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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

April 24, 1968

SUMMARY AND OUTLOOK

Outlook for economic activity

Continued rapid expansion in over-all economic activity in the second quarter, maintaining pressure on prices and resources, is foreshadowed by the recent surge in final sales, the rise in new orders, the reduced inventory/sales position and expected gains in incomes. In addition, expenditures for defense are expected to rise at rates well above those indicated in the Budget, and more in line with the increases indicated by the President at the end of March. Real GNP growth should again approximate the rapid 6 per cent rate of the first quarter, and the over-all price increase (GNP deflator) should continue at about the recent 4 per cent rate.

Recent tightening in monetary policy is not expected to cause any significant slowing in the economy this quarter, except possibly in housing starts toward the end of the quarter. While the most recent McGraw-Hill Survey (to be released April 26) suggests an 8 per cent increase in plant and equipment expenditures for 1968, somewhat higher than the earlier Commerce-SEC survey, this is not likely to show up in second quarter expenditures. The increase in investment plans could mark the start of an acceleration in business outlays, but higher interest rates and more limited availability of funds could dampen any surge in capital spending, particularly in the commercial construction area.

Outlook for resource use and prices

Industrial production advanced at a moderate pace in the first quarter, increasing at an annual rate of more than 5 per cent from the fourth quarter average. Further advance in industrial production would naturally be associated with the projected continued rapid rise in real GNP in the current quarter, particularly since business inventory demands are likely to be heightened after the unexpected sharp drop in the rate of accumulation in the first quarter. Manufacturing capacity utilization would, however, remain at about the moderate 84 per cent rate prevailing, on average, since mid-1967.

Recently monthly increases in productivity have been modest while wage rates have continued to move up rapidly. The labor market has continued tight, with employment gains sizable--particularly in nonmanufacturing industries--and unemployment averaging an extremely low 3.6 per cent in the first quarter. Recent wage settlements have provided wage and fringe benefits of 6 to 7 per cent or more a year--with pressures for such large settlements stemming in part from the persistent rapid increases in the cost of living. There is no let-up in sight for over-all pressure on labor resources. Unemployment may decline slightly further this spring (barring protracted strikes), upward pressure on wages will continue strong, and unit labor costs are likely to rise further.

Continued upward cost pressures, diminishing supplies of some agricultural products, and strong demands--particularly from consumers--are keeping prices moving up at a fast pace. At whole-sale, a deceleration of the upward movement apparent during the winter may now be occurring as some of the extraordinarily large increases of that period slacken off or--as in the case of copper--reverse. At the consumer level, however, average prices of goods and services are probably continuing to rise at around the 4 per cent rate of the winter months.

Demands for credit

Credit demands during the next month or two are not expected to be exceptionally large, but probably strong enough to extend the recent rise in long-term interest rates touched off by the increases in the discount rate, in the prime rate, and in the cost of CD funds. However, if a tax increase becomes more likely, the associated shift in market attitudes could lead to some declines in longer-term market rates as investors seek to nail down existing high interest returns.

The volume of publicly offered corporate bond issues in May is now expected to be the largest since January, about $900 million. New issue volume is likely to remain sizable, and possibly advance further, in early summer if the tempo of economic activity accelerates. But there have been no signs, as yet, of any anticipatory surge in capital market borrowings; corporate needs for external funds are not extremely pressing partly because of the strongly rising flow of profits, while banks' increased access to CD funds as a result of the rise in rate ceilings may keep just enough bank credit availability to stave off any sharp shift in borrowing away from banks to the bond market.

The expected expansion in business production for the second quarter is likely to be a factor contributing to relatively strong business loan demands at banks. However, net demands may not be quite as strong as in the March-April tax period. Not only is some repayment of tax period borrowing expected, but the rise in the prime rate may again move some short-term business and finance company borrowing into the commercial and finance company paper markets.

