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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

June 14, 1967

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SUMMARY AND OUTLOOK

Outlook for economic activity

Real growth in GNP is resuming after a slight decline in the first quarter. The second quarter rise is now expected to be somewhat larger than previously indicated. The third quarter should show substantial improvement, with real growth at a rate of between 4 and 5 per cent, as the drag on aggregate expansion from the current inventory adjustment abates.

The small increase in inventories in April suggests that the over-all adjustment is proceeding about as anticipated, with additions to total business inventories estimated at zero in the current quarter. With inventory change small and growth in final sales projected to continue strong, production and employment should start increasing during the third quarter.

Final demands have remained strong in the second quarter and are expected to maintain this pace of growth in the third quarter. The government sector continues to provide important economic stimulus, with defense spending continuing above Budget levels.

In the private sector, expenditures for consumer goods have gained momentum recently. Automobile sales have increased from the low first quarter level and nondurable goods sales showed gains in both April and May. Meanwhile, outlays for services maintain their strong upward trend. Consumption is increasing faster than disposable income currently, and the savings rate is beginning to drift down from the high first quarter rate.

Final demands also are being strongly supported by a more rapid rate in housing expenditures than estimated earlier. The projection indicates a substantial gain in residential expenditures by the third quarter, in response to commitments already made and the greater availability of mortgage credit, even though mortgage interest rates appear to be edging up. While the recent Commerce-SEC survey shows a small downward revision in anticipated expenditures for plant and equipment in 1967, the shortfall is primarily due to a lowered first quarter level. Thereafter, anticipated changes are similar to those reported in the preceding survey, and by the third quarter business fixed investment should be rising again.

Outlook for resource use and prices

Industrial production and manufacturing capacity utilization continued to drift downward in May, but the near-term prospect for little, if any, further decrease in industrial production now appears more favorable. Manufacturing capacity, it should be noted, is continuing to expand at the rate of around 0.5 per cent a month; some further decline in the rate of capacity utilization is occurring in this quarter, but the rate is expected to stabilize this summer.

Prices of sensitive industrial materials continued to decline in early May, and prices of machinery and equipment--whose earlier rapid rise had been tapering off in the early months of the year--reportedly declined slightly. Thus, despite a continuing upcreep in prices of nonsensitive materials and some other products, average wholesale prices of industrial commodities remained stable.

A renewed upward move in average prices of industrial commodities may be in prospect. Since mid-May, prices of basic industrial materials generally have moved up moderately. Given the present outlook for improved domestic demands and the near-term supply uncertainties because of the Mid-East situation and pending wage negotiations, prices of sensitive industrial materials may have ended their decline. The Mid-East situation may have a special impact on prices of crude and refined petroleum.

Prices of farm products showed an abrupt upturn in May when hog marketings fell sharply from the exceptionally high winter and early spring level, and beef production rose less than seasonally. Last month's reversal of earlier pronounced livestock price weakness was an early warning signal of the expected strengthening in prices of livestock and products through the summer and autumn. While crop prospects continue favorable, average wholesale prices of farm products and processed foods may be expected to rise further from the early May level. Reversal of the earlier large decline in retail food prices (at grocery stores) is expected to lead to larger gains in the consumer price index.

Outlook for banking

Bank credit expansion in June will be buoyed by tax borrowing, but the increase for the month, on average, is not likely to be unusually large. Tax payments in June are projected to be somewhat higher than last year, but are heavily funded with tax bills, CD's, and other money market instruments. Business loans, after declining in May are expected to increase in June by a relatively modest amount, while loans to finance companies are expected to bulge as paper dated around the tax period matures.

As the summer progresses, business loans at banks are expected to show only relatively little, if any, growth. Business financing needs will be reduced as inventories are adjusted further, tax payments decline, and businesses continue to obtain funds from the capital market. Thus, with such loan demands reduced, banks may have increased scope to help finance the Federal Government's second half cash needs and to continue investing in municipal securities.

Time and savings deposit inflows from consumers are likely to remain relatively large, and banks may continue to show interest in longer CD's so long as they hold to expectations of interest rates rising later, and in preparation for fall business loan demands. With time and savings deposit inflows remaining large and Treasury balances no longer declining, total bank deposits over the summer are likely to expand more rapidly than in recent weeks.

Capital markets outlook

In markets for long-term bonds the general stabilization of yields which developed during the past fortnight has given way to some further yield advances in recent days, but it is not clear that any cumulative upward rate movement has been set in motion. The recent renewed yield pressures center in the market for new publicly-offered corporate issues, but yields on longer-term Treasury securities have also turned up as market participants have focussed increasingly on the Treasury's large second half cash need and as System purchases of coupon issues were suspended in view of the seasonal need to absorb reserves. Only the municipal bond market where yields edged slightly lower last week has thus far resisted the most recent upward rate tendency.

Further upward pressures on intermediate and long-term rates would come chiefly from the Treasury's financing activity and the heavy immediate and forward calendar of new publicly-offered corporate bonds. While postponements and cut-backs in the size of offerings reduced the volume of corporate issues offered in May, these reductions have been swamped by further additions to the calendar for June and beyond.

It remains to be seen whether the recent strengthening of the municipal bond market represents more than a temporary investor interest and an improved technical position stemming from the reduced overhang of unsold securities. Ready placement of last week's offerings occurred in large measure because banks became more active buyers of longer maturities, presumably due to the recent sluggishness of business and other loan demands and the high after-tax yields available on municipal securities.

In secondary markets for home mortgages, where both yields changes and the availability of yield data lag those in bond markets, yields turned up slightly in May, following five consecutive months of decline. This reversal of trend apparently reflected both the immediate attractiveness of rising returns on corporate bonds to diversified institutional lenders and the prevailing market consensus that general credit conditions would create still higher interest rates later in the year.

During May, the share of savings inflows thrift institutions were allocating to mortgages remained low. This was more a reflection of the low levels of starts and transfers of existing properties and the consequent dearth of immediately available mortgages, however, than of any basic shortage in the availability of mortgage funds. It is likely that inflows of savings to these institutions will continue sizeable over the period immediately ahead. The yield spread between rates offered by savings institutions and rates on competitive short-term paper still remains favorable to the institutions, even though market rates have risen somewhat recently.

International developments

Fuller information on trade in the first four months of 1967 cautions against any great hopes that trade developments may produce substantial improvement of the over-all balance of payments in coming months. Imports were held up in January-April by growing consumer goods imports, and sugar purchases were temporarily large; it is disappointing that these and other increases were not offset by greater declines than actually occurred in imports of steel, wool, aluminum, and some other materials. On the export side, the remarkably big jump in exports this year is partly related to increased A.I.D. and P.L. 480 grants and credits.

It now appears that the persistence of a very large liquidity deficit before special transactions in the first quarter was not due to enlarged unrecorded outflows nor, as some people had feared, to abnormal direct investment outflows to avoid anticipated tightening of restrictions. Besides the Government grant and loan transactions just mentioned, unfavorable factors included a large further increase in U.S. military expenditures abroad, a drop in receipts of investment income from abroad, and a pickup in U.S. private purchases of foreign securities. There is no early prospect of improvement in the Government accounts, and outflows of U.S. private capital are likely to continue near recent levels.

A development tending to hold down the deficit on the official reserve transactions bases, which had been extremely large in the first four months of the year, has been the cessation of U.S. bank repayments to the Euro-dollar market since the end of April.

Cyclical demand developments abroad do not yet show clear signs of change, either toward recovery in Germany and Britain or slow-down in Italy and Japan. In financial markets de-escalation of interest rates seems, for the time being at least, to have run its course. German long-term rates remain around 6-3/4 per cent. In Britain, new balances of payments worries have adversely affected bond prices. Canadian interest rate developments have resembled ours, except that short-term rates as well as long-term rose in May.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest Period	Amount: Latest Period	Amount: Preced'g Period	Amount: Year Ago	Per cent change: Year Ago*	Per cent change: 2 Yrs. Ago*
Civilian labor force (mil.)	May'67	76.2	76.7	75.1	1.4	2.6
Unemployment (mil.)	"	2.9	2.8	2.9	0.1	-14.4
Unemployment (per cent)	"	3.8	3.7	3.9	-	-
Nonfarm employment, payroll (mil.)	"	65.4	65.5	63.5	3.0	8.4
Manufacturing	"	19.1	19.2	19.0	0.7	7.0
Other industrial	"	8.0	8.1	8.0	0.2	2.6
Nonindustrial	"	38.3	38.2	36.5	4.8	10.4
Industrial production (57-59=100)	Apr'67	155.9	156.4	153.9	1.3	10.6
Final products	"	156.5	156.5	152.9	2.4	12.2
Materials	"	155.4	155.9	154.5	0.6	9.1
Wholesale prices (57-59=100)1/	"	105.3	105.7	105.5	-0.2	3.5
Industrial commodities	"	105.1	105.1	103.9	1.2	3.2
Sensitive materials	"	100.7	101.3	106.4	-5.4	-0.9
Farm products, foods and feeds	"	103.4	104.6	108.7	-4.9	3.2
Consumer prices (57-59=100)1/	"	115.3	115.0	112.5	2.5	5.5
Commodities except food	"	108.4	107.8	106.0	2.3	3.2
Food	"	113.7	114.2	114.0	-0.3	6.0
Services	"	126.6	126.3	121.1	4.5	7.9
Hourly earnings, mfg. ($)	May'67	2.79	2.80	2.69	3.7	7.3
Weekly earnings, mfg. ($)	"	112.28	112.90	111.49	0.7	4.9
Personal income ($bil.)2/	Apr'67	614.1	612.7	570.5	7.6	17.5
Corporate profits before tax ($bil.)2/	QI'67	77.3	81.8	82.7	-6.5	3.8
Retail sales, total ($ bil.)	May'67	26.1	25.9	24.5	6.5	11.8
Autos (million units)2/	"	7.5	7.6	7.3	3.3	-7.4
GAF ($ bil.)	"	6.3	6.4	5.8	8.4	18.1
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	Apr'67	1,171	1,161	1,502	-22.0	-24.5
Factory workweek (hours)	May'67	40.3	40.5	41.5	-2.9	-2.2
New orders, dur. goods ($ bil.)	Apr'67	22.3	22.1	24.2	-7.7	1.3
New orders, nonel. mach. ($ bil.)	"	3.5	3.4	3.5	-2.2	11.4
Common stock prices (1941-43=10)	May'67	92.59	90.96	86.78	6.7	3.7
Inventories, book val. ($ bil.)	Apr'67	137.2	137.1	124.7	10.0	19.9
Gross national product ($ bil.)2/	QI'67	763.7	759.3	721.2	5.9	15.6
Real GNP ($ bil., 1958 prices)2/	"	656.7	657.2	640.5	2.5	9.4

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

SELECTED DOMESTIC FINANCIAL DATA

	Week ended June 9	Four-Week Average	Last six months High	Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent)	3.83	3.93	6.00	2.50
U.S. Treas. bills, 3-mo., yield (per cent)	3.41	3.48	5.19	3.46
Net free reserves 2/ (mil. $)	284	274	284	-268
Member bank borrowings 2/ (mil. $)	77	88	647	50
Security Markets (N.S.A.)				
Market yields 1/ (per cent)				
5-year U.S. Treas. bonds	4.78	4.77	5.25	4.38
20-year U.S. Treas. bonds	4.87	4.90	4.98	4.44
Corporate new bond issues, Aaa	5.71	5.71	5.73	5.11
Corporate seasoned bonds, Aaa	5.37	5.24	5.39	4.99
Municipal seasoned bonds, Aaa	3.76	3.77	3.78	3.25
FHA home mortgages, 30-year 3/	6.29	6.29	6.77	6.29
Common stocks S&P composite index 4/				
Prices, closing (1941-43=10)	90.51	91.03	94.44	80.38
Dividend yield (per cent)	3.22	3.22	3.65	3.12

N.S.A. -- not seasonally adjusted.
1/ Average of daily figures. 2/ Averages for statement week ending June 7, 1967
3/ Latest figure indicated is for month of April. 4/ Data are for weekly closing prices.

	Latest month	Billions of dollars: Outst. Latest month	Billions of dollars: Change Latest month	Billions of dollars: Change Average-latest 3 months	Annual rate (per cent): Change Latest month	Annual rate (per cent): Change Latest 3 months	Annual rate (per cent): Change 12 months
Banking (S.A.)							
Total reserves 1/	May 1967	24.30	- 0.03	0.15	-1.7	7.5	3.4
Credit Proxy 1/	May 1967	257.2	0.4	2.2	1.9	10.3	5.8
Bank Credit 2/							
Total	May 1967	326.1	2.3	3.3	8.5	12.5	7.3
Business loans	May 1967	82.5	-0.3	0.6	-4.3	9.4	11.2
Other loans	May 1967	131.6	0.3	0.5	2.7	4.6	4.4
U.S. Gov't. sec.	May 1967	57.4	1.0	0.8	21.3	18.2	4.2
Other securities	May 1967	54.7	1.4	1.1	31.5	31.5	13.3
Money and other liquid assets							
Total 1/ 2/	April 1967	615.8	1.4	3.8	2.7	7.5	4.4
Demand deposits & currency 1/	May 1967	174.1	2.0	1.2	13.9	8.7	2.3
Time and savings, comm. banks 1/	May 1967	169.3	2.0	2.0	14.3	15.0	11.4
Savings accounts, other institutions 2/	April 1967	173.9	1.5	1.6	10.4	11.4	6.0
Other 2/ 3/	April 1967	102.5	-1.4	-0.9	-16.2	-10.3	-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 Apr.	1967 Mar.	1967 QI	1966 QIV	1966 QIII	1966 QII	1966 QI	1966 Year (billions)
			Seasonally adjusted					
Current account balance			1,078	838	873	1,108	1,273	4.1
Trade balance 1/	405	355	1,001	722	802	956	1,178	3.7
Exports 1/	2,630	2,540	7,690	7,402	7,382	7,181	7,203	29.2
Imports 1/	-2,225	-2,185	-6,689	-6,680	-6,580	-6,225	-6,025	-25.5
Services, etc., net			77	116	71	152	95	0.4
Capital account balance			-1,416	-1,028	-1,315	-1,032	-1,691	-5.1
Govt. grants & capital 2/			-1,205	-724	-759	-988	-975	-3.4
U.S. private direct investment			-695	-922	-900	-1,006	-634	-3.5
U.S. priv. long-term portfolio			-154	69	-5	-69	-252	-0.3
U.S. priv. short-term			-157	-231	-27	-60	-95	-0.4
Foreign nonliquid			795	780	376	1,091	265	2.5
Errors and omissions			-206	-229	277	-198	-233	-0.4
			Balances, with and without seasonal adjustment (- = deficit)					
Liquidity bal., S.A.			-544	-419	-165	-122	-651	-1.4
Seasonal component			301	-47	-530	-27	604	--
Balance, N.S.A.	-336	-224	-243	-466	-695	-149	-47	-1.4
Official settlements bal. S.A.,			-1,822	-18	861	-175	-443	0.2
Seasonal component			543	-180	-456	-210	846	--
Balance, N.S.A. 3/	-622	-538	-1,279	-198	405	-385	403	0.2
Memo items:								
Monetary reserves (decrease -)	51	-143	-1,027	6	-82	-68	-424	-0.6
Gold purchases or sales (-)	50	23	-51	-121	-173	-209	-68	-0.6

1/ Balance of payments basis which differs a little from 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

Gross national product. Gross national product is expected to advance by $10 and $14 billion, respectively, in the second and third quarters, after a gain of only $4.5 billion in the first quarter. With the GNP defaltor continuing to rise at the first quarter annual rate of 2.8 per cent, real growth in output would increase to 2.3 per cent in the second quarter and 4.5 per cent in the third quarter.

This expected acceleration in aggregate expansion reflects continued strong growth in final sales, with a diminishing drag from the adjustment of business inventories. Thus, final sales are projected as growing a little more rapidly in this and the next quarters, but the slowing in inventory purchases, which cut almost $11 billion from the first quarter advance is expected to offset only about $2 billion of the rise in final sales by the third quarter.

