5.17	5.11	4.90	4.51
Lows	2.08	2.33	3.08	3.30	3.63	3.70
1965-1966						
High	4.70	4.90	5.07	5.03	5.02	4.81
Low	3.76	3.81	4.00	4.08	4.17	4.17
1965-1966						
July 28	3.81	3.88	4.09	4.15	4.20	4.21
Dec. 3	4.12	4.26	4.54	4.52	4.52	4.44
March 1	4.65	4.84	5.05	5.02	5.01	4.81
March 7	4.57	4.77	5.00	4.97	4.97	4.79
March 15	4.65	4.84	4.94	4.92	4.92	4.71

The recent rally in Treasury bond prices -- the first sustained rally in several months -- appears to have reflected a conviction among market professionals that the sharp price declines of earlier weeks had left the market in an oversold condition for the near term. There does not seem to have been any significant change in the market's longer range outlook for bond yields. The main thrust of the rally has come from dealer purchases to cover short positions against a background of sharply declining stock prices and widespread discussions of the desirability of tighter fiscal policy to contain inflationary pressures in the economy. In this period there was no significant expansion in investment demand for Treasury bonds, and indeed some net selling of intermediate- and long-term bonds by commercial banks was reported. The increase in the prime loan rate announced by several major banks on March 10 appears to have been widely anticipated and had little impact on Treasury bond prices.

A factor contributing to strength in the Treasury bond market in the current week has been the excellent reception accorded the $410 million issue of FNMA participation certificates. Yields set on this 1 to 15 year serial issue display a "humped" pattern ranging from 5.40 per cent in 1967 to 5.50 per cent in 1969 through 1975 and then falling to 5.25 per cent in 1981.

Treasury bill rates declined in the early part of March as demands for bills by investors seeking liquidity and by the System pressed against limited dealer trading positions. More recently, bill rates have risen as net market demand has tapered off with the approach of the March tax and dividend period. In addition, there has been increased competition for bills from rising CD rates following the rise in the prime loan rate. The increase in net borrowed reserve positions in recent weeks also has contributed to some caution in the bill market.

In the regular weekly auction of March 14, the 3- and 6-month bills were auctioned at new high average rates of 4.718 per cent and

4.915 per cent respectively. But yields declined rather sharply after the auction as expected tax date pressures failed to materialize and many buyers reportedly entered the market who had missed on their bids in the auction.

Yields have continued to adjust higher recently on a variety of other short-term debt instruments as is shown in the table:

SELECTED SHORT-TERM INTEREST RATES 1/
1965-66

	Dec. 3	Feb. 28	Mar. 14
Commercial paper 4-6 months	4.375	4.875	5.25
Finance company paper 30-89 days	4.375	4.875	5.00
Bankers' Acceptances 1-90 days	4.25	4.875	5.00
Certificates of deposit (prime NYC)			
Most often quoted new issues			
3-months	4.50	5.00	5.125
6-months	4.50	5.125	5.25
Secondary market:			
3-months	4.49	5.10	5.23
6-months	4.57	5.18	5.35
Federal Agencies			
3-month	4.34	4.92	4.99
6-month	4.49	5.11	5.17

1/ Rates are quoted on offered side of market; rates on commercial paper, finance company paper, and bankers' acceptances are quoted on a bank discount basis while rates on the other instruments are on an investment yield basis.

Treasury finance. Current projections indicate that the Treasury will not need to undertake any major financing operations before the May refunding. It is expected, however, that the Treasury will continue its $100 million additions to the weekly 3-month bill auctions at least to the end of the current quarter. But the Treasury's cash operating balance is still expected to decline to very low levels before mid-April, and some cash borrowing in the market or directly from the System on a temporary basis cannot be ruled out.

Mortgage markets. Pressures for higher yields on mortgage loans continued to mount in March, reflecting heavy demands for credit in other financial markets and reduced savings inflows to depository institutions. In January, net expansion of total mortgage holdings had apparently approached year-earlier levels. This was owing in part, however, to a less than seasonal reduction in borrowings by savings and loan associations and to a sharp further rise in mortgage holdings by the Federal National Mortgage Association. In January, FNMA's purchases from private lenders in the secondary market reached a record $229 million, nearly eight times the level a year earlier. And in February they rose even further.

To check the strain on its resources in a period when its own borrowing costs have been rising, FNMA in early March reduced prices one percentage point more on most types of home mortgages it purchases in the secondary market. This reduction -- equivalent to an increase of about 12 basis points in yield to the mortgage holder -- marked the third such upward adjustment in yields since early last December. At the same time, under authority of the new "G.I." Act recently signed by the

President, the permitted maximum rate on VA-guaranteed home mortgages was raised by a quarter point to 5-1/2 per cent, the same as the new maximum announced for FHA-insured home mortgages a month earlier. Trade reaction generally is that further upward adjustment may be required to attract an adequate supply of funds to Government-underwritten mortgages under the conditions now prevailing.