The Federal Government's demands for cash and to refinance maturing coupon issues will become more of a critical market factor in the coming two months. There are almost $4 billion of publicly-held maturing issues that will have to be refunded in mid-May. In addition, it appears that the Treasury will have to borrow at least $2 billion in cash between now and mid-year in one form or another, beyond the continuing additions to weekly Treasury bill offerings already announced. Much of this cash will probably be raised in June. These financing demands are expected to increase demands for bank credit, and also the level of interest rates as banks and other financial institutions are expected to be relatively reluctant suppliers of credit and buyers of Government securities.

Municipal bond volume in May is expected to be about $1 billion--a drop off from earlier months this year--primarily reflecting the coincidental absence of any of the usually large and frequent borrowers in this market, such as New York and California governmental units. The volume for May and subsequent months could be lowered somewhat further by postponements and cutbacks if there were significant advances in market yields, which, however, at the moment remain below mid-March peaks. On the other hand, if the corporate market turns out to be unreceptive to new issues, this might lead to an acceleration in issues of industrial revenue bonds.

Supply of funds

While the possibility that credit demands could pick up sharply cannot be discounted, the principal source of upward interest rate pressures over the near-term is likely to be from the supply side, as the higher discount rate and greater monetary restraint make it more costly and in some cases--such as under existing ceiling rates for time and savings accounts other than CD's--less possible for institutions to attract funds for lending and investing. Commercial banks are expected to restore some of the CD run-off that they experienced over the March-April period, by bidding for funds at the higher interest rates now possible. How active banks will be in that respect will depend in part on the trend of loan demand and on the trend of inflows (and outflows) in consumer-type time and savings deposits under prevailing ceilings.

Inflows of consumer-type deposits are likely to remain at a considerably reduced level, given the higher structure of market interest rates that is emerging. Savings deposits have declined at large banks much more this year in April than last year, or in years prior to 1966. Moreover, inflows of other consumer-type deposits have slackened further recently. And while there may be some pickup in May and June from the current trend, which was undoubtedly affected by personal income tax payments, the extent of the improvement might be minor as consumer expenditures remain relatively high and as their saving is increasingly attracted by higher yields on market instruments. While there will be continued shifting between U.S. Government and private deposits, aggregate demand deposit growth is not likely to provide much offset at banks to a slowing of consumer-type time and savings deposits.

Prior to the increase in the discount rate last week, the level of short-term market yields suggested that inflows to nonbank financial institutions would probably moderate during April and in the months ahead. Further constraint on such flows can now be expected, even though the inability of commercial banks to escalate their competition for consumer-type deposits will moderate the effect on nonbank institutions of the rising level of market yields. Reduced inflows--and the expectation of sizeable attrition at mid-year under current rate ceilings--will likely produce cutbacks in new mortgage commitment volume.

Balance of payments. With final data still lacking, the annual rate of payments deficit in the first quarter before special official transactions is now estimated at roughly $3-1/2 billion on the liquidity basis and $2 billion on the official reserve transactions basis. These figures are smaller than had been guessed a month ago, and moderately smaller than those for the year 1967. But they are disappointingly large in view of the new restraints on outflows of U. S. capital that have been in effect since January 1.

No early further reduction in the deficit on either basis is in prospect. Some improvement is expected in the trade surplus, and hence in the balance on goods and services from the low first quarter level. The stimulus to exports from continental Europe's vigorous economic expansion--both directly and via third countries--is likely to be only partly offset by a leveling off of demand from Canada, Japan, and the United Kingdom. Part of the first quarter bulge in imports was temporary; imports should rise less rapidly than exports in the months ahead.

But this trade improvement seems likely to be roughly offset by a renewed worsening on capital account. Capital transactions during the first quarter included a number of unusually favorable developments: a reflow of bank credit subject to the FCRP of about $480 million, about the amount expected for the full year; and exceptional foreign direct investment in the United States of $200 million; record net foreign purchases of U. S. corporate stocks in January, which tapered off in February; and inflows of liquid funds from commercial banks abroad of nearly $600 million in January-February alone, a larger flow than is likely to be sustainable.