The contribution by the public sector of about $5 billion to final sales in each quarter will be smaller than in the first quarter. Defense expenditures are projected to increase by only $2.8 billion in the second quarter and $2.5 billion in the third, following a rise of over $4 billion in the first quarter. Larger gains in private final sales, however, would offset the smaller increases in defense expenditures. Upward revised April and the higher May retail sales data suggest larger consumer expenditures than were previously predicted, and gains of approximately $8 billion in consumption are now projected for the second and third quarters, compared with a rise of less than $6 billion in the first quarter. Nondurables sales are expected to show further strength, and durable goods outlays would also rise, principally reflecting moderately expanding auto sales.

The indicated growth in consumption outpaces the rise in disposable income, and the saving rate would drift down from the very high first quarter rate. Nevertheless, the savings rate at 6.2 per cent in the third quarter would still be high by historical standards.

Residential construction expenditures also are expected to provide a somewhat larger contribution to final demands than earlier estimates indicated. An increase of nearly $2 billion dollars in outlays is now anticipated in this and the next quarter, as housing starts rise to a rate of 1.3 million in the third quarter. These increases reflect, in part, the greater availability of mortgage money. In addition, the steady increase in building permits, the substantial increase in mortgage commitments by major lender groups, and declines in vacancies lend further support to the expectation of continued but moderate advances in residential construction expenditures throughout this year.

Our estimates of business fixed investment are consistent with the recent Commerce-SEC quarterly survey of business intentions and show a rise in expenditures in the third quarter. The projected outlays for all of 1967 have been revised downward by one per cent from the preceeding survey taken in January, but all the decline was reported in expenditures for the first quarter. Thus, while the level for the year has been lowered, the pattern of expanding investment in the third and fourth quarters remains the same. The Commerce-SEC survey was conducted in April and May, when manufacturing capacity utilization had declined to 86 per cent and first quarter profits had fallen 5.5 per cent, and before the investment tax credit was reinstated. Higher spending plans under these conditions suggest the strong underlying optimistic expectations of businessmen.

Our estimates include defense expenditures above the levels projected in the Budget, and small increases in other Federal purchases in the second and third quarters. Further steady gains in consumer services, net exports, and State and local government outlays are in line with the previous projection and provide important impetus to continued economic expansion.

The small net addition to business inventories in April indicates that the adjustment is progressing in a generally satisfactory manner, although inventories continue to be excessive and still rising in some durable goods manufacturing industries. The rate of inventory accumulation, as measured by book value, has now declined from the December 1966 rate of over $20 billion to a $1 billion annual rate in April. For this quarter as a whole no net change in business stocks is expected--with further liquidation of trade inventories offsetting any additional accumulation in manufacturers' stocks. Some moderate over-all liquidation is likely in the next quarter as automobile stocks are drawn down due to anticipatory buying by consumers seeking to avoid any risk of a possible strike.

The stock-sales ratio for all business has remained relatively stable since January. Substantial adjustments at the distributors' level have brought their stocks about into line with sales, but the stock-sales ratio for manufacturers has climbed to the very high level of 1.82. The major increase in manufacturers' inventories, relative to sales, has occurred in defense goods; these may not pose the same problems of potential liquidation as would inventories destined for private consumption, so that major adjustments do not seem likely in this area. Liquidation of inventories in other durable industries may still retard production in some industries until increasing shipments siphon off the surplus stocks. However, the value of all new orders received by manufacturers has increased in each successive month since January, and machinery and equipment orders have shown no decline since February, following earlier weakness. This together with evidence of sustained strong growth in final sales would seem to foreshadow a turnaround in manufacturing shipments and production.

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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			1967	1967 Projected	
			II	III	IV	I	II	III
Gross National Product	681.2	739.6	732.3	745.3	759.3	763.7	773.5	787.5
Final sales	672.1	727.7	720.0	735.4	742.9	758.1	773.5	789.5
Private	535.9	574.7	571.0	579.2	581.8	589.0	599.2	610.2
Personal consumption expenditures	431.5	464.9	460.1	469.9	474.1	479.9	488.0	495.6
Durable goods	66.1	69.3	67.1	70.2	69.6	68.4	69.0	70.5
Nondurable goods	190.6	206.2	205.6	208.1	209.2	212.5	216.1	218.5
Services	174.8	189.4	187.4	191.5	195.3	199.1	202.9	206.6
Gross Private domestic investment	106.6	117.0	118.5	115.0	120.0	109.3	105.2	106.1
Residential construction	27.8	25.8	28.0	24.8	21.9	22.1	23.9	25.9
Business fixed investment	69.7	79.3	78.2	80.3	81.6	81.6	81.3	82.2
Change in business inventories	9.1	11.9	12.3	9.9	16.4	5.6	.0	-2.0
Nonfarm	8.1	12.2	12.1	10.4	17.6	6.0	.0	-2.0
Net Exports	7.0	4.8	4.7	4.2	4.1	5.4	6.0	6.5
Gov't purchases of goods & services	136.2	153.0	149.0	156.2	161.1	169.1	174.3	179.3
Federal	66.8	76.9	74.0	79.0	81.7	87.0	90.0	92.8
Defense	50.1	60.0	57.1	62.0	65.5	69.7	72.5	75.0
Other	16.7	16.9	16.9	17.0	16.2	17.2	17.5	17.8
State & local	69.4	76.2	75.0	77.2	79.4	82.1	84.3	86.5
Gross National Product in constant (1958) dollars	614.4	647.8	643.5	649.9	657.2	656.7	660.5	667.9
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	609.7	617.5	629.0
Wage and salaries	358.4	392.3	387.4	396.7	405.0	411.8	418.5	427.0
Disposable income	469.1	505.3	499.9	507.8	518.4	528.5	536.5	544.5
Personal saving	25.7	27.0	26.6	24.5	30.4	34.4	33.9	33.9
Saving rate (per cent)	5.5	5.3	5.3	4.8	5.9	6.5	6.3	6.2
Total labor force (millions)	77.2	78.9	78.4	79.1	79.8	80.3	80.3	80.7
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	76.8	77.2
Unemployment rate (per cent)	4.5	3.8	3.8	3.8	3.7	3.7	3.9	3.9
Nonfarm payroll employment (millions)	60.8	63.9	63.6	64.1	64.8	65.5	65.4	65.6
Manufacturing	18.0	19.1	19.0	19.2	19.4	19.4	19.1	19.1
Industrial production (1957-59=100)	143.4	156.3	155.2	157.6	158.8	157.0	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

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

	1965	1966	1966 II	1966 III	1966 IV	1967 I	1967 Projected II	1967 Projected III
				(Billions of Dollars)				
Gross National Product	49.5	58.4	11.1	13.0	14.0	4.4	9.8	14.0
Final sales	45.1	55.6	7.7	15.4	7.5	15.2	15.4	16.0
Private	37.8	38.8	3.7	8.2	2.6	7.2	10.2	11.0
GNP in constant (1958) dollars	34.4	33.4	3.0	6.4	7.3	- 0.5	3.8	7.4
Final sales	30.2	31.1	- 0.1	8.9	1.2	9.5	9.5	9.4
Private	27.4	22.0	- 2.2	4.4	- 2.2	4.2	6.3	6.4
				(Per Cent)				
Gross National Product	7.8	8.6	6.2	7.1	7.5	2.3	5.1	7.2
Final sales	7.2	8.3	4.3	8.6	4.1	8.2	8.1	8.3
Private	7.6	7.2	2.6	5.7	1.8	4.9	6.9	7.3
Personal consumption expenditures	7.5	7.7	3.9	8.5	3.6	4.9	6.7	6.2
Durable goods	11.3	4.8	-18.2	18.5	- 3.4	- 6.9	3.5	8.7
Nondurable goods	6.5	8.2	7.3	4.9	2.1	6.3	6.8	4.4
Services	7.2	8.4	8.7	8.7	7.9	7.8	7.6	7.3
Gross private domestic investment	14.6	9.8	14.0	-11.8	17.4	-35.7	-15.0	3.4
Residential construction	0.7	- 7.2	- 8.4	-45.7	-46.8	3.7	32.6	33.5
Business fixed investment	14.8	13.8	6.2	10.7	6.5	0.0	-1.5	4.4
Gov't purchases of goods & services	5.7	12.3	11.0	19.3	12.5	19.9	12.3	11.5
Federal	2.5	15.1	11.7	27.0	13.7	25.9	13.8	12.4
Defense	0.2	19.8	18.3	34.3	22.6	25.6	16.1	13.8
Other	9.9	1.2	-11.5	2.4	-18.8	24.7	7.0	6.9
State & local	8.9	9.8	10.4	11.7	11.4	13.6	10.7	10.4
GNP in constant (1958) dollars	5.9	5.4	1.9	4.0	4.5	- 0.3	2.3	4.5
Final sales	5.2	5.1	- 0.1	5.6	0.7	5.9	5.8	5.7
Private	5.9	4.5	- 1.7	3.4	- 1.7	3.3	4.9	4.9
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	7.6	5.1	7.4
Wage and salaries	7.4	9.5	7.8	9.6	8.4	6.7	6.5	8.1
Disposable income	7.4	7.7	3.9	6.3	8.3	7.8	6.1	6.0
Nonfarm payroll employment	4.2	5.1	4.9	3.3	4.0	4.3	-0.6	1.2
Manufacturing	4.4	5.8	6.9	3.5	4.0	0.0	-6.2	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	80.0	0.0	33.3
Sales new U.S.-made autos	15.0	- 4.4	-62.8	33.6	-15.8	-39.5	16.4	21.1

Industrial production. Industrial production in May is estimated to have declined about one-half point from the April figure of 156.0 per cent. At this level, the May index is only slightly above a year earlier and 2.2 per cent below the peak last December. The May decline was centered mainly in industrial materials, as output of consumer goods and equipment apparently changed little.

Auto assemblies in May were at the April annual rate of 7.7 million units. June production schedules have been raised above earlier postings, but the increase from May is about in line with the usual industry practice prior to the model-changeover period. Output of television sets rose from the April low, but was still 25 per cent below last December's peak. The May increase was due in part to the introduction of new models by some manufacturers. Manufacturers' stocks of TV continued to rise and price cuts were announced on a number of the new color models. Available data indicate that output of household appliances was changed little from the reduced April rate. Production of defense equipment and commercial aircraft rose further. Output of commercial equipment was unchanged but that of industrial equipment declined again.

Among materials, production of steel ingots changed little, but declines appear to have occurred in textiles, paper, and in some chemical products. Output of rubber products declined further as the strike in the tire industry, which began on April 21, continued through May.

The December-May decline in the total index was entirely in the manufacturing sector, as output at mines and utilities changed little during this period. Within manufacturing, production of durable goods declined more than that of nondurable goods, and, with defense equipment continuing to rise, the production decline was centered in non-defense industries. The production decline occurred in the context of declining shipments (through April the decline in shipments exceeded the decrease in output) and continued increases in inventories and in stock-sales ratios.

Retail sales. Retail sales in May rose .5 per cent from the upward revised April figures, according to the "advance" figures, and were 6.5 per cent above the reduced year ago level. Estimates for April now indicates a rise of .7 per cent instead of the small decline shown by the "advance" estimates a month ago. Sales at durable goods stores in May were little changed from April, although sales at furniture and appliance stores continued the downtrend prevailing since the beginning of the year.

At nondurable goods stores, sales rose one per cent in May, about the same as in April, and all outlets except general merchandise stores shared in the rise. An increase of 1.3 per cent in sales at food stores apparently reflected, in part, higher food prices. In April and May, sales at nondurable goods stores, as a whole, averaged 2 per cent higher than in the first quarter of the year.

Auto markets. Domestic deliveries of new cars in the month of May were at a seasonally adjusted annual rate of 7.5 million units. This was about the same as the April rate, and 3 per cent above a year ago. In the first 10 days of June, sales were moderately above early June a year ago, suggesting a significant rise in sales this month--possibly approaching the 8.3 million annual rate of June 1966.

The stock of new cars at the end of May was 1.43 million units unchanged from April 30, but 15 per cent below a year earlier. At the May selling rate, the stock represented a 50 days' supply, a level reported by the industry to be reasonable at this point in the model year.

Prices of used cars sold at auction (seasonally adjusted) declined in May, following an irregular upward movement in the preceding five months. Used car prices in the first five months of 1967 averaged 2 per cent below the corresponding period a year earlier.

Consumer credit. The rate of expansion in consumer instalment credit slackened again in April, following a slight upturn in March. However, the slowdown in outstandings was more a reflection of changes in repayments than changes in extensions. Indeed, new credit extensions advanced in April, but repayments on old debt rose by an even larger margin. The rise in extensions--to which all major types of instalment credit contributed--amounted to almost $100 million, the largest monthly rise since last November.

CONSUMER INSTALMENT CREDIT
(Millions of dollars, seasonally adjusted)

Period	Extensions	Repayments	Net Increases
1966 - October	6,522	6,142	380
November	6,657	6,213	444
December	6,433	6,112	321
1967 - January	6,501	6,221	280
February	6,497	6,281	216
March	6,510	6,246	264
April	6,606	6,393	213

The net increase in outstanding credit in April was less than half that of a year earlier and the smallest monthly increase since January 1962. Auto credit actually declined $18 million, the second time this year that the change has been negative. Repair and modernization credit also declined in April, but this merely continued a pattern of small declines that has presisted since last summer.

The decline in auto and home improvement credit were more than offset by advances in the personal loan and other consumer goods categories. The latter category has continued to show up rather strongly in recent months, owing largely to increased credit card activity at banks and elsewhere. But personal loan volume is still sluggish by most past standards and particularly in light of continued strong demand for services. Apparently more and more consumers are using credit cards for travelling and vacation purposes, whereas formerly they would have used personal cash loans.

From all indications, tax borrowing by consumers was not an important factor in the credit picture this April. This probably was due largely to the graduated-withholding procedures instituted last year, but the ability of consumers to avoid borrowing for tax purposes has been enhanced in recent months by an improved liquidity position and by increases in discretionary income.

Construction activity. Value of all new construction put in place edged up in May, according to confidential advance projections from the Census Bureau. This development was associated with a 2 per cent downward revision in the initial projection for April, however, and raised the possibility that total construction outlays in the second quarter as a whole might at best change little from the moderately improved $73.1 billion annual rate reached in the first quarter of the year.

While private residential construction by May had advanced a tenth from its low at the end of 1966, the advance so far this srping has not been sufficiently large to offset a recent fairly sharp reduction in the level of outlays for private nonresidential structures. Although the private nonresidential rate was estimated to have changed little in May, it followed a 4 per cent downward revision for April as activity on industrial plants continued to fluctuate below earlier peaks and outlays for commercial structures remained in decline. Public construction activity, which apparently was also overstated initially for April, was at a record high in May.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FR)

	May 1967 ($billions)1/	Per cent change from	
		April 1967	May 1966
Total	72.9	+ 1	- 4
Private	48.0	+ 1	- 8
Residential	22.6	+ 1	-17
Nonresidential	25.4	—	+ 1
Public	24.9	+ 2	+ 4

1/ Seasonally adjusted annual rates; preliminary. Data for the most recent month (May) made available under a confidential arrangement with the Census Bureau. Under no circumstances should any public reference be made to them.

Data on actual starts and permit activity for May are not yet available. Some moderate increase in the seasonally adjusted annual rate of starts from the 1.16 - 1.17 million plateau which has prevailed since February seems likely. However, the rate may fall short of the 1.30 million level reached in January, and the second quarter average as a whole will probably not be appreciably changed from the low, though improved, first quarter average.

Indications are that builder plans for new housing units as well as buyer demands for both new and existing homes had been inhibited, in part, by expectations of further declines in mortgage rates over the near term. Thus, the sudden turn in interest rate expectations which has developed in recent weeks introduces a new and different cross-wind in the currently sensitive mortgage market.

Nevertheless, prospects for a further rise in starts through the third quarter, to an average somewhat in excess of a 1.3 million rate, still seem reasonably good. This judgment as based on the momentum builders had already begun to achieve this spring and on some improvement in the level of forward commitments this year. Moreover, the under-building which has prevailed since early 1966 may soon bring actual shortages to localities in some areas--notably the North Central states and the South, with continuing upward pressure on prices of the available housing stock. Consequently, so long as funds remain available, higher yields required by lenders should tend to moderate rather than disrupt the pace of the advance initially projected for the remainder of the year.

