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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**

April 26, 1967

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SUMMARY AND OUTLOOK

Outlook for Economic Activity

Although there was no growth in real GNP for the first quarter as a whole, the period ended on a firmer economic tone. In closing weeks of the quarter, private final demands strengthened appreciably. The downward inventory adjustment during the quarter, on the basis of still incomplete data, was very rapid. Government outlays also were higher than expected.

As a consequence of the recent improved performance of the economy, second quarter GNP is now projected to show a somewhat larger increase than estimated a month ago, and a significant increase is projected for GNP in the third quarter. The improved outlook is attributable largely to an apparent revival in consumer goods spending. Sales of appliances and autos in April have risen from the reduced levels reported earlier in the year. Moreover, the rapid rise reported in nondurable sales in March--which is somewhat suspect because of the problem of adjusting for an unusually early Easter--appear to have been followed by relatively strong sales in April, on the basis of weekly data.

Near-term developments, however, are clouded by ambiguities in a number of the preliminary statistics for the first quarter. The extremely large reduction in inventory accumulation reported from the end of the year to February appears to be inconsistent with the relatively small reduction indicated for industrial production, and a larger-than-apparent inventory overhang may still exist. With stock-sales ratios at very high levels and order backlogs declining, substantial further reductions in inventory accumulation, and even some actual liquidation, seems likely in the months ahead.

If the inventory adjustment still has some way to go, prevailing bullish sentiment could be dampened by reports of further declines in production and factory employment in the second quarter. In addition, wage rates are continuing to rise faster than productivity, and further increases in unit labor costs would bring additional pressure on corporate profit margins. Reduced generation of internal funds, coupled with a further reduction in capacity utilization rates, could operate to weaken incentives for business fixed capital spending. We have tentatively, therefore, projected only a small increase in fixed investment outlays through the third quarter.

On the other hand, prospects for an earlier pickup in housing activity have improved, with housing starts rising more than seasonally in the first quarter. With mortgage money more readily available and rates somewhat lower, starts should rise further in the third quarter and residential expenditures are expected to make a sizable contribution to economic expansion. Nonresidential construction expenditures also are expected to respond further to the availability of funds.

The impact of reduced growth in total private GNP on aggregate economic activity is being cushioned by both reduced tax receipts and sustained advances in total government spending. The Federal NIA budget is estimated to have moved to a \$9.6 billion deficit, annual rate, in the first quarter 1967 as compared with a \$3.6 billion deficit in the fourth quarter 1966. Federal defense spending has exceeded Budget estimates--and indications are that defense outlays will continue to outrun earlier estimates. In addition, State and local purchases continue to show strong upward momentum.

Outlook for resource use and prices

Even though the GNP outlook for the current quarter is more optimistic than earlier, some further cutbacks in manufacturing employment, and moderate declines in industrial production and in capacity utilization still appear in prospect. While a slight increase in total nonfarm employment is in prospect, labor force growth should be more rapid, bringing a rise in the unemployment rate to about 4 per cent, or slightly over, in the next several months. The expected resurgence of growth in the third quarter should stimulate employment somewhat, but an increase in the workweek could offset some of the impact on hiring, and the unemployment rate is not expected to decline until later.

Improved prospects for the economy, particularly after midyear when much of the inventory adjustment will have been accomplished--does not yet appear likely to be of sufficient magnitude as to precipitate general upward demand pressures on industrial prices. Over the past two months, prices of basic industrial materials have again weakened considerably, following several months of relative stability. Wholesale prices of industrial commodities showed no change in March and April, and the over-all wholesale index declined. The weakness in basic industrial materials prices reflects the improved world supply situation as well as slackening in domestic and foreign demands. Industrial prices as a whole, however, will continue under pressure from rising unit labor costs as productivity gains are likely to remain modest, operations to be disrupted by labor negotiations, and wage increases to continue substantial--despite prospects for lower rates of capacity utilization and higher unemployment.

Given the present supply outlook, agricultural prices may decline somewhat further, but stability, or some strengthening, is in prospect later this year if livestock producers carry through their intentions to level off production. The sharp decline in primary agricultural prices over the past 7 months has been translated into a lagged and much more moderate decrease in food prices at retail. Stability--or possibly some further decline--in retail food prices is expected to continue to limit increases in the CPI for several months. Service prices are expected to continue to rise at a fairly fast pace--though not so rapidly as last year. In view of the stronger outlook for consumer demands, retail prices of nonfood commodities are likely to resume their upward drift after the near-stability of recent months.

Outlook for commercial banking system

Demands for bank loans by businesses are likely to be light in May, followed by some strengthening in June, reflecting in large part wide swings in corporate tax payments. After having accelerated sharply in April, such payments are expected to fall \$2 billion below year-earlier levels in May and to about equal last year's advanced level in June. Business loan demands for reasons other than tax payments are expected to continue quite moderate. Given the current relationship between borrowing costs at banks and in the market, and expectations that market interest rates may not decline much further, corporate external financing requirements are being accommodated to a large extent in the capital markets. Further, inventory adjustments may serve to moderate business demands for short-term bank financing in the weeks

ahead. On the other hand, if recent tendencies for increased consumer buying of durables should continue or accelerate, bank lending to consumers is likely to become more active,

Moderation of credit demands on banks is expected to be accompanied by some further slackening in the rate of growth of time and savings deposits over the next month. Recent sharp reductions in offering rates on CD's to levels appreciably below secondary market yields on comparable maturities suggest that banks are not eager issuers, and may remain passive for some time unless loan demand strengthens appreciably.

Meanwhile, some slackening from recent high growth rates in consumer time and savings deposits appears in prospect. In the absence of any further sizable drop in market rates, transfers of funds to bank time and savings deposits from other financial instruments, which have contributed to recent large inflows, are likely to taper off. With respect to demand deposits, a decline in private demand deposits on average in April has been more than offset by a rise in U.S. Government deposits as a result of April tax payments. Over the coming month a sharp reversal in these deposit movements is in prospect. But on balance the total of demand deposits (Government and private together) may decline as private holders utilize part of the cash they receive from the Government to reduce bank debt.

Capital markets outlook

The recent upturn of bond yields has reflected the effect of more favorable business news on market expectations, coming at a time when the forward calendar of new security offerings was building to a volume only moderately below the March record. During the month immediately ahead there is little prospect for any substantial respite in new security financing. Hence any near-term decline of bond yields would seem to depend chiefly on some combination of less optimistic business news and further ease in money markets.

The April calendar of publicly offered corporate bonds has now grown to more than \$1.3 billion and that for municipal issues to more than \$1.0 billion. While municipal offerings may drop short of the April total in May, corporate public offerings scheduled for May already total in excess of \$1 billion, and given the tentative announcements of other sizable additions, the calendar may ultimately be as large as in April. A sizable Treasury pre-refunding is a possibility in May, another large issue of FNMA participation certificates will probably be announced near the end of May, and a corporate calendar of \$800 million is already scheduled for June. Moreover, the growing practice of selling some part of large publicly-offered corporate issues for delayed delivery has already preempted some of the forward supply of funds available well into the summer.

In mortgage markets, record net inflows of savings to depository-type institutions have maintained downward pressure on mortgage rates.

But the unusually rapid downward momentum evident in mortgage rates from November through March is likely to taper off in the period immediately ahead as a result of the combined effect of heavy demands for funds in other sectors of capital markets and a seasonal pick-up in demands for mortgages.

Balance of payments

The payments deficit on the liquidity basis now appears to have been roughly \$600 million, seasonally adjusted, in the first quarter, little larger than in the preceding quarter though well above the 1966 average. In each of the latest two quarters, the deficit was held down by about \$1/2 billion of special transactions--foreign official acquisitions of nonliquid U.S. assets plus debt prepayments.

The merchandise trade surplus increased from an annual rate of less than \$3 billion in the fourth quarter to more than \$4 billion in the first, with exports up sharply and imports flat. Also, reflows of U.S. bank credit, seasonally adjusted, increased. Data are not yet available to explain what offset these favorable developments. Possibly the high flows of funds into sterling this year have had some counterpart not only in known movements of bank funds through the Euro-dollar market but also in increased outflows of nonbank funds from the United States (or reduced inflows).

The first-quarter deficit on the official reserve transactions basis was not affected by all of the special transactions that held down the liquidity deficit. It came to a near-record \$1-1/4 billion (unadjusted) for the quarter, being swollen by a reduction of about \$600 million

in U.S. liabilities to commercial banks abroad (including branches of U.S. banks). This deficit was financed mainly by a decline in official U.S. holdings of convertible foreign currencies.

Interest rates in Britain, Germany, the Netherlands, and Canada have declined at least as much as U.S. rates from last summer's peaks, and also in recent weeks. However, credit conditions are beginning to tighten in Japan, and some outflow of U.S. bank credit to Japan and some Japanese security issues in New York are expected later this year.

Prospects for further improvement of the current account have been dimmed somewhat by more buoyant appraisals of the domestic outlook, by some upward revision of prospective military spending for Vietnam, and by further uncertainty about the strength and timing of any cyclical upturn in Germany. Thus, while unidentified outflows occasioned by the recovery of sterling may subside, the outlook is for a continued liquidity deficit on roughly last year's scale, and for an even larger official settlements deficit if U.S. banks continue--as they did in April--to reduce their liabilities to their foreign branches.

SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest Period	Amount			Per cent change	
		Latest Period	Preced'g Period	Year Ago	Year Ago*	2 Years Ago*
Civilian labor force (mil.)	Mar '67	76.5	77.0	75.1	1.9	3.4
Unemployment (mil.)	"	2.8	2.9	2.9	-2.6	-20.4
Unemployment (per cent)	"	3.6	3.7	3.8	-	-
Nonfarm employment, payroll (mil.)	"	65.5	65.5	63.2	3.5	9.0
Manufacturing	"	19.4	19.4	18.8	2.7	8.7
Other industrial	"	8.2	8.2	8.2	0.0	3.9
Nonindustrial	"	38.0	37.9	36.2	4.8	10.3
Industrial production (57-59=100)	"	156.4	156.1	153.7	1.8	11.0
Final products	"	156.7	156.0	152.5	2.8	11.8
Materials	"	156.2	156.2	154.4	1.2	10.5
Wholesale prices (57-59=100) ^{1/}	"	105.7	106.0	105.4	0.3	4.3
Industrial commodities	"	n.a.	n.a.	n.a.	n.a.	n.a.
Sensitive materials	"	n.a.	n.a.	n.a.	n.a.	n.a.
Farm products, foods and feeds	"	104.6	105.7	109.4	-4.4	5.7
Consumer prices (57-59=100) ^{1/}	"	115.0	114.8	112.0	2.7	5.5
Commodities except food	"	107.8	107.6	105.6	2.1	2.9
Food	"	114.2	114.2	113.9	0.3	6.8
Services	"	126.3	125.9	120.1	5.2	7.9
Hourly earnings, mfg. (\$)	"	2.79	2.78	2.68	4.1	7.7
Weekly earnings, mfg. (\$)	"	112.44	112.04	110.95	1.3	5.4
Personal income (\$ bil.) ^{2/}	"	613.1	609.7	569.0	7.8	17.9
Corporate profits before tax (\$ bil.) ^{2/} QIV '66	"	81.8	81.9	78.7	3.9	20.8
Retail sales, total (\$bil.)	Mar '67	26.5	25.6	25.5	3.7	15.8
Autos (million units) ^{2/}	"	7.2	7.0	9.2	-21.5	-18.0
GAF (\$ bil.)	"	6.2	6.2	5.9	6.1	18.8
Selected leading indicators:	"					
Housing, starts, pvt. (thous.) ^{2/}	"	1,171	1,151	1,569	-25.4	-21.4
Factory workweek (hours)	"	40.4	40.3	41.5	-2.7	-2.2
New orders, dur. goods (\$ bil.)	"	22.2	22.2	24.9	-10.7	2.3
New orders, nonel. mach. (\$ bil.)	"	3.4	3.3	3.5	-2.9	10.5
Common stock prices (1941-43=10)	"	89.42	87.37	88.88	0.6	3.0
Inventories,						
book value (\$ bil.)	Feb '66	136.6	136.6	122.5	11.5	21.5
Gross national product (\$ bil.) ^{2/}	QI '67	764.3	759.3	721.2	6.0	15.7
Real GNP (\$ bil., 1958 prices) ^{2/}	"	657.2	657.2	640.5	2.6	9.5

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

April 25, 1967

SELECTED DOMESTIC FINANCIAL DATA

	Week ended ¹	Four-Week	Last six months	
	Apr. 21	Average	High	Low
<u>Money Market</u> ^{1/} (N.S.A.)				
Federal funds rate (per cent)	3.90	4.07	6.25	2.50
U.S. Treas. bills, 3-mo., yield (per cent)	3.82	3.94	5.48	4.01
Net free reserves ^{2/} (mil. \$)	312	233	312	-371
Member bank borrowings ^{2/} (mil. \$)	178	160	790	135
<u>Security Markets</u> (N.S.A.)				
Market yields ^{1/} (per cent)				
5-year U.S. Treas. bonds	4.53	4.46	5.42	4.42
20-year U.S. Treas. bonds	4.67	4.59	4.92	4.44
Corporate new bond issues, Aaa	5.50	5.38	5.86	5.11
Corporate seasoned bonds, Aaa	5.11	5.11	5.42	4.99
Municipal seasoned bonds, Aaa	3.50	3.48	3.89	3.25
FHA home mortgages, 30-year ^{3/}	6.35	6.35	6.81	6.35
Common stocks S&P composite index ^{4/}				
Prices, closing (1941-43=10)	91.86	90.30	92.30	79.67
Dividend yield (per cent)	3.20	3.26	3.70	3.20

N.S.A.--not seasonally adjusted. S.A. Seasonally adjusted.

^{1/} Average of daily figures. ^{2/} Averages for statement week ending April 19.

^{3/} Latest figure indicated is for month of March. ^{4/} Data are for weekly closing prices.

	Latest month	Billions of Dollars			Annual rate of change (per cent)		
		Out-standing Latest month	Change		Latest month	Latest 3 months	12 months
			Latest month	Average-Latest 3 months			
<u>Banking (S.A.)</u>							
Total reserves	Mar. 1967	24.30	0.45	0.35	22.7	18.0	4.5
Credit Proxy	"	254.0	3.2	3.2	15.3	15.7	6.3
<u>Bank Credit</u>							
Total	"	321.5	5.3	3.6	20.1	13.9	7.4
Business loans	"	81.4	0.8	0.8	11.9	11.6	12.7
Other loans	"	130.7	0.6	0.5	5.5	5.0	5.1
U.S. Gov't. sec.	"	57.6	2.7	1.1	59.0	24.3	2.9
Other securities	"	51.9	1.2	1.2	28.4	29.8	11.4
<u>Money and other liquid assets</u>							
Total	"	614.1	7.3	4.2	14.4	8.4	5.0
Demand deposits & currency <u>1/</u>	"	172.9	2.5	0.9	17.6	6.1	2.1
Time and savings, comm. banks <u>1/</u>	"	165.3	2.1	2.4	15.4	18.5	11.3
Savings accounts, other institutions <u>2/</u>	"	172.3	1.7	1.3	12.0	9.3	4.7
Other <u>2/</u> <u>3/</u>	"	103.6	1.0	- 0.4	11.7	- 4.6	1.2

1/ Averages of daily figures.

2/ Month-end data.

3/ U.S. Savings bonds and U.S. Government securities maturing within 1 year.

NOTE: Where necessary, changes have been adjusted to take account of conceptual and definitional changes in data.

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

	1967		1967	1 9 6 6			1966	1965	
	Mar.	Feb.	QI	QIV	QIII	QII	Year	Year	
	Seasonally adjusted							(billions)	
Current account balance				882	929	1,147	4.3	6.0	
Trade balance									
As published in B/P				834	787	878	3.7	4.8	
Revised <u>1/</u>	370	370	1,030	(716)	(794)	(959)			
Exports <u>1/</u>	2,545	2,575	7,715	(7,403)	(7,386)	(7,185)	29.2	26.3	
Imports <u>1/</u>	-2,185	-2,205	-6,685	(-6,687)	(-6,592)	(-6,226)	-25.5	-21.5	
Services, etc., net				48	142	269	0.6	1.2	
Capital account balance				-1,167	-1,302	-1,074	-5.1	-6.9	
Govt. grants & capital <u>2/</u>				-690	-797	-952	-3.4	-3.4	
U.S. private direct investment				-963	-737	-976	-3.4	-3.4	
U.S. priv. long-term portfolio				100	-14	-80	-0.2	-1.1	
U.S. priv. short-term				-278	3	-38	-0.3	0.8	
Foreign nonliquid				664	243	972	2.2	0.2	
Errors and omissions				-273	173	-195	-0.6	-0.4	
Balances, with and without seasonal adjustment (- = deficit)									
Liquidity bal., S.A.				-558	-200	-122	-1.4	-1.3	
Seasonal component				30	-499	-27	--	--	
Balance, N.S.A.	-234	-144	-247	-528	-699	-149	-1.4	-1.3	
Official settlements bal. S.A.,				-244	952	-203	0.3	-1.3	
Seasonal component				71	-525	-182	--	--	
Balance, N.S.A. <u>3/</u>	-541	-278	-1,282	-173	427	-385	0.3	-1.3	
Memo items:									
Monetary reserves (decrease -)	-143	-198	-1,027	6	-82	-68	-0.6	-1.2	
Gold purchases or sales (-)	23	-41	-51	-121	-173	-209	-0.6	-1.7	

1/ Based on revised Census seasonal adjustments which will not be incorporated in balance of payments statistics until June, when seasonal adjustment revisions will be made for all components of the balance of payments. Figures for 1967 are on the balance of payments basis which differs a little from the published Census basis.