In January, secondary market yields on 5-1/4 per cent, 30-year, FHA insured mortgages had advanced to 5.70 per cent. Related data for February are not yet available. However, according to FHA, contract rates on conventional first mortgages rose about 5 basis points further in February -- to 6.05 per cent for loans on new homes and 6.10 per cent for loans on existing homes. These were up 25 basis points from the levels prevailing in mid-1965 and were the highest rates since early 1961.

In the case of conventional loans on new homes, some downward adjustments in loan-to-value ratios and maturity terms were reported for mortgages originated in January, according to the Federal Home Loan Bank Board. In the case of existing home loans, however, such terms were generally at or about their highs for the series.

AVERAGE NONRATE TERMS ON CONVENTIONAL FIRST MORTGAGES FOR HOME PURCHASE

	December 1965	January 1966	Per cent increase in January 1966 from a year ago
New home loans			
Loan amount ($1,000)	18.4	18.0	3
Loan/price (per cent)	74.0	73.4	-1
Maturity (years)	24.8	24.6	--
Existing home loans			
Loan amount ($1,000)	14.5	14.3	5
Loan/price (per cent)	72.4	72.6	1
Maturity (years)	20.6	20.6	3

Stock market. Common stock prices have continued to fall -- with only brief interruptions -- from their all-time high of early February. Standard and Poor's composite index had declined about 7 per cent through March 15 to the lowest level since early September. This compares with a drop of nearly 10 per cent in the market decline of mid-1965. At its current level the index is more than 3 per cent below the May peak reached just prior to that earlier correction.

Trading activity since early February has been heavy, with the average daily volume exceeding 9 million shares. Moreover, trading exceeded 10 million shares in four sessions and reached 11 million shares on one day in early March. Earlier in this period, the most active trading was associated with price declines but recently the continuing sell-off has occurred on declining volume.

The price decline has been general, with the number of issues registering weekly declines in the period outnumbering those showing gains by a ratio of 2 to 1. About three fourths of the 82 industrial groups making up the Standard and Poor's composite are below their early February levels and 12 have registered 1965-66 lows. But low-priced stocks, which have been recent speculative favorites, have resisted the decline, advancing further to new highs for 1965-66. This latter development suggests that small investors have become more active buyers of stocks, a conclusion which is also supported by recent statistics on odd lot transactions. Since early February, odd lot purchases have exceeded sales by more than 300,000 shares per week, whereas in the like period of 1965 they were about in balance.

In addition to the influence of rising interest rates and credit restraint, investor concern that overheating of the economy may lead to higher taxes, rising costs, and a squeeze on profit margins has had a bearish effect on the stock market. A strengthening influence, however, is the more favorable level of price-earnings ratios that has developed with recent price declines -- presently the average ratio to (fourth quarter) earnings of the 500 companies included in the Standard and Poor's index is 16.6, down from the 17.9 ratio prevailing at the February high.

STOCK PRICES AND TRADING ACTIVITY

	S & P corporate index	Weekly average of daily volume (mil. of shares)
Mid-1965 correction		
May 13, 1965 - High	90.27	5.9
June 28, 1965 - Low	81.60	6.8
Recent correction		
Feb. 9, 1966 - Record high	94.06	9.3
March 15, 1966 - Latest	87.35	8.5 est.

Corporate and municipal bond markets. Yields on State and local government bonds, like those on long-term U.S. Treasury issues, have turned down several basis points since early March, ending at least temporarily six weeks of nearly continuous advance amounting to 1/4 of a percentage point. While yields on new issues of corporate bonds -- after advancing more than 1/2 a percentage point over the same six-week period -- have also shown some tendency to level off recently, upward yield pressures have been maintained in this market by the weight of the continuing heavy calendar of offerings. This latter influence is also being reflected in the secondary market for corporate bonds.

BOND YIELDS
(Per cent per annum)

	Corporate Aaa		State and local Government	
	New	Seasoned	Moody's Aaa	Bond buyer (mixed qualities)
Previous Postwar High	5.13(9/18/59)	4.61(1/29/60)	3.65(9/24/59)	3.81(9/17/59)
1965 Low	4.33(1/29)	4.41(3/12)	2.94(2/11)	3.04(2/11)
Weeks ending:				
July 23	4.56	4.48	3.16	3.25
Dec. 3	4.79	4.60	3.37	3.50
Jan. 21	4.84	4.74	3.39	3.51
Mar. 4	5.38	4.85	3.63	3.83
Mar. 11	5.38	4.88	3.61	3.77

With municipal bond yields in early March at or approaching the highest levels reached in more than 30 years, a number of borrowers decided to postpone all or part of planned offerings totaling nearly $150 million. At the same time, the unusually favorable yields on new issues and the sharp price concessions being offered by dealers on older inventory elicited some pick-up in investor demand. A special factor adding to such investor interest has been the development of a declining stock market at a time when spreads between stock and bond yields are the widest of the post-war period.