Thus U. S. Government analysts do not now expect the deficit for the full year to be below the first-quarter rate. The OECD Secretariat, too, warns in a recent paper for Working Part No. 3 that the U. S. payments deficit may be large again this year.

April 23, 1968

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest Period	Amount			Per Cent Cha	
		Latest Period	Preced'g Period	Year Ago	Year Ago*	2 Yrs Ago*
Civilian labor force (mil.)	Mar'68	78.7	78.7	76.7	2.6	4.6
Unemployment (mil.)	"	2.9	2.9	2.9	0.1	-0.1
Unemployment (per cent)	"	3.6	3.7	3.7	--	--
Nonfarm employment, payroll (mil.)	"	67.9	67.7	65.7	3.2	7.2
Manufacturing	"	19.5	19.5	19.4	0.4	3.1
Other industrial	"	8.4	8.4	8.2	2.2	2.7
Nonindustrial	"	40.0	39.8	38.1	4.8	10.4
Industrial production (57-59=100)	"	162.1	161.5	156.4	3.6	5.4
Final products	"	162.6	161.9	157.1	3.5	6.5
Materials	"	161.6	161.3	155.5	3.9	4.7
Wholesale prices (57-59=100) 1/	"	108.2	108.0	105.7	2.4	2.7
Industrial commodities (FR)	"	107.8	107.5	105.1	2.6	4.1
Sensitive materials (FR)	"	108.2	106.4	101.3	6.8	2.7
Farm products, foods & feeds	"	106.9	106.8	104.6	2.2	-2.3
Consumer prices (57-59=100) 1/	Feb'68	119.0	118.6	114.8	3.7	6.6
Commodities except food	"	111.5	111.2	107.6	3.6	5.8
Food	"	117.4	117.0	114.2	2.8	3.8
Services	"	131.3	130.8	125.9	4.3	9.7
Hourly earnings, mfg. ($)	Mar'68	2.96	2.94	2.79	6.1	10.4
Weekly earnings, mfg. ($)	"	120.06	119.60	112.33	6.9	8.3
Personal income ($ bil.) 2/	"	666.0	659.3	615.6	8.2	16.4
Corporate profits before tax ($ bil.) 2/	QIV'67	85.1	80.0	83.9	1.4	5.3
Retail sales, total ($ bil.)	Mar'68	28.0	27.5	25.7	8.8	9.7
Autos (million units) 2/	"	8.7	7.9	7.3	19.0	-6.5
GAF ($ bil.)	"	6.9	6.7	6.0	13.7	17.5
Selected leading indicators:						
Housing starts, pvt. (thous.) 2/	"	1,476	1,529	1,094	34.9	3.2
Factory workweek (hours)	"	40.7	40.7	40.4	0.7	-1.9
New orders, dur. goods ($ bil.)	"	26.6	24.8	22.1	20.7	7.1
New orders, nonel. mach. ($ bil.)	"	3.7	3.6	3.4	11.1	5.5
Common stock prices (1941-43=10)	"	89.09	90.75	89.42	-0.4	0.2
Inventories, book val. ($ bil.)	Feb'68	141.6	141.3	136.5	3.7	15.8
Gross national product ($ bil.) 2/	QI '68	827.3	807.3	766.3	8.0	14.0
Real GNP ($ bil., 1958 prices) 2/	"	689.7	679.6	660.7	4.4	6.9