Business inventories. Business inventory accumulation dropped sharply to a very low level in April, as a spurt in the book value of manufacturing inventories was mostly offset by a pronounced decline in trade inventories. March trade inventory figures were revised upward (at wholesale only), to show little change for the month instead of appreciable liquidation, and this results in some upward revision in the rate of business inventory accumulation indicated for the first quarter.

At manufacturers, inventories increased over $600 million in April, almost double the March rise and about the same as the first quarter monthly average. The April rise reflected mainly larger accumulation in durable goods industries--particularly iron and steel, construction materials and some other materials and semi-fabricated lines--and was associated with a drop in shipments to the lowest level since January 1966--with the result that the stock-sales ratio for all durable goods combined rose to the highest level since the spring of 1958. Inventory accumulation by nondurable goods producers in April continued at about the first quarter rate, and stock-sales ratios continued to run moderately above year-earlier levels.

The book value of trade inventories declined by over $500 million in April, with wholesalers showing an abrupt shift to sizeable liquidation from moderate accumulation in the first quarter (and very large accumulation in the fourth) and with retailers continuing the liquidation that began in January. Inventories at retail stores selling durable goods--particularly auto dealers--continued downward in April, and durable wholesalers also reported some liquidation, but the feature of April developments was a sizeable drop in wholesale and retail stocks of nondurable goods following continued though moderate expansion in these stocks during the first quarter. The large April decline in inventories accompanied a noticeable pick-up in sales by nondurable trade concerns.

From December through April, trade inventories declined almost $800 million, or 1 1/2 per cent--with nearly $600 million of the decline in durable goods--and the trade stock-sales ratio declined appreciably from the relatively high end-of-the-year level of 1.36. At 1.33 in April, the trade stock-sales ratio had moved back fairly close to the 130-131 average range prevailing during most of the period from 1962 to 1966.

As noted, the stock-sales ratio for durable manufacturing industries was at an unusually high level in April, and the need for further inventory adjustment appears to be concentrated mainly in that sector. Attitudes of the producers themselves toward the amount of adjustment in prospect were recorded in the Commerce quarterly survey conducted in May. According to this survey, durable goods producers anticipate a sizeable further reduction in the rate of their inventory accumulation from the first to second quarters. But they then anticipate a rise in the rate of inventory accumulation in the third quarter--back almost to the first quarter rate. These inventory anticipations are associated with optimistic projections of sales: a 1 1/2 per cent rise from the first to second quarters (quite strong in view of the fact that April sales were <u>down</u> 2 1/2 per cent from the first quarter average) and a further increase of 3 1/2 per cent from the second to the third quarters. The combination of these inventory and sales expectations would reverse the April bulge in the durable goods stock-sales ratio but would leave it at the end of September close to the high first quarter level.

The forecasting record of this survey was very poor from mid-1965 through 1966, when the developing high rates of inventory accumulation were consistently and grossly underestimated. In the first quarter this year, however, the survey correctly anticipated the large decline in the rate of accumulation that actually occurred. The sequence of inventory and sales developments now envisaged by durable goods producers for the second and third quarters are clearly based on a very optimistic interpretation of the business outlook and reflect an unusual willingness to keep total inventories much higher relative to sales than during most earlier years of this expansion period. In part this may reflect the anticipation of continuing inventory accumulation at a sizeable pace in defense industries and perhaps also some pick-up in stock building in machinery and equipment industries (where the rate of accumulation has slowed markedly since the third quarter last year)--both sectors in which stock-sales ratios tend to average well above those for other durable industries. The survey findings should be viewed with skepticism, but they provide support for the view that the bulk of the over-all business inventory adjustment is over.

Plant and equipment expenditures. Business fixed capital spending in 1967 will total $62.4 billion, 2.9 per cent more than such spending last year, according to the Commerce-SEC survey of business plans taken in late April and May. This small gain would follow the unusually large increases in 1966, 1965, and 1964, 16.7, 15.7, and 14.5 per cent, respectively. The gain now indicated for this year is one percentage point less than was being planned three months earlier. The downward revision in spending plans for this year largely reflects a 7.3 per cent annual rate of decline in actual expenditures in the first quarter, instead of the 1.3 per cent decline being planned in late January and February. Total nonfarm plant and equipment outlays, according to the latest survey, will decline slightly further in the current quarter and then rise moderately in the last half of the year.

The second quarter decline is somewhat less and the rise in the last half of the year a bit more than the January-February survey had indicated. Fixed capital spending in the last half of the year is now indicated to be only $125 million (.7 per cent) less than was planned earlier this year.

CHANGES IN PLANT AND EQUIPMENT EXPENDITURES,
ALL INDUSTRIES
(Per cent, annual rates)

Period	January-February Survey	April-May Survey
1966 to 1967	3.9	2.9
1966-IV to '67-I	- 1.3	- 7.3
1967-I to '67-II	- 2.2	- .6
1967-II to '67-III	--	8.1
1967-III to '67-IV	--	5.1
1967-I&II Quarter Average to 1967-III&IV Average	3.4	5.2

The downward revision in earlier plans for this year's fixed capital spending occurred principally in the nonrail transportation, commercial, and communications industries. Within manufacturing, producers of durable goods now plan to spend less for new plant and equipment than they indicated in January and February, and nondurable goods producers plan to spend more. However, producers of transportation equipment including motor vehicles and parts, have increased their fixed investment plans and producers of food and beverages and of textiles have lowered their earlier plans. Railroads have increased spending plans slightly from last winter, but these higher outlays will still be substantially less than spent last year. Producers of motor vehicles and parts, stone, clay, and glass, and textiles also plan smaller outlays than made last year.

Fixed capital spending over the balance of this year will follow unusually diverse patterns from industry to industry, and the volatility of these patterns seems to be unusually great. (See Table.) In the second and third quarters, for example, spending planned by non-durable goods manufacturers is indicated to increase sharply but then to decline sharply in the final quarter. Investment by machinery producers and motor vehicles and parts makers will surge in the final quarter of the year, while that by paper, chemicals, and petroleum industries will decline sharply. Outside of manufacturing, investment now planned for the fourth quarter by the communication, commercial and other grouping rises sharply, while that planned by public utilities drops sharply.

CHANGE IN PLANT AND EQUIPMENT SPENDING
(Per cent, Annual rates)

	1967			
	I	II	III	IV
All industries	- 7.3	- .6	8.1	5.1
Manufacturing	1.4	- 7.9	15.4	- 2.8
Durable goods	- 8.3	.0	11.3	8.2
Nondurable goods	13.6	-17.5	18.3	-13.1
Nonmanufacturing	-14.3	5.3	2.9	11.6

Manufactuers' unexpected funds on plant and equipment projects already underway at the end of March were slightly higher than three months earlier and 3 per cent higher than a year earlier. New investment projects initiated by public utilities in the first three months of this year were up nearly 50 per cent from a year earlier and the carry-over of public utilities at the end of March was up sharply from both three months and a year earlier.

Labor market. Renewed growth in employment and the labor force can be expected in June with the entrance into the labor market of large numbers of young persons. Most of the 2 million new young workers entering the labor force should find jobs in private service and in government sectors where demand for labor continues strong. Special efforts by communities and business to provide summer job opportunities for young persons are also being made this year as in previous years. Some temporary rise in unemployment may occur and will mainly reflect the search for permanent jobs by college and high school graduates who may take longer to find the kind of job most suited to their training and experience.

Employment changes in May continued to reflect a pattern of some weakness in the labor market. Total nonagricultural employment dipped for the second month in a row and manufacturing employment experienced the fourth consecutive month of decline. However, there were some signs that the dip in employment may have been leveling off; the decline in factory jobs in May was smaller than in previous months and the weekly figures on unemployment insurance claims suggested that fewer layoffs were occurring toward the end of May and in early June. Moreover, the labor market continued to remain remarkably tight in the face of several months of easing employment. The unemployment rate in May was 3.8 per cent, up only one-tenth over the month, and still one of the lowest rates in a dozen years.

Total nonfarm employment was down by 44,000 in May, and 165,000 from its March 1967 peak. But the decline in May was much more moderate than had occurred in the previous month. Employment declines in durable goods manufacturing industries in May were generally smaller than in recent months and were concentrated in the primary and fabricated metals industries. In transportation equipment, employment rose as auto production increased from its April level. In fact, aside from the reduction of 47,000 in the rubber industry, where workers of three big companies were on strike, employment in most manufacturing industries, durable and nondurable, was relatively unchanged over the month.

Other than in government and the private services, employment in the nonmanufacturing sectors of the economy has shown little buoyancy in the past several months. Employment in transportation and public utilities has shown no employment increase at all since January; this is not unusual in a period of employment slack for this cycle-sensitive industry, whose employment changes are tied closely to those of manufacturing. But the relative lack of employment growth has also been apparent in trade and construction. Trade has provided little upward momentum to employment so far this year. A large rise in seasonlly adjusted trade employment in April was virtually eliminated after a re-examination and revision of the seasonal factors for the Easter period. Trade employment showed little change in May, and remained only slightly above the January level.

Construction employment was reduced substantially further in May, and after three months of decline, it was some 200,000 below February, and a quarter million below its peak in March 1966. Part of the 100,000 decline this May reflected the unusually cold and wet spring in many parts of the country; in part, the seasonally adjusted dip reflected the relatively large number of small strikes that accompany increased collective bargaining at this time of year.

Unemployment. The remarkable stability of the overall unemployment rate continued in May despite the lack of growth of employment; the 3.8 per cent rate in May was about the same as a year earlier, when economic activity was expanding at a very rapid rate. The decline in demand for manpower in the past several months has resulted in a reduction in the labor force instead of a rise in overall unemployment. Seasonally adjusted, total employment contracted by almost one million between January and May, and the civilian labor force dipped by nearly an equal amount.

Although unemployment as a whole has not reflected the employment slowdown, it has been apparent in a rise in the unemployment rate among the more vulnerable groups of the working population. Thus, the unemployment rate has risen between January and May for nonwhite workers (from 6.6 to 7.8 per cent), and for blue collar workers (from 4.2 to 4.6 per cent), especially at the least skilled level, most affected by the reduction in factory jobs. Unemployment in manufacturing has risen from 3.3 to 3.9 per cent during this period.

MAJOR UNEMPLOYMENT INDICATORS

	Unemployment rates, January 1967	Seasonally adjusted May 1967
Total	3.7	3.8
Men, 20 years and over	2.2	2.4
Women, 20 years and over	4.3	3.9
Both sexes, 16-19 years	11.0	13.1
White-collar workers	2.1	1.9
Blue-collar workers	4.2	4.6
Service workers	4.6	4.1
Construction	7.5	7.8
Manufacturing	3.3	3.9
Finance and service	3.9	3.5

Curtailed employment has also been reflected in unemployment insurance claims, which continue to run about 300,000 higher than last year at this time. But there has been a tapering off in initial claims for unemployment compensation in late May and early June. These now average about 20 per cent above a year earlier; initial claims had been running 35 to 40 per cent above year-earlier levels during most of March and April.

Wages and collective bargaining. Upward pressure on wages has continued quite strong in the second quarter. The settlement reached in late May between 450,000 members of the teamsters union and the trucking industry provided for about a 5.5 per cent annual increase in wage and fringe benefits. In major contract settlements reached in the first quarter, annual costs of wage and fringe packages were already higher than in 1966--nearly 5 per cent compared with 4-1/2 per cent. Some of the construction settlements so far this year are providing adjustments even larger than those negotiated in 1965 and 1966.

AVERAGE HOURLY EARNINGS
Percentage Changes from Year Ago

	I Q-'66	I Q-'67	April-May 1967
Private nonfarm	3.7	4.4	3.9
Manufacturing	3.5	4.1	3.7
Durable goods	3.3	3.5	3.3
Nondurable goods	3.0	5.0	4.7
Construction	3.8	5.0	4.5

Although negotiated wage increases and fringe benefits received have been higher than last year, a slower rate of increase in average hourly earnings has become increasingly evident in recent months. In private non-farm establishments, average hourly earnings were 4.4 per cent higher in the first quarter than a year earlier; by April and May the gain was less than 4 per cent. The slowdown has been evident in both manufacturing and construction. In manufacturing it reflected in part the reduction in overtime hours at premium pay and smaller gains in those industries whose wages are tied to cost-of-living escalators. Unit labor costs in manufacturing continued to rise in May and are considerably higher than a year earlier.

Prices. Prices of farm products spurted in May, following a sharp decline over the preceding 7 months, and the total wholesale price index moved up 0.5 per cent to 105.8 per cent of the 1957-59 average, according to the BLS preliminary estimate. Prices of industrial commodities meanwhile remained stable for the third consecutive month, at a level 1.2 per cent above May 1966. In April, the consumer price index rose somewhat more than in the winter and early spring.

The abrupt reversal in May of the earlier, protracted decline in prices of farm products reflected mainly a dramatic turnabout in hog and pork prices accompanying an unexpectedly sharp drop in marketings. Prices of beef cattle also moved up, but moderately. A sizable seasonal decline in pork production is usual for May, (continuing to mid-year), but this year's decline far exceeded usual seasonal expectations, amounting to over 8 per cent on a seasonally adjusted basis. Seasonally adjusted beef production declined 3 per cent, and total output of red meat and poultry was down 5 per cent from the high April level though still 5 per cent above May a year ago.

The pricing date for the BLS wholesale Price Index has been shifted, beginning with January 1967, to the Tuesday (or Monday for some farm products) of the week in which the 13th of the month falls. (Formerly it was the week containing the 15th.) The pricing date for the May index thus fell quite early in the month--the 8th or 9th. By that date prices of hogs were up about a fourth from April, but by the end of the third week of May, when pork production actually fell somewhat below a year earlier (Jan.-April production was about 20 per cent above the very low level in the corresponding 1966 period), hog prices had advanced nearly 15 per cent further. In late May and early June, pork production showed an appreciable margin over a year earlier again, and hog prices receded considerably. The June wholesale price index (with the pricing date the 12th and 13th) will thus incorporate only a moderate further gain in prices of hogs and pork--and a small further increase in beef cattle prices.

In May, partly offsetting the upturn in prices for hogs and cattle, prices declined substantially for commercial vegetables; and cotton, eggs, and manufactured animal feeds also decreased.

Sustained stability in wholesale industrial prices in early May (as indicated by the BLS preliminary estimate) appears to have reflected the continuing balance of price declines for sensitive industrial materials--notably hides, nonferrous metals, and some textile materials--and a further upcreep in prices of the so-called sluggish materials and also price increases for some finished industrial products. Increases were recorded in last month's estimate for chemicals, gasoline, some apparel items and commercial furniture, but for the first time in 22 months, prices of machinery and equipment reportedly declined slightly.

Since mid-May average prices of basic industrial materials have increased somewhat, with moderate gains in copper, scrap, hides, and rubber, which have declined very sharply since mid-1966, and slight increases for tin and wool tops. Whether the earlier substantial downward adjustment in prices of sensitive industrial materials is indeed over depends in part on uncertainties about the domestic and world supply situation (exacerbated currently by the Middle East situation and, for copper, in part by the forthcoming domestic wage negotiations) and in part on the outlook for domestic demands--which most observers think will strengthen later in the year--and for foreign demands, which still appear a little uncertain. Despite an apparent ebbing of the Mid-East crisis, there is great uncertainty about the continuing availability of petroleum from that region. A pick-up in European demand for U.S. petroleum is thus possible, with an accompanying rise in prices.

With average prices of industrial commodities stable since February, the rise in the first 5 months of the year amounted to only 0.4 per cent--or an annual rate of 1 per cent. In the 5 preceding months (July to Dec. 1966), these prices (as measured by the special FR index) showed even less rise--an annual rate of only 0.2 per cent. The small increases over these two recent 5-month periods contrast with increases at rates of 3.1 per cent from February to July 1966 and of 2.4 per cent from September 1965 to February 1966. Table I below shows the changes in this index (and also the total wholesale price index and foods and foodstuffs) over these successive periods, together with major sub-groupings which account for the movement in the total. Of special significance over the past 5 and 10 months has been the drop in prices of sensitive industrial materials. Also, in the first 5 months of this year, the rise in prices of producers' equipment slowed abruptly from the rapid rate of expansion during the last 10 months of 1966, resulting in an appreciable slackening in the rate of increase in average prices of industrial products.

TABLE I

WHOLESALE PRICES-F.R. GROUPINGS OF BLS INDEXES
(Per cent changes, at S.A.A.R.)

