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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

May 6, 1966

The Domestic Economy

Nonagricultural employment (payroll series) was unchanged in April, at 62.9 million, seasonally adjusted, but was 3.0 million above a year ago. Manufacturing employment rose further, by 60,000 to 18.8 million, reflecting strength in the electrical and transportation equipment industries. A decline in nonmanufacturing resulted from reductions in retail trade, construction, and mining. The reduction in trade probably reflected in adequate seasonal adjustment owing to the timing of the Easter holiday this year. Construction employment, which has been erratic in recent months, offset its rise in March and returned to the February level. A drop in mining was primarily the result of strikes. Employment in most other nonmanufacturing industries registered further gains. Especially sharp increases were reported in both Federal and State and local government employment.

The average workweek of factory production workers in April remained level at 41.5 hours, seasonally adjusted, but was .5 hours above a year earlier and close to record levels. Hourly earnings (seasonally adjusted) were also unchanged at $2.68 and were 3.5 per cent higher than a year earlier. Weekly earnings, $111.28, rose further and were 4.7 per cent over a year ago.

The unemployment rate declined slightly in April, to 3.7 per cent from 3.8 per cent in March. The improvement reflected a decline in the unemployment rate of adult men to 2.4 per cent. The rate for married men also declined slightly, to 1.8 per cent. Among nonwhites, the unemployment rate fell to 7.0 per cent from 7.2 per cent in March, while the rate for white workers remained unchanged at 3.4 per cent. Long-term unemployment (15 weeks or more) changed little, but was down substantially over the year. Women and teenagers showed little change in their jobless rates in April, but their employment increased significantly.

The civilian labor force rose sharply in April following little change in March and was 1.3 million higher than a year ago. Including the armed forces, the total labor force increased 1.6 million over the year.

The comprehensive wholesale price indexes for mid-April, released today, confirm the estimates in the Greenbook of May 4. The BLS index for industrial commodities rose .3 per cent from mid-March, equalling the monthly rate of increase through the first quarter, reflecting increases in machinery, lumber, footwear, furniture, paper products, and industrial chemicals. Farm products and foods fell .7 per cent as decreases for livestocks, poultry, meat, and eggs were partially offset by a sizable increase for fruits and vegetables. The combined index of industrial commodities and foodstuffs in mid-April was 105.5 per cent of the 1957-59 average compared with 105.4 per cent in February and March.

The weekly index for May 3 shows a further decline of about 1.5 per cent in farm products and foods. The estimate for industrial commodities was unchanged from mid-April, but the weekly estimates for this index are not very relaible and it is likely that industrial commodities continued to rise. The total index is shown to have edged down to 105.1 per cent.

The Domestic Financial Situation

Common stock prices -- as measured by Standard and Poor's composite of 500 stocks -- fell sharply this week in heavy trading. This decline of 3.4 per cent reduced the index to 87.93 (1941-43 = 10) and brought the cumulative loss for the past ten days to about 5 per cent. As of the close Thursday, however, the composite was still about 0.7 per cent above its recent low established March 15. Losses were registered by a broad group of stocks -- blue chips and recent speculative favorites alike -- in many different industries. The Dow Jones industrial average, a measure of stock price performance of 30 large, well-known companies, declined more sharply than the broader based S & P "500" and reached its lowest level since last September 1.

Rates on delinquencies (30 days or more) on home mortgages declined about seasonally during the first quarter, according to the regular survey made by the Mortgage Bankers Association of America of its members. The reported 3.0 per cent delinquency rate was slightly above the average for the same period of last year, and was at about the same level as in the high first quarter of 1963. Delinquency rates on conventional as well as Government-underwritten home loans were generally above year-earlier levels for the fourth consecutive quarter. The average rate for loans in foreclosure continued little changed.

International Developments

The British budget for the year ending March 31, 1967, announced last Tuesday, is summarized as follows.

U.K. BUDGETARY RECEIPTS AND EXPENDITURES
(Millions of pounds)

	1965-66 Actual	1966-67 Budget Before new taxes	1966-67 Budget After new taxes
Revenues	9,145	9,838	10,224
Expenditures	8,456	9,177	9,177
Balance	+ 689	+ 661	+1,047
Net loans to nationalized industries, local authorities, etc.	-1,256	-1,334	-1,334
Over-all deficit (-)	- 576	- 673	- 287

The principal new tax is a selective employment tax. This is to be collected (through the social security tax machinery) beginning September 5 from all employers at a weekly rate of $3.50 per man employed and half that for women and boys. (Average weekly earnings of men are now a little under $60, so this is a tax of about 6 per cent on the average.) Beginning in February 1967, manufacturing employers will receive lagged quarterly refunds plus a 30 per cent premium; employers in transportation, public utilities, and local government will receive refunds of the tax; employers in services and construction will receive no refund.

The estimate was given that the tax would raise prices of services by 3 or 4 per cent if fully passed on to consumers. Objectives include restraining the growth of total consumer demand, redistributing labor in favor of manufacturing, and subsidizing manufacturing a little, in these ways aiming to promote exports indirectly without violating GATT commitments and without lowering the level of economic activity.

The import surcharge is to remain at 10 per cent until November, and then cease. No changes are made in rates of income tax, or of existing indirect taxes. The corporation tax pre-announced last November is now set at 40 per cent.

Announcement was made of a program of voluntary restraint on direct investment by British companies in four industrialized countries of the sterling area, a flow which is entirely free from U.K. exchange controls at present. These countries are Australia, New Zealand, South Africa, and the Irish Republic. Companies are urged to postpone plans, to use local finance, and -- for any investment plan involving $70,000 or more -- to ask the Bank of England for a finding that the project promises a substantial balance-of-payments return, through exports or remittable profits, within two or three years.

The Chancellor of the Exchequer also announced his intention of repaying the November 1964 $1 billion IMF drawing by or before November 1967.