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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

June 3, 1966

SUPPLEMENTAL NOTES

The Domestic Economy

Nonfarm business expenditures on new plant and equipment this year will total \$60.8 billion, 17 per cent more than in 1965, and will continue rising throughout the year, according to the Commerce-SEC survey of business plans conducted in late April and in May. The total now planned for 1966 is nearly one per cent more than indicated by the survey last February and is a little larger than that realized in 1965. In real terms, however, the rise may be less than in 1965 because of higher prices.

Actual investment has exceeded earlier plans in each quarter since the end of 1963. In the first quarter of this year actual investment was \$.8 billion (annual rate) higher than indicated by the February survey, and second quarter plans also have been lifted by almost that amount.

The increase in planned plant and equipment spending this year of 17 per cent from last year is about the same as that indicated by the McGraw-Hill mid-May "recheck."

Fixed capital spending plans of all major industry groups exceed actual spending in 1965 and several industry groups appreciably stepped-up intended spending from plans earlier this year. These step-ups more than offset cutbacks, ranging up to 6 per cent, by some important industry groups: notably, primary metals -- both iron and steel and nonferrous metals -- motor vehicles and parts, and textiles.

EXPENDITURES PLANNED FOR NEW PLANT AND EQUIPMENT FOR 1966,
ALL BUSINESS AND SELECTED INDUSTRIES

| | April - May Survey | | February Survey |
|---|---------------------|---------------------------|---------------------------|
| | Billions of dollars | Per cent change from 1965 | Per cent change from 1965 |
| All business | 60.8 | 17.0 | 15.9 |
| Manufacturing | 27.0 | 20.4 | 19.2 |
| Durable goods | 13.8 | 20.9 | 18.4 |
| Iron and steel | 2.1 | 6.7 | 8.8 |
| Nonferrous metals | .8 | 10.3 | 11.8 |
| Nonelectrical machinery | 3.0 | 35.3 | 24.0 |
| Motor vehicles and parts | 2.0 | 2.5 | 7.1 |
| Other transportation equipment | 1.0 | 65.5 | 44.8 |
| Nondurables | 13.2 | 19.8 | 19.9 |
| Textile | 1.3 | 29.6 | 36.7 |
| Nonmanufacturing | 33.8 | 14.4 | 13.5 |
| Mining | 1.4 | 9.2 | 16.2 |
| Railroads | 2.1 | 18.5 | 5.8 |
| Other transportation | 3.5 | 24.2 | 12.1 |
| Public utilities | 8.0 | 15.1 | 15.9 |
| Communications and commercial and other | 18.8 | 12.4 | 13.3 |

Plant and equipment outlays of all business will rise throughout this year. However, the increase apparently will be less in the current quarter than in the first quarter of the year. The advances now planned for each of the last two quarters are larger than indicated for the second quarter.

PLANT AND EQUIPMENT EXPENDITURES
(Billions of dollars; seasonally adjusted annual rates)

| | 1965 | | I | 1966 | | |
|------------------|--------|------|------|---------|------|------|
| | III | IV | | II | III | IV |
| | Actual | | | Planned | | |
| All business | 52.8 | 55.4 | 58.0 | 59.6 | 61.7 | 63.9 |
| Manufacturing | 23.0 | 24.2 | 25.6 | 26.6 | 27.6 | 28.3 |
| Durable goods | 11.8 | 12.5 | 13.2 | 13.6 | 14.0 | 14.4 |
| Nondurable goods | 11.3 | 11.7 | 12.5 | 13.1 | 13.5 | 14.0 |
| Nonmanufacturing | 29.8 | 31.2 | 32.4 | 33.0 | 34.1 | 35.6 |

Correction

Page IV - 12: Second line from bottom -- "asset ratio"
should read "liquid asset ratio."