2/ Net of loan repayments.

3/ Differs from liquidity balance by counting as receipts (+) increases 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. The stronger statistics of recent weeks have caused the staff to revise moderately upward its projection of GNP for the second quarter. A gain of almost \$8 billion, in current dollars, is expected. With the first quarter rise officially estimated at \$5 billion, the increase in GNP over the first half would be about \$13 billion, about the same as the staff projection in the chart show presented in early February. The expansion is expected to accelerate in the third quarter, with a projected gain in GNP of about \$14 billion in current dollars and 4 per cent in real terms.

Although the economy experienced no real growth in the first quarter there was a massive shift in the use of output, from excessive inventory building in the fourth quarter to rapid expansion in final demands in the first. Final demands rose \$10.2 billion, in constant dollars, in the first quarter, compared with only \$1.2 billion in the fourth quarter. Most of the increase was in the private sector, but government spending was also stronger than anticipated.

Final demand seems likely to expand a little more slowly in the second quarter, since a jump of the first quarter magnitude in consumer expenditures for nondurable goods is not likely to be repeated, and the growth in disposable income is likely to slow down. Continued strength in final sales, including better markets for consumer durable goods, however, will continue to be partially offset by a further

substantial drop in inventory building--from the \$5.5 billion rate now shown for the first quarter to an estimate of no change in the second quarter. Significant improvement in inventory-sales relations, however, is not expected to be achieved until the third quarter.^{1/}

In considering the apparent pick-up in consumer demands for goods this spring, it is important to take into consideration the shift that has taken place over last year in the seasonal pattern of the Federal personal income tax take. The increase in withholdings initiated in May last year was designed to put taxpayers on a relatively current basis. Last year, final payments on 1965 personal tax liabilities were very heavy, following an increase of \$3 billion in social security taxes on employees in January. As a result of rising tax payments, the large increases in personal income did not flow through fully to disposable incomes through the third quarter of 1966. This year, wages and salaries are rising more slowly, but personal income is being translated into spendable income at a faster rate; in fact, the rise in disposable income in the first half of this year is likely to exceed that in 1966. Consumers may also be encouraged by the tapering-off in the rise in consumer

^{1/} It should be noted that our estimates of the change in the rate of accumulation--a drop of \$5.5 billion from the first quarter rate--does not necessarily result in our best estimate of the second quarter level of inventory change. Further revisions of basic data, we believe, may well show a smoother pattern of inventory change from last autumn through spring and early summer. However, by projecting the magnitude of change rather than levels, a more realistic rate of growth in total GNP from first to second quarter is maintained. The projected shift to actual liquidation of inventories in the third quarter reflects, in part, the view that the threatened auto strike will accelerate the pace of auto sales and deplete dealer's stocks.

prices which has occurred in the last few months. Moreover, the higher rate of saving--averaging about 6 per cent of disposable income since the fourth quarter of 1966--and reduced rates of auto sales and housing are to some extent restoring consumer liquidity positions.

PERSONAL AND DISPOSABLE INCOME

		Personal income	Disposable income	Savings rate
		(Quarterly increases in billions)		(Per cent)
1966	1	\$11.8	\$ 9.0	5.4
	2	8.9	4.8	5.3
	3	11.7	7.9	4.8
	4	13.1	10.6	5.9
1967	1	11.8	10.5	6.1
	2	7.4	6.6	5.9
	3	12.5 <u>1</u> /	9.0 <u>1</u> /	5.9

1/ These estimates imply no changes in Federal tax rates or in social security benefits.

Although the largest upward revisions in estimates for the first half are in consumer expenditures, other areas of final demand also appear somewhat stronger than estimated earlier. Residential construction, in particular, is reviving fairly rapidly. The February rate of 1.2 million starts was maintained in March providing something of a test of strength, since a large rise in actual activity is needed to achieve even the normal seasonal improvement in March. The 1.2 million average rate of starts in the first quarter will be reflected in rising expenditures for construction in the present and subsequent quarters. Although the market for new houses still must be tested this

spring, mortgage money is now more plentiful, and further adjustments in interest rates and other terms seem likely. We have accordingly increased our second quarter estimate of the value of work put in place by half a billion dollars, to \$23 billion, and a further rise of almost \$2 billion is projected for the third quarter.

Government spending is also providing somewhat more upward impetus to economic expansion than had been anticipated. First quarter defense outlays increased at a rate of \$3.3 billion; this makes it likely that the Federal Budget estimates for fiscal 1967 will be exceeded, probably by about one billion dollars. However, in line with Budget estimates, we have tapered the increase off this quarter and next, with a rise of \$2.5 billion and \$2.1 billion (annual rates), respectively. Federal non-defense outlays for goods and services are showing a moderate upward trend; the sharp rise from the fourth to the first quarter is largely the result of a drop in sales of commodities by the CCC.

State-local outlays were also revised upward in the first quarter, partly reflecting increased construction outlays. The upward trend in public works seems likely to continue, in view of the unprecedented rate of municipal bond flotations in the last few months, the release of funds for Federal highway aid, and rising revenues. State-local employment also continued to rise in the first quarter and sizable increases in wage rates accounted for a sizable share of the rise in State and local spending (and also for much of the 0.7 per cent rise in the GNP deflator).

Capital spending for plant and equipment made no gain from the fourth to the first quarter, and is expected to show little change through the third quarter. A survey of larger firms carried out by McGraw-Hill at about the time the President proposed reinstating the investment credit failed to disclose any significant shift in expansion plans from those reported in March by the Commerce-SEC survey.

A drop in corporate profits of at least \$4.5 billion (annual rate) in the first quarter will probably be followed by a further decline in the second. While this decline from the almost stable rate of 1966 may have been partially anticipated at the time plans were formulated by business early this year, in some industries the fall in profits was probably larger than expected. Capacity utilization rates are expected to decline to 85 per cent in the second quarter, and unit labor costs are increasing. New orders for machinery have declined from the peak rate of mid-1966, and the backlog of orders has also fallen somewhat. These factors should work to limit possible resurgence in business capital spending. However, the rate of business investment is still extremely high by past standards, and increases in business construction are expected to offset weakness in equipment outlays this year.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarterly figures at annual rates)

	1965	1966	1966			Ip	1967 Projected	
			II	III	IV		II	III
Gross National Product	681.2	739.6	732.3	745.3	759.3	764.3	772.3	786.0
Final sales	672.1	727.7	720.0	735.4	742.9	758.8	772.3	788.0
Private	535.9	574.7	571.0	579.2	581.8	590.6	599.2	610.3
Personal consumption expenditures	431.5	464.9	460.1	469.9	474.1	482.2	489.1	497.5
Durable goods	66.1	69.3	67.1	70.2	69.6	68.1	69.1	70.5
Nondurable goods	190.6	206.2	205.6	208.1	209.2	214.7	216.9	220.2
Services	174.8	189.4	187.4	191.5	195.3	199.3	203.1	206.8
Gross private domestic investment	106.6	117.0	118.5	115.0	120.0	109.0	104.6	104.8
Residential construction	27.8	25.8	28.0	24.8	21.9	21.9	23.0	24.8
Business fixed investment	69.7	79.3	78.2	80.3	81.6	81.6	81.6	82.0
Change in business inventories	9.1	11.9	12.3	9.9	16.4	5.5	0.0	- 2.0
Nonfarm	8.1	12.2	12.1	10.4	17.6	5.8	0.0	- 2.0
Net exports	7.0	4.8	4.7	4.2	4.1	4.9	5.5	6.0
Gov't purchases of goods & services	136.2	153.0	149.0	156.2	161.1	168.2	173.1	177.7
Federal	66.8	76.9	74.0	79.0	81.7	86.2	88.9	91.3
Defense	50.1	60.0	57.1	62.0	65.5	68.8	71.3	73.4
Other	16.7	16.9	16.9	17.0	16.2	17.4	17.6	17.9
State & local	69.4	76.2	75.0	77.2	79.4	82.0	84.2	86.4
Gross National Product in constant (1958) dollars	614.4	647.8	643.5	649.9	657.2	657.2	659.8	666.6
GNP Implicit deflator (1958=100)	110.9	114.2	113.8	114.7	115.5	116.3	117.1	117.9
Personal income	535.1	580.4	573.5	585.2	598.3	610.1	617.5	630.0
Wage and salaries	358.4	392.3	387.4	396.7	405.0	411.8	418.1	427.4
Disposable income	469.1	505.3	499.9	507.8	518.4	528.9	535.5	544.5
Personal saving	25.7	27.0	26.6	24.5	30.4	32.5	31.8	32.0
Saving rate (per cent)	5.5	5.3	5.3	4.8	5.9	6.1	5.9	5.9
Total labor force (millions)	77.2	78.9	78.4	79.1	79.8	80.3	80.6	80.9
Armed forces "	2.7	3.1	3.1	3.2	3.3	3.4	3.5	3.5
Civilian labor force "	74.5	75.8	75.4	76.0	76.5	76.9	77.1	77.4
Unemployment rate (per cent)	4.5	3.8	3.8	3.8	3.7	3.7	4.0	4.1
Nonfarm payroll employment (millions)	60.8	63.9	63.6	64.1	64.8	65.4	65.5	65.8
Manufacturing	18.0	19.1	19.0	19.2	19.4	19.4	19.2	19.2
Industrial production (1957-59=100)	143.4	156.3	155.2	157.6	158.8	157	155	157
Capacity utilization, manufacturing (per cent)	89	91	91	91	90	87	85	85
Housing starts, private (millions, A.R.)	1.5	1.2	1.4	1.1	1.0	1.2	1.2	1.3
Sales new U.S.-made autos (millions, A.R.)	8.8	8.4	7.8	8.5	8.1	7.3	7.6	8.0

Note: Labor force revised to exclude persons age 14 and 15. Quarterly data for 1966 also reflect new seasonal factors; projections for 1967 reflect new definitions of unemployment.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Quarterly changes are at annual rates)

	1965	1966	1966			I _p	1967 Projected	
			II	III	IV		II	III
(Billions of Dollars)								
Gross National Product	49.5	58.4	11.1	13.0	14.0	5.0	8.0	13.7
Final sales	45.1	55.6	7.7	15.4	7.5	15.9	13.5	15.7
Private	37.8	38.8	3.7	8.2	2.6	8.8	8.6	11.1
GNP in constant (1958) dollars	34.4	33.4	3.0	6.4	7.3	0.0	2.6	6.5
Final sales	30.2	31.1	- 0.1	8.9	1.2	10.2	7.8	8.6
Private	27.4	22.0	- 2.2	4.4	- 2.2	5.6	5.5	6.4
(Per Cent)								
Gross National Product	7.8	8.6	6.2	7.1	7.5	2.6	4.2	7.1
Final sales	7.2	8.3	4.3	8.6	4.1	8.6	7.1	8.1
Private	7.6	7.2	2.6	5.7	1.8	6.1	5.8	7.4
Personal consumption expenditures	7.5	7.7	3.9	8.5	3.6	6.8	5.7	6.9
Durable goods	11.3	4.8	-18.2	18.5	- 3.4	- 8.6	5.9	8.1
Nondurable goods	6.5	8.2	7.3	4.9	2.1	10.5	4.1	6.1
Services	7.2	8.4	8.7	8.7	7.9	8.2	7.6	7.3
Gross private domestic investment	14.6	9.8	14.0	-11.8	17.4	-36.7	-16.1	0.8
Residential construction	0.7	- 7.2	- 8.4	-45.7	-46.8	0.0	20.1	31.3
Business fixed investment	14.8	13.8	6.2	10.7	6.5	0.0	0.0	2.0
Gov't purchases of goods & services	5.7	12.3	11.0	19.3	12.5	17.6	11.7	10.6
Federal	2.5	15.1	11.7	27.0	13.7	22.0	12.5	10.8
Defense	0.2	19.8	18.3	34.3	22.6	20.2	14.5	11.8
Other	9.9	1.2	-11.5	2.4	-18.8	29.6	4.6	6.8
State & local	8.9	9.8	10.4	11.7	11.4	13.1	10.7	10.4
GNP in constant (1958) dollars	5.9	5.4	1.9	4.0	4.5	0.0	1.6	4.1
Final sales	5.2	5.1	- 0.1	5.6	0.7	6.4	4.8	5.4
Private	5.9	4.5	- 1.7	3.4	- 1.7	4.4	4.2	5.1
GNP Implicit deflator	1.8	3.0	4.3	3.2	2.8	2.8	2.8	2.8
Personal income	7.9	8.5	6.3	8.2	9.0	7.9	4.8	8.1
Wage and salaries	7.4	9.5	7.8	9.6	8.4	6.7	6.1	8.9
Disposable income	7.4	7.7	3.9	6.3	8.3	8.1	5.0	6.7
Nonfarm payroll employment	4.2	5.1	4.9	3.3	4.0	4.0	0.3	1.8
Manufacturing	4.4	5.8	6.9	3.5	4.0	0.2	- 4.2	0.0
Industrial production	8.4	9.0	7.9	6.2	3.0	- 4.5	- 5.1	5.2
Housing starts, private	- 3.4	-18.9	-39.5	-81.3	-39.3	90.7	-12.9	54.2
Sales new U.S.-made autos	15.0	- 4.4	-62.8	33.6	-15.8	-39.6	16.4	21.1

Industrial production. The virtual leveling off of the preliminary March index of industrial production--156.4 compared with 156.1 in February--was the result of declines in output of equipment and materials and a sharp rise in auto assemblies (13 per cent) which more than offset a further decline in other consumer durable goods. Industrial production in April will probably decline about one-half point. Among final products, output of consumer durable goods other than autos, apparel, and some business equipment lines is estimated to have been cut back further. While over-all materials production was unchanged in March from February, it most likely will decline further in April. These declines should more than offset a rise in auto assemblies and parts amounting to one-half point in in the total index.

The relatively small changes in March in major measures of manufacturing activity, as shown in the table, may suggest that any further declines will be more limited and more selective than anticipated earlier. However, first quarter reports of declining profits, continuing large inventories in many lines, and uncertainties regarding consumer takings of final goods, could still lead to deeper cuts in manufacturing production and employment.

MEASURES OF MANUFACTURING ACTIVITY

Measures	Per cent changes		Peak month
	February to March	Peak to March	
Output			
F.R. index for manufacturing	0.2	- 2.0	Oct. 1966
Employment			
Production workers	-0.4	- 1.0	Jan. 1967
Average hours	0.2	- 2.7	Sept. 1966
Durable manufactures			
Shipments	1.2*	- 3.3	Dec. 1966
New orders	-0.1*	-12.1	Sept. 1966

* Both shipments and orders of durable goods rose sharply in March 1966 and March 1965. If these series were adjusted so as to remove an apparent residual seasonal, shipments would have leveled off and new orders would have declined about 1.0 per cent further in March 1967.

Selective readjustments in output in response to high inventories and a weakening in demands began well before the January-February decline in total industrial production and in some industries seem to be about completed. (See table.)

INDUSTRIAL PRODUCTION READJUSTMENTS

	Per cent decline from peak	Peak month 1966	Low month 1966-67	Recent trend
Consumer goods				
Autos	32	October	February	Up
Appliances	15	October	March	Down
TV and radio sets	11	December	March	Down
Household furniture	7	June	March	Down
Apparel	5	December	March	Down
Business equipment				
Farm	7	December	March	Down
Transportation	6	December	March	Down
Industrial	2	December	March	Down
Materials				
Lumber	16	April	November	Stable
Iron and steel	14	July	March	Stable
Textiles	6	June	March	Down
Fabricated metals	3	December	March	Down

Among consumer goods, auto assemblies which had been scheduled at a reduced annual rate of about 7.5 million units in the first quarter, were cut sharply below schedules in February by storms and strikes and then rose in March. April output will be at an annual rate of around 7.7 million units, up 10 per cent from March but still down 27 per cent from a year earlier. Despite the output declines for household goods, inventories of many products are still large and unless there is a sustained rise in consumer takings, further declines in output are probable. In early April, television set production fell further.