Successive 5-month periods:	Total index	Foods & Foodstuffs	Industrial commodities								
				Materials			Products				
			Total	Total	Sensitive	Other	Total	Producers equipment	Consumer nonfoods		
									Total	Dur.	Nondur.
Sept. 1965 to Feb. 1966	5.5	15.3	2.4	2.6	3.6	2.4	1.9	2.4	1.4	.5	2.4
Feb. to July 1966	2.2	.5	3.1	3.6	4.1	3.1	2.6	3.4	2.2	1.2	2.4
July to Dec. 1966	-1.2	-5.3	0.2	-1.4	-11.0	1.9	2.4	4.8	1.7	2.6	1.2
Dec. 1966 to May 1967 1/	- .2	-4.3	1.0	.7	- 2.2	1.7	1.4	1.2	1.7	--	2.2

1/ May 1967 figures partly estimated.

TABLE II

CONSUMER PRICES
(Per cent changes, at S.A.A.R.)

Successive 6-month periods:	All Items	Food			Commodities less food					Service Total
						Nondurables			Durable Totals	
		Total	At home	Away from home	Total	Total	Apparel	Other		
Oct. 1965 to April 1966	3.8	7.8	9.0	4.0	1.4	1.8	1.4	2.0	0.4	4.0
April to Oct. 1966	3.6	2.8	2.0	6.0	3.0	3.4	5.2	2.6	2.4	5.0
Oct. 1966 to April 1967	1.4	-3.2	-5.2	5.0	1.4	2.8	2.8	2.6	-0.2	4.0

The consumer price index rose more rapidly in April than in the preceding 5 months--despite a further drop in food prices. The step-up reflected mainly a sizable spurt in average prices of non-food commodities (in part seasonal): apparel and house furnishings and supplies continued to rise, and gasoline prices increased sharply--as did prices of used cars. Lower prices were reported for new cars and appliances. As a result of a recent increase in wholesale prices announced by a major producer, retail prices of appliances might now be rising, but in June some of the new color-TV lines are reportedly coming on the market at lower prices. Used car prices at auction appear to have declined in May. Assuming, however, that retail prices of non-food commodities will continue to trend upward--reportedly under the influence of higher production and marketing costs as well as demand influences--and that service prices will, of course, continue to rise, the rise in the CPI may well be augmented beginning in May by renewed expansion in food prices at grocery stores--as a result of the recent and anticipated further strengthening in prices of foodstuffs at wholesale.

Table II shows that declining food prices (at home, not at restaurants) contributed significantly to the marked slowing of the rise in the CPI over the 6-month period from last October to April--just as earlier and particularly from October 1965 to April 1966, sharply rising food prices had helped boost expansion in the CPI.

Exports of farm products, July 1966-March 1967. Exports of farm commodities were maintained at close to year earlier levels in the first nine months of the fiscal year. The aggregate value was up 3 per cent because of higher prices since physical volume was down 3 per cent from a year earlier, as shown in the table. Volume of shipments of wheat, feed grains except sorghum grain, oilseeds and products, and dairy and poultry products were less than a year earlier. Commodities shipped in larger volume than a year ago were cotton, tobacco, hides, rice, dried edible beans and peas, and some minor food items. Preliminary data show that exports of grains continued to sag in April while tobacco and cotton maintained margins above a year earlier.

VALUE OF EXPORTS OF FARM PRODUCTS, JULY-MARCH, 1966-67
Percentage changes in value, quantity and prices
compared with a year earlier

	Value (In millions of dollars)	Percentage changes from a year earlier		
		Value	Quantity	Derived prices
Food grains and prep.	1,299	7	- 4	11
Feed grains and prep.	936	- 8	-12	5
Oilseeds and products	935	2	- 8	11
Cotton and linters	429	34	38	-3
Tobacco	429	29	22	5
Animal products	525	-11	-11	--
Fruits and vegetables	366	- 2	- 3	5
Other	258	- 1	--	--
TOTAL	5,179	3	- 3	6

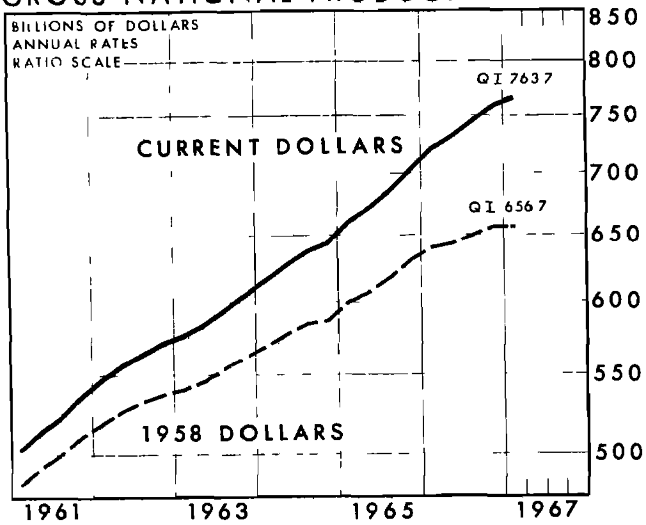
A somewhat larger proportion of sales was for dollars than a year earlier reflecting a shift in the mix of commodities toward those typically sold for dollars, a pick-up in commercial wheat sales at the expense of food-aid sales, and the expanded volume of short-term credit sales financed by the Commodity Credit Corporation. Sales for dollars were 5 per cent larger than a year earlier and accounted for 80 per cent of the total value of farm exports as compared with 78 per cent in the corresponding period a year earlier. Government-financed exports were 4 per cent less than a year earlier. Smaller nondollar exports reflected reduced availabilities of wheat and dairy products for export under food-aid but these reductions were largely compensated for by expanded program exports of feed grains and rice and an increase of 50 per cent in cotton moving under P L 480 financing. The redirection of Food for Peace policy since last November to emphasize self-help and the development of cash markets in the undeveloped countries is also a factor in the shift from nondollar to dollar sales.

U. S. farm commodities moved into world trade at higher prices than a year earlier with the exception of cotton, as shown in the table. New legislation governing cotton provides for holding market prices of cotton for domestic use and export in line with world prices and for stabilizing growers' incomes by means of compensatory payments. Cotton exports are running well above a year earlier and a 5-million bale export is in prospect for the year ending on August 1. Wheat and flour shipments of 582 million bushels in the July-March period were 6 per cent less than a year earlier reflecting a decline in commercial sales since December in the face of increasing competition and the excercise of more stringent controls on food-aid shipments throughout the year. Although exports to India of 113 million bushels of wheat were 45 per cent below a year earlier, India was still our biggest customer. Feed grains felt the effects of larger crops in importing and exporting countries and higher U. S. prices relative to world prices. Tobacco exports were larger because of expanding consumption abroad and the mandatory United Nation sanctions against Rhodesian tobacco. The big increase in rice exports was almost all in food-aid io the Far East.

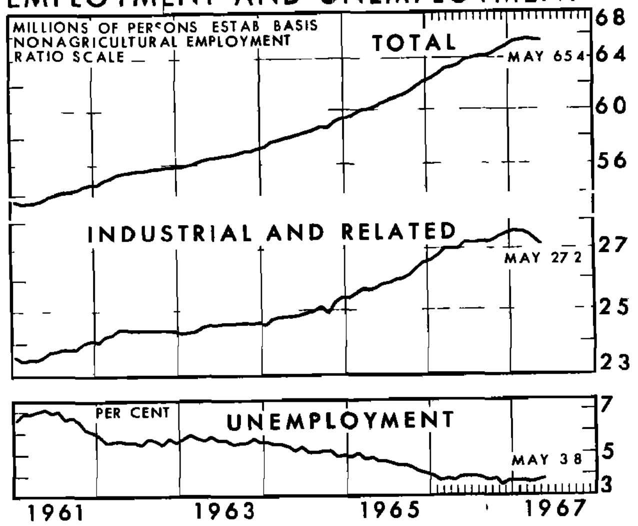
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

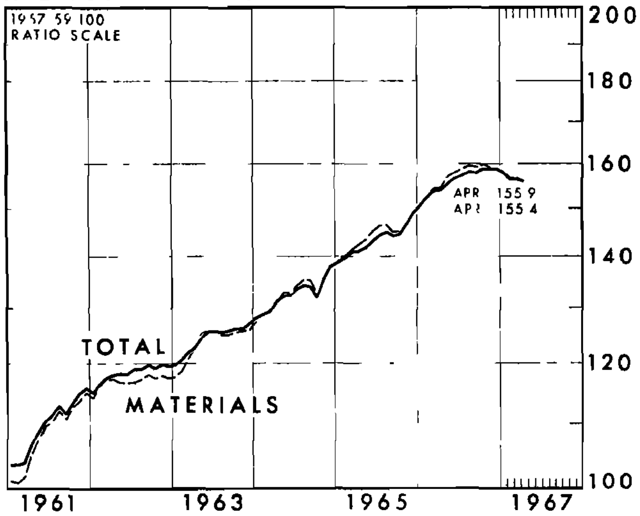
GROSS NATIONAL PRODUCT



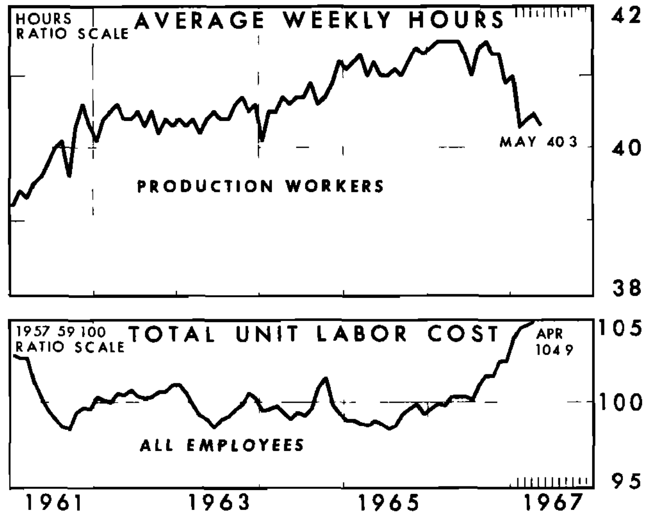
EMPLOYMENT AND UNEMPLOYMENT



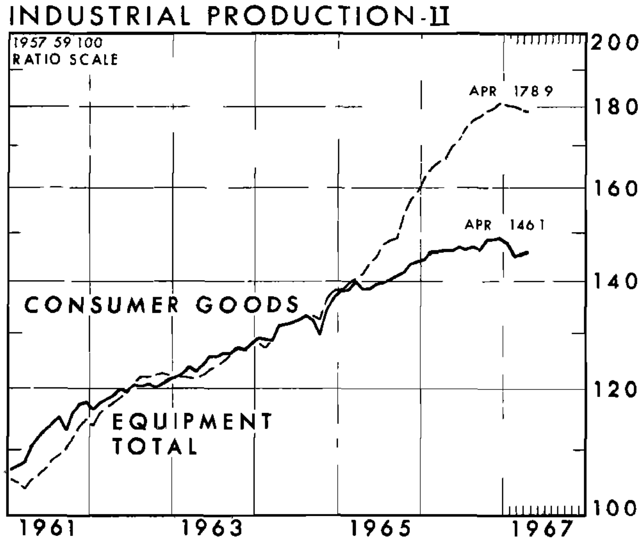
INDUSTRIAL PRODUCTION-I



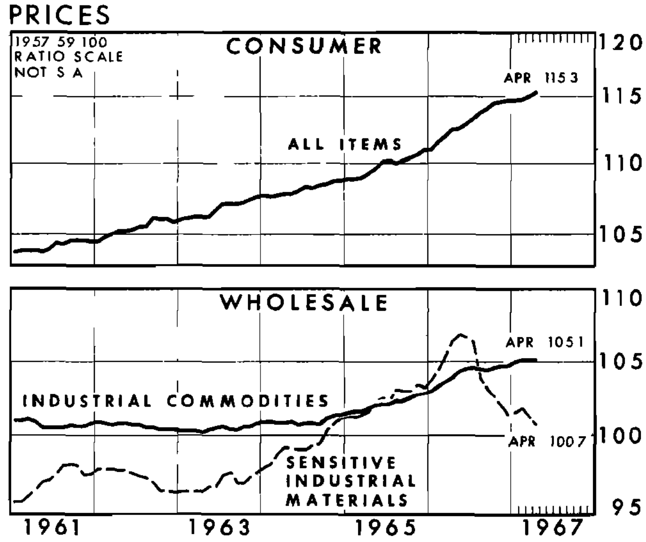
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



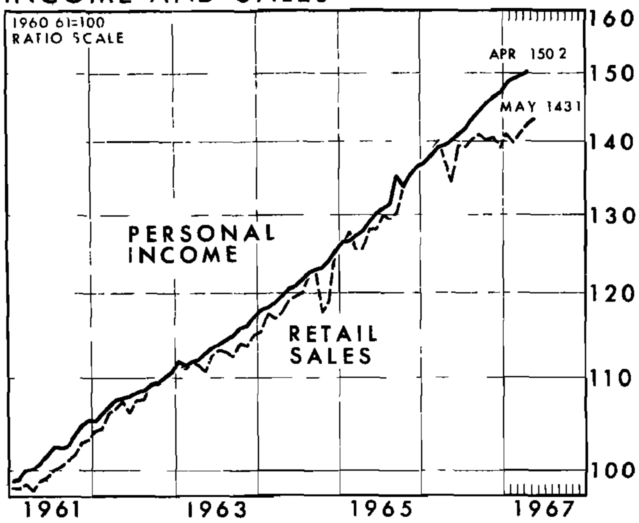
PRICES



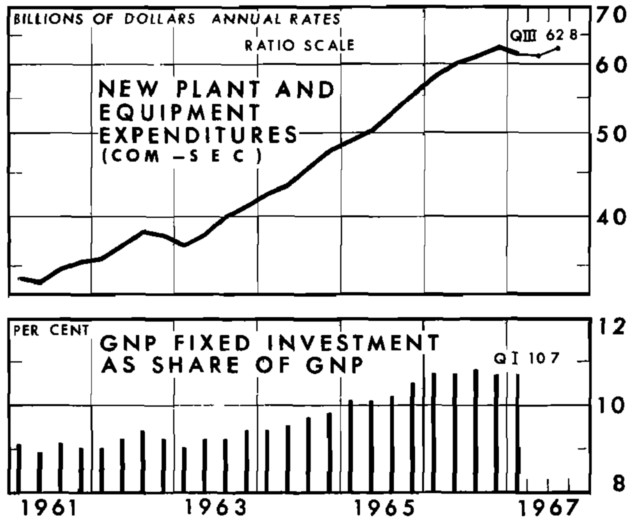
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