Municipal bond offerings are expected to total $1.1 billion in March, despite recent postponements, but this includes $440 million of New Jersey Turnpike Authority bonds, $334 million of which are for refunding outstanding debt. Once the New Jersey Turnpike issue is out of the way, the volume of new municipal offerings is expected to drop off; in fact the total now estimated for April is the smallest for any month this year. The lighter calendar ahead, a further cutback in dealer's advertised inventories to around $400 million -- the lowest level in more than two years, the favorable reception accorded last week's large offering of public housing bonds, and the fact that investors have undoubtedly already accumulated funds for the well advertised turnpike issue have apparently all contributed to the recent strength of the municipal market.

Looking further ahead, however, if commercial banks continue to cut back their relative participation in municipal securities, municipal bond yields are likely to be particularly vulnerable to any further general advance of long-term interest rates. As yet, the spread between yields on municipal and U.S. Treasury bonds has remained within the range of wider margins that developed following the Regulation Q action in early 1962. Hence with bank demand dropping off, this spread relationship would be likely to narrow.

BOND OFFERINGS 1/
(In millions of dollars)

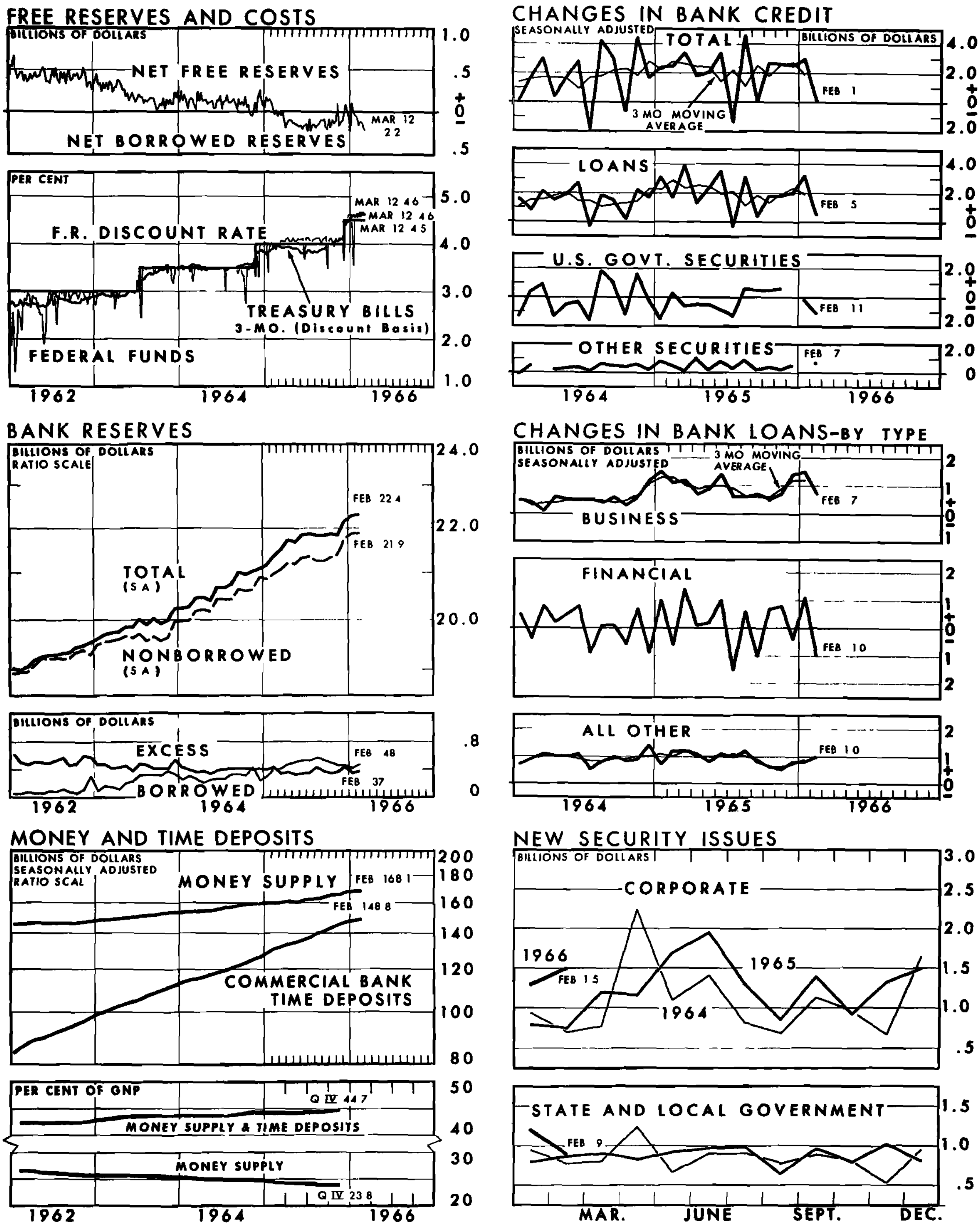
	Corporate				State and local Govt.	
	Public offerings		Private placements			
	1965-66	1964-65	1965-66e/	1964-65	1965-66e/	1964-65
1965						
Yearly Average	474	300	707	604	938	904
November	613	30	529	645	1,018	578
December	326	320	1,161	1,342	768	1,078
1966						
January	430 2/	161	600	565	1,170	849
February	575	187	600	450	900	966
March	850	557	700	658	1,100	1,036
April	(700-800)	422	700	648	850	994

1/ Includes refundings -- data are gross proceeds for corporate offerings and principal amounts for State and local Government issues.
2/ Excludes $600 million of U.S. Steel Corporation bonds, converted from preferred stock on a "rights" basis early in January. While some holders of the preferred stock "rights" may have sold them to other investors through the market, the volume of such transfers is not known.