Output of the three groupings of business equipment shown in the table have been declining since December. This may reflect partly an anticipation of the pending reinstatement of the investment tax credit; two of the series include trucks, railroad cars, and farm tractors, for which the tax credit may be a significant influence. However, defense equipment and also output of commercial equipment--which contains a substantial amount of military products not included in the defense equipment series--have continued to rise, and the index for total equipment including defense has changed little.

Cutbacks in output of steel and lumber seem to be over, although inventories at steel mills remain exceptionally large. But, with output of consumer durable goods down sharply from earlier levels and output of equipment losing momentum, the decline in over-all materials production (down 2.3 per cent from October to March) may not be over. Manufacturers' inventories of purchased materials and supplies at the end of February totaled \$25.3 billion, somewhat smaller than in

January, but still 10 per cent greater than a year earlier. Assuming the February decline was the beginning of an adjustment of supplies to desired levels and assuming that the rise in inventories of work in process continues to slacken, industrial production will probably decline further.

Retail sales. Retail sales in March rose 3.2 per cent from February, according to the Census Bureau "advance" estimates, with a significant surge coming in the final week before Easter and the week immediately after. Sales at durable goods stores were up 3.8 per cent from February and at nondurable goods stores, up 3.0 per cent. Declines--relatively small ones--were reported by department stores, farm machinery dealers, and the miscellaneous grouping of durable goods stores.

February sales are now indicated to have been only slightly below January, rather than 1.7 per cent below as indicated by the "advance" figures reported four weeks ago. The sharp March gain, coupled with the upward-revised February estimate lifted retail sales in the January-March period to a level 1.7 per cent above the final quarter of 1966, with sales of nondurable goods up 2.6 per cent and durable goods down slightly, mainly because of the sharp decline in new car sales. In the first half of April, retail sales were running somewhat above a year earlier.

Auto markets. Unit sales of new domestic automobiles in the first quarter were at an annual rate of 7.3 million units, one-fifth below the first quarter a year ago and 10 per cent below the fourth

quarter of 1966. This sales decline was about as great as during the 1960-61 readjustment, but far less than in the 1953-54 and 1957-58 cyclical declines.

Despite lagging sales of domestically produced cars, sales of imported cars continued at a strong pace through March, bringing the first quarter average to a seasonally adjusted rate of almost 720,000 units, somewhat above the fourth quarter 1966 rate, and 10 per cent above a year ago.

The average assembly rate in the first quarter was reduced to an annual rate of 6.8 million units, 20 per cent below the preceding quarter, and 25 per cent below the rate a year earlier. As a result, some liquidation of excessive dealer inventories was achieved; on a seasonally adjusted basis, the ending March stock of new cars was 12 per cent below the December 31 level, and 4 per cent below a year ago, though still high in relation to the lower sales rate this spring.

Deliveries of domestic new cars in the first 20 days of April were at a rate one-fourth above the low delivery rate a month ago, and 4 per cent above a year earlier. Sales during this 20-day period are difficult to translate into an annual rate, partly because the closing 10-day period for April can vary widely. However, based on the mean increase in the average sales in the last 10 days over the preceding 6 years, the seasonally adjusted annual rate for the entire month of April would be about 7.8 million units. Sales a year ago were at an annual rate of 7.9 million units. With production expected to reach an

annual rate of 7.7 million units, the ending April stock would show a small decrease from March.

Prices of used cars sold at auction (seasonally adjusted) changed little in March and early April, but remained somewhat below a year earlier.

Consumer credit. The slowing in consumer credit expansion may have halted in March. Early reports from commercial banks indicate a rise in total instalment credit outstanding equal to or perhaps somewhat larger than, the February increase. February had marked the third month in a row of decidedly weak demand for consumer credit, and the \$216 million rise in outstandings was the smallest in 5 years.

The indicated pick-up in March was mainly in the auto area and reflected some improvement in new car sales, as well as a probable further increase in the size of the average credit note. In February, banks had reported a decline of \$16 million and sales finance companies \$38 million in auto credit outstanding. Among major lenders, only credit unions reported an increase. The over-all decline amounted to \$40 million, and was the first since September 1961.

The proportion of new cars bought on credit continues to run well ahead of a year ago. In February--the latest month available--it was 65 per cent, up from 60 per cent in February 1966. The year-to-year differential was 4 percentage points in January, and for the year 1966 it was 3 points. The proportion has risen steadily since 1961, by 2 or 3 points each year, tending to provide an upward thrust to the volume of auto credit throughout the expansion period.

The widening of the differential in early 1967 was probably due both to vigorous selling efforts by the auto dealers and general easing of money and credit conditions. In such situations, the marginal buyer and user of credit is typically attracted into the market.

Meanwhile, large sales finance companies report little change from a year earlier in auto repossessions and inventories of repossessed cars are about the same. And while losses per car are running a few dollars higher than in early 1966, gross losses as a proportion of total receivables have been somewhat smaller.

A development of considerable interest over the past year has been the slowdown in personal loan activity in the face of continued strong demand for consumer services. Personal loan credit outstanding increased only 4 per cent in 1966, compared with a rise twice that large in spending for consumer services. There are a number of reasons for this, but the increased use of credit cards to finance travel and vacations is probably one of the more important. Instead of making personal cash loans for these purposes as in the past, consumers have been charging the items to their credit cards. And these are reported in "other consumer goods" credit in the Board's consumer credit estimates.

Personal income. Personal income rose \$3.4 billion in March to a seasonally adjusted annual rate of \$613 billion and was 7-3/4 per cent above a year ago. For the first quarter as a whole, personal income was more than 8 per cent above a year earlier. However, disposable income exceeded the year earlier rate by only 6-3/4 per cent in the

first quarter because of the sharp rise in personal tax payments. In real terms, after-tax income was up only 3-3/4 per cent from a year ago.

Wage and salary disbursements in March rose \$2.2 billion, following a rise of \$500 million in the previous month. Manufacturing payrolls advanced \$500 million in March--mainly reflecting a modest rise in average hourly pay, after a decline of more than \$1 billion in February when weekly hours were sharply reduced. Payrolls outside manufacturing continued to rise in March in line with recent trends. The rise has been particularly strong for State and local governments.

Transfer payments increased \$700 million in March--half the increase in February which had reflected a concentration of earlier-than-usual payment of 1967 dividends on Veterans' life insurance. Medicare payments continued to rise but less rapidly than earlier.

Business inventories. Book value figures now available for February--which are subject to imminent and possibly substantial revision--show a nice offset between accumulation totaling about \$400 million by manufacturers and net liquidation by trade concerns (retail and wholesale combined) of nearly \$400 million--leaving total business inventories about unchanged. In January, business inventories increased \$1,050 million, and in the fourth quarter at a monthly average rate of almost \$1,600 million.

Despite the leveling off in inventories in February, the over-all stock sales ratio rose appreciably further--to 1.59, the highest level since early 1961--and 10 per cent above a year earlier--as sales by

manufacturers and wholesalers declined and retail sales were about unchanged. In March, with retail sales reported up sharply and shipments of durable goods manufacturers moderately higher, the business stock sales ratio may have declined.

The shift by trade concerns from a very high rate of inventory accumulation in the fourth quarter--and in December in particular--to little change in January and net liquidation in February reflected substantial adjustments for both durable and nondurable goods. Sizable liquidation by auto dealers in both January and February made a major contribution to the shift. In February, food and general merchandise stores and durable goods wholesalers also reported appreciable stock declines. The magnitude of the shift (from accumulation totaling \$700 million in December to the nearly \$400 million liquidation in February) is so large as to be suspect, with both or either the December or February figures probably aberrant in some degree.

Orders for durable goods. New orders for durable goods in March remained at the reduced February level and 12 per cent below the peak reached last September. A sharp drop in steel orders--reversing a spurt in February--offset moderate gains in a number of other industries. New orders for machinery and equipment--a special combination of industries making finished producers' equipment--increased 4 per cent, following a steady decline over the preceding five months; the March new order level remained about 10 per cent below last year's highs and the order backlog declined somewhat further. New orders for defense

products were about unchanged from February and were close to the year-earlier and average 1966 level.

Shipments rose somewhat in March, following a two-month decline, with defense products accounting for most of the increase. Unfilled orders decreased further, to a level about 3 per cent below the December high. Steel mills accounted for half the March drop in the durable goods backlog; other industries showed small declines except for the defense products grouping where unfilled orders edged up to a new high.

Business plant and equipment spending. According to the March-early April McGraw-Hill survey of business plans, new plant and equipment expenditures this year will total 5.6 per cent more than in 1966. Because of survey differences, this 5.6 per cent increase probably does not represent an upward revision in business plans from the 3.9 per cent rise shown for all business by the Commerce-SEC survey taken in late January and February. The McGraw-Hill survey is limited to the large firms in their industries and has a somewhat limited coverage of commercial business.

Expenditures on new plant and equipment this year, 47 per cent of which are reported to be for expansion of productive facilities, are expected to increase capacity in manufacturing as a whole by 6 per cent. as compared with a capacity increase of 7 per cent in 1966. Based on reported expectations for an increase in unit sales of 5 per cent this year, capacity would be less fully utilized than last year.

Construction activity. Outlays for new construction, which were revised upward by about 2 per cent for January and February, edged higher in March to a seasonally adjusted annual rate of \$73.3 billion. Residential and other private construction expenditures changed little in March, but public construction apparently increased further.

For the first quarter as a whole, construction outlays are indicated to have risen about 2 per cent from their low in the fourth quarter of last year. Residential construction expenditures, which lag starts and which had accounted for most of the drop through the last three quarters of 1966, were about unchanged; both private nonresidential and public construction, however, rose to levels in excess of earlier peaks reached in the first quarter of 1966. An unexpected factor in this nonresidential development has been a rapid return to earlier advanced levels by commercial construction. Also, industrial construction, which had turned downward after mid-1966, has held fairly steady in recent months.

NEW CONSTRUCTION PUT IN PLACE

	1st Q. 1967 (\$ billions) <u>1/</u>	Per cent change from	
		4th Q. 1966	1st Q. 1966
Total	73.0	+2	- 7
Private	48.5	+4	-11
Residential	21.0	--	-23
Nonresidential	27.4	+7	+ 2
Public	24.6	+1	+ 1

1/ Seasonally adjusted annual rates; preliminary.

Labor market. Lack of growth in real output in the first quarter was reflected in a further easing of the labor market in March. Nonfarm employment showed little increase and manufacturing employment dipped for the second straight month. Total manufacturing employment in March was off by 115,000 from January, and production worker jobs were down by almost 150,000. With reports of further layoffs in selected consumer durable goods industries, and unemployment insurance claims continuing to run well above last year's levels, April employment data (available next week) will likely show additional slackening in the labor market, with a further erosion of manufacturing employment and a probable increase in over-all unemployment.

Although the total unemployment rate remained virtually unchanged in March--edging downward by 0.1 to 3.6 per cent--this movement was somewhat misleading. A careful look at the household survey data also indicates further general easing in the labor market. A decline of about 400,000 in total employment--entirely among adults--was accompanied by an almost equivalent drop in the civilian labor force rather than a rise in the unemployment rate.

In contrast to the slight decline in the over-all unemployment rate, the rate of insured unemployment, which is a sensitive measure of layoffs in manufacturing, was up slightly to 2.6 per cent in March. Unemployment insurance claims continue to show an increasing spread over last year; in the week ending April 15th, total claims were running 300,000 above a year ago.

Reflecting the improved level of starts, residential construction expenditures are expected to play an important role in the developing strength of over-all construction developments as the year progresses. Apart from recent steps to promote greater ease in the mortgage markets, other supporting factors for private construction as a whole include the expected restoration of the investment tax credit and more liberal depreciation allowances, and, in the case of public construction, the announcement of release of additional funds which the Administration had withheld last autumn.

Seasonally adjusted private housing starts edged 2 per cent higher in March, following a sharp (6 per cent) upward revision for February. The advance, which required a more than 50 per cent increase in the unadjusted data, brought the seasonally adjusted annual rate in March to 1.2 million, including farm starts. While this was appreciably below the advanced January rate, it was enough to carry the first quarter average as a whole to 1.2 million--still unusually low, but only barely below the average for all of 1966.

The better than expected performance of housing starts in March and evidence of revived optimism by builders lend support to the view that sufficient momentum already has been attained in the easier mortgage market environment to support at least a normal expansion in the level of starts in the second quarter as a whole. This would insure a seasonally adjusted rate of starts about the same as in the first quarter, even though the seasonal adjustment factors rise considerably further

during most of the second quarter. On a month-to-month basis, however, a temporary decline in the April seasonally adjusted rate still cannot be ruled out, largely for technical reasons.

Regionally, the increase in starts in March was fairly widespread, with only the Northeast states showing a decline. Nevertheless, owing mainly to an extremely sharp rise in January, the Northeast led the rise for the first quarter as a whole.

Seasonally adjusted building permits rose somewhat more than starts in March from an upward revised February rate. Permits for multifamily structures, which had dropped even more sharply than single-family permits in 1966, showed the greater relative rise in March, as well as for the quarter as a whole.

PRIVATE HOUSING STARTS AND PERMITS

	1st Q. 1967 (Thousands of units) ^{1/}	Per cent change from	
		4th Q. 1966	1st Q. 1966
Starts	1,206	+23	-21
Northeast	251	+52	-14
North Central	308	+23	-25
South	471	+13	-15
West	176	+17	-33
Permits	920	+26	-26
1-family	554	+23	-21
2-or-more family	366	+31	-32

^{1/} Seasonally adjusted annual rates; preliminary.

Productivity and unit labor costs. Along with the decline in manufacturing output on the first quarter, there was a parallel dip in productivity. Although employers cut both hours of work and payrolls in response to weakened sales and excessive inventories, the production drop was larger than the reduction in man-hour input. As a result, output per manhour declined between the fourth and first quarters.

The continued rise in hourly earnings in manufacturing, in combination with the dip in production and productivity, have added to pressure on unit labor costs. In the first quarter of this year, they averaged 4.7 per cent above a year earlier, the largest over-the-year increase in almost a decade. With wages likely to continue to rise at a substantial rate, it is unlikely that pressure on unit labor costs will ease until the volume of production increases materially with a corresponding increase in productivity.

Productivity in the private economy as a whole also has shown little growth during the past year, and year-to-year increases became progressively smaller throughout 1966. In the first quarter of 1967, the increase over a year earlier dipped to 1.5 per cent, less than half the rate of rise in early 1966 when output was expanding vigorously.

PRODUCTIVITY AND UNIT LABOR COSTS
Percentage increases from a year earlier

		Output per manhour		Unit labor costs
		Private <u>1/</u> Economy	Manufacturing <u>2/</u>	Manufacturing <u>3/</u>
1966	IQ	3.7	3.0	1.0
	IIQ	3.6	2.8	1.6
	IIIQ	2.0	2.7	2.1
	IVQ	2.0	2.8	2.6
1967	IQ	1.5	0.8	4.7

1/ Real private GNP per employee manhour.

2/ Manufacturing output (FRB) per manhour, all employees.

3/ Wages, salaries and supplements per unit of output, all employees in manufacturing, Bureau of Census series.

Wages and collective bargaining. Contract negotiations have involved a much larger number of workers (nearly 1 million) and proceeded far less smoothly thus far this year than last. Union demands for substantial wage increases and improved fringe benefits are meeting with considerable employer resistance. Negotiations with the trucking industry involving 450,000 teamsters, the shopcraft nonoperating railroad brotherhoods (136,000) and rubber (100,000) have resulted in strikes or the threat of strikes. On the other hand, major contract settlements have been reached in apparel, petroleum and meatpacking, and wages have been increased for State and local government employees, hospital workers and nurses.

In general, the wage settlements so far this year start at about 4 per cent. In the manufacturing sector, contract settlements in the apparel industry and scattered agreements in textiles, provide wage increases of substantially more than 4 per cent. In the higher paid petroleum and meatpacking industries, first-year wage rate increases were about 4 per cent--in line with the average increase in settlements reached in 1966.

Upward pressure on wages in manufacturing has tended to be greater in the lower paid nondurable goods industries, where the effect of the rise in the minimum wage in February has probably been a factor contributing to the recent substantial increases in hourly earnings. This pressure has been reflected in a 5.4 per cent rise in average hourly earnings in nondurable goods manufacturing, considerably higher than the 3.5 per cent rise in durables over the past year. This differential is

not so large, however, if allowance is made for the large cutback in overtime worked at premium pay in durables. Straight-time hourly earnings in durable goods have risen 4.4 per cent over the year as compared with 5.6 per cent for nondurables.

Contract negotiations in manufacturing in the second quarter will continue to be heavily concentrated in nondurables--rubber, apparel, and paper. There will be some activity in electrical equipment in June, but more pressure on wage rates in the durable goods sector will come in the third and fourth quartess this year when contracts come up for negotiation for nearly a million auto and machinery workers.