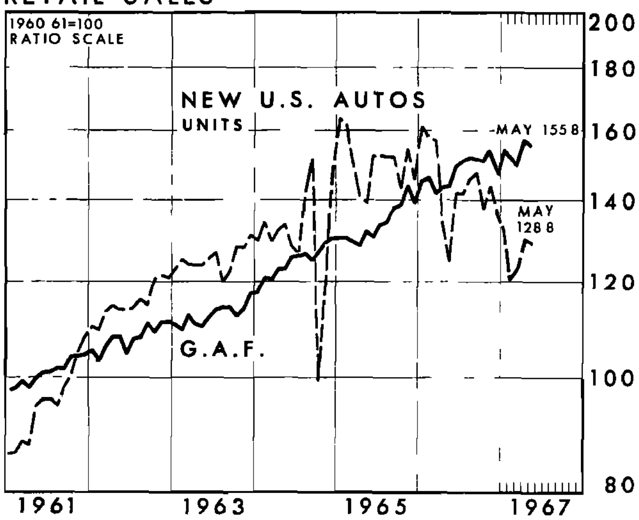
INCOME AND SALES



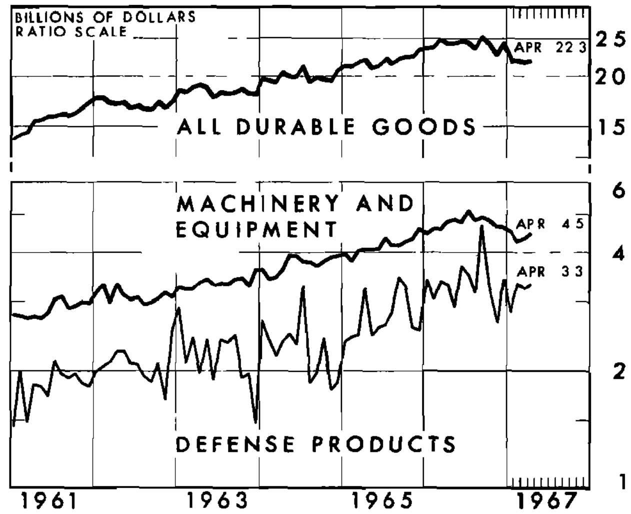
BUSINESS INVESTMENT



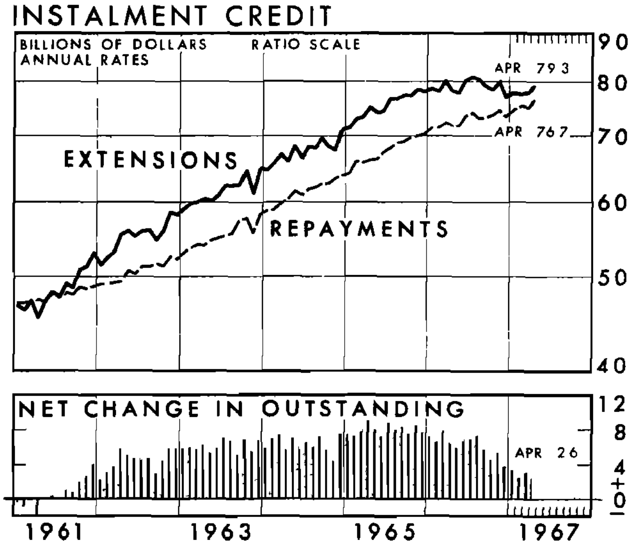
RETAIL SALES



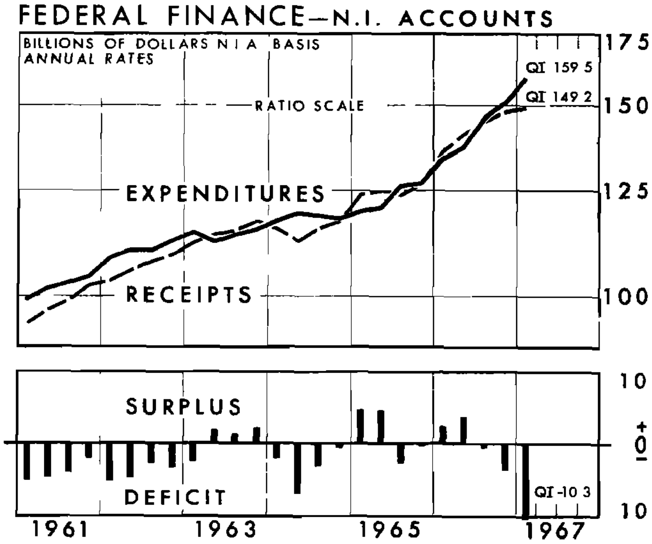
MANUFACTURERS' NEW ORDERS



INSTALMENT CREDIT



FEDERAL FINANCE—N.I. ACCOUNTS



DOMESTIC FINANCIAL SITUATION

Bank credit. Banking developments in recent weeks have continued to be dominated by a reduction in loan demands and by temporary special factors which have tended to moderate the rate of growth of bank credit. Tax payments, after having been greatly increased by accelerated schedules earlier in the year, were considerably smaller in May. Not only did these lower payments--along with the more modest pace of inventory accumulation--reduce the bank credit demands of businesses, but they also permitted a greater proportion of cash inflows of businesses--from the capital market and other sources--to be used to repay bank loans. Moreover, with Federal expenditures rising, reduced tax inflows led to a sharp reduction in Treasury balances at commercial banks. And with business firms repaying bank loans and adding to their interest-bearing assets, not all of the reduction in Treasury deposits reappeared as private demand balances, so that, net, the deposit inflow to banks in recent weeks has been much smaller than in earlier months.

As a result of these developments, member bank credit, on a daily average basis (the credit proxy), during May is estimated to have expanded at only about a 2.0 per cent seasonally adjusted annual rate. From month-end to month-end, the credit proxy declined at an almost 3 per cent rate. On the other hand, the all commercial bank end-of-month series shows about the same rate of growth as in April--about 8.5 per cent. It is possible that the smaller nonmember banks have experienced somewhat better deposit inflows than the larger member banks. But the main explanation for the difference is that the all commercial bank end-of-month series--calculated from last Wednesday-to-last Wednesday of the month--probably was inflated by the fact that the last Wednesday of May was also the final day of the month. Turn of the month developments increasedbank credit sharply for a day or two and these pressures were fully reflected in the end-of-month series in May.

All of the increase in bank credit during May occurred in security portfolios. Holdings of Treasury securities increased sharply and banks acquired substantial amounts of 1 to 5 year issues during the May refunding. In addition, banks continued their rapid rate of acquisitions of other securities--mainly municipals; purchases by the smaller nonweekly reporters were especially large. Most of the increase in municipal holdings at weekly reporters was outside of the 1 year area, but probably mainly in the less than 5 year maturity spectrum. It is likely that the smaller banks may be taking greater advantage of the more attractive long-term yields since they did not experience as severe deposit and loan pressures last summer as did the larger banks.

COMMERCIAL BANK CREDIT, SEASONALLY ADJUSTED ANNUAL RATE
End-of-month series
(per cent)

	1967		1966		
	May	First 5 mos.	2nd half	1st half	Year
Total loans & investments	8.5	11.9	1.9	9.8	5.9
U.S. Gov't. securities	21.3	13.7	-2.9	-9.0	-5.9
Other securities	31.5	31.8	-1.2	12.5	5.6
Total loans	--	6.8	4.1	14.7	9.5
Business loans	-4.3	10.3	7.6	20.2	14.3

While bank security purchases increased sharply in May--with some lengthening of maturities--there was no change in total loans and a moderate decline in business loans at all commercial banks--the latter centered at the large weekly reporting banks. Even machinery, and chemical and rubber manufacturers, whose loans had been strong earlier, have shown weak borrowing patterns recently; in addition, loans to textile firms and retailers have shown less than normal strength with the weakness in borrowing by retail firms, it is thought, reflecting reduced financing demands of automobile dealers. Loan demands of fabricated metals and miscellaneous durable goods manufacturers--industries affected by defense outlays--continue to show strength. Construction loans have shown modest expansion, continuing the trend that began this spring.

Nonbusiness loans also declined in May. Security loans fell as Government dealer positions were lightened, and finance company loans continued to be repaid, most probably from funds obtained in the commercial paper market.

Bank deposits. Seasonally adjusted daily average member bank deposits expanded by only $400 million in May. This small total deposit growth, however, was due entirely to the sharp decline in Treasury balances, a decline only partially offset by other deposit inflows.

Private demand balances, which had declined in April as tax payments were accelerated, expanded sharply in May as Treasury balances were drawn down. As a result, the money stock expanded at over a

13 per cent annual rate in May. The increase in private demand balances, however, was less than the decline in Treasury balances, since the public used some of its demand balances to repay loans and acquire interest-bearing assets.

The April-May fluctuation in private demand deposits obscures somewhat the underlying trend of growth in the money stock. However, the average growth rate over April-May at 4.5 per cent was still somewhat below the first quarter rate of 5.9 per cent. While the money stock has increased fairly rapidly thus far this year, turnover of demand deposits has remained about the same as in the last half of 1966.

Inflows of time and savings deposits continued at a relatively rapid 15 per cent rate in May, not very different from the 17 per cent average of the preceding four months. As can be seen in the next table, at weekly reporting banks the sum of passbook savings and time deposits other than CD's continued to expand more rapidly than last year, when funds from banks and other financial institutions were being attracted into market securities. In addition, weekly reporting banks in May stepped up their CD issuance, increasing their outstandings by almost $500 million after April run-offs of over $700 million. Preparation for June CD maturities, tax period loan demands, sharp declines in Treasury balances, and perhaps increasing expectation of higher rates later this year, contributed to bank efforts to increase outstanding CD's.

TIME AND SAVINGS DEPOSIT INFLOWS, WEEKLY REPORTING BANKS
LATE APRIL TO EARLY MAY 1/
(Millions of dollars, not seasonally adjusted)

	1967	1966	1965
Total time and savings deposits	+1,397	+882	+915
Negotiable CD's	+ 495	+245	+327
Other time 2/	+ 487	+921	+199
Savings	+ 415	-284	+389
Memo: Other time 2/ plus savings	+ 902	+637	+588

1/ Five weeks ended May 31, 1967, June 1, 1966, and June 2, 1965.
2/ Other than large negotiable CD's.

In May, these efforts were reflected in a 25 to 50 basis point increase in CD offering rates, with the largest increases posted for over 180-day paper. Early in June, additional scattered rate increases of 12 to 25 basis points were made on longer CD's--to posted levels as high as 5 per cent. With yields on competing paper declining throughout May, the negotiable CD became a relatively much more attractive instrument than it had been in March and April, although not as attractive as in 1965 and the first half of 1966. For example, newly offered 3 to 6 month CD's yielded about the same return as finance company paper in early June, while in April they yielded 35 to 40 basis points less. Relative to dealer placed commercial paper, the yield gap narrowed from 65 basis points in April to 25 basis points early in June. Moreover, with the continued decline in 90-day Treasury bill yields, the spread in favor of comparable maturity CD's rose to almost 90 basis points.

Efforts to lengthen the maturity of CD's[1] sold during May by raising offering rates and other sales efforts were successful at banks in New York City and Chicago but not elsewhere. At banks in both cities, preliminary information indicates that the average maturity of May sales was the longest since January, a time when banks were aggressive bidders for CD's, and depositors were interested in obtaining longer-term yield commitments. At banks in Chicago, CD's with maturities of 6 months or more rose to one-fourth of May sales and in New York they accounted for one-fifth of sales. At other weekly reporters, average maturity of sales declined somewhat.

Corporate and municipal bond markets. After advancing steeply from early April to early June, yields on corporate bonds have stabilized recently and those on municipal bonds have edged lower. Recent issues of new municipal bonds have been well received reflecting the reappearance of demand for longer maturities from commercial banks and fire and casualty companies. But the reception of recent new corporate issues has been mixed, and with the near-term calendar of such offerings remaining very heavy, the recent tendency toward stability in this market is still precarious.

Several factors seem to account for the early June halt to the general bond yield advance. Perhaps most important was the growing belief among market participants that the steep April-May yield increases had already discounted a large part of possible future credit developments. This view was reinforced by new economic data which apparently were interpreted by some as evidence that the expected 1967 recovery would be more belated than the earlier market consensus seemed to imply. At the same time reports from Washington of the impending Federal deficit led some market participants who had virtually dismissed the possibility of a tax increase in the current Congress to question whether such action might not be taken after all. Finally, Federal Reserve purchases of Treasury coupon issues helped to reinforce the more fundamental forces that were already tending to moderate interest rate expectations.

BOND YIELDS
(Weekly averages, per cent per annum)

	Corporate Aaa			State and local Government	
	New		Seasoned		
	With call protection	Without call protection		Moody's Aaa	Bond buyer's (mixed qualities)
1965					
End of July 1/	4.58	--	4.48	3.16	3.25
Early December 2/	4.79	--	4.60	3.37	3.50
1966					
Late summer high	5.98*	--	5.44	4.04	4.24
Weeks ending:					
February 3 3/	--	5.21	5.02	3.25	3.40
March 31	5.21*	--	5.12	3.46	3.54
May 12	5.58*	5.79	5.19	3.65	3.88
May 26	5.68*	6.12**	5.35	3.78	3.96
June 9	5.70*	5.76	5.37	3.76	3.90

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.
* Some issues included carry 10-year call protection.
** Unrepresentative.

During May when bond yields were still rising, a sizable number of scheduled issues in both the corporate and municipal markets were postponed. Altogether seven corporate issues aggregating $360 million were postponed (or reduced in size), and 22 municipal issues totaling $225 million were postponed. Although May volume was somewhat less than estimated earlier because of the postponements, forward calendars have continued to grow and would very likely be augmented further by a rescheduling of the postponed issues if yields were to drop back from current levels.

Public offerings of corporate bonds in June are expected to exceed the reduced volume of offerings in May by more than $600 million. In fact, the June volume may exceed the all-time record of $1.6 billion registered in March. However, if private placements continue to conform to the pattern of the first quarter, total corporate security offerings for June--including stocks and private placements as well as public offerings--are likely to fall short of the $2.4 billion total sold in June 1966. Stock offerings in June last year were very large.

Looking further ahead, corporate offerings already scheduled for the third quarter are unusually large. Public bond offerings with dates set for July now aggregate $1.0 billion and in the absence of postponements are ultimately expected to be even larger. Similarly, offerings with dates set for August already exceed $650 million, even at this early date. Since some institutional investors are also committed to make large delayed payments during July and September on bonds offered earlier in the year, there is clearly no immediate respite in sight for the corporate bond market.

An examination of SEC data just available for the first quarter shows a 47 per cent increase over the like period of 1966 in the absolute dollar volume of new capital financing designated to retire bank loans. As a proportion of new capital financing, bond borrowing for repayment of bank debt rose to 28.6 per cent in the first quarter from 21.0 per cent in the first quarter of 1966. And registration statements filed for the current quarter indicate that this proportion has increased further. As bond yields have risen, corporate borrowers have turned increasingly to the use of convertible bonds on which interest costs are lower. Debt offerings of this type expanded both absolutely and as a share of total borrowing from the first to the second quarter this year. And they now appear to be headed toward the record volume offered last year when interest rates reached their highs. The July volume of convertible debt already scheduled totals $500 million, which compares with total third quarter volume of $930 million a year ago.

CORPORATE SECURITY OFFERINGS 1/
(Millions of dollars)

	Bonds				Total bonds and stocks	
	Public offerings 2/		Private placements			
	1967	1966	1967	1966	1967	1966
1st Quarter	3,263	1,774	1,811	2,586	5,464	5,094
2nd Quarter	3,925	1,941	1,800e	2,083	6,225	5,115
April	1,350e	628	600e	743	2,150e	1,582
May	975e	481	600e	556	1,675e	1,106
June	1,600e	832	600e	784	2,400e	2,427
July	1,000e	440	n.a.	535	n.a.	1,085

1/ Data are gross proceeds. 2/ Includes refundings.

The volume of municipal securities expected in June continues at more than $1.2 billion. June will thus mark the sixth consecutive billion-dollar-plus month of municipal long-term financing, and while no precise estimates have yet been made, underwriters expect municipal volume to remain relatively high through the summer. Even so, dealers have substantially lowered their uncomfortably high level of inventories and are optimistic about being able to sell near-term offerings at current yield levels (their advertised inventories have declined over $300 million from the peak of $850 million reached near the end of April). A major element in the changed outlook has been the increased demand for longer-term issues exhibited by both banks and fire and casualty companies last week. Longer-term maturities attracted little investor demand during April and May, and with the June calendar of new issues heavily weighted with such maturities, they were an important source of earlier market weakness.

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

	1967	1966
1st Quarter	4,112	2,964
2nd Quarter	3,529e	3,257
April	1,099	1,211
May	1,175e	903
June	1,250e	1,143
July	950e	702

1/ Data are for principal amounts of new issues.

Flows to depositary-type intermediaries. Savings flows to depositary-type institutions continued at record levels in May for the sixth consecutive month of significant improvement. While the relative year-to-year growth was largest at mutual savings banks, all three types of institutions experienced record inflows for the month.

SAVINGS FLOWS TO DEPOSITARY-TYPE INTERMEDIARIES
(In millions of dollars)

	Total 1/	S&L's	Savings Banks	Commercial Banks Without CD's 1/	Commercial Banks With CD's
May					
1967	3,848	1,103 2/	425	2,320	2,815
1966	1,866	387	115	1,364	1,676
1965	1,898	792	188	918	1,287
1964	2,081	994	270	817	1,316
Year to date					
1967	15,276	4,028 2/	2,093	9,155	12,600
1966	7,550	903	560	6,087	7,804
1965	10,267	2,587	1,248	6,432	8,959
1964	9,530	3,659	1,456	4,415	5,998

1/ Excludes negotiable CD's at weekly reporting banks.
2/ Based on a preliminary estimate by the U.S. Savings and Loan League.
NOTE: Not adjusted for seasonal influences.