In the corporate bond market, there appears to be little prospect of any appreciable let up in the heavy volume of new issues. Estimates of public offerings for April are not much below the indicated total for March, which includes the March AT&T issue. And offerings tentatively scheduled for May already exceed $400 million. A few postponements have been reported in the private placement market -- apparently representing borrowers with distant needs for funds who had been hoping to anticipate these needs before interest rates adjusted higher. But, more generally, corporate borrowers appear to have immediate and pressing needs for long-term funds that cannot be postponed.

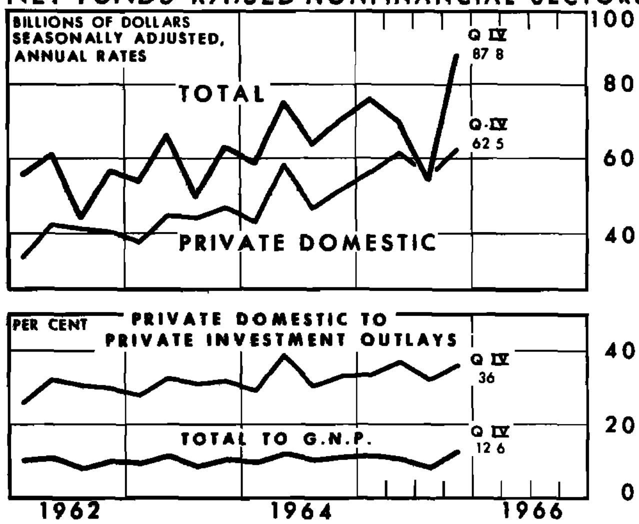
The continuing weight of any corporate bond offerings has been reflected in a sharp widening of spreads between the yields on new corporate issues and those on both corporate and long-term U.S. Treasury bonds. It is interesting to note that the spreads between yields on new and seasoned corporate issues is now approaching the high range which prevailed during much of 1956 and 1957 -- a period in which call protection was also being accorded a substantial premium.