AVERAGE HOURLY EARNINGS
Per cent increases

	March 1966 to March 1967	Year 1965 to 1966
<u>Nonmanufacturing</u>		
Laundries	9.0 ^{1/}	5.3
Hotel and motels	7.8 ^{1/}	5.9
Mining	5.4	4.5
Retail trade	5.3	4.9
Finance, insurance & real estate	4.5	3.8
Contract construction	4.2	4.9
<u>Manufacturing</u>		
Durable goods	3.5	3.6
Nondurable goods	5.4	3.8

1/ Based on February data.

Increases in average hourly earnings also continue to be larger in the generally lower paid nonmanufacturing industries than in manufacturing. In the low paid laundry, hotels and motels industries, earnings were 8 to 9 per cent above a year earlier, reflecting in part the increased minimum wage. In most other industries the increase has been somewhat less, but only in construction has the rise been less than from 1965 to 1966.

Prices. The wholesale price index declined 0.3 per cent in March--instead of showing no change as estimated by BLS a month ago. For April, BLS is estimating a further decrease of 0.4 per cent, to 105.3 per cent of the 1957-59 average. March declines in prices of farm products and foods proved to be larger than estimated earlier, and the industrial commodity average was unchanged rather than up. In April, agricultural prices continued downward and industrial commodities have remained stable.

The continuing sharp price decline brought the combined average for farm products and processed foods and feeds to an estimated level in mid-April which was 7 per cent below last September's high. For farm products alone, the decline over that period amounted to 10 per cent and it brought prices down to the lowest level since April 1965 (only 3-1/2 per cent above the low 1964 level). Reductions in prices of agricultural commodities beginning last autumn have reflected to a major degree the greatly improved domestic supply situation--particularly for livestock and products (including poultry and eggs and milk as well as beef cattle and hogs)--and to a lesser extent the substantial improvement of world grain supplies with its concomitant easing of U.S. export demands.

Average prices of industrial commodities in mid-April were estimated at 106 per cent of the 1957-59 average, unchanged from March and February and about 1.5 per cent above a year earlier. Since February, prices of basic industrial materials have weakened again--following several months of relative stability--with copper scrap and hides down sharply and prices of cotton print cloth, wool tops, and some chemicals also off. Prices of machinery, rubber, and paper products have continued to move up, but generally at a slower pace than over the past year.

The Consumer Price index in March increased 0.2 per cent, to 115 per cent of the 1957-59 average. The March rise was a little faster than the very slow up-creep of the preceding 4 months but it was well below the monthly increases occurring from the beginning of 1966 to last October. The moderate step-up in March occurred in large part because food prices were unchanged, following earlier declines. Prices of nonfood commodities rose moderately from February--with advances reported for apparel, household furnishings, used cars, and gasoline--but the March level for this group was unchanged from last November. Stability over this latter period is in part a seasonal phenomenon. Prices of services continued to rise at a sizable pace in March--accounting for more than half of the increase in the total CPI--although, with costs of financial services turning downward in March (primarily because of a drop in mortgage interest rates) and with charges for utilities and public transportation rising at a slower rate than, on average, in 1966, the over-all increase in service prices has slowed somewhat from last year's pace.

Food prices. Current production prospects suggest that food prices will remain relatively stable in 1967, rather than averaging higher as had been forecast earlier. Meat supplies will be larger than expected earlier and poultry and eggs will be plentiful. Dairy prices will probably hold around current levels, although the possibility of important policy changes that may affect prices should not be discounted. Prices of cereals and baked goods will probably show little change. Processors of fruits and vegetables will probably try to hold these steady but weather is always a big unknown until the new pack is underway.

Farm developments. Farmers' realized gross income in the first quarter declined moderately on a seasonally adjusted basis from the record \$51.1 billion high of the fourth quarter of 1966, primarily because of lower farm prices. Realized net income was off more sharply because of a further rise in production expenses. Whether or not the first quarter decline marks the beginning of a downtrend in farm earnings turns largely on the size of 1967 crop, particularly the wheat and feed grain crops, because with grain stocks no longer in surplus supply, farm prices will be particularly sensitive to supply developments.

GROSS AND NET INCOME FROM FARMING
(Seasonally adjusted at annual rates)

	Quarter I 1967	Per cent change from	
		Quarter IV 1966	Quarter I 1966
	(Billions of dollars)		
Cash receipts from marketings	43.0	-2.5	1.9
Nonmoney income and Gov't. payments	7.0	no change	12.9
Realized gross income	50.0	-2.2	3.3
Production expenses	34.8	0.6	9.1
Realized net income	15.2	-7.9	-7.9

Present (tenuous) prospects for a large crop and larger supplies of beef cattle on farms than earlier indicated point to a more pronounced decline in prices of farm commodities in 1967 than had been forecast by the Department of Agriculture in the November Outlook. As a result, cash receipts may be no larger than 1966, or possibly lower, Government payments will be down about a third by autumn because of smaller diversion of grain acreages. In the meantime, no decline in prices paid by farmers is in prospect.

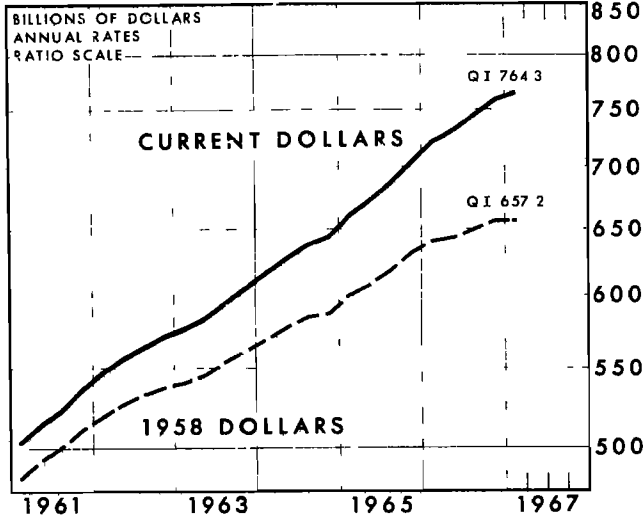
Prices of meat animals beyond the first half of the year rests largely on decisions of cattle producers--and the reliability of the pig crop reports, a source of chronic uncertainty. At present, a somewhat less than seasonal summer price rise is in prospect for hogs and fed cattle with some strength developing in the fall. Hog producers have reported production plans which would gradually reduce marketings this summer to year earlier levels and in the fourth quarter to slightly less than the relatively high marketings of a year earlier. Marketings of cattle may follow a similar though less pronounced trend, although the picture is far from clear beyond the summer.

Beef production was up 5 per cent in the first quarter with fed beef up 8 to 9 per cent and cow beef down probably 10 per cent. With 4 per cent larger marketings of fed beef planned for the second quarter (as reported in April), total beef production in the summer may be at the sale level as a year ago. If feedlot operators continue to reduce placements on feed in line with the 3 per cent cut in the first quarter, beef production by the fourth quarter, may drop below a year earlier. With the supply of feeder cattle sufficient to keep feedlots filled, operators could move in either direction.

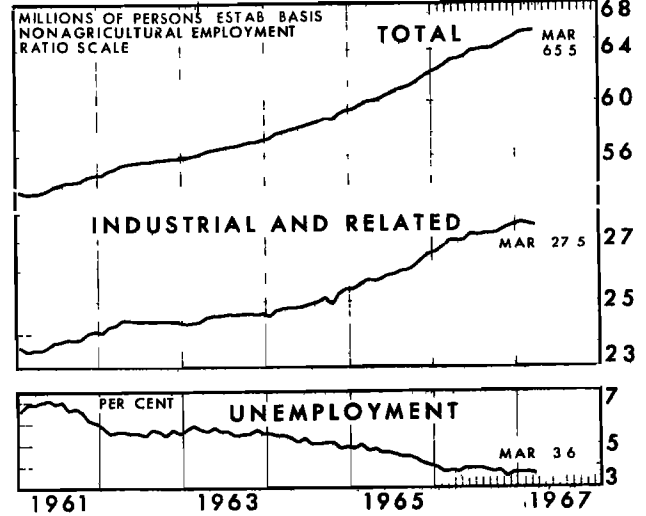
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

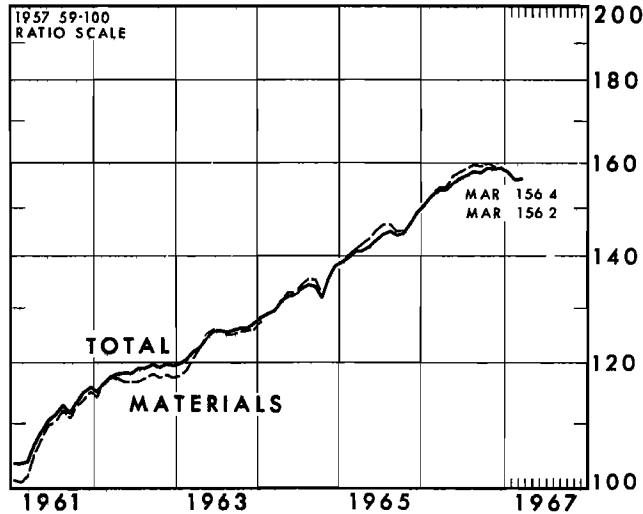
GROSS NATIONAL PRODUCT



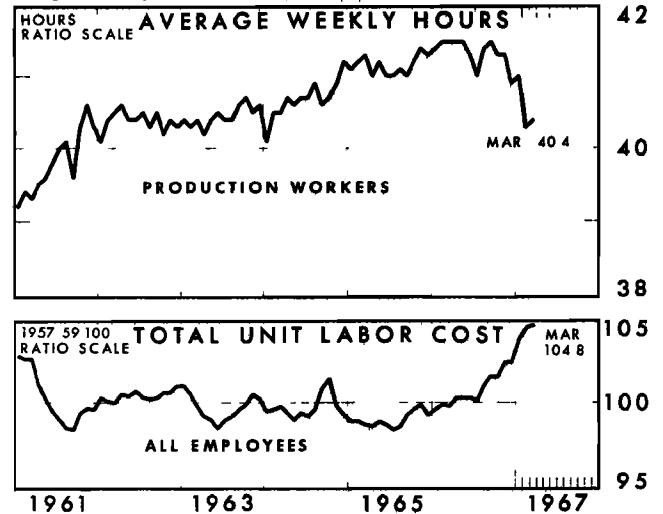
EMPLOYMENT AND UNEMPLOYMENT



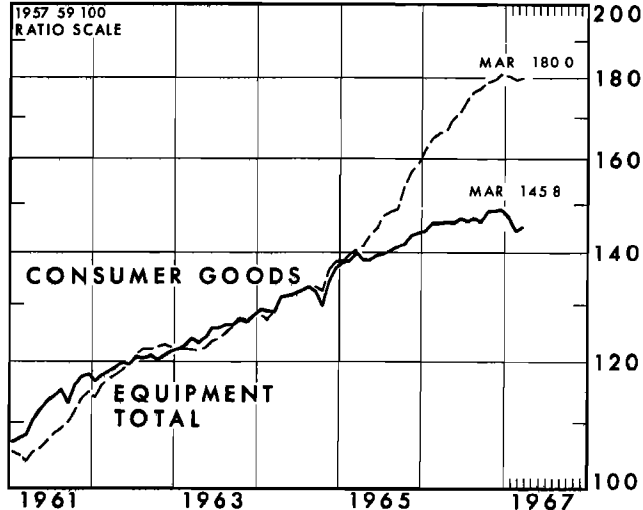
INDUSTRIAL PRODUCTION-I



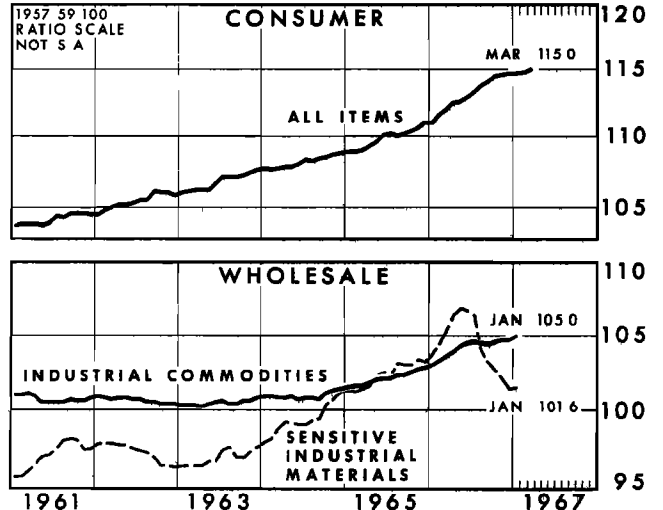
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



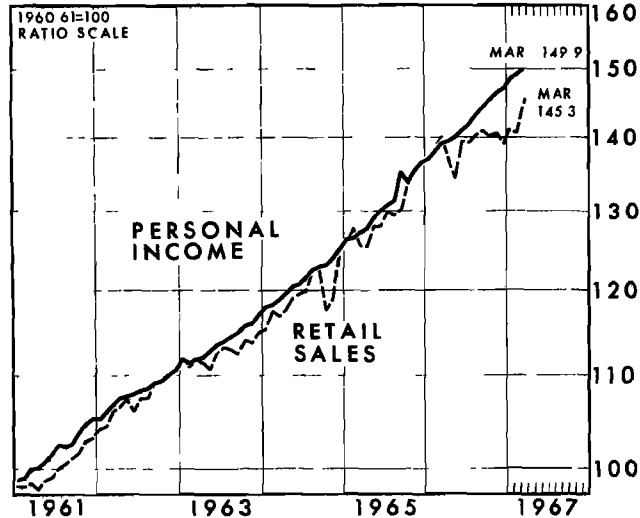
PRICES



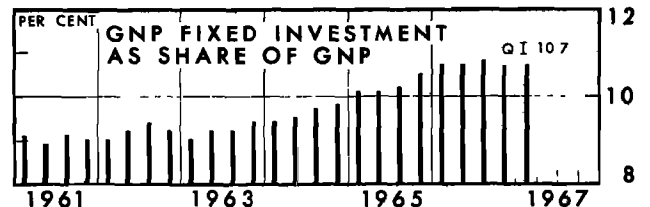
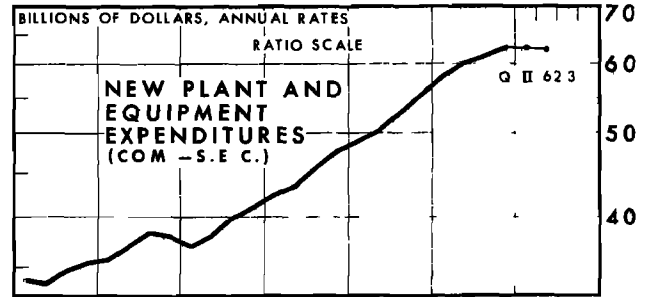
ECONOMIC DEVELOPMENTS - UNITED STATES

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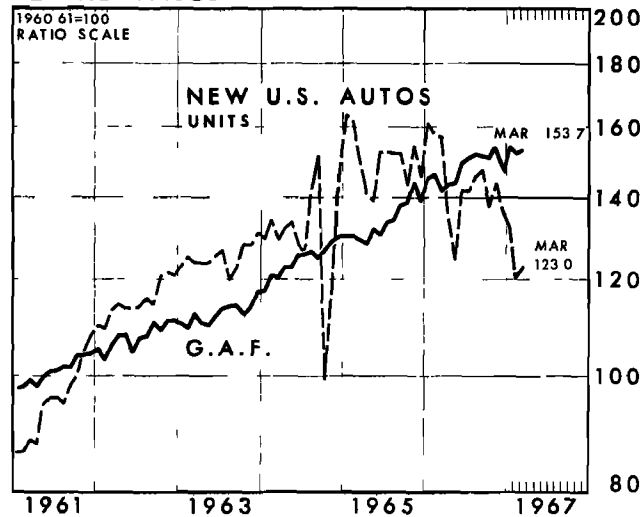
INCOME AND SALES