Despite the rapid continuing increase of savings at depositary-type institutions, the higher levels of mortgage lending one might expect to be associated with such large inflows have not materialized. Although May asset data are not yet available, industry spokesmen report that savings banks have continued to acquire a relatively large volume of corporate securities. Similarly, the fact that savings and loan associations repaid another $361 million of outstanding advances to the Home

Loan Banks in May--a month in which their advances usually expand--suggests that mortgage acquisitions of S&L's also continued to fall below normal. According to industry spokesmen this relative failure of thrift institutions to expand mortgage holdings commensurately with savings inflows is still chiefly attributable to the relative shortage of immediately available mortgages.

Comment from the savings and loan industry on the recent announcement of Home Loan Bank Board changes in dividend rate ceilings for S&L shares has been generally favorable. The only institutions affected by the change are those in California, Nevada, Hawaii, and Alaska. Virtually all of these S&L's, which had previously been paying 5-1/4 per cent on passbook savings will, after July 1, have to choose between paying a maximum 5 per cent on passbook accounts or a maximum of 4-3/4 per cent on passbook accounts and up to 5-1/4 per cent on savings certificates. It is expected that most S&L's in these areas will offer the straight 5 per cent passbook rates since certificates are issued in minimum amounts of $1,000 for no less than six months. All other associations which had previously been authorized to choose between these two plans, primarily those located where savings banks are paying five per cent, are expected to continue to offer the 5 per cent passbook rate. The net effect of this Home Loan Bank reduction is thus chiefly to narrow the favorable rate advantage allowed the California S&L's last September.

Mortgage market developments. Published series on mortgage rates are not yet available for May. But with bond yields rising generally, price markdowns in the secondary market for Federally underwritten home mortgages had spread to all geographic regions by the end of May, according to unofficial FNMA field reports. It thus seems clear that at least the sensitive secondary market yield series on FHA home mortgages turned up during May.

Early in June, trade opinion suggested that while mortgage funds were still generally available, diversified lenders were taking more of a wait-and-see attitude toward mortgage investments, with some lenders showing less eagerness to seek out new commitments and a few temporarily out of the market entirely, at least for FHA and VA loans. These attitudes have reportedly reflected the same general expectations and uncertainties on the economic and credit outlook that contributed to the spring advance in bond yields. As a result of this latter advance, the yield spread favoring mortgages relative to corporate bonds undoubtedly narrowed further in May, probably close to the near-record low that prevailed in certain months of 1965 and 1966.

With FNMA keeping its prices on secondary market purchases unchanged, the turnaround in yields on Federally-underwritten home mortgages during May was reflected in a sharp rise in offerings to FNMA. In the week ended June 1, the estimated value of such offerings was nearly 9 times larger than the extremely low volume only three weeks earlier, and offerings were running at the highest weekly rate since last November.

Information is not yet available to suggest how widely recent credit tendencies have affected real estate markets. But sensitive data on the narrow FHA market sector indicate that seasonally adjusted applications for FHA insurance on existing homes declined somewhat in recent weeks, in contrast to an uptrend earlier this year.

Stock market. After touching a new high in early May, stock prices drifted downward through the rest of the month and into early June. A combination of less favorable economic news, further sharp advances in corporate bond yields, and renewed attention to the possibility of a tax increase this year all contributed to the decline, along with rising tensions in the Middle East. From its May 8th high of 94.58 through June 2, when it closed at 89.79--and before the outbreak of actual hostilities between Arab and Israeli forces--Standard and Poor's composite index had declined 5 per cent. After the war started, stock prices experienced the sharpest single-day decline since President Kennedy's assassination. But as it became apparent that Israel would be the victor and major powers would not be drawn into the conflict, prices rose again. On June 13, Standard and Poor's composite index closed at 92.62, 2 per cent below the May high.

The net decline in prices of industrial stocks was fairly pervasive including both blue chip and speculative issues. Trading, which averaged 9.9 million shares during May, was comparable to the volume attained earlier in the year when stock prices were rising.

Based on preliminary seasonally adjusted first quarter 1967 earnings, the price-earnings ratio for Standard & Poor's composite index at the end of May was 17.5, considerably below the 18.5 ratio, which prevailed at the beginning of the month. Even though stock prices are down (and stock yields up) on balance since early May, the further increase in bond yields has maintained the spread between stock yields and yields available on corporate bonds at about 2.45 percentage points.

U. S. Government securities market. After reaching new 1967 highs on May 23, yields on intermediate- and long-term Treasury bonds declined 12 to 15 basis points in the latter part of May, but these yields subsequently turned up sharply in the first part of June and on some maturities had climbed to new 1967 highs by mid-month. Treasury bill rates also turned up in June after rates in the 3-month maturity area had fallen to new 1967 lows as the month began.

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
1966						
High	5.59	5.94	6.22	5.89	5.51	5.12
1967						
High	4.85	4.92	4.98	4.92	4.95	4.98
Low	3.37	3.71	4.27	4.38	4.45	4.44
May 23	3.53	3.76	4.72	4.85	4.94	4.98
June 1	3.40	3.73	4.57	4.72	4.81	4.83
June 13	3.55	3.83	4.88	4.92	4.95	4.95

The late-May rally in the Treasury bond market appeared to be sparked mainly by professional demand, including dealer short-covering purchases and buying by so-called trading banks, in conjunction with moderate System purchases of coupon issues. The latter purchases gave rise to widespread market discussion concerning their potential size in the weeks ahead. Views ranged from the feeling that such purchases might constitute an operation twist designed to lower long-term interest rates to a belief that they formed part of a more routine program of buying coupon issues to meet part of normal seasonal reserve needs. The latter view eventually seemed to prevail among market professionals. The Treasury bond market was also buoyed in late May by the terms of the long-awaited FNMA offering of $900 million of participation certificates: the $650 million offered to the public was less than had been widely anticipated and the market also reacted favorably to the relatively short maturities of the new issues (27-months and 5-years).

The renewed weakness which developed in the Treasury bond market in the first part of June appeared to be related to continued congestion in the current and prospective calendar of new corporate issues and to increasing market focus on the Treasury's large cash needs in the second half of 1967. The eruption of war in the Middle East had only a minor and passing effect on the market. Against this background, dealers developed increasing resistance to some moderate investor selling of Treasury bonds, including swaps into new corporate issues. Dealer reluctance to take on bonds was also heightened by the expectation of investor selling later in June on switches in the new FNMA participation certificates. Despite some further System purchases of coupon issues on June 5, dealer positions in bonds due after five years rose about $25 million from their late May levels to $120 million on June 13. In the period since May 23, the System has purchased $222 million of coupon issues, including $88 million due in more than five years.

The recent uptick in Treasury bill rates has reflected in part a slowdown in net demand for bills during recent trading sessions and also the more imminent prospect of a Treasury cash financing expected in the short-term area. Market supplies of bills have been augmented recently by Desk sales for System and customer accounts and by sales of bills by Federal agencies. Demand for bills may have been inhibited by more aggressive bank bidding for CD funds. Indeed, rates on most competing short-term market instruments have risen recently, as the table shows.

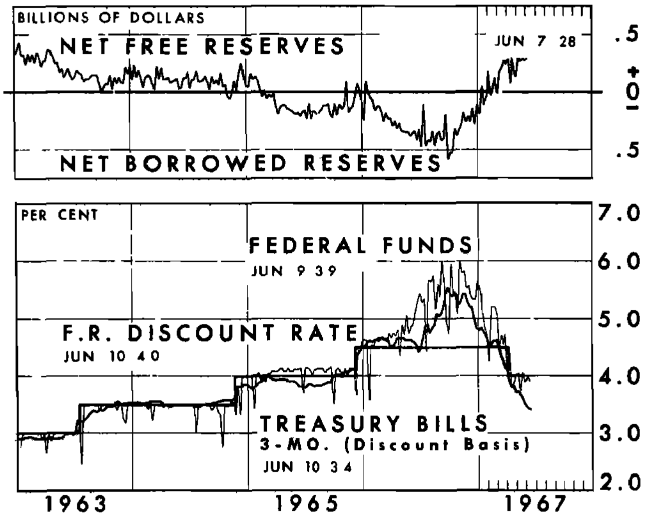
SELECTED SHORT-TERM INTEREST RATES

	1967		
	April 28	May 23	June 13
Commercial paper 4-6 months	4.75	4.63	4.63
Finance company paper 30-89 days	4.38	4.25	4.38
Bankers' Acceptances 1-90 days	4.25	4.25	4.38
Certificates of deposit (prime NYC)			
Typical new issue (posted rates):			
3-months	4.25	4.38	4.50
6-months	4.38	4.50	4.75
Secondary market:			
3-months	4.35	4.50	4.65
6-months	4.40	4.70	4.85
Federal Agencies (Secondary Market):			
3-months	3.89	3.82	4.02*
6-months	4.19	4.19	4.23*
1-year	4.33	4.40	4.65*
Prime Municipals 1-year	2.50	2.75	2.80*

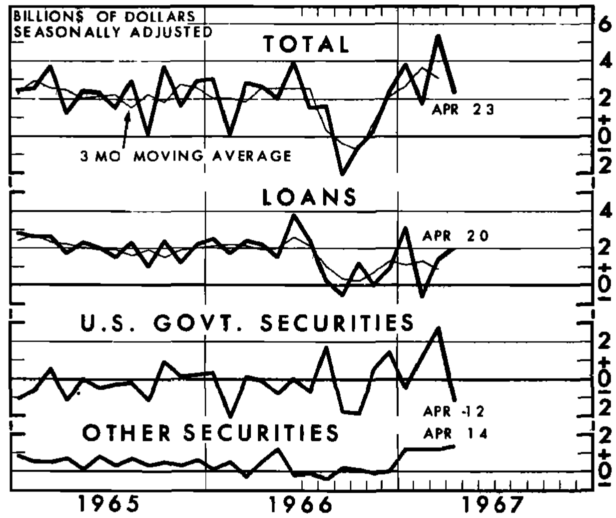
* Rates on June 9.

FINANCIAL DEVELOPMENTS - UNITED STATES

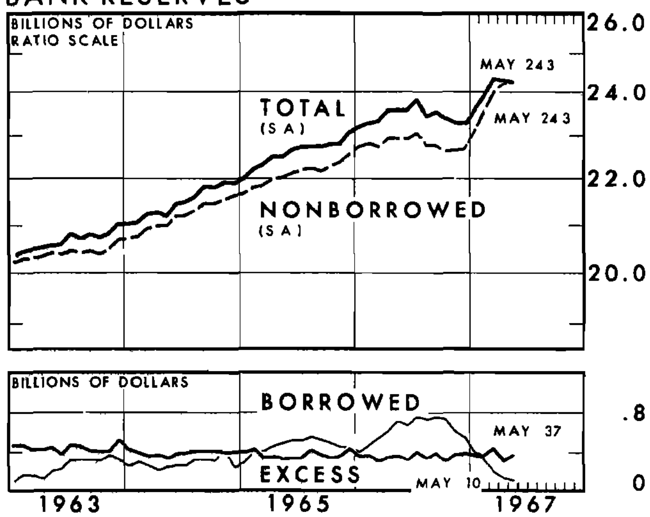
FREE RESERVES AND COSTS



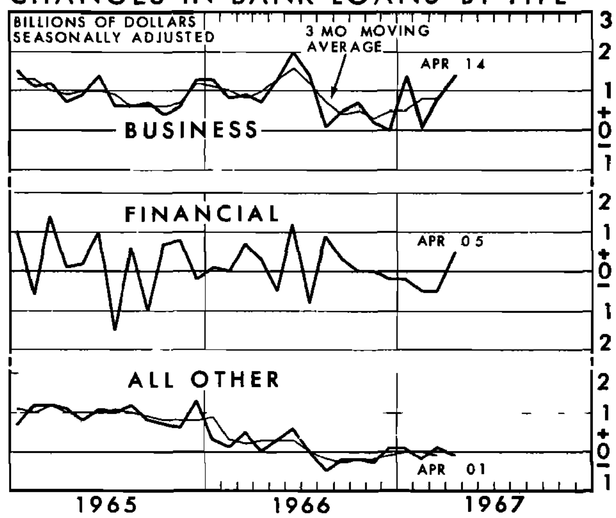
CHANGES IN BANK CREDIT



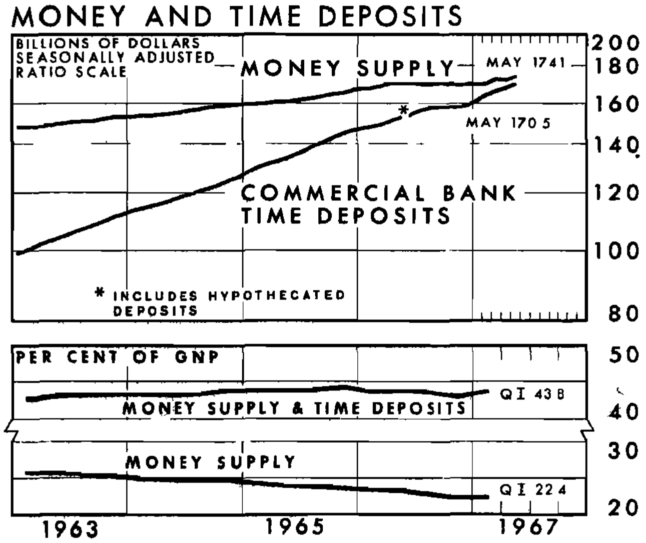
BANK RESERVES



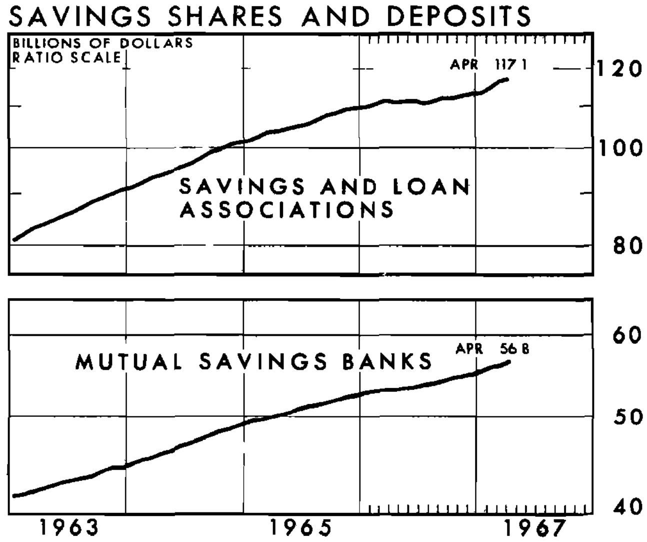
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