FINANCIAL DEVELOPMENTS - UNITED STATES

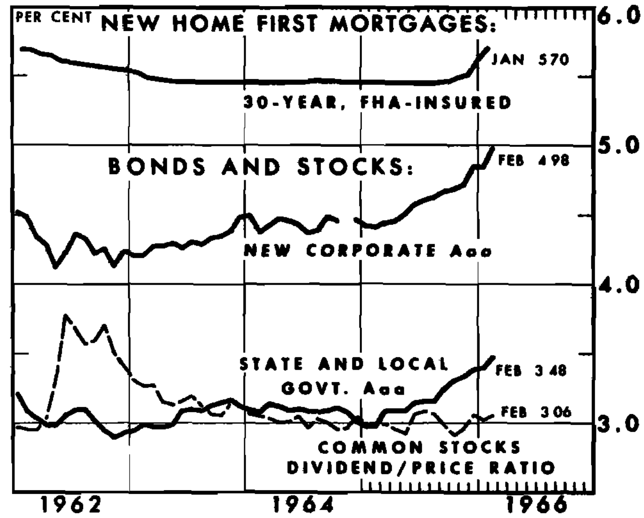


FINANCIAL DEVELOPMENTS - UNITED STATES

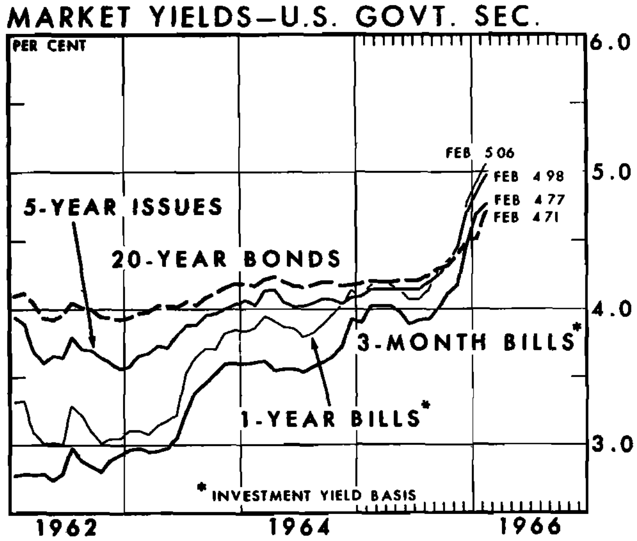
NET FUNDS RAISED-NONFINANCIAL SECTORS



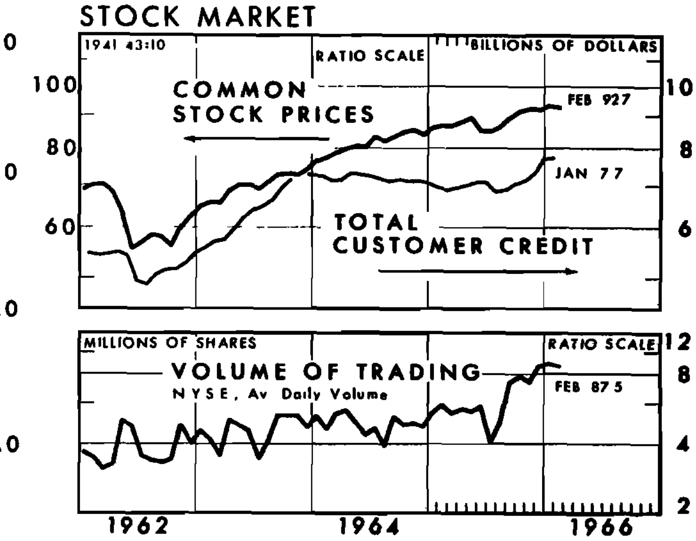
MARKET YIELDS



MARKET YIELDS—U.S. GOVT. SEC.



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. Preliminary data show a U.S. payments surplus in February on the liquidity basis of slightly less than $100 million, and approximate balance for January-February together before seasonal adjustment. Assessment of first-quarter payments developments is strongly affected by the seasonal adjustment applied; on the basis given in the next paragraph there was apparently some improvement early this year from the fourth quarter deficit of $1-1/2 billion annual rate. The improvement appears sizeable if adjustments are made for various special transactions. (These included the postponement of Canadian security issues until the first quarter, official Canadian transactions designed as partial offsets this year, and the omission of the U.K. debt service payments last year.)

In each of the past three years, seasonal factors are estimated to have benefited the U.S. payments position in the first quarter as a whole by close to $0.5 billion, but within the quarter the unadjusted results for January-February have been less favorable than those for March, apparently calling for considerably less than two-thirds of the seasonal adjustment for the quarter.

On official settlements there was a surplus before adjustment of roughly $0.5 billion in January and February together (based on weekly indicators for February). Because the seasonal adjustment appropriate to the balance on official settlements is larger than that for the liquidity balance, and because it applies much more to the beginning of the quarter, it is probable that the January-February results, after adjustment, were close to balance.

Revision of import adjustments for late last year, and adjustments to January trade data, place recent trade developments in slightly different perspective than indicated in the last Green Book. January imports were up almost 4 per cent from the fourth quarter rate, and the November-January average ($23-1/2 billion annual rate) was 2 per cent above the fourth quarter. January exports eased a little further below their November peak, and the November-January average ($28 billion annual rate) was down slightly from the fourth quarter. The trade surplus in the latest 3-month period was thus at an annual rate of $4-1/2 billion, compared to $5 billion in the fourth quarter.

While import demand continues to put pressure on the U.S. payments position, there are signs that, beginning in January, tightening U.S. credit markets have contributed to favorable developments in bank credit flows. The $125 million January reflow of short-term loans and acceptance credits was greater than seasonal; this followed a December outflow about in line with the customary seasonal pattern. There was also an $80 million reflow of long-term bank credit in January. Seasonally adjusted, the total reflow was about $100 million.

Some caution may be required in interpreting the January reflow of short-term credit because the non-seasonal part resulted mainly from reflows from Japan, and may have reflected special circumstances in that country as well as tightened positions of banks in the United States. More striking evidence on changes in foreign credit activity of U.S. banks relates to term loans. Confidential Treasury data on new term loan commitments show only about \$60 million in January, compared to an average of about \$100 million a month in the last half of 1965. Moreover, only very small commitments have so far been reported for February, and the rate since the turn of the year is probably under half of last autumn's rate. Since gross repayments and amortizations this year are probably at about a \$1 billion annual rate, maintenance of the recent rate of commitments -- with a parallel rate of gross disbursements -- would lead to a substantial net reflow on term loans.

Recent developments abroad. The marked contrasts that have been noted between policy orientations of the financial authorities in a half dozen leading countries continue to exist. France, Italy, and Japan have upswings under way, and are pressing for further expansion. Germany has succeeded in leveling off its domestic investment demand, but wages and consumer demand are still rising strongly and monetary policy remains tight. Britain's domestic situation is in some respects like Germany's, but prices have been rising more rapidly, and its external payments situation is precarious. Canada is still experiencing rapid expansion and mounting inflationary strain; for the moment, at least, restrictive monetary policy is playing the chief role in resisting further growth of excess demand.

Expansion policies in France have been taking the form chiefly of fiscal action, including tax reform and reduction, and now a proposed 10 per cent investment credit against the corporation income tax. This credit, announced in February, will be restricted to capital goods amortizable over seven years or more ordered in 1966 and delivered this year or next year. During 1965 there was no significant change in bank credit expansion, which continued at about a 10 per cent annual rate after the formal ceiling was lifted.