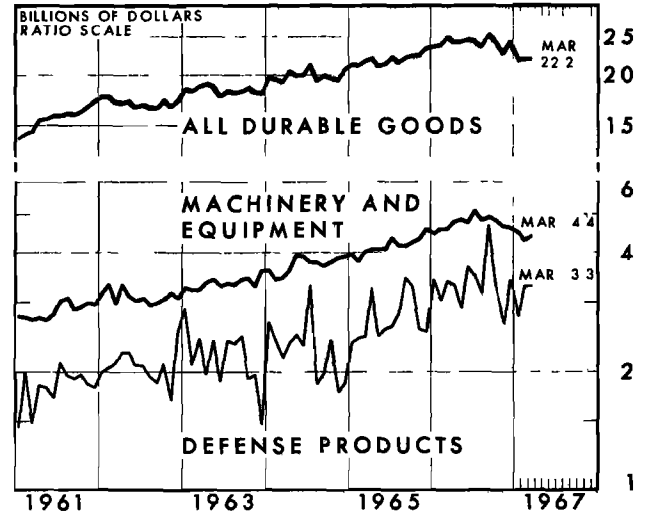
BUSINESS INVESTMENT



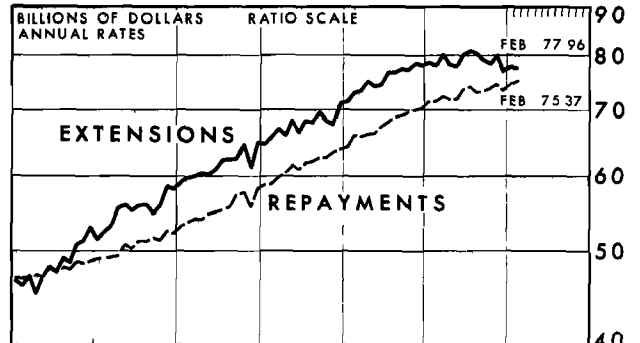
RETAIL SALES



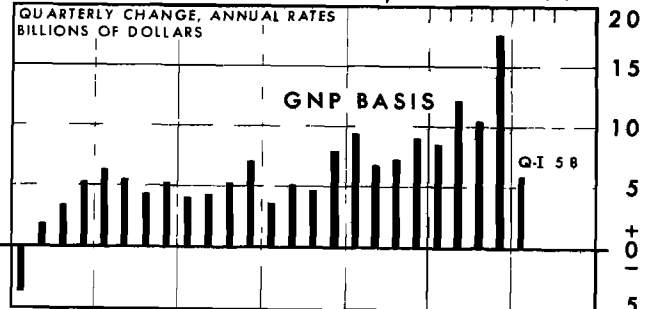
MANUFACTURERS' NEW ORDERS



INSTALMENT CREDIT



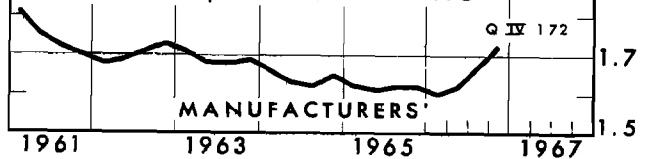
BUSINESS INVENTORIES, NONFARM



NET CHANGE IN OUTSTANDING



INVENTORIES/SHIPMENTS RATIO



DOMESTIC FINANCIAL SITUATION

Bank credit. Growth in commercial bank credit in the first half of April slackened considerably from the 20 per cent annual rate in March. Available data for city banks suggest that the rate of increase may have been a little more than half the March pace.

Loan demands were moderate despite large April tax payments by corporations, and expansion in total loans, after allowance for usual seasonal changes, appears to be continuing at close to the average rate in recent months. Another factor which limited total bank credit expansion in early April was a substantial decline in holdings of U.S. Government securities, presumably reflecting in part sales of new tax bills by underwriting banks as the Treasury sharply reduced its demand balances prior to mid-month tax inflows.

This decline in bank holdings of Governments was more than offset, however, by a huge increase in holdings of other securities at city banks (see table). This increase suggests a growth rate for holdings of these securities at all commercial banks considerably above even the 30 per cent annual rate that prevailed in the first quarter. Part of the April increase in these holdings was in Agency issues and participations, the latter probably representing subscriptions to the new \$900 million FNMA issue. But three-fifths of the increase was in municipals maturing in more than one year, mainly at banks outside New York City. Holdings of tax warrants and other short maturities, which accounted for nearly half the first quarter increase in total city bank municipal

portfolios, showed little further change in early April, but information is not available for judging to what extent this might have been the usual seasonal trend. However, with time and savings deposit inflows large, loan demands moderate, and yield spreads between short- and longer-term municipals widening, banks may be showing more interest in longer maturities, but market reports indicate that such interest still does not extend much beyond the 1-5 year area.

CHANGES IN SELECTED ASSETS AT LARGE COMMERCIAL BANKS
(Millions of dollars, not seasonally adjusted)

	First two weeks of April 1/		
	1967	1966	1965
Loans and investments	19	461	-277
U.S. Govt. securities	-663	250	-452
Other securities	751	54	288
Total loans	- 69	157	-113
Business loans	-162	- 57	-172
Real estate loans	- 36	75	111

^{1/} Two weeks ending April 12, 1967; April 13, 1966; and April 14, 1965.

Reflecting moderate loan growth and rapid expansion in bank holdings of Governments and municipals in recent months, bank loan/deposit ratios have declined. At the end of March the average ratio for all commercial banks was 65.4 per cent, down 1.4 percentage points from the September 1966 high. This is nearly half the average drop from peak to low point in this ratio during earlier post-Accord periods of monetary

ease. While ratios at city banks have declined much more than those at country banks, they had also increased faster during the period of restraint and they still remain relatively high by historical standards. More direct measures of liquidity at city banks also show improvement in recent months, but the ratio of liquid assets to total loans and investments at these banks is still considerably below the level prevailing in the early part of the 1961-66 expansion.

Business loans at city banks declined substantially in the first two reporting weeks in April (ending April 12), reflecting a larger than usual drop at New York City banks. A major part of the decline was attributable to large loan repayments by manufacturers of machinery and transportation equipment following a sharp rise in their borrowings in March. Most major industry categories, however, continue to show only usual seasonal movements or to exhibit somewhat weaker tendencies.

In the tax week ending April 19, business loans at banks in New York City rose nearly \$300 million--a moderate rise relative to the step-up in tax payments this April. Total corporate tax payments for the month, all of which were payable by the 19th, are estimated at \$9.3 billion, or \$4.4 billion more than last April, after deducting the \$750 million maturing tax bills turned in for taxes this year. Corporations apparently have used some of the proceeds of recent capital market financings for meeting these payments, and they also ran off moderate amounts of their recently increased holdings of CD's. Outstanding CD's at New York City banks declined \$212 million during the tax week, but this was well within the past range of tax-period run-offs.

The prospectuses for major capital market financings indicate that an unusually high percentage of new issues thus far this year was for the purpose of repaying bank loans. However, outstanding term loans at banks in New York City and in the Cleveland District rose slightly further during this period. Considering the \$9 billion year-over-year increase in business tax payments over the first 4 months of 1967, it appears that a sizable amount of the funds raised in recent capital market financings was used to fund tax payments.

Real estate loans at city banks continued to decline in early April as they have since late November. Although the rate of decline beginning in March was only about half that in the first two months of the year, there was no pickup in these loans after allowance for usual seasonal changes.

Bank deposits. Total time and savings deposits at commercial banks continued to expand in April at close to the 15 per cent annual rate which prevailed in March, but less rapidly than in January and February. The pace of the recent expansion has been sustained by further acceleration in growth of consumer-type deposits, since deposits of corporations and State and local governments, which accounted for much of the growth earlier this year, have expanded relatively little in recent weeks. Passbook accounts showed their usual seasonal decline in early April, presumably reflecting withdrawals for income tax payments, but over March these deposits had expanded at an 11 per cent annual rate, following reversal in mid-February of the downtrend which had prevailed

since early 1966. Growth in savings certificates and other consumer-type time deposits also accelerated in March, and continued at a rapid pace in early April. In response to rapid deposit inflows and declining asset yields, a few banks announced rate decreases in recent weeks.

Negotiable CD's rose in late March and declined in early April, but showed only a small net rise over the period. Beginning in late March, issuing banks sharply reduced their offering rates in all maturity ranges, trimming the spread over the 90-day bill yield to the lowest level since December 1964. These reductions, together with the relatively unchanged level of outstandings in recent weeks, suggest that banks may be relatively satisfied with current outstandings for a time unless loan demand should pick up appreciably.

With Government deposits rising sharply in recent weeks, the privately held money stock has receded from its end-of-March peak. Between mid-November and mid-April, the money stock had increased at an annual rate of 3.5 per cent, but as compared with a year earlier, it was up less than \$500 million, or less than one-half of 1 per cent.

Corporate and municipal bond markets. Yields on new corporate and municipal bonds advanced sharply last week to levels near or above the earlier highs reached in late February and early March. Even at these higher levels several recent new issues have met with a lukewarm response from investors.

BOND YIELDS
(Weekly averages, per cent per annum)

	Corporate Aaa		State and local Gov't		
	New		Moody's Aaa	Bond Buyer's (Mixed qualities)	
	With call protection	Without call protection			
<u>1965</u>					
End of July ^{1/}	4.58	--	4.48	3.16	3.25
Early December ^{2/}	4.79	--	4.60	3.37	3.50
<u>1966</u>					
Late summer high	5.98*	--	5.44	4.04	4.24
<u>Weeks ending:</u>					
Feb. 3 ^{3/}	--	5.21	5.02	3.25	3.40
March 3 ^{4/}	5.45*	--	5.11	3.53	3.60
April 7	5.27*	--	5.11	3.48	3.54
21	5.50*	--	5.11	3.50	3.63

^{1/} Week prior to President's announcement of increased U.S. involvement in Vietnam.

^{2/} Week preceding Federal Reserve discount rate increase.

^{3/} 1967 low.

^{4/} Late February - early March high.

* Some issues included carry 10-year call protection.

As at the end of February, the recent yield reversal reflected a rapid further build-up in the forward calendar of new offerings, coming at a time when market participants were again beginning to wonder whether the Federal Reserve might soon stop pressing toward further ease. Market

attitudes were affected by the unexpectedly favorable economic news for March, as well as by press reports that further near-term expansion of U.S. forces in Vietnam is likely.

Earlier in April, corporate and municipal bond underwriters had bid aggressively for new issues, apparently assuming that a cut in the Federal Reserve discount rate, further ease in reserve policy, and some reduction in the volume of security offerings from the hectic first quarter pace would maintain the downward momentum of bond yields. Investors, on the other hand, had increasingly resisted the attempts of underwriters to anticipate future yield declines. As a result, unsold syndicate balances of new issues expanded substantially. When expectations on the economic outlook then strengthened and the forward calendar continued to grow, underwriters attempted to trim their inventories by releasing bonds from syndicate price restrictions. On five public utility issues released to free market trading last week, yields in the secondary market rose 10 to 13 basis points, and on some recently offered municipal issues the yield adjustment ranged from 15 to 20 basis points.

In the corporate bond market, the April volume of publicly-offered issues is now expected to aggregate over \$1.3 billion, a record for the month and more than double the volume in April 1966. This figure is larger than earlier estimates due primarily to the late addition to the calendar of a \$200 million General Electric offering. Looking beyond April, the forward calendar promises to remain very heavy. Offerings already scheduled for May and June total \$1.0 billion and \$800 million respectively; and several large industrial companies have indicated that

they plan shortly to register additional issues aggregating \$350 million, although the timing of these offerings has not yet been definitely scheduled.

CORPORATE SECURITY OFFERINGS^{1/}
(Millions of Dollars)

	Bonds				Total Bonds and Stocks	
	Public Offerings ^{2/}		Private Placements			
	<u>1966</u>	<u>1965</u>	<u>1966</u>	<u>1965</u>	<u>1966</u>	<u>1965</u>
Total	8,018	5,570	7,542	8,150	18,074	15,992
	<u>1967</u>	<u>1966</u>	<u>1967</u>	<u>1966</u>	<u>1967</u>	<u>1966</u>
January	712	460	896	692	1,688	1,339
February	870	560	412	583	1,437	1,273
March	<u>1,675e</u>	<u>753</u>	<u>800e</u>	<u>1,311</u>	<u>2,550e</u>	<u>2,482</u>
1st Quarter	3,257e	1,774	2,108e	2,586	5,675e	5,094
April	1,340e	628	600e	743	2,100e	1,582
May	1,300e	481	600e	556	2,000e	1,106

^{1/} Data are gross proceeds.

^{2/} Includes refundings.

State and local government bond offerings in April are also now expected to total \$1.0 billion or more. While this is less than in April a year ago, it is the fourth consecutive month in which volume will have exceeded \$1 billion. As in the corporate market, the large volume of recent offerings has not been fully distributed, and underwriters have attempted to cut-back inventories. Even so, the Blue List of dealers' advertised inventories has remained at a very high level--around \$800 million--and the actual level of inventories, including unadvertised bonds, is reportedly closer to \$1.0 billion. If offerings

for May are no larger than the \$850 million now estimated, however, there is some prospect for at least modest relief from the present state of market congestion.

Recent difficulties in the distribution of new municipal securities have centered on longer maturities. Commercial banks, although still very active in the municipal market, have reportedly restricted their acquisitions largely to bonds with maturities of less than five years, continuing their efforts to rebuild liquidity. Since fire and casualty companies--the other major institutional purchaser of municipal bonds--have also apparently restricted their purchases of long-maturity municipals during recent weeks, yields on longer maturity issues have risen substantially relative to those on short maturities.

STATE AND LOCAL GOVERNMENT BOND OFFERINGS
(Millions of dollars) 1/

	1966	1965
Total	11,362	11,329
	<u>1967</u>	<u>1966</u>
January	1,377	1,219
February	1,162	867
March	1,200e	879
1st Quarter	3,739e	2,965
April	1,000e	1,211
May	850e	906

1/ Data are for principal amounts of new issues.

Flows to depositary-type intermediaries. Net savings flows to depositary-type financial intermediaries remained in record volume during March, as in February. Moreover, both savings and loan associations and mutual savings banks had sizeable net inflows during the first 10 days of April, which contrasts sharply with the same period a year ago when these two types of institutions experienced a net outflow of more than \$1 billion.

FLOWS TO DEPOSITARY-TYPE INSTITUTIONS^{1/}
(Millions of dollars not adjusted for seasonal)

March	Total ^{2/}	S & L's	Savings Banks	Commercial Banks	
				Without CD's 2/	With CD's
1967	4,618	1,460	700	2,458	3,206
1966	3,057	838	356	1,863	2,573
1965	3,328	1,055	521	1,752	1,848
1964	2,547	1,107	473	967	1,082

1/ It should be noted that the record March figures shown in the table are augmented by interest accruals arising from the historically high rates being paid on a record outstanding volume of deposits and share capital. In addition, an increasing number of institutions now credit interest quarterly.

2/ Excludes negotiable CD's over \$100,000 at weekly reporting banks.

Despite the large net savings inflows, mortgage acquisitions at S&L's continued to lag through the first quarter, as funds were allocated principally to the rebuilding of liquid assets and the reduction of indebtedness. As the following source and use table shows, S&L's added only about one-third as much to the value of their mortgage portfolio as during the first quarters of the two preceding years, whereas they repaid more than \$2 billion of their debt with the Home Loan

Also, by increasing their holdings of cash and government securities relative to savings capital, the S&L's increased their liquidity ratio to 10 per cent, up from the postwar low of 9 per cent reached in August of last year. Since World War II, this liquidity ratio has declined steadily, and in the 1960-65 period averaged about 11.5 per cent.

PRINCIPAL USES AND SOURCES OF FUNDS FOR S&L'S
1st Quarter, 1963-1967 1/
(Millions of Dollars)

1st Q	USES				SOURCES	
	Net Mortgage Acquisitions	Net Change Cash ^{2/}	Govt. Sec.	Growth of Share Capital	Borrowings ^{3/}	Change In Other ^{4/} Liabilities
1967	607	162	291	2,473	-2,007	594
1966	1,768	-630	429	1,265	- 367	669
1965	1,798	-453	402	1,857	- 645	533
1964	2,187	-341	286	2,294	- 678	516
1963	2,240	-136	524	2,988	-1,021	661

- 1/ Data are for all insured associations which represent 96 per cent of industry assets.
- 2/ Represents cash on hand, deposits in commercial banks and Home Loan Banks.
- 3/ Primarily advances from Home Loan Banks, but also includes a very small amount of borrowing from other sources.
- 4/ Represents primarily current income in excess of current expenses, changes in loans in process and changes in reserves and surplus.

Complete first quarter data are not yet available for savings banks. But because their liquidity positions were augmented in 1966 by the earlier improvement of their savings flows (relative to S&L's) they have moved more aggressively to allocate funds to capital markets this year. Their net acquisitions of mortgages totaled \$780 million in the

first quarter about 4 per cent more than in the like period of 1966 (when net acquisitions dropped about \$200 million below those in the first quarters of 1964 and 1965). In addition, they acquired about \$750 million of corporate securities, more than the \$680 million added to their portfolios during all of the preceding five years. This heavy interest in corporate securities reflected the relative paucity of available mortgages, the record volume of new corporate issues, and apparently a desire to hold a larger share of total assets in marketable securities. Small increases in cash and decreases in holdings of Governments left the aggregate liquidity positions of the mutuals essentially unchanged from the end of 1966 at 10.3 per cent, a relatively low ratio historically.