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

SELECTED DOMESTIC FINANCIAL DATA

	Week ended April 19, 1968	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent)	5.70	5.61	5.75	4.12
U.S. Treas. bills, 3-mo., yield (per cent)	5.40	5.26	5.40	4.85
U.S. Treas. bills, 1-yr., yield (per cent)	5.69	5.59	5.69	5.35
Net free reserves 2/ ($ millions)	-230	-306	384	-434
Member bank borrowings 2/ ($ millions)	763	672	779	58
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	5.71	5.64	5.88	5.47
20-year U.S. Treas. bonds 1/	5.45	5.49	5.69	5.32
Corporate new bond issues, Aaa adj. 8/	6.42	6.51	6.59	6.05
Corporate seasoned bonds, Aaa 1/	6.20	6.19	6.24	5.90
Municipal seasoned bonds, Aaa 1/	4.08	4.16	4.28	3.90
FHA home mortgages, 30-year 3/	--	6.81	6.81	6.63
Common stocks, S&P composite series 4/				
Prices, closing (1941-43=10)	95.85	93.97	96.72	88.42
Dividend yield (per cent)	3.08	3.18	3.36	3.06

	Latest month	Amount	3-month average	Change from year earlier: Latest month	Change from year earlier: 3-month average
New Security Issues (N.S.A., $ millions)					
Corporate public offerings 5/	Apr. '68 e/	1,725	1,783	-248	-113
State & local govt. public offerings	"	1,100	1,217	- 11	- 31
Comm. & fin. co. paper (net change in outstandings)	Feb. '68	- 557	+ 222	-1,038	-121

	Latest month	Out-standings Latest month	Change: Latest month	Change: 3-month average	Annual rate of change from: Preceding month	3 months ago	12 months ago
Banking (S.A.)		($ billions)			(per cent)		
Total reserves 1/	Mar. 1968	25.30	0.06	0.23	2.6	11.0	8.1
Credit proxy 1/	"	278.0	1.0	1.7	4.3	7.5	9.4
Bank credit, total 6/	"	351.8	-1.2	2.0	-4.1	6.8	9.5
Business loans	"	87.8	0.8	0.5	11.0	7.0	8.7
Other loans	"	140.7	-1.0	0.7	-8.5	6.1	7.8
U.S. Govt. sec.	"	59.9	-1.9	0.1	-36.9	2.0	3.6
Other securities	"	63.5	0.9	0.7	17.2	13.7	21.4
Total liquid assets 1/ 6/	"	664.9	4.5	4.4	8.2	8.1	8.0
Demand dep. & currency 1/	"	183.4	0.9	0.6	5.9	4.2	6.0
Time & sav. dep., comm. banks 1/	"	186.6	1.6	0.9	10.4	6.1	12.3
Savings, other thrift instit. 6/	"	187.0	1.3	1.0	8.4	6.5	8.3
Other 6/ 7/	"	107.9	0.7	1.8	7.8	21.5	3.8

N.S.A.--not seasonally adjusted. S.A.--Seasonally adjusted.
e. Estimated by F.R.B. 1/ Average of daily figures. 2/ Average for statement week ending April 17. 3/ Latest figure is for Mar. 4/ End of week closing prices; yields are for Friday. 5/ Corporate security offerings include both bonds and stocks. 6/ Month-end data. 7/ U.S. savings bonds and U.S. Government securities maturing within 1 year. 8/ Adjusted to Aaa basis.