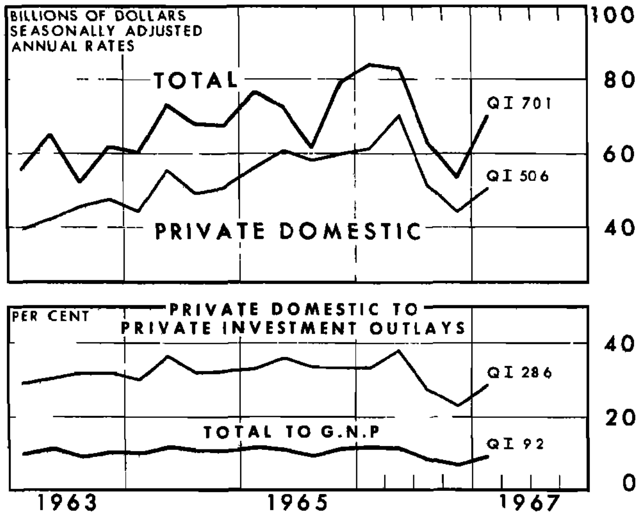


SAVINGS SHARES AND DEPOSITS

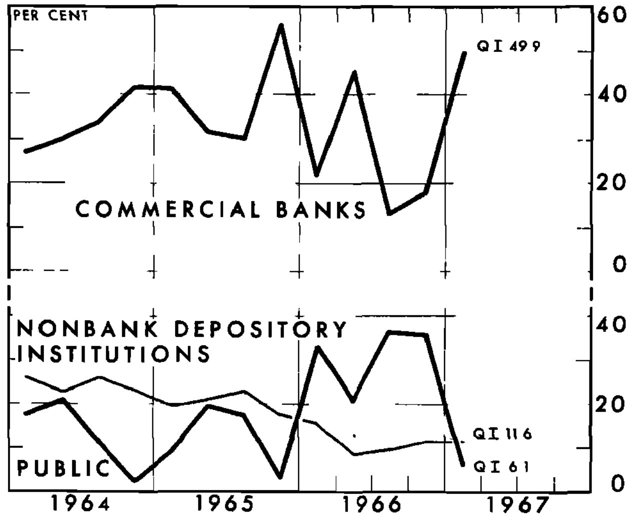


FINANCIAL DEVELOPMENTS - UNITED STATES

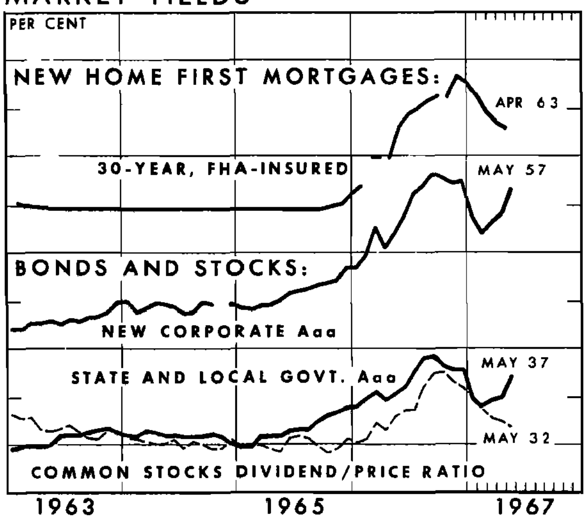
NET FUNDS RAISED-NONFINANCIAL SECTORS



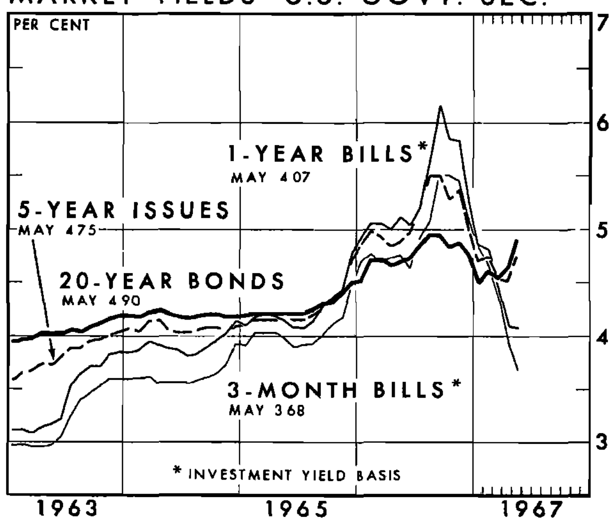
SHARES IN TOTAL CREDIT



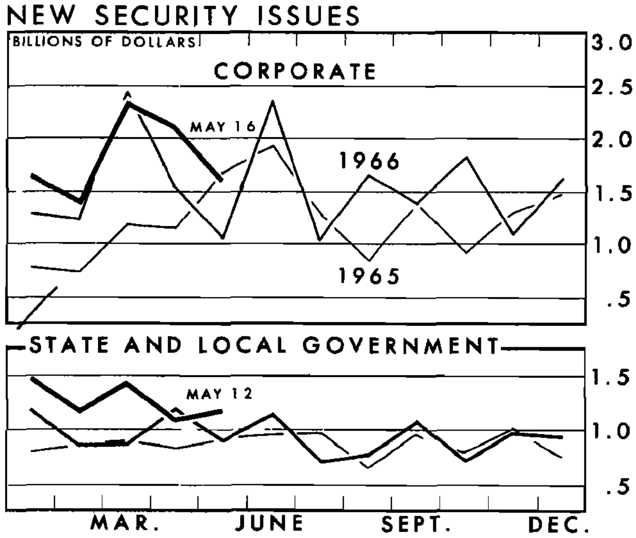
MARKET YIELDS



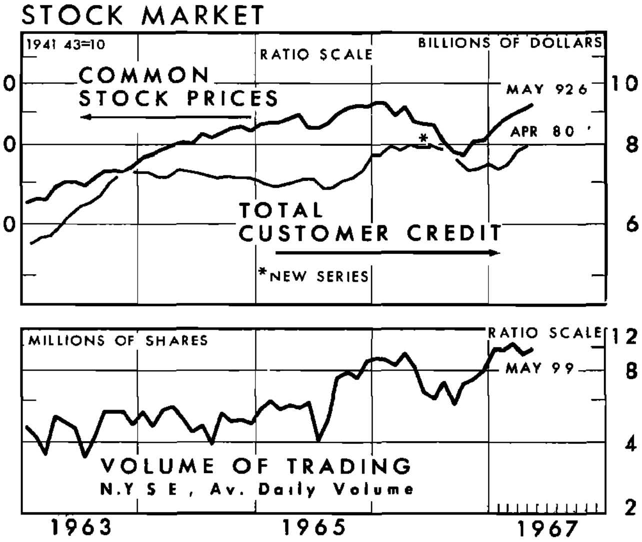
MARKET YIELDS—U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. Large-scale deficits on the liquidity basis persisted in the first four months of the year, and there is not yet any clear sign of change. For the first quarter the deficit (seasonally adjusted) was $544 million, and would have been about $1.0 billion if it had not been for special transactions. Such special transactions include sales of long-term CD's to foreign official institutions, similar investments by international agencies, and advance repayments of Government credits. In April the deficit was $337 million, before seasonal adjustment. The deficit for the month was lowered by the early payment (in March) of about $300 million of taxes to Libya by petroleum companies and by about $100 million of special transactions. For May the early weekly indicators show a comparatively small deficit of perhaps $100-200 million, but reports for the first week of June show another large deficit.

Deficits on the official settlements basis have been far larger than the liquidity deficits this year. For the first quarter this balance registered a seasonally adjusted deficit of $1.8 billion, and in April there was a further deficit of over $600 million, unadjusted. This balance improved substantially in May. Although there were wide swings during that month in U.S. banks' liabilities to their foreign branches, the net change over the month in these liabilities was small. Data are not yet available for overall liabilities to foreign commercial banks.

The U.S. gold stock declined by $51 million during the first quarter of 1967. After increasing by $50 million in April as a result of a purchase from Canada, it declined $20 million (confidential until published) in May. There was a larger decline than this during the first week of June, reflecting primarily a sale to Switzerland and the settlement of May losses by the gold pool.

The full balance of payments accounts for the first quarter, to be published later this month, identify the transactions responsible for the persistence of an extraordinarily large liquidity deficit in that quarter. In the fourth quarter of 1966 direct investment outflows had been unusually large, possibly reflecting apprehensions about tightening of restrictions. Also, errors and omissions, which had been briefly positive in the third quarter -- perhaps reflecting movements out of sterling, had become negative again in the fourth quarter. In the first quarter of 1967 there was no further change in the errors and omissions item, and direct investment outflows (adjusted for the abnormal transfers to finance petroleum tax payments) dropped sharply from $920 million to only $700 million.

Offsetting this improvement as well as the $300 million increase in the merchandise trade balance, several categories of transactions showed deteriorations.

Income received from direct investments declined by nearly $100 million to an annual rate of $4.0 billion, no higher than the annual averages of 1965 and 1966 despite major additions since then to the amounts invested. Military expenditures abroad rose by $70 million to an annual rate of $4.2 billion. This was a relatively large quarterly increase.

U.S. Government foreign aid and credit operations also resulted in larger payments, and there were no receipts of debt prepayments in the quarter. Economic grants were up by $80 million from the relatively low fourth-quarter rate, largely because of increased aid shipments to Asia. Disbursements under Government credits for economic aid also rose somewhat. Other large increases in Government credit disbursements had little net payments effect since they had counterparts in Government non-liquid liability accounts and larger military export sales.

Net purchases of foreign securities of about $240 million in the first quarter were considerably larger than in the last three quarters of 1966, when they averaged only about $50 million. Some of the relatively high first quarter outflow reflects large new issues by Canada and by the IBRD and IDB, but there was also a cessation in the sell-off by U.S. investors of outstanding foreign securities. Purchases of new foreign issues continued high in the second quarter, again largely for Canada and the international institutions.

Long-term claims on foreigners reported by U.S. banks were reduced by over $150 million in the first quarter, seasonally adjusted, about the same amount as in the fourth quarter. Foreign claims reported by banks changed little in April.

Financing of direct foreign investments involved the sale of about $90 million of securities of Delaware affiliates in the first quarter, and a similar amount of the proceeds of such borrowings was included in the direct-investment outflow figure. Borrowing abroad on a similar scale by Delaware affiliates continued in the second quarter.

U.S. merchandise trade. In April the trade surplus continued the strong improvement of the first quarter. For the first four months of 1967 as a whole, the trade surplus was at a seasonally adjusted annual rate of $4.3 billion (balance of payments basis) compared with the exceptionally low $2.9 billion rate in the fourth quarter of 1966 and $3.7 billion in the full year 1966.

Exports in January-April were at a seasonally adjusted rate of about $31.0 billion, 5 per cent above that of the fourth quarter 1966 and nearly 10 per cent higher than in January-April 1966.

This expansion in exports was attributable entirely to non-agricultural products. Exports of farm products, which had turned down last August, slipped further in the first quarter but registered a moderate gain in April.

Sales of machinery, particularly computers to the industrialized countries and excavating machinery to Australia, have been strong this year. New export orders have remained high in the first four months, but increased shipments have kept the backlog of unfilled orders almost unchanged. There was a sharp rise in civilian aircraft sales mainly to the Common Market countries and Latin American Republics, most of which involve an offsetting extension of credit. The upswing in the last six months reflected improvement in deliveries of jet transports which had been delayed last year due to a shortage of engines. New pressures on civilian deliveries of engines are again developing with expanding military orders.

More than one-half of the advance in exports this year over the fourth quarter level was in increased shipments to East and South Asia, which included greater U.S. Government financed shipments of steel-mill products and locomotives to Pakistan and rice to Vietnam, and commercial sales of raw cotton to Korea and Taiwan. The bulk of the remaining increase was in shipments to Canada, mainly larger shipments of duty-free automobiles under the U.S.-Canadian Automotive Agreement.

Total exports to the industrialized countries -- United Kingdom, other Western Europe and Japan -- showed little change in the first four months from those in the fourth quarter 1966. Shipments to Japan, however, were about 20 per cent higher than in the first quarter of 1966; sales to the United Kingdom and other Western Europe were below those of a year earlier.

Imports in April advanced from the preceding two months but remained well below the January peak. Since the summer of 1966, imports have remained within a range of $26.4 to $26.7 billion at annual rates. Among industrial materials, imports of iron and steel-mill products, aluminum and other metals, and raw wool declined this year. Total industrial materials imports dipped slightly from late

1966. This was also the case for capital equipment. The rate of increase in arrival of automotive vehicles and parts slowed noticeably. Purchases of other nonfood consumer items continued their long-term uptrend. Imports of foods were sharply larger in the first four months of this year than in the fourth quarter, as sugar refiners replenished inventories.

Financial market conditions abroad. The broad de-escalation of interest rates in industrial countries which began late in 1966 has been interrupted. Bond yields in Germany, now around 6-3/4 per cent, have fallen little in recent weeks. Since mid-April yields have risen appreciably in the U.K. and Canada. Bond yields in Japan have also begun to rise. Declines in short-term rates have tended to slow in most countries, and in Canada increases occurred in the latter part of April and in May. In Switzerland, on the other hand, large inflows of funds from abroad have tended to push interest rates down recently.

The strongest movement toward easier monetary conditions this year occurred in Germany, a focal center of recessionary tendencies in Europe since last summer. Easier German monetary policy has facilitated capital market borrowing by the Federal, state, and local governments.

SHORT-TERM INTEREST RATES
(per cent per annum)
(at dates near month-ends except June 1967)

		1966		1967			
		Sept.	Dec.	March	April	May	More Recent
U.S.:	3-mo. Treas. bill	5.30	4.79	4.09	3.68	3.45	3.50
Euro-dollar:	1-mo. deposit	6.75	6.56	5.25	4.69	4.88	5.25
Euro-dollar:	6-mo. deposit	7.00	6.62	5.38	4.75	5.13	5.44
U.K.:	3-mo. Treas. bill	6.60	6.35	5.44	5.30	5.13	5.12
Canada:	91 Treas. bill	5.01	4.96	4.13	4.00	4.24	4.31
Germany:	3-mo. interbank loan	6.75	7.00	4.88	4.00	3.56	3.94
Switzerland:	3-mo. Treas. bill	4.25	4.50	4.50	4.25	4.25	n.a.
France 1/:	Call money	4.60	5.70	5.00	4.81	4.73	4.63
	30-day commcl. paper	4.95	6.06	5.02	4.97	4.90	4.63
Netherlands:	3-mos. Treas. bill	4.75	4.88	4.44	4.50	4.56	4.56
Belgium	4-mo. Govt. cert.	5.80	6.15	5.75	5.60	5.50	n.a.
Sweden:	3-mo. Treas. bill	6.60	6.09	4.53	4.53	4.28	n.a.

1/ Monthly averages.

Private credit demand has remained very weak. The fact that declines in both short- and long-term rates have slowed in recent weeks seems to be due in part to the habituation of the Germany economy and financial system to relatively high interest rates; further declines are impeded as rates approach levels that are considered "low" (for short-term rates) and "normal" (for bond yields). But the Bundesbank has not pushed its policies -- for example, in reducing reserve requirements -- as far as perhaps it might have.

The recent rise in bond yields in Britain has been largely a reaction to developments unfavorable for the exchange position of sterling. In Canada bond yields have risen because of increases in U.S. bond yields and public forecasts of a sizable upturn in the Canadian economy later in 1967. Increases in Euro-dollar rates in May and June can be attributed to a combination of seasonal factors and the cessation of U.S. banks' repayments to the Euro-dollar market.

There were no notable changes in Italian or French interest rates from early February until May. Italian monetary policy remains expansive. French policy, in the face of growing slack in the economy, has been cautiously geared to concern for the French balance of payments position; since mid-May, however, it has been relaxed somewhat.

In a number of the smaller European countries, moderate declines in interest rates, resulting in large part from the easing of credit conditions in Germany, have been welcomed in view of the general slackening of growth in economic activity.

The decline of German interest rates which began in August 1966 has virtually ceased. The earlier substantial decline of German interest rates reflected the Bundesbank's policy since the beginning of the year of actively promoting easier credit conditions, and also the very weak private demand for credit in Germany. Four 1/2 per cent reductions in the Bundesbank's discount rate have been made this year. Bank liquidity has been fed not only by the German balance of payments surplus but also by reductions in minimum reserve requirements. In the five months November through March, the German banking system added DM 3.2 billion ($800 million) to its holdings of freely available liquid assets less borrowings from the central bank -- an exceptionally large amount. There have been further substantial additions to bank liquidity in the second quarter.

GOVERNMENT BOND YIELDS
(per cent per annum)
(at dates near month-ends except June 1967)

	1966		1967			
	Sept.	Dec.	March	April	May	More recent
U.S. (3-1/2% 1990)	4.77	4.59	4.53	4.68	4.78	4.85
Euro-dollar bonds (H-13 series)	6.81	6.36	6.29	6.13	6.29	6.36
U.K. (War Loan)	7.13	6.82	6.52	6.44	6.62	6.69
Canada (5-1/4% 1990)	5.80	5.79	5.47	5.56	5.72	5.76
Germany (6% publ. author. bonds)	8.12	7.57	6.91	6.87	6.74	6.76
Switzerland	4.57	4.79	4.84	4.77	4.70	n.a.
France 2/ (Publ. sector bonds)	6.29	6.44	6.38	6.42	6.39	n.a.
Italy 2/ (Non-govt. bonds)	6.38	6.40	6.39	n.a.	n.a.	n.a.
Netherlands (4-1/4 and 4-1/2%)	6.47	6.48	5.96	5.95	6.16	n.a.
Belgium (20-yr. bonds)	6.76	6.76	6.76	6.77	n.a.	n.a.
Sweden (15-yr.) 1/	6.52	6.35	5.89	n.a.	n.a.	n.a.

1/ Mid-month.
2/ Monthly averages.