While some industry observers had thought it possible that the combination of very large savings flows, gradually improving liquidity positions and high dividend rates relative to the level of mortgage rates would cause depositary-type institutions to reduce rates paid for savings, only a few have done so thus far. One small savings bank in upper New York State has reduced its passbook rate from 5 to 4-1/2 per cent and two commercial banks in New York City have reduced the rate on consumer CD's below the 5 per cent ceiling.

At savings and loan associations the changes have been more numerous and widespread but do not represent any significant trend toward lower dividend rates. According to reports from the Home Loan Banks, five associations, in the west and southwest, reduced their passbook rate generally to 4-1/2 per cent, and about 45 associations,

mostly in the southeast and southwest, have reduced their maximum certificate account rate from 5-1/4 to 5 per cent. On the other hand, about 40 associations in the northeast and northwest actually raised their passbook rates during the first quarter, in order to meet earlier rate advances initiated by competing types of institutions.

Industry sources for all three types of institutions report the existence of some firms which were on the verge of reducing rates for the second quarter, but which then refrained from doing so partly in the belief that the regulatory agencies would lower the ceilings at mid-year. While the squeeze on profits of savings institutions, arising from narrowed spreads between savings and mortgage rates, has been clearly reflected in lower allocations to reserves and surplus accounts, particularly among the S&L's, thus far this squeeze seems to have been less severe than some industry spokesmen had predicted. This fact, together with the fear that massive outflows might result from unilateral rate reductions, no doubt accounts for the relatively small number of institutions that have reduced rates.

Mortgage market developments. With the resumption of large net inflows of loanable funds to major lender groups in recent months and with liquidity positions continuing to improve, mortgage yields have been under substantial downward pressure. In early April, this development received further support from the Federal Reserve discount rate cut and also from a 1/4 per cent reduction in the rate charged on outstanding advances by the Federal Home Loan Banks. During March, when the more liberal 5-1/2 per cent rate was initially introduced, it had applied only to new advances.

Although the decline in the FHA secondary market yield series in March (to 6.35 per cent) was less than the average decline in the previous two months, it amounted to 11 basis points and was one of the largest on record. The yield decline was associated with a reduction in average discounts to 3 percentage points, 4 points lower than last November and the lowest since November 1965 when the regulatory maximum contract rate was 5-1/4 per cent. During the extended period of lull from early 1963 through most of 1965, discounts had averaged somewhat less than 2 per cent.

Interest rates on conventional mortgages (FHA series) also declined in March by another 5 basis points for loans on both new and existing homes. While less than the 10 basis point declines in February, the latest reduction brought the averages down to 6.45 and 6.50 per cent, respectively. Because of the sharp over-all rise last year, however, these rates were still about 65 basis points above the averages that had prevailed in 1963-65. In the case of secondary yield series, the spread in March from the pre-October 1965 plateau continued to be even greater--90 basis points.

In March, there were also indications of further liberalization of both loan-to-price and maturity terms for home loans, according to the Federal Home Loan Bank Board. This reflected the relative scarcity of mortgages currently being generated and borrower hesitation in the face of the extremely fluid conditions obtaining and the still high level of interest rates. As a result, in the case notably of existing-home loans, loan amounts in recent months have apparently reached new

highs. At the same time, offerings to the Federal National Mortgage Association of mortgages for purchase in the secondary market have dwindled considerably and this trend--along with some pick-up in sales by FNMA--was continuing in April.

DECLINES FROM TURNING POINTS IN YIELDS ON NEW-HOME MORTGAGES

Date of Previous Peak	Interest Rate or Yield:			
	At Peak (Per cent)		Decline in first 4 months after peak (basis points)	
	Conventional loans	FHA Loans	Conventional loans	FHA Loans
November 1966	6.70	6.81	25	46
January 1960	6.30	6.25	5	4
October 1957	6.00	5.63	15	6
September 1953	n.a.	4.86	n.a.	11

NOTE: FHA series, for interest rates on conventional first mortgages in primary market (excluding additional fees and charges, and rounded to nearest 5 basis points), and yields on FHA-insured Sec. 203 loans sold in secondary market.

Stock market. After declining moderately in the weeks just prior to the mid-April income tax date, stock prices, as measured by Standard and Poor's 500 stock index, rose steadily through 9 trading days to reach a new 1967 high of 93.11 on April 25. The further advance carried the index to a level 27 per cent above last year's October low and only about 1 per cent below the all-time high reached in early February 1966. At the currently higher prices, the price-earnings ratio for Standard and Poor's composite index, based on fourth quarter 1966

earnings seasonally adjusted, was 16.9 which compares with a ratio of 13.0 at the October low and 17.9 at the February 1966 high. Since early October 1966, dividend stock yields have fallen by about 70 basis points and the spread between these yields and those on newly issued corporate bonds has widened by about 40 basis points.

Both blue chip and glamor stocks have participated in the further market rise, with autos, TV producers, and air transport manufacturers among the outstanding industrial performers. Trading volume, which rose along with stock prices, averaged about 10 million shares in the third week of April, slightly below the daily average for March. Through the first half of April, when stock prices generally were declining, daily volume averaged about 8.5 million shares.

Some of the weakness in stock prices early in April apparently reflected selling by individuals to obtain funds for the payment of income taxes, as well as to nail down long-term capital gains on stocks acquired near the October low. Weakness generated by such selling was apparently accentuated by continued talk of recession at the time and by the larger than expected drop in the first quarter profits reported by a number of key industrial companies. Subsequently, however, as mid-month selling slacked off and data accumulated suggesting that the economy had regained some buoyance in March, stock prices began to move up. Apparently, the March evidence helped to renew market expectations of a resurgence in economic activity during the second half of the year. At the same time a more complete run-down of corporate earnings reports seemed to indicate that on balance the results were no worse than had been generally anticipated.

Net debit balances, as measured by the New York Stock Exchange's margin panel series (first published in February), which had increased by \$120 million in February rose by another \$80 million in March. However, from the end of October last year through January customers' margin debt had declined by \$100 million, so that over this 5-month period, the increase in margin debt measured by this series has been only \$100 million. Purpose loans at banks rose by about \$25 million in March though they remained about \$45 million below their early October 1966 total.

U.S. Government securities market. Since early April yields on intermediate- and long-term Treasury obligations have risen around 20 basis points, while Treasury bill rates have declined around 25 basis points. Currently, yields on long-term Treasury bonds are at or very close to their 1967 highs, while 3-month Treasury bill rates are at their lowest level since November 1964.

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
<u>1965</u>						
Dec. 3	4.12	4.26	4.54	4.52	4.52	4.44
<u>1966</u>						
Aug. 29	5.04	5.51	6.22	5.89	5.51	5.12
Sept. 21	5.59	5.96	5.90	5.53	5.21	4.97
Nov. 25	5.27	5.47	5.56	5.39	5.23	4.91
Dec. 30	4.81	4.92	4.94	4.80	4.64	4.58
<u>1967</u>						
Jan. 16	4.72	4.69	4.63	4.60	4.49	4.44
Feb. 23	4.64	4.71	4.85	4.83	4.74	4.73
Apr. 4	4.00	4.03	4.31	4.42	4.49	4.55
25	3.73	3.81	4.46	4.61	4.72	4.74

The rise in Treasury bond yields in recent weeks has occurred against a background of improved business indicators and continued additions of new issues to the corporate bond calendar. The approach of the Treasury's May refunding and associated talk of a possible pre-refunding of other Treasury issues maturing later in the year has also exerted a cautionary influence on the market, especially in the intermediate area. A further weakening influence has been the expectation of another sale of FNMA participation certificates before the end of fiscal 1967. On the basis of the January 1967 Budget projections, such an issue could total around \$900 million.

In this market environment dealers have been willing sellers of coupon issues and have reduced their holdings of issues due in more than 1-year from just under \$800 million in late March to \$550 million on April 25. A large part of this decline was accounted for by System and Treasury trust fund purchases totaling about \$160 million. Other demand was generally light, although a large New York City bank made sizable purchases of intermediate-term notes in mid-April.

Treasury bill rates, which had moved persistently lower during March, continued to decline on balance following the reduction in the discount rate announced on April 5. Easier money market conditions--including ready availability of dealer financing at lower rates--along with strong market demand for bills from a wide range of investors--notably from public funds temporarily investing seasonal tax receipts--combined to depress bill rates. This demand was supplemented by large System purchases of

bills around mid-April and by sizable foreign official account buying over the course of the month. Thus, dealer inventories in bills were reduced to their lowest levels in several months, even though the dealers were aggressive bidders in the regular weekly auctions.

Interest rates on short-term market instruments other than bills also continued to fall in April--in some cases by as much as 50 basis points--as the table shows:

SELECTED SHORT-TERM INTEREST RATES

	1967		
	Feb.-Mar. (high)	Mar. 31	April 25
Commercial paper 4-6 months	5.38 (3/9)	5.00	4.75
Finance company paper 30-89 days	5.25 (2/9)	4.88	4.38
Bankers' Acceptances 1-90 days	5.00 (2/28)	4.38	4.25
Certificates of deposit (prime NYC)			
Typical new issue:			
3-months	5.13 (2/28)	4.63	4.25
6-months	5.13 (2/28)	4.75	4.38
Secondary market:			
3-months	5.25 (2/23)	4.85	4.35
6-months	5.30 (2/23)	4.85	4.38
Federal Agencies (Secondary Market):			
3-months	5.79 (2/3)	4.30	3.95*
6-months	4.99 (2/24)	4.31	4.26*
1-year	4.83 (2/24)	4.31	4.28*
Prime Municipals 1-year	2.80 (2/24)	2.60	2.45*

N.B. Latest dates on which high rates occurred are indicated in parentheses.

* Rates on April 21.

Treasury finance. The Treasury is expected to announce the terms of its May refunding on April 26; a pre-refunding of other issues maturing beyond May is also anticipated. The terms of the offering and indications of early market response will be noted in the Greenbook supplement.

Federal budgetary developments. Budgetary figures are diverging from those shown in the January Document. We now expect the national accounts (NIA) deficit to be around \$6.3 billion for fiscal 1967, some \$2.5 billion more than was estimated in January. The difference is primarily attributable to an indicated decline in corporate profits tax accruals. Aggregate expenditures are now estimated only about \$.5 billion above the earlier figure, with higher than expected defense purchases being partially offset by lower than expected civilian expenditures.

In contrast, the expected cash deficit has declined slightly since January. The reduction in estimated cash revenue is about \$1 billion, much less than that shown in the NIA accounts. The main reason for the difference is that profits tax accruals (NIA concept) reflect declines in corporate profits much faster than cash tax payments. These cash receipts in the first half of this year are still high because of the large final payments on last year's liabilities. There also have been some accelerations of tax payments which were not allowed for in the budget, and are not shown in the accrual basis NIA budget. The projected decline in revenue appears to be more than offset by a \$1.5 billion decline in cash payments as against earlier expectations. This is mainly due to the unexpectedly large repayments of Federal Home Loan Bank advances by savings and loan institutions.

As measured by the high employment budget, it is now apparent that fiscal policy is becoming very expansionary in 1967. This budget is expected to move about \$9 billion into deficit between 1966 and 1967, whether on a calendar or fiscal year basis. (It is assumed in this projection that the surtax will not be passed, that the investment credit and accelerated depreciation will be restored earlier than was expected, that the increase in social security benefits will be smaller and will take effect later than expected, and that spending will be somewhat above the level projected in the Document). It should also be noted that since GNP seems to be falling short of its high employment level in the first three quarters of the year, we expect the actual NIA deficit to be even larger than the full employment deficit.

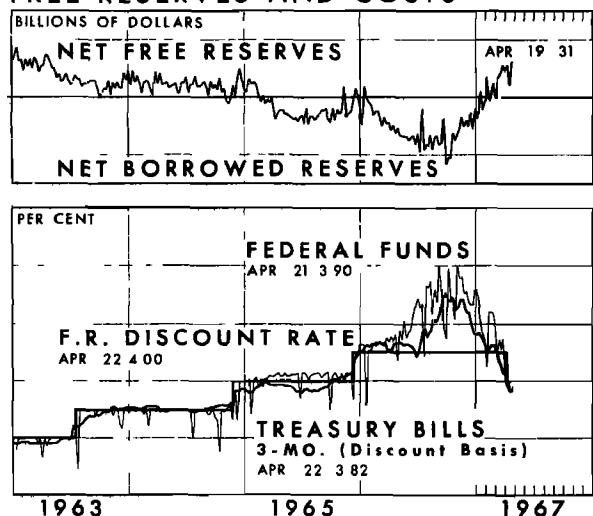
VARIOUS FEDERAL BUDGETS
(In billions of dollars)

	Calendar 1966				Calendar 1967			Fiscal Year		Jan. Budget Document	
	I	II	III	IV	I	IIp	IIIp	1966	1967p	Fy 1967	Fy 1968
<u>Quarterly data, unadjusted</u>											
Cash surplus/deficit (-)	-1.3	10.0	-6.7	-7.7	1.4	7.6	-5.0	-3.3	-5.7	-6.2	-4.3
Cash receipts	33.3	46.2	34.6	31.1	38.0	50.1	36.0	134.5	153.8	154.7	168.1
Cash payments	34.6	36.2	41.3	38.8	36.7	42.5	41.0	137.9	159.5	160.9	172.4
Change in cash balance	-.3	+5.8	-3.6	-2.7	+.7	+.7	--	-.1	-4.9	-3.4	--
Net cash borrowing (+)	+1.0	-3.7	+2.4	+5.1	-.9	-7.4	+4.2	+2.6	-.1	+1.7	+3.8
(Pool sales to public) ^{1/}	.4	1.8	--	--	1.1	2.0	1.2	3.1	3.2	3.1	5.0
<u>Seasonally adjusted annual rate</u>											
Federal surplus/deficit (-) in national income accounts	2.3	3.8	-.5	-3.6	-9.6 ^e	-11.5	-11.8	+.3	-6.3	-3.8	-2.1
Receipts	136.0	141.0	145.3	147.9	149.1 ^e	149.0	152.9	132.6	147.8	149.8	167.1
Expenditures	133.7	137.1	145.8	151.5	158.7 ^e	160.5	164.7	132.3	154.1	153.6	169.2
High employment surplus/deficit (-) ^{2/}	1.5	4.1	-.2	-3.6	-7.5	-8.2	-8.8	4.1	-4.9	n.a.	n.a.

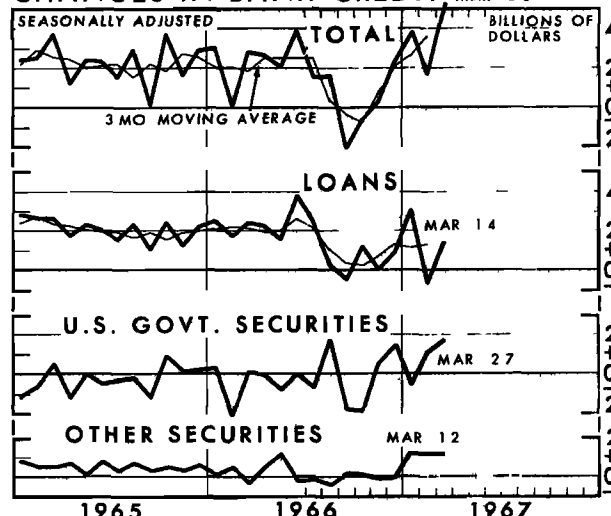
p - Staff projections. e - Estimated.
^{1/} Not included in net cash borrowing.
^{2/} Uses 1966 IVQ as a high employment base.