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

	1967				1968		
	I	II	III	IV	I.	Feb.	Mar.
			Seasonally adjusted				
Goods and services, net 1/	1,353	1,320	1,408	719			
Trade balance 2/	1,009	1,154	1,077	243	92	156	-175
Exports 2/	7,671	7,712	7,626	7,454	7,921	2,758	2,438
Imports 2/	-6,662	-6,558	-6,549	-7,211	-7,830	-2,602	-2,612
Services balance	344	166	331	476			
Remittances and pensions	-264	-395	-356	-269			
Govt. grants & capital 3/	-1,201	-1,013	-966	-947			
U.S. private capital	-984	-1,113	-1,741	-1,608			
Direct investments	-622	-648	-939	-818			
Foreign securities	-263	-170	-446	-373			
Banking claims	69	-228	-392	96			
Other	-168	-67	36	-513			
Foreign capital, nonliquid	858	1,194	808	217			
Official foreign accts.	392	736	25	119			
Long-term deposits	304	584	-215	147			
U.S. Govt. liab.	88	152	240	-28			
Int'l. institutions 4/	70	97	117	15			
Other 5/	396	361	666	83			
Errors and omissions	-295	-546	209	37			
	Balances, with and without seasonal adjustment (- deficit)						
Liquidity balance, S.A.	-533	-553	-638	-1,851			
Seasonal component	295	330	-573	-52			
Balance, N.S.A.	-238	-223	-1,211	-1,903		-70	
Official settlements bal., S.A.	-1,817	-832	456	-1,205			
Seasonal component	537	143	-495	-185			
Balance, N.S.A. 6/	-1,280	-689	-39	-1,390		34	
	Reserve changes, N.S.A. (decrease -)						
Total monetary reserves	-1,027	419	375	181	-904	170	-864
Gold stock	-51	-15	-92	-1,012	-1,362	-103	-1,197
Convertible currencies	-1,007	424	462	1,145	401	59	511
IMF gold tranche	31	10	5	48	57	214	-178

1/ Equals "net exports" in the GNP.
2/ Balance of payments basis which differs a little from Census basis.
3/ Net of scheduled and non-scheduled repayments.
4/ Long-term deposits and Agency securities.
5/ Includes some foreign official transactions in securities.
6/ Differs from liquidity balance by counting as receipts (+) increase in liquid liabilities to commercial banks, private nonbanks, and international institutions (except IMF) and by not counting as receipts (+) increases in certain nonliquid liabilities to foreign official institutions.

THE ECONOMIC PICTURE IN DETAIL

The Nonfinancial Scene

Gross national product. The second quarter rise in the gross national product will probably equal or exceed the large rise in January-March, which is now estimated by the Department of Commerce, at an annual rate of $20 billion in current dollars and about 6 per cent in real terms. The GNP deflator, which accelerated to 4 perccent last quarter, is expected to continue to rise at this rate.

Several developments now suggest a stronger second quarter than we had previously anticipated. Consumer and government defense expenditures expanded faster than expected in the first quarter, raising final sales by $25 billion, the largest quarterly increase on record. At the same time, the rate of inventory accumulation, after adjustment for inventory revaluation, was substantially less than anticipated, and the level of stocks in relation to sales was reduced.

Personal income is expected to continue to rise sharply, and the consequent further strong rise in consumer sales should stimulate a rebound in inventory accumulation. The increase in defense spending in the second quarter is likely to equal--or perhaps exceed--the $2.5 billion rise in the period just ended. With fixed investment holding steady, the rise in aggregate demand in the second quarter appears likely to be at least as large, both in current dollars and in real terms, as in the first quarter. Even if a tax increase is enacted, it seems unlikely that it would be effective early enough to greatly modify the near-term outlook.

Similarly, the recent rise in the discount rate and associated monetary restraint is not expected to slow most types of expenditures for the GNP significantly this quarter, but inventory-building may be hampered in some instances and housing starts are likely to decline near the end of the period.

The $16 billion (or 13 per cent), annual rate of rise in consumer expenditures in the first quarter exceeded that in the record final quarter of 1965 even after allowing for the recent faster rate of price increase. The $8 billion (or 14 per cent) annual rate rise in nondurable goods expenditures was particularly notable. This upswing, in a sector which is considerably less volatile than durables, follows a year in which the total rise was only 4.8 per cent. Apparel sales were particularly strong, but food, gasoline, and department store sales generally also increased substantially.

Among durable goods, domestic auto sales rose from an annual rate of 7.4 million in the fourth quarter to 8.2 million in the first, boosted by March marketings of 8.7 million. Imported car volume rose even faster. Furniture and appliance sales showed a quarterly increase of about 4 per cent (or 16 per cent annual rate) after a year of very sluggish growth, and service outlays accelerated somewhat.