Continued strong advance in industrial production toward the end of 1965 was probably accompanied by the start of an upturn in private investment spending. Official experts believe that industrial output will continue to rise rapidly in the first half of 1966 -- at an annual rate of 7 or 8 per cent, as it has since the early months of 1965. In January the index dropped a sharp 2 per cent, but that is thought to have resulted mainly if not entirely from extreme weather conditions. Order backlogs for consumer goods rose markedly in the fourth quarter, inventories of finished goods declined, and production of most types of consumer goods advanced.

French official reserve gains have lately been rather small: \$9 million in December, \$8 million in January, and \$35 million in February which, however, occurred almost entirely in the closing days of the month. In December, the French commercial banks' net foreign assets rose by \$83 million, and French banks reportedly continued to place large amounts of funds abroad in January and most of February, in response to the upward movement of interest rates in foreign centers.

This export of funds was a factor in a very tight money market over the February month-end; the Bank of France stated that "massive" intervention was required to keep call money rates from exceeding the 4-5/8 per cent limit the Bank maintains. This tightness led to some repatriation of funds, and consequent official reserve gains, at the end of February.

While Italian monetary policy remains expansionary, the Government's main weapon for promoting recovery and expansion continues to be sharply rising public expenditures. Increases in the central government's cash outlays on budget account have assumed extraordinary proportions, helped by a shortening of lags between authorizations and actual spending; in the first eleven months of 1965 these outlays were 32 per cent greater than a year earlier. The increase in the budget deficit has posed no financing problem because the Bank of Italy has made large-scale direct advances to the Treasury and commercial banks have expanded their bond portfolios. The persistently rapid rise in the money supply has remained an outstanding feature of the monetary situation; the year-to-year rise was 15 per cent in November.

A significant development in the second half of 1965 was the beginning of revival in business investment spending. Residential construction dropped off further, but orders and outlays for equipment turned up. Total fixed investment outlays, public and private, are officially estimated to have risen nearly 3 per cent in the third quarter (seasonally adjusted and in real terms) and by a further 2-1/2 per cent in the fourth quarter.

The rise in Italian imports accelerated after mid-year, and November imports were 4 per cent above the third-quarter average.

Seasonally-adjusted industrial production (excluding construction) resumed its advance in the autumn, rising a total of 3-1/2 per cent over the three months from August to November, when it was 9 per cent higher than a year earlier. Output advanced in most industries, but auto output dropped sharply following the rapid rise last spring, seemingly to let excessive inventories run down.

<u>Japanese</u> industrial production, seasonally adjusted, advanced 3-1/2 per cent in January after rising 1 per cent in the previous month. The good January performance brought the index to a new high, 6 per cent above the level a year earlier. As a result of this and other developments, the Minister of Finance stated on March 1 that "business is definitely on the way to recovery," although he cautioned that it would be "several years" before full recovery could be achieved.

Other indications of recovery include an increase in producers' shipments and a rise in machinery orders. Although lower than a year earlier, orders for machinery have been rising since June of last year and in December increased 5 per cent.

Seasonally adjusted data indicate that there has been an acceleration in monetary expansion. Consumer prices rose 1 per cent in February to a level 6 per cent higher than a year earlier, and wholesale prices have also been rising substantially in recent months.

Since last August Japanese imports have tended to rise and exports to level off or decline. A particularly sharp rise in imports occurred in February. A seamen's strike from late November to late January was suspended during the New Year season, with the result that January exports were unusually large. Nevertheless, the three-month trade surplus of $80 million in December-February (seasonally adjusted) was much below the $190 million surplus of the third quarter of 1965.

German monetary policy now has the "urgent aim," according to the January monthly report of the Bundesbank, of stabilizing the price level, and along with that, restoring equilibrium in current transactions with other countries. During the second half of 1965 demand for capital equipment leveled off, and steel orders dropped as users aimed at reducing their inventories. But demand for consumer goods and housing construction continued to rise. The labor market has remained extremely tight, with indications that labor is being hoarded in industries where production has fallen off.

There was some improvement in the German trade position in the latter part of 1965. Though imports of finished manufactures continued to rise strongly, imports of materials fell off, and were no larger than a year earlier. Exports increased sharply in November and December after remaining stable in the spring and summer months. As a result, the trade balance (computed with c.i.f. imports) shifted to surplus. However, the current account as a whole (including transfer payments as well as services) remained in deficit, especially after allowance for seasonal variations.

Recent Bundesbank actions are intended to maintain a fairly tight rein on bank liquidity. In the closing months of 1965 the liquidity squeeze was somewhat relieved -- apart from temporary year-end tightness -- by government expenditures from cash balances at the central bank and by the shift toward surplus in the balance of payments. The Bundesbank has now announced that on May 1 the additional 12-1/2 per cent cut in rediscount quotas originally scheduled for last October -- but postponed in view of the severity of the liquidity squeeze at that time -- will come into effect. Another recent action having the effect of increasing reserve requirements is the tightening of conditions under which banks can count short-term foreign assets as an offset to foreign liabilities in the calculation of their reserve requirements: loans to foreigners on which banks have made roll-over commitments can no longer be used as an offset.