FINANCIAL DEVELOPMENTS - UNITED STATES

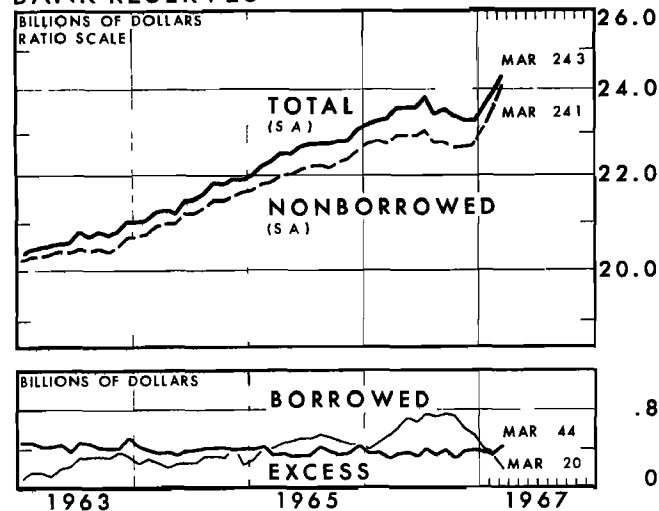
FREE RESERVES AND COSTS



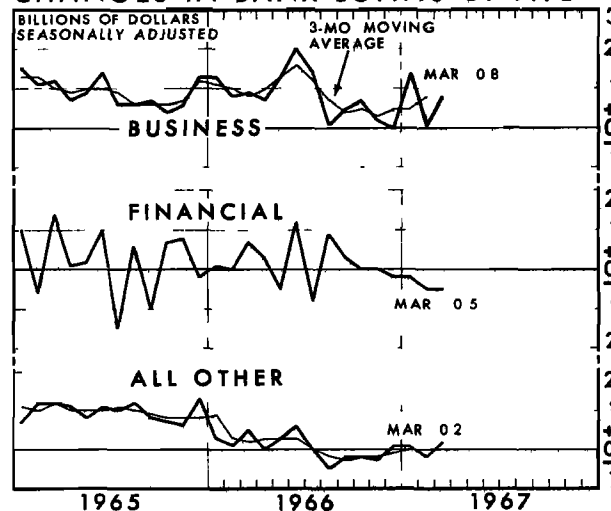
CHANGES IN BANK CREDIT



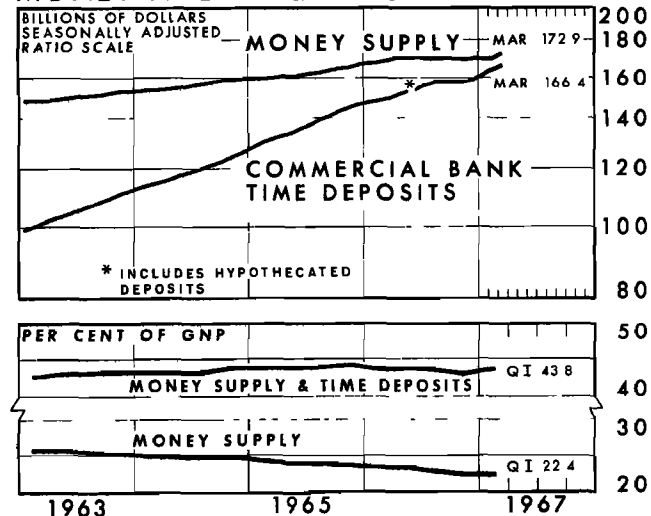
BANK RESERVES



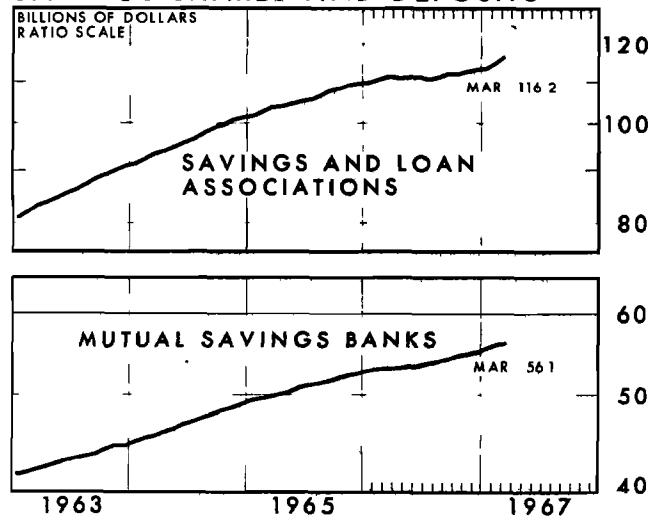
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

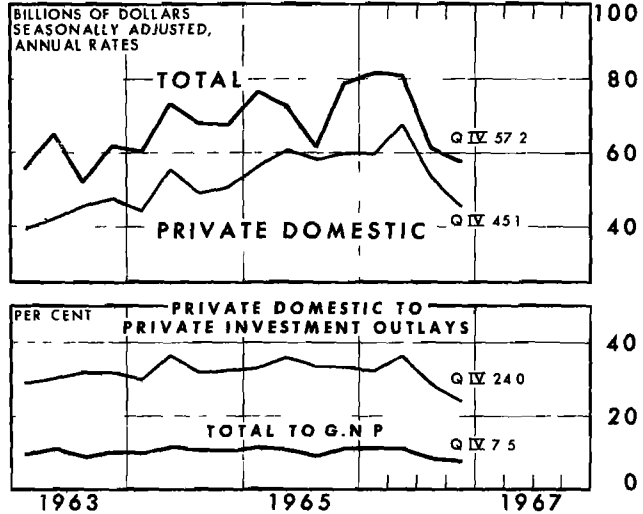


SAVINGS SHARES AND DEPOSITS

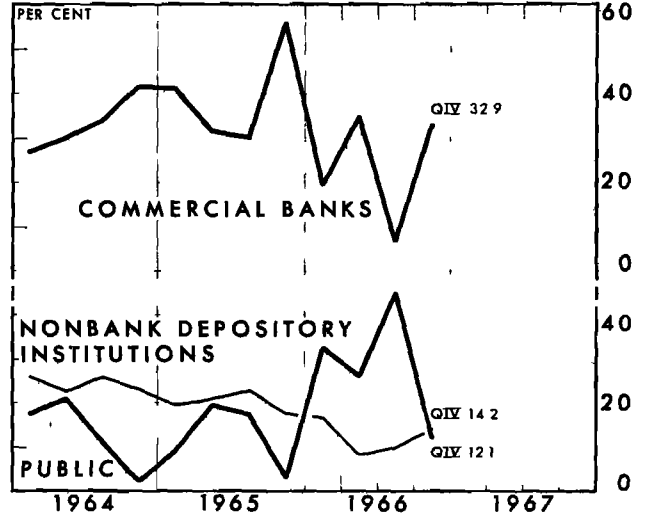


FINANCIAL DEVELOPMENTS - UNITED STATES

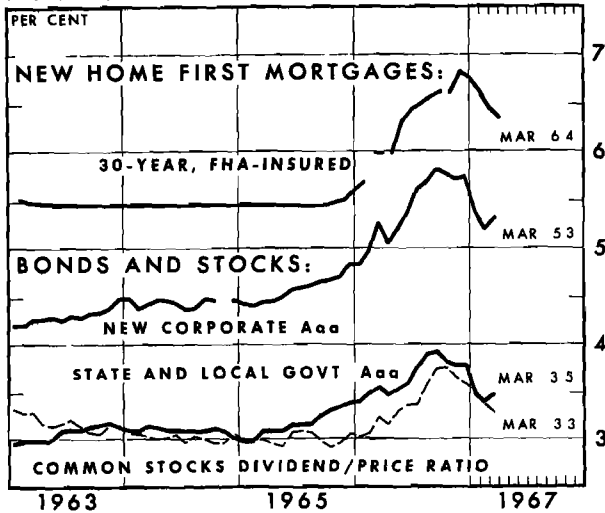
NET FUNDS RAISED-NONFINANCIAL SECTORS



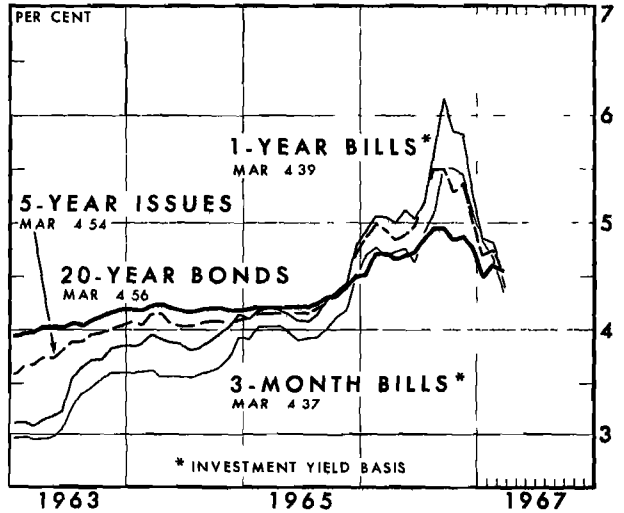
SHARES IN TOTAL CREDIT



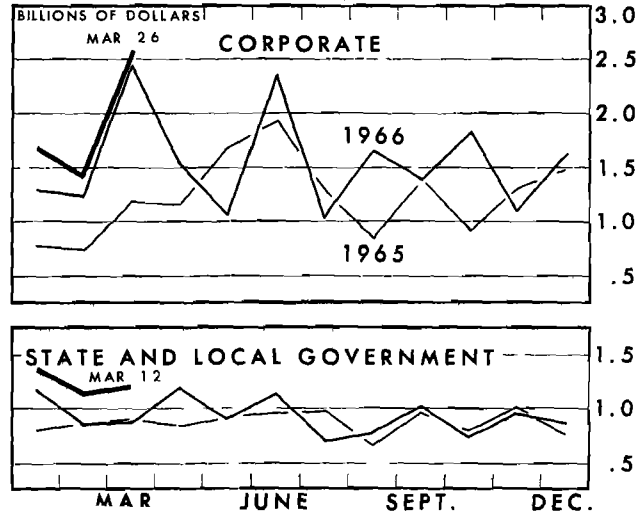
MARKET YIELDS



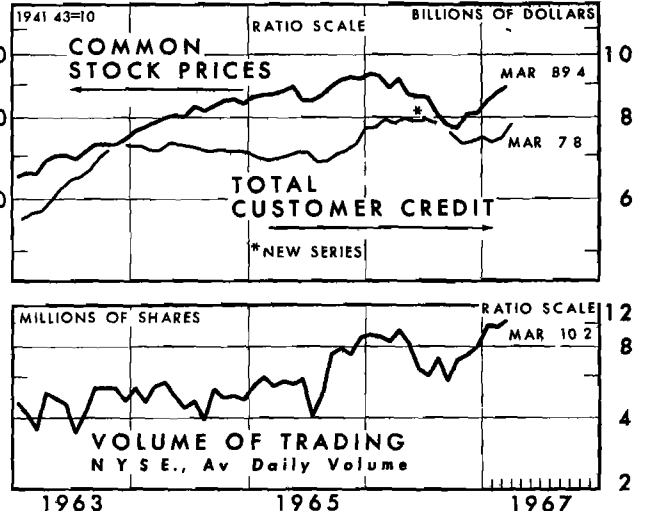
MARKET YIELDS-U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. The balance of payments was in substantial deficit in the first quarter, though the amount was less than suggested by the earlier reports for February and March. Before seasonal adjustment, the liquidity deficit for the quarter was \$250 million, and the official settlements deficit was about \$1-1/4 billion. Seasonally adjusted, the two deficits would be about \$600 million and over \$1-1/2 billion, respectively.

Weekly data for April (to the 19th) have continued to reflect substantial deficits.

The full extent of the underlying deficit on the liquidity basis has been masked for some time by shifts of foreign official accounts out of U.S. assets that are classified as liquid into other assets (principally certificates of deposit or Government Agency obligations) that are counted as non-liquid. In addition there have been advance repayments by foreign governments of U.S. Government loans, and a variety of other special transactions. Last year the amount of these transactions that tended to improve the liquidity deficit was \$1.4 billion, and in the fourth quarter alone it was nearly \$600 million. Without this assistance, therefore, the liquidity deficit for the year would have been about \$2.8 billion, and in the fourth quarter alone it would have been \$1.1 billion (seasonally adjusted). The effect of these official transactions on the results for the first quarter of this year is not yet fully known, but such special receipts were probably above the quarterly

average of last year. If so, the seasonally adjusted liquidity deficit in the first quarter after taking account of special receipts was probably not much different from that of the fourth quarter of 1966, i.e., on the order of \$1 billion.

It is difficult to reconcile the lack of improvement in the overall balance with the gains shown by the figures on the trade balance and bank lending that are now available for the January-March period. Merchandise exports were at very high rates in January and February, and though there was a slight decline in March exports for the quarter were at an annual rate of about \$31 billion, up 4 per cent from the previous quarter. Imports were also down slightly in March; for the quarter as a whole they were unchanged from the fourth quarter of 1966 at \$26.7 billion. Thus, the export surplus of somewhat over \$4 billion (annual rate) was considerably better than the approximately \$3 billion registered for the final quarter of last year. For the full year 1966 the trade surplus was \$3.7 billion.

U.S. EXPORTS AND IMPORTS
(billions of dollars)

	1965	1 9 6 6				1967
	Year	I	II	III	IV	I
	(seasonally adjusted annual rates)					
Agricultural exports	6.3	6.8	6.9	7.4	7.0	6.6 ^{P/}
Non-agricultural exports	20.4	22.1	22.1	22.4	22.9	24.6 ^{P/}
Total exports						
Census basis	26.7	28.9	29.0	29.8	29.9	31.2
Balance of payments basis	<u>26.3</u>	<u>28.8</u>	<u>28.7</u>	<u>29.5</u>	<u>29.6</u>	<u>30.9</u>
Total imports						
Balance of payments basis	<u>21.4</u>	<u>24.0</u>	<u>24.9</u>	<u>26.4</u>	<u>26.7</u>	<u>26.7</u>
Trade balance	<u>4.8</u>	<u>4.8</u>	<u>3.8</u>	<u>3.2</u>	<u>2.9</u>	<u>4.1</u>

However, it may be more difficult than earlier anticipated to make further gains in the trade accounts as the year progresses. The decline in U.S. imports from the peak rates of last September through January has been quite moderate considering the much lower rate of domestic inventory accumulation and the 2.4 per cent fall from October to February in the materials component of the U.S. industrial production index. Further reductions in imports are still likely to occur as a lagged response to the easing of the demand and supply situation in this country that began late last year. Imports would resume their upward course, however, if there were a rapid upturn in domestic demand. On the other hand, somewhat weaker growth rates in major industrial countries than had been anticipated would have the effect of reducing their purchases from the U.S., reducing their contribution to the buying power of less developed countries, and increasing their incentives to penetrate U.S. and other markets. As noted below, U.S. exports to the non-OECD countries rose rapidly in 1966, but those countries will probably be less able to expand further their purchases from the U.S. or other countries this year.

With respect to foreign claims reported by U.S. banks, there was a sizable short-term outflow in March, as would be expected on a seasonal basis. Taken together with inflows in January and February, the net inflow reported by banks for the quarter (seasonally adjusted) was under \$150 million. Inflows of the banks' own funds were somewhat larger. New long-term loan commitments have diminished this year, so

that disbursements on longer-term credits are likely to continue to be lower than repayments. At the end of March leeway under the VFCR program for banks amounted to about \$1.1 billion.

Net U.S. purchases of foreign securities in the first quarter have been about normal, averaging less than \$100 million per month. The largest activity has been sales here of new Canadian bonds. U.S. investors have continued a moderate liquidation of their holdings of foreign equity securities. There has also been a continuation of foreign purchases of bonds issued by U.S. companies to finance their direct investments abroad, though the amount in the first quarter was less than \$100 million.

At this time there are still many major international transactions for which no first quarter data are available, including military expenditures, U.S. Government aid, direct investment capital outflows and income receipts, and other types of non-bank capital flows. The explanation of continued large deficits may be found in these items. However, there may also be a repetition of the large unexplained negative errors and omissions entry that appeared in the balance of payments accounts for the fourth quarter last year. This could reflect a rebuilding of sterling balances by U.S. non-banks or a lengthening of leads and lags in commercial transactions with Britain.

Very large deficits on the official transactions basis were registered in the first half of April as U.S. banks resumed repayments of borrowed funds to their European branches. Some \$350 million was returned in the two-week period. The reflow of borrowings was interrupted in mid-April, but might be expected to resume if short-term rates in the U.S. move down relative to Euro-dollar rates.

Changes in composition of U.S. imports. The leveling off in U.S. imports in January and February appears to have involved some shrinkage of imports of crude materials. Previously, from the second half of 1965 to the second half of 1966, these had risen in value much less percentagewise than total imports. (A substantial part of the "Other" imports in the table would be counted in the end-use classification as "industrial supplies and materials"; imports of such manufactured and semi-manufactured materials have increased much more than those of "crude materials.") The data used in this table are not seasonally adjusted; probably the narrowing of the very large year-over-year increase in imports of machinery and transport equipment from over 60 per cent to about 40 per cent reflects the rapid rise in this group from late 1965 into the early months of 1966 as well as a recent slowing in their rise.

U.S. IMPORTS: COMMODITY GROUPS
(Per cent changes; values in billions of dollars)

	<u>Changes (per cent)</u>		Value (\$ b.)
	Jan-Feb. 1966 to Jan-Feb. 1967	2nd Half 1965 to 2nd Half 1966	Year 1966
Crude materials ^{1/}	- 2	+ 4	3.4
Mineral fuels	+ 9	+ 5	2.3
Food, beverages, tobacco	+13	+ 7	4.6
Machinery and transport equipment	+41	+62	4.8
Other	<u>+17</u>	<u>+16</u>	<u>10.5</u>
Total	<u>+17</u>	<u>+18</u>	<u>25.6</u>

1/ And animal and vegetable oils and fats.