The major factor in the sharp increase in consumption in the first quarter was the record gain in personal income, reflecting exceptionally large increases in February and March. Expanding employment and rapidly rising wage and salary rates were given an extra boost by the increase in the minimum wage in February. In March, the rise in employee compensation was much smaller, but increased social security pensions added over $3 billion at an annual rate to income, bringing the total to a level 8 per cent above a year ago.

Normally, the saving rate rises temporarily with a large increase in income, but in the first quarter it declined by over a half a per cent from the exceptionally high fourth quarter rate of 7.5 per cent. The greater availability of new model autos in the first quarter probably occasioned some of the drop. Even so, the saving rate is still very high when measured by the post-1959 average and, with the current expansion in consumer credit, it could easily decline further.

An additional factor affecting spending in the first and second quarters of this year is an increase over last year of $2 to $2-1/2 billion in refunds of personal income taxes, only about $1 billion of which was predicted by the Treasury in January. Converted to an annual rate, this is a most substantial addition to purchasing power.

The rise in disposable personal income this quarter will probably fall a little short of the exceptional $13 billion first quarter increase, but will out-distance that in any earlier quarter since the outsize rise in the third quarter of 1965. Further expansion in employment and wages will be augmented by higher social security benefits initiated in March, but which will not have their full effect until this quarter.

With these income gains, an estimated rise in consumer expenditures at a rate of $12.5 billion appears on the low side, especially since it represents little further increase over the March rate of sales except for food and household durables, and implies little change in the saving rate. The rapid rise in consumer prices--a rate of about 3 per cent over the past year and about 4 per cent in recent months--appeared for a time to be depressing consumption. But consumers seem to be adjusting themselves to inflation and are obviously less inclined to "hold-back" than last fall. Rising unit sales of new domestic autos even after the 6 per cent year-to-year rise in the transactions price in the first quarter do not suggest much consumer resistance to high prices.

The reduction of inventories in relation to sales in the first quarter has provided a basis for a rebound of inventory accumulation in the second quarter. The inventory-sales ratio in February declined to 1.52 from 1.55 last fall. Although this is not a low figure historically, the stimulus for inventory-building appears strong in the consumer area, particularly if spending for goods increases as now expected. Stocking-up by wholesalers and retailers is suggested by a sharp rise in their borrowing at banks recently. Retail stocks of autos may also be built up somewhat further this quarter, especially if sales tend to move even higher.

Defense outlays in both the first and second quarter are growing at a faster rate than projected last month, and at a much more rapid pace than indicated in the Budget. As a result of the Tet offensive in the first quarter, and rising operations and maintenance costs, expenditures are expected to rise at a rate of $2.5 billion in each quarter, compared to the $0.5 billion quarterly rise suggested in the January Budget.

Little change in business fixed investment in the second quarter has been projected. Some decline in plant and equipment expenditures was shown in the Commerce-SEC survey of investment intentions, and machinery output has been dropping, but any deficiency in industrial outlays is expected to be offset by an increase in construction by educational, religious, and other institutional investors. Autos sales to business (which are included in business fixed investment in the GNP but not included in the "intentions" surveys) are also expected to increase further. A recently released McGraw-Hill survey, which was taken about one and a half months later than the more comprehensive survey by the Commerce-SEC, indicates a somewhat stronger year for fixed investment than the latter, but the difference probably relates to the second half; furthermore, McGraw-Hill estimates would not reflect fully the decline in commercial construction likely to result from monetary restraint.

Commitments for residential construction have been slowing somewhat since the end of last year and are likely to fall further as a result of the recent tightening in monetary policy. A continued drawing down of commitments may result in an appreciable drop in starts in June, and bring the second quarter average down to an estimated 1.38 million from 1.49 million last quarter. Residential construction outlays are expected to level off at $28.3 billion in the second quarter.

Net exports dropped to a rate of only $2.6 billion in the first quarter, in which exports were affected more than imports by a dockworkers' strike in New York. Both exports and imports are now rising rapidly, and the surplus should improve significantly this quarter.