On March 3, the Bundesbank again raised its rates on 6-month and longer money market paper by 1/8 per cent,the second such change in two weeks. The 6-month rate is now 1/4 per cent above that offered by the Dresdner Bank, and the one-year rate is equal to the Dresdner Bank's. Probably these increases in rates are intended (1) to encourage banks to hold their liquid assets in Germany rather than abroad, and (2) to resist efforts of large banks to absorb liquidity from elsewhere within the banking system.

The British economy remains in the throes of a wage-price spiral. Prices and wages rose further in January, and labor market conditions were still exceedingly tight in February. While consumer spending remained buoyant during the final months of 1965 and in January, the growth in industrial production (through December) was kept quite small -- partly because of severe labor shortages.

Foreign trade figures have been showing large monthly zig-zags. Exports in January-February averaged 1 per cent higher than in the fourth-quarter, but imports were up more -- by 3 per cent.

Despite the continuation of inflationary strain, the outlook for a tough budget has been modified by two new developments. First, Labor government officials have expressed a desire to "wait and see" how much the recent further tightening of credit conditions will dampen demand. Secondly, economic forecasts just published by the National Institute of Social and Economic Research predict a substantial rise in unemployment in coming months and a moderation in the wage-price spiral. This view is based in part on the expectation that past stabilization measures will finally do their job, and in part on the assumption of a very successful "incomes policy." In line with these findings, the Institute opposes a deflationary budget.

However, the Institute also noted that the Chancellor's target of a balanced external position in the second half of 1966 will not be reached. Rather, it predicted a deficit on current and long-term capital account of about $240 million in that period, and a deficit of $550 million for the full year. The estimated deficit for 1966 is about half the size of the 1965 deficit and one-fourth that of 1964.

Because of domestic economic developments and the impending election, conditions in British financial markets took a turn for the worse in recent weeks. In the government bond market, yields rose noticeably, especially at the short end. Between February 3 and March 10, the yields on short-dated stocks jumped as much as 28 basis points to 6.78 per cent, while at the long end of the market the rate on War Loan moved up 16 basis points to 6.76 per cent. Over the same period, the sterling exchange rate dropped from 280.30 to 279.57 U.S. cents.

The Canadian Bank rate increase announced March 11 (effective March 14) from 4-3/4 to 5-1/4 per cent reflects growing concern about mounting inflationary strain in Canada. The consumer price index rose further by 0.3 per cent in January while the wholesale price index rose by 0.6 per cent. Compared with January 1965, consumer prices were up 3 per cent, wholesale prices up 4 per cent. The fiscal policy outlook is unclear, especially because the Liberal Government does not have majority control in Parliament. The budget is due to be presented late in April.

Because of the Bank rate change, commercial banks' profit margins will be squeezed, leading them to be more selective and restrictive in their loan policies. Higher costs of attracting new funds or of liquidating investments can not be matched by higher lending rates, because these were already at the 6 per cent legal ceiling.

Bank loans rose by 15 per cent from January 1965 to January 1966 (Wednesday averages of adjusted "general loans"). This rise in loans was a chief cause of shrinkage in the banks' "more liquid asset" ratio from 32.2 per cent of total assets at the beginning of 1965 to 30.0 per cent, the conventional minimum, at the end of the year. Partly as a consequence of this squeeze on liquidity, seasonally adjusted bank loans expanded by only 0.6 per cent in January 1966.

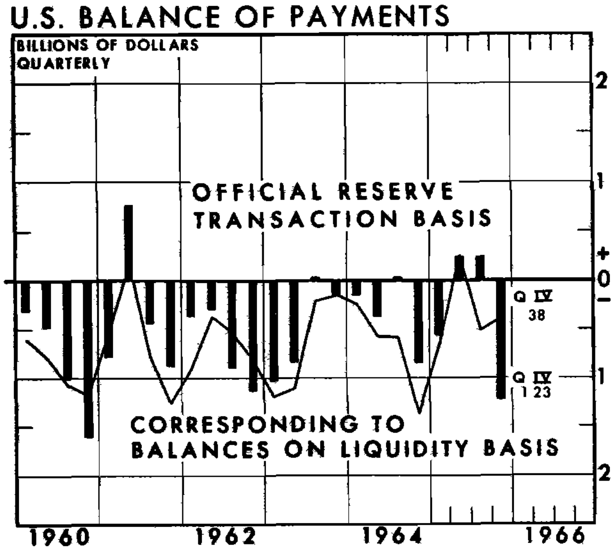
Canadian official reserves of gold, dollars, and IMF position moved down from $2.9 billion on November 30 to about $2.8 billion on

February 29. This reduction, though reflecting seasonal tendencies, was in line with Canada's agreement to use some of its reserves in financing the current account deficit this year, and it therefore facilitated the decision to raise Bank rate. So, too, did the narrowing of long-term interest rate differentials between Canada and the United States since December.