In terms of origins, recent year-over-year increases have been relatively slow for imports from Asia outside Japan and from Latin America. Imports from Japan in January and February were 15 per cent above corresponding months a year earlier; however the rise to a higher level of these imports ended last summer, and since then they have declined more than seasonally. No significant slowing in the rise of U.S. imports from Europe is evident in the comparison of January-February figures with those of a year ago; seasonally adjusted data to measure recent changes more sensitively are not available.

U.S. IMPORTS: ORIGINS
(Per cent changes; values in billions of dollars)

	Changes (per cent)		Value (\$ b.) Year 1966
	Jan-Feb. 1967 to Jan-Feb. 1967	2nd Half 1965 to 2nd Half 1966	
Asia, except Japan and China	+ 3	+ 8	2.3
20 Latin American Republics	+ 5	+ 7	4.0
Australia and Oceania	+ 9	+23	0.6
Africa	+25	- 4	1.0
Japan	+15	+20	3.0
Canada	+25	+27	6.1
U.K.	+22	+23	1.8
EEC	+21	+25	4.1
Other OECD Europe	+25	+22	1.6
Other ^{1/}	<u>+21</u>	<u>+12</u>	<u>1.1</u>
Total	+17	+18	25.6

^{1/} Other Western Hemisphere, other Western Europe, Communist countries, and unidentified.

Imports of other industrial countries. The pace of import expansion in other major industrial countries slowed during 1966 and probably into the first few months of 1967. The primary influences behind this

development were the fall-off of aggregate demand in Britain until the turn of the year and the decline in German total demand which apparently continued at least through March. Easing of demand in the economies of some smaller European countries -- including the Netherlands, Belgium, Sweden and Spain -- contributed to the general slackening in international trade, as did also the unexpectedly slow growth of economic activity in France.

Only in Japan and Italy was there continued rapid growth of economic activity and of imports through 1966 and into the early months of 1967. At a slower pace, imports also continued to grow in France and Switzerland. Imports to Canada increased rapidly in the fourth quarter of 1966 and on into January, but this upsurge consisted in large part of a sharp rise in Canadian imports of motor vehicles and parts under the Canadian-U.S. Automotive Agreement.

IMPORTS OF INDUSTRIAL COUNTRIES
(1965 Q-4 = 100)

	1966				1967
	Q-1	Q-2	Q-3	Q-4	Jan-Feb.
<u>Declining</u>					
Germany	101	99	98	98	92 <u>a/</u>
<u>Little or no growth</u>					
Austria	102	105	103	102	102 <u>b/</u>
Netherlands	97	98	101	97	98
Sweden	107	104	104	104	112
United Kingdom	104	101 <u>c/</u>	105 <u>c/</u>	96	107 <u>a/</u>
<u>Recently levelling</u>					
Belgium	96	102	107	107	104 <u>b/</u>
United States <u>d/</u>	104	108	114	116	116 <u>a/</u>
<u>Recently growing more slowly</u>					
France	102	106	111	113	115 <u>a/</u>
Switzerland	100	102	105	107	108
<u>Rising</u>					
Japan	108	111	118	126	131
Italy	104	105	110	116	120
Canada	101	101	102	113	118

a/ January-March. b/ January. c/ Affected by dock strike.
d/ Balance-of-payments basis; seasonals revised.

In Britain, earlier indications of a bottoming out of the brief recession that began in mid-1966 are confirmed by later data. While total industrial production (preliminary) fell back one point in February to its December level, manufacturing output remained at the January level of 133 (1958 = 100). Upturns for steel and other metals, after a low reached last November, and for textiles and related industries after December, reflect a diminution of pressures to reduce inventories of major materials.

There was a moderate recovery in consumer expenditures in the three months through February, and public investment expenditures -- mainly by nationalized industries and local authorities -- are continuing to expand rapidly, at a two-year trend rate of 8.5 per cent in volume terms, according to U.K. Treasury estimates. The Budget for 1966-67 announced this month made no changes in taxation or any other provision for reflationary measures.

It is not clear whether imports have begun to react to the strengthening of aggregate demand in Britain, because the removal of the 10 per cent surcharge in November caused a bulge in imports around the year-end. By March total imports were down to about the average of the preceding six months (September-February).

German imports declined steadily from October through March (latest). In the fourth quarter they were already lower than in late 1965, and by that time even nonfood consumer goods imports -- in recent years the category of steadiest growth -- were less than a year earlier.

No pick-up in German domestic demand has yet appeared. Industrial production declined further in February and (as seasonally

adjusted by OECD) was 7 per cent below the plateau of March-July 1966. New orders received in February were little changed from January, and for the two months together were at a new low.

A government statement issued on April 12 announced that the Ministers of Finance and Economics had been instructed to prepare additional spending measures to be used to stimulate the economy later in the year if that should prove necessary. Earlier, both President Blessing and the Chancellor had opposed the Economic Council's recommendation for further fiscal action. Also, despite the Bundesbank's readiness to finance the Federal deficit, instructions had previously been given to government departments to hold their current expenditures 25 per cent below 1966 monthly averages pending Parliamentary approval of the budget. These instructions were rescinded on April 12, and at the same time the States and local authorities were urged to push forward their own expenditure plans even if this required increased borrowings. On April 13 the Bundesbank cut its discount rate to 3-1/2 per cent; this was the third reduction made this year.

Trade of industrial countries with others. While import growth was slowing in most industrial countries, the imports of many countries in Latin America, Asia, and Africa continued to rise strongly throughout 1966. During 1965 these countries' sales to the industrial countries had increased while their own purchases had not risen much. Last year the situation was reversed: export sales by the outside countries to the industrial nations increased relatively little, but the latter found active markets in the less developed countries.

As the upper part of the following table indicates, Japan and Italy were the only two of the ten leading industrial countries whose imports from non-OECD countries in the final quarter of 1966 were substantially higher than a year earlier. U.S. imports from non-OECD countries rose strongly up to the third quarter. In the other direction, relatively large gains in exports to non-OECD countries from late 1965 to late 1966 were experienced by Japan, Italy, Germany, and the United States.

TRADE WITH NON-O.E.C.D. COUNTRIES
(in billions of dollars, annual rates)

	1965				1966			
	Q-1	Q-2	Q-3	Q-4	Q-1	Q-2	Q-3	Q-4
<u>Imports by:</u>								
U.S.	7.3	8.2	7.7	8.9	8.5	8.7	9.6	8.9
Japan	4.6	4.8	4.8	4.7	5.4	5.5	5.5	5.9
Italy	2.7	2.7	3.0	3.1	3.2	3.2	3.3	3.5
7 other industrial countries	19.4	19.9	20.6	21.2	20.7	21.2	21.7	21.2
	<u>34.0</u>	<u>35.6</u>	<u>36.1</u>	<u>37.9</u>	<u>37.8</u>	<u>33.5</u>	<u>40.2</u>	<u>39.5</u>
<u>Exports by:</u>								
U.S.	8.5	10.8	10.4	10.2	10.5	10.2	11.1	11.5
Japan	4.7	4.8	4.7	4.6	4.9	5.0	5.4	5.6
Germany	4.2	4.1	4.2	4.1	4.3	4.5	4.6	4.7
Italy	1.9	1.9	1.8	1.8	1.9	2.1	2.1	2.2
Canada	1.1	1.1	1.3	1.4	1.3	1.4	1.6	1.5
Netherlands	1.0	1.0	1.1	1.1	1.0	1.1	1.1	1.2
Sweden	0.9	0.8	0.8	0.8	0.9	0.9	0.9	0.9
U.K.	6.1	5.9	6.2	6.3	5.9	5.7	6.3	6.5
France	3.0	3.2	3.2	3.2	3.1	3.5	3.4	3.3
Belgium	0.8	0.7	0.8	0.9	0.7	0.8	0.9	0.9
	<u>32.0</u>	<u>34.3</u>	<u>34.5</u>	<u>34.4</u>	<u>34.5</u>	<u>35.2</u>	<u>37.4</u>	<u>38.4</u>

Competition in exports of manufactures. In trade with all countries, including each other as well as the smaller OECD members and the outside countries, Germany, Japan and Italy continued to gain market shares from other members of the leading ten last year. The following table relates specifically to exports of manufactures and semi-manufactures.

EXPORTS OF MANUFACTURES: SHARES
(per cent of total)

	1965	1966	1966 Q-4
United States	19.5	19.5	19.7
Japan	9.5	9.9	10.1
Germany	19.4	19.7	19.8
Italy	6.9	7.0	7.0
U.K.	13.7	13.1	13.3
France	8.9	8.7	8.5
Others ^{1/}	<u>22.1</u>	<u>22.0</u>	<u>21.6</u>
Total	100.0	100.0	100.0

^{1/} Belgium-Luxembourg, Canada, Netherlands, Sweden, and Switzerland.

Industrial countries' exports in recent months. Exports of most industrial countries continued to increase up to December or January despite the slackening growth of their aggregate imports from each other and from the outside world. With few exceptions, exports in February and (where available) March were off a little from the peaks, even though first-quarter averages were up from the preceding quarter.

The export growth of Germany and the U.K. has been spurred on by the fall in domestic demand within those economies. With capacity utilization in German industry at 83 per cent in the last quarter of 1966 compared to 88 or 89 per cent during 1964 and 1965, German producers particularly have reportedly been pushing exports in order to sustain production levels. With German imports down, the country's trade balance rose to a surplus of over \$4.5 billion, annual rate, in January-February 1967 from \$1.1 billion a year earlier. (Adjusted to the balance-of-payments basis by omission of freight on imports, the surpluses were still larger.) Britain reduced its trade deficit in the first quarter of 1967 to \$0.1 billion, annual rate, balance-of-payments basis, compared to \$0.8 billion a year earlier.

EXPORTS OF INDUSTRIAL COUNTRIES
(1965 Q-4 = 100)

	Q-1	Q-2	Q-3	Q-4	1967 Jan-Feb.
<u>Rising through 1966</u>					
Japan	113	113	117	122	124 <u>a/</u>
Germany	104	106	110	113	116 <u>a/</u>
Canada	107	106	110	116	131
U.K.	101	96 <u>c/</u>	103 <u>c/</u>	107	109 <u>a/</u>
U.S. <u>d/</u>	104	104	107	107	111
<u>Rising unevenly</u>					
Italy	105	111	109	112	119
<u>Earlier leveling, recent rise</u>					
Belgium-Lux.	95	99	99	104	103
Netherlands	95	104	101	103	109
Sweden	103	106	104	107	110
Switzerland	102	106	105	107	111
Austria	100	100	104	103	110 <u>b/</u>
<u>Level for some time</u>					
France	101	105	105	103	106 <u>a/</u>

a/ January-March.

b/ January.

c/ Affected by dock strike.

d/ Balance-of-payments basis; revised seasonals.

Japanese exports peaked out last December (as seasonally adjusted by the Bank of Japan). By March they were down 4 per cent from the fourth-quarter average. With imports still rising rapidly, the first-quarter trade balance (with imports c.i.f.) was a deficit of \$0.6 billion, annual rate, compared to a surplus a year earlier at a rate of \$0.5 billion.

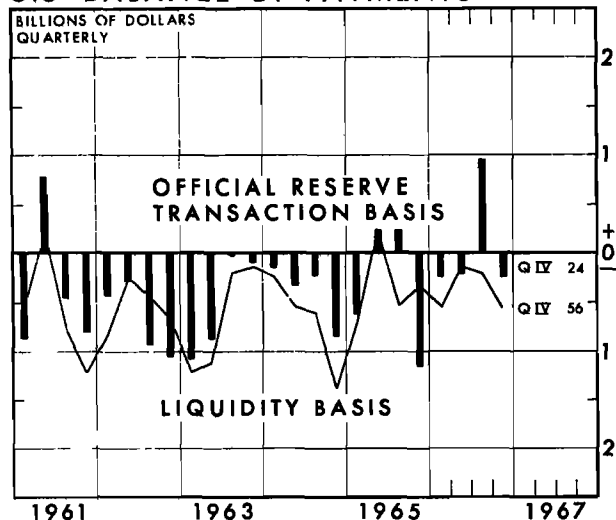
Exports of European countries that customarily send a substantial part of their total exports to Germany and the U.K. were adversely affected last year. Exports of many of the smaller countries leveled off in the course of the year. However, around the year-end renewed expansion appeared to be occurring in exports of some, especially the

Netherlands, Sweden and Switzerland. In the case of the Netherlands, this development may in part have been a by-product of the easing of internal demand.

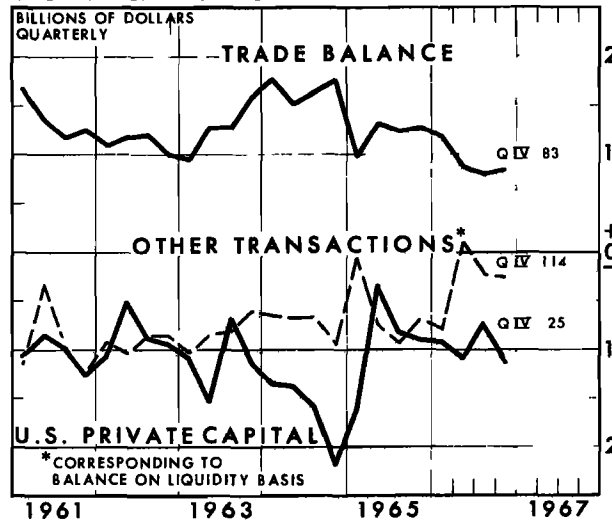
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

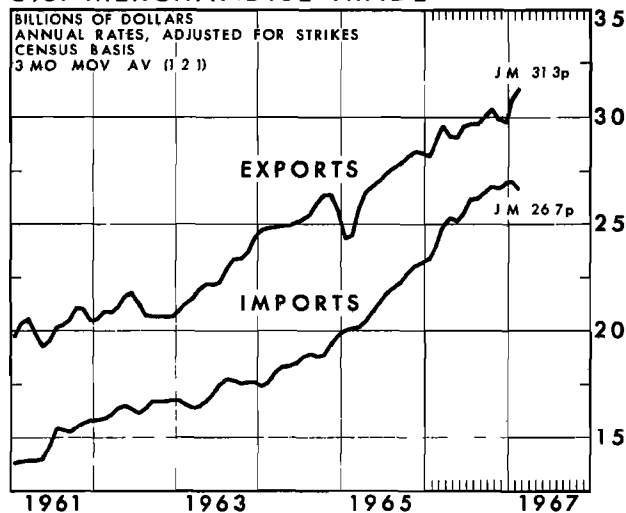
U.S. BALANCE OF PAYMENTS



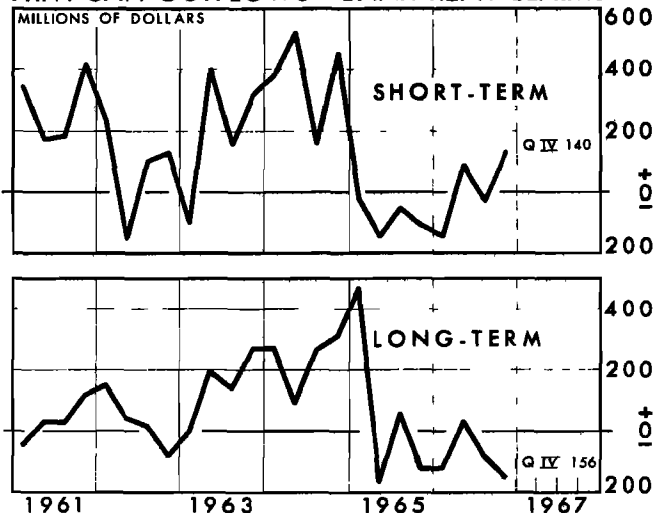
U.S. BALANCE OF PAYMENTS - CONT.



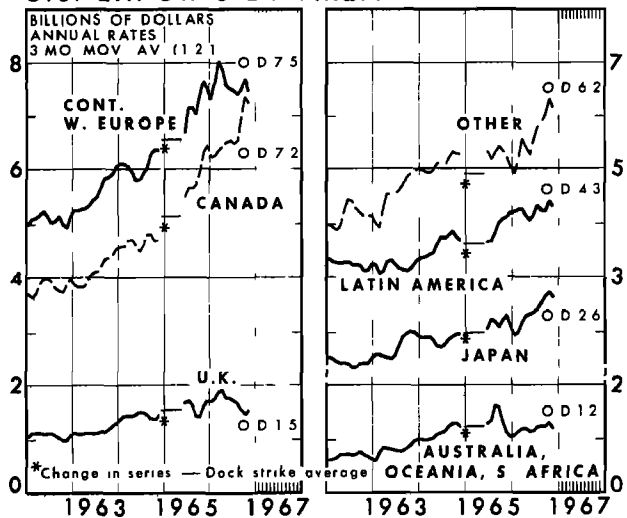
U.S. MERCHANDISE TRADE



PRIV. CAP. OUTFLOWS - BANK REPT. CLAIMS



U.S. EXPORTS BY AREA



90-DAY RATES