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)

	1966	1967	1967 I	1967 II	1967 III	1967 IV	1968 Ip	1968 Proj. II
Gross National Product	743.3	785.0	766.3	775.1	791.2	807.3	827.3	848.8
Final sales	729.9	779.8	759.2	774.6	787.4	798.1	823.4	842.3
Private purchases	575.6	603.5	588.8	599.6	609.2	616.4	635.9	649.5
Personal consumption expenditures	465.9	491.7	480.2	489.7	495.3	501.8	517.8	530.2
Durable goods	70.3	72.1	69.4	72.5	72.7	73.8	77.9	80.0
Nondurable goods	207.5	217.5	214.2	217.2	218.5	220.3	228.0	234.0
Services	188.1	202.1	196.6	200.0	204.1	207.7	211.9	216.2
Gross private domestic investment	118.0	112.1	110.4	105.1	112.2	120.8	119.4	122.3
Residential construction	24.4	24.4	21.4	23.1	25.6	27.6	28.3	28.3
Business fixed investment	80.2	82.6	81.9	81.5	82.8	84.0	87.2	87.5
Change in business inventories	13.4	5.2	7.1	.5	3.8	9.2	3.9	6.5
Nonfarm	13.7	4.8	7.3	.6	3.4	7.7	3.0	6.0
Net Exports	5.1	4.8	5.3	5.3	5.4	3.0	2.6	3.5
Gov't purchases of goods & services	154.3	176.3	170.4	175.0	178.2	181.7	187.5	192.8
Federal	77.0	89.9	87.1	89.5	90.9	92.2	95.7	98.8
Defense	60.5	72.5	70.2	72.5	73.3	74.2	76.6	79.0
Other	16.5	17.4	16.8	17.0	17.6	18.0	19.1	19.8
State and local	77.2	86.4	83.3	85.4	87.4	89.5	91.9	94.0
Gross National Product in constant (1958) dollars	652.6	669.3	660.7	664.7	672.0	679.6	689.7	700.5
GNP Implicit deflator (1958=100)	113.9	117.3	116.0	116.6	117.7	118.8	120.0	121.2
Personal income	584.0	626.4	612.9	619.1	631.0	642.5	658.7	674.2
Wages and salaries	394.6	423.8	414.7	418.3	426.2	435.9	447.5	457.0
Disposable income	508.8	544.7	532.7	540.0	548.2	557.9	571.8	585.3
Personal saving	29.8	38.7	38.8	36.0	38.5	41.6	39.1	40.0
Saving rate (per cent)	5.9	7.1	7.3	6.7	7.0	7.5	6.8	6.8
Corporate profits before tax	83.8	80.8	79.0	78.9	80.0	85.1	89.2*	95.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	143.2	151.8	149.1	148.1	152.7	157.3	164.6*	168.7
Expenditures	142.9	164.3	160.9	162.8	165.9	167.9	174.8	183.2
Surplus or deficit (-)	.3	- 12.5	- 11.9	- 14.7	- 13.2	- 10.6	- 10.2*	-14.5
Total labor force (millions)	78.9	80.8	80.3	80.3	81.1	81.6	81.9	82.4
Armed forces "	3.1	3.4	3.4	3.5	3.5	3.5	3.5	3.5
Civilian labor force "	75.8	77.3	76.8	76.8	77.6	78.2	78.4	78.9
Unemployment rate (per cent)	3.8	3.8	3.7	3.8	3.9	3.9	3.6	3.5
Nonfarm payroll employment (millions)	64.0	66.1	65.7	65.7	66.1	66.8	67.6	68.2
Manufacturing	19.2	19.3	19.5	19.3	19.2	19.4	19.5	19.7
Industrial production (1957-59=100)	156.3	157.8	157.1	155.9	157.2	159.5	161.6	164.3
Capacity utilization, manufacturing (per cent)	90.5	85.1	87.1	84.9	84.1	84.4	84.1	84.5
Housing starts, private (millions A. R.)	1.17	1.29	1.12	1.21	1.41	1.44	1.49	1.38
Sales new U.S.-made autos (millions, A. R.)	8.38	7.57	7.16	8.11	7.57	7.44	8.20	8.50