In the first quarter, bank loan expansion (excluding interbank credit) was only DM 2.1 billion, as compared to DM 7.1 billion during the same period of 1966. The expansion was confined to loans to the public sector, which rose by DM 2.3 billion. Borrowing on the bond market in January-April totaled DM 6.4 billion, or DM 2.1 billion more than in the same period last year. Here too, the public authorities accounted for the greater part of the increase in borrowings; last year their access to the market had been severely limited as a result of tight monetary conditions and falling bond prices. The improvement in the bond market's absorptive capacity reflects the re-entry of banks as buyers; their net purchases of bonds in the first quarter (including those of bank obligations) amounted to DM 1.8 billion.

The private sector has remained reluctant to incur new debt, at least through March. Until very recently interest rates were expected to fall further, and business activity in general showed only little recovery.

The May 11 action bringing the discount rate to 3 per cent, which for Germany is a very low rate, was followed by a renewed decline in long-term bond yields. In recent weeks, however, yields on 6 per cent public authority bonds have settled near 6-3/4 per cent (compared with 8-1/2 per cent last summer).

Industrial production in April apparently rose a little (seasonal adjustment estimated), but new orders, which had risen in March, fell off again. The value of retail sales in March regained the January level; the first-quarter average was well above the preceding quarter.

With private demand for credit very weak in Germany, the banks placed a substantial amount of funds abroad. From the end of November through April their total external short-term assets less liabilities increased by about $370 million; within the period, year-end repatriation was followed by larger outflows. (From the end of November through March their liquid assets abroad -- mainly Euro-dollar deposits -- increased by $80 million; short-term credits to foreigners increased $30 million and liabilities to foreigners decreased $150 million.) This outflow contributed to holding down German official reserve gains despite the massive trade surplus; another factor important in this way was official capital movements, including prepayments on military purchases from the United States.

British long-term bond yields have risen moderately since mid-April -- up to June 8 by about 30 basis points. Expectational factors played a major role in reversing the earlier rise in bond prices and decline in yields. The Labor Party's severe defeat in the April local elections aroused apprehension that the Government might move too rapidly to reflate the economy. Later developments contributing to bond market weakness included the unfavorable April trade figures, De Gaulle's rebuff, and the threat (and ultimate outbreak) of war in the Middle East.

The Bank of England's three cuts in Bank Rate this year have been accompanied by a decline of about 1=1/2 per cent in short-term interest rates. Long-term bond yields had fallen by about 1/2 per cent before turning up. Since defense of the pound has been given priority over domestic reflation, each Bank Rate action was delayed until rate cuts had been made elsewhere, especially in Germany.

Signs of cyclical recovery around the year-end have not been confirmed by later developments. Manufacturing production in March was no higher than in January.

French money market rates have remained relatively high this year and the bond market has remained tight. The decision of the authorities to maintain relatively high interest rates, despite softness in the economy, is probably related to what the French see as balance of payments difficulties; between the end of January and late May, foreign exchange reserves (including the IMF position) declined by about $60 million, continuing the slight decline since the fall of last year. However, since mid-May the banks are being allowed to rediscount more medium-term paper than before, and the Bank of France has lowered its intervention rate in the market for 30-day funds by 1/2 per cent.

Through the first three months of 1967, bond yields in Italy continued to show only very minor changes. (Interest rate data are not available past March.) Nevertheless, Italian monetary policy has remained expansionary. Italy was one of the exceptions to the general rise of interest rates in 1966, and there has therefore been no need to bring rates down this year.

The liquidity of the banking system was put under some strain in the last quarter of 1966 and the first quarter of 1967 by a seasonal balance of payments deficit and a decline in Bank of Italy credit to the Treasury. To prevent these factors from slowing down the expansion of earning assets, the Bank of Italy provided the commercial banks with considerably more credit through advances and rediscounts than in the corresponding period a year earlier.

In Japan, monetary policy shifted in April toward restraint. With economic activity continuing to grow vigorously -- industrial production rose 1-1/2 per cent further in April, and was 21 per cent higher than a year earlier -- the Bank of Japan has become increasingly concerned about the danger of overheating. Consequently it has been advising the banks not to make unnecessary or excessive loans. Early in May, the Bank of Japan required banks to report to it each month their loanable funds position and lending programs.

The general level of bank lending rates continued to decline gradually through March, when these rates averaged 7.32 per cent as compared with a high of 8 per cent in the latter half of 1964. However, heavy loan demand has put pressure on the call money market and led to bank liquidations of holdings of national government bonds. Bond yields have risen, and it has become increasingly difficult to find buyers. The Bank of Japan has therefore suggested to the Ministry of Finance that it reduce the volume of planned bond sales.

In Switzerland, as in Italy and Japan, changes in interest rates have been slow to develop this year. Last year there were relatively moderate advances in rates. Demand for funds has remained firm this year, but recent changes in financial markets have nevertheless been toward a decline in rates, because supplies of funds have been large. Despite the government's program of voluntary restraints on capital issues, a large volume of new bonds has been marketed, and with little difficulty. Swiss banks repatriated liquid funds from abroad in April and May. Recent large inflows of flight money, influenced by events in the Middle East, have also added liquidity to the Swiss banking system.

In the Netherlands, Belgium, and Sweden, moderate declines in short-term interest rates this year have been in part the result of falling rates and easier credit conditions in large neighboring countries. The Dutch central bank reduced its discount rate once, by 1/2 per cent, in March; the Belgian central bank lowered its rate three times, by 3/4 per cent altogether, in February, March, and May; and the Swedish central bank reduced its rate twice, by 1 per cent altogether.

The Bank for Dutch Municipalities, a major capital market borrower in the Netherlands, was able to put out a bond issue at the end of May yielding 6.34 per cent, well below last November's 7.10 per cent. With recessionary tendencies developing, the central bank in March suspended the requirements for penalty deposits by banks in cases where they break through their credit ceilings.

In Belgium, where the capital market is mainly used by the Government, expectations that government borrowing will again be large this year have been a principal factor keeping long-term bond yields from falling. Business conditions have remained sluggish.

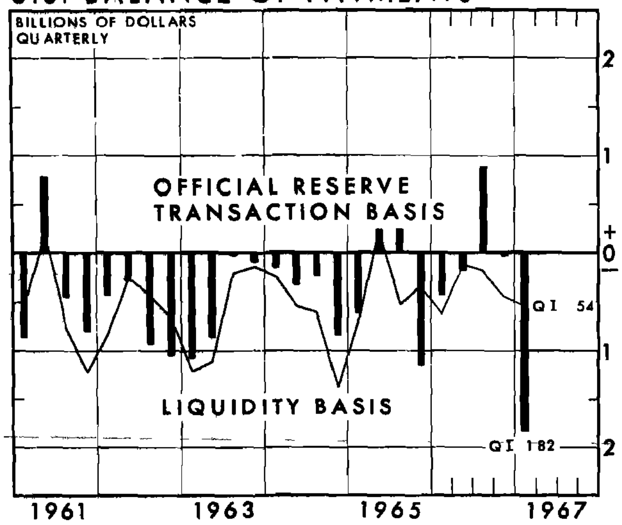
In Sweden, fiscal policy is still aimed at restricting consumer demand, but as early as last summer the central bank undertook market purchases of securities to ease bank liquidity. Also, the counter-cyclical investment reserve scheme has been activated. From May 19 to September 30, businesses may draw, under certain rules, from their blocked deposits at the central bank.

Movements in Canadian long-term bond yields since last December have in general paralleled those in the United States. Canadian short-term rates continued to decline until mid-April, but have risen since then despite the fact that there has apparently been no basic change in the Bank of Canada's monetary policy. Continued pressures on wages and costs have led to expectations that an upturn in business would bring inflation and rapid return to tight money. Although Canada is not in real balance of payments trouble at present, foreign exchange reserves have declined slightly this year and there is real concern as to what the position will be after various favorable developments -- such as initial effects of the Canadian-U.S. Automotive Agreement and large tourist receipts from Expo-67 -- are over.

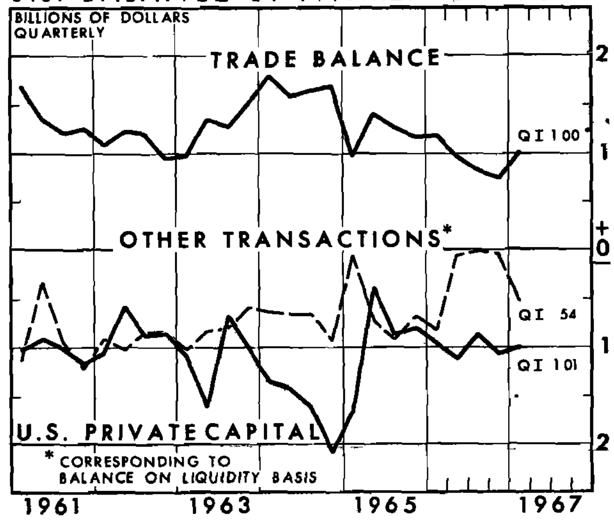
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

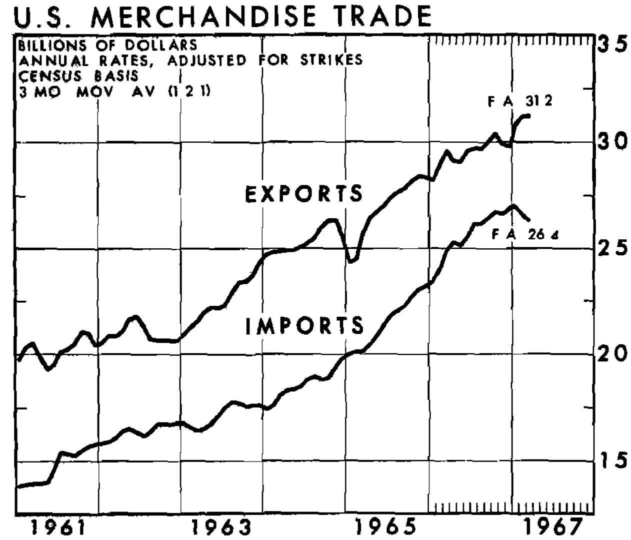
U.S. BALANCE OF PAYMENTS



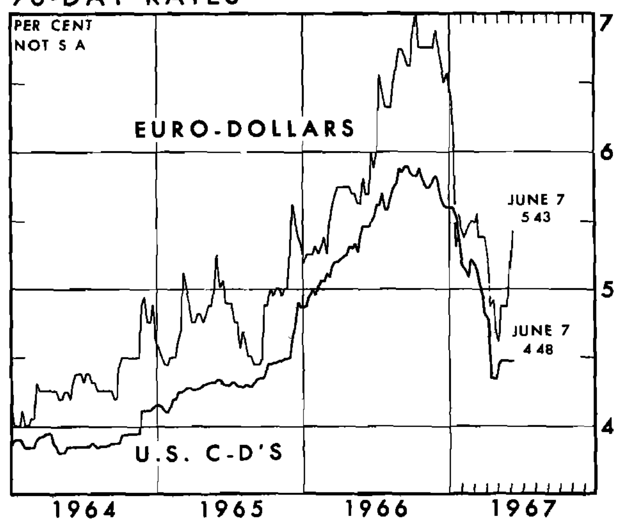
U.S. BALANCE OF PAYMENTS - CONT.



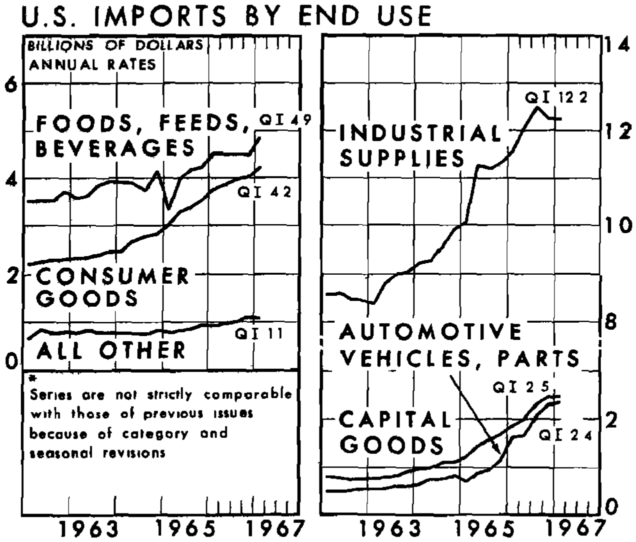
U.S. MERCHANDISE TRADE



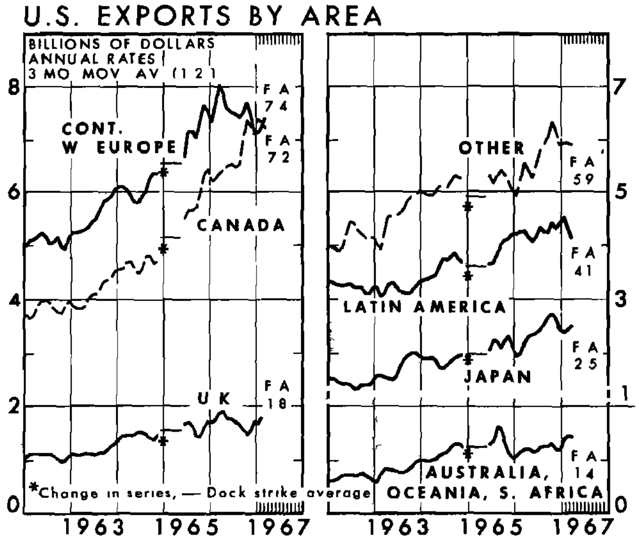
90-DAY RATES



U.S. IMPORTS BY END USE



U.S. EXPORTS BY AREA



APPENDIX A: SUMMARY BALANCE OF PAYMENTS ACCOUNTS

The table below shows the relation of the two over-all balances to the various elements of payments and receipts. Data are in billions of dollars, quarterly, seasonally adjusted.

	1966 I	1966 II	1966 III	1966 IV	1967 I
1. Exports of goods and services	10.5	10.6	10.9	11.0	11.3
2. Merchandise	7.2	7.2	7.4	7.4	7.7
3. Investment income	1.5	1.5	1.6	1.7	1.6
4. Other current receipts	1.8	1.9	1.9	1.9	2.0
5. Imports of goods and services	9.0	9.3	9.8	9.9	10.0
6. Merchandise	6.0	6.2	6.6	6.7	6.7
7. Military expenditures	.9	.9	1.0	1.0	1.0
8. Other current payments	2.1	2.2	2.2	2.2	2.3
9. Balance on goods and services	1.5	1.4	1.2	1.1	1.3
10. Pensions and private remittances	-.2	-.2	-.3	-.2	-.3
11. U.S. private capital (net outflow -)	-1.0	-1.1	-.9	-1.1	-1.0
11. U.S. Govt. credits disbursed and net grants	-1.2	-1.2	-1.2	-1.1	-1.4
12. Repayments on U.S. Govt. credits	.2	.2	.4	.4	.2
13. Foreign private capital, except liquid (net inflow, +)1/	.2	.5	.1	.3	.3
14. Foreign claims on U.S. Govt. associated with specific transactions	(x)	(x)	.1	(x)	.1
15. Errors and omissions (net)	-.2	-.2	.3	-.2	-.2
16. Balance of lines 1 to 15	-.7	-.6	-.3	-.8	-1.0
Plus:					
17. International agencies: long-term deposits and Agency securities	.1	.3	(x)	(x)	.1
18. Foreign official accounts: long-term deposits	(x)	.3	.1	.4	.3
19. Nonconvertible "Roosa bonds"	-.1	(x)	(x)	.1	(x)
20. Balance on liquidity basis	-.7	-.1	-.2	-.4	-.5
21. Balance of lines 1 to 15	-.7	-.6	-.3	-.8	-1.0
U.S. liquid liabilities to:					
22. Foreign nonbank private	.1	(x)	.1	(x)	.1
23. Commercial banks	.2	.5	1.2	.8	-.9
24. U.S. liquid and nonliquid liab. to: International organizations	.1	-.1	(x)	-.1	(x)
25. Balance on official reserve trans. basis	-.4	-.2	.9	(x)	-1.8

(x) Less than $50 million.

1/ Includes borrowing by U.S. corporations to finance direct investments. Also includes U.K. official transactions in U.S. securities other than Treasury issues.