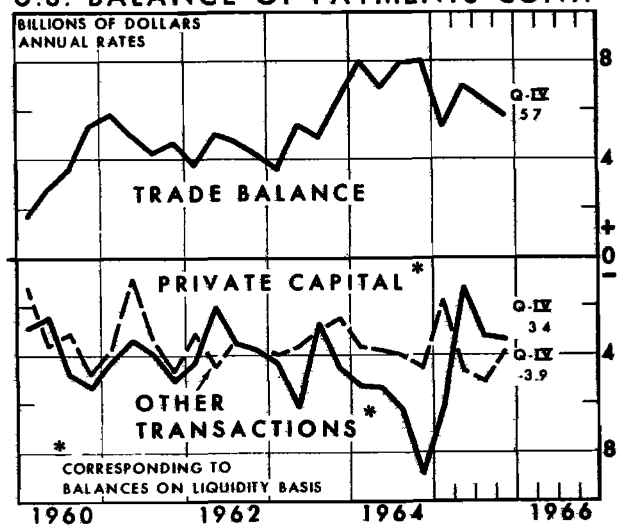
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

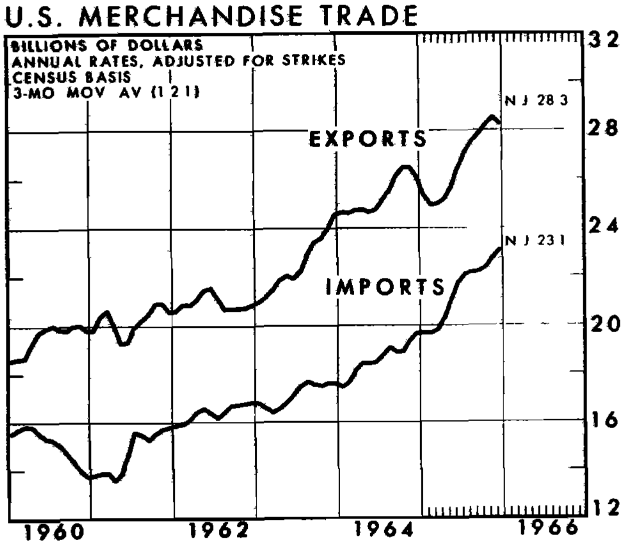
U.S. BALANCE OF PAYMENTS



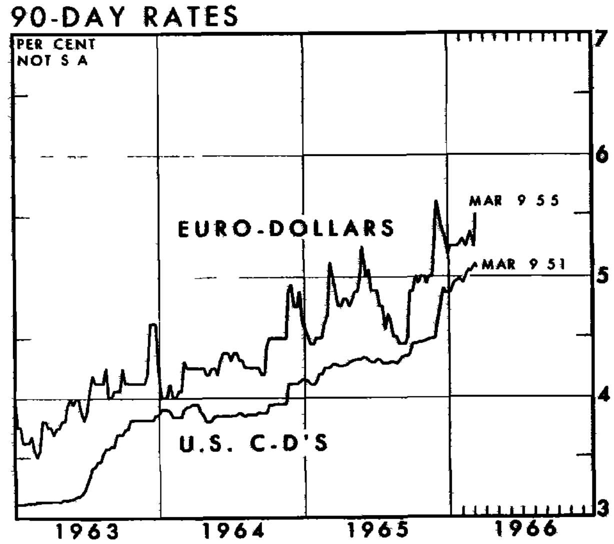
U.S. BALANCE OF PAYMENTS-CONT.



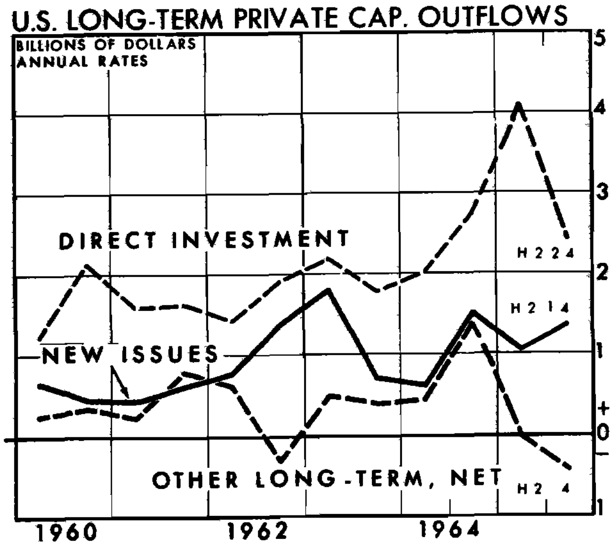
U.S. MERCHANDISE TRADE



90-DAY RATES



U.S. LONG-TERM PRIVATE CAP. OUTFLOWS



U.S. BANK CREDIT OUTFLOWS