*Projected

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1966	1967	1967 I	1967 II	1967 III	1967 IV	1968 Ip	1968 Proj. II
	-----------------In Billions of Dollars-----------------							
Gross National Product	59.4	41.7	4.2	8.8	16.1	16.1	20.0	21.5
Final sales	55.4	49.9	15.6	15.4	12.8	10.7	25.3	18.9
Private purchases	37.5	27.9	6.9	10.8	9.6	7.2	19.5	13.6
GNP in constant (1958) dollars	35.9	16.7	- .4	4.0	7.3	7.6	10.1	10.8
Final sales	32.1	24.6	10.1	10.3	4.2	2.5	15.1	8.7
Private purchases	21.9	10.4	3.7	7.1	3.0	1.7	11.8	6.0
	---In Per Cent; Quarterly Changes are at Annual Rates---							
Gross National Product	8.7	5.6	2.2	4.6	8.3	8.1	9.9	10.4
Final sales	8.2	6.8	8.4	8.1	6.6	5.4	12.7	9.2
Private purchases	7.0	4.8	4.7	7.3	6.4	4.7	12.7	8.6
Personal consumption expenditures	7.6	5.5	5.4	7.9	4.6	5.2	12.8	9.6
Durable goods	6.5	2.6	- 6.8	17.9	1.1	6.1	22.2	10.8
Nondurable goods	8.5	4.8	7.4	5.6	2.4	3.3	14.0	10.5
Services	6.9	7.4	7.7	6.9	8.2	7.1	8.1	8.1
Gross private domestic investment	9.9	- 5.0	-38.6	-19.2	27.0	30.7	- 4.6	9.7
Residential construction	- 9.6	0.0	9.6	31.8	43.3	31.2	10.1	0.0
Business fixed investment	12.8	3.0	- 4.3	- 2.0	6.4	5.8	15.2	1.4
Gov't purchases of goods & services	13.1	14.3	21.5	10.8	7.3	7.9	12.8	11.3
Federal	15.3	16.8	27.5	11.0	6.3	5.7	15.2	13.0
Defense	20.8	19.8	28.0	13.1	4.4	4.9	12.9	12.5
Other	- 1.2	5.5	22.6	4.8	14.1	9.1	24.4	14.7
State & local	10.9	11.9	15.5	10.1	9.4	9.6	10.7	9.1
GNP in constant (1958) dollars	5.8	2.6	- .2	2.4	4.4	4.5	5.9	6.3
Final sales	5.3	3.8	6.3	6.3	2.5	1.5	9.0	5.1
Private purchases	4.4	2.0	2.9	5.5	2.3	1.3	8.9	4.4
GNP Implicit deflator	2.7	3.0	2.4	2.1	3.9	3.6	4.0	4.0
Personal income	8.6	7.3	7.5	4.0	7.7	7.3	10.1	9.4
Wages and salaries	9.9	7.4	7.2	3.5	7.6	9.1	10.6	8.5
Disposable income	7.8	7.1	8.2	5.5	6.1	7.1	9.9	9.4
Corporate profits before tax	9.5	- 3.6	-23.4	- 0.5	5.6	25.5	19.3*	26.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.7	6.0	1.3	- 2.7	12.4	12.0	18.6*	10.0
Expenditures	15.8	15.0	23.7	4.7	7.6	4.8	16.4	19.2
Nonfarm payroll employment	5.3	3.3	4.3	0.0	2.4	4.2	4.8	3.5
Manufacturing	6.1	0.5	0.0	- 4.1	- 2.1	4.2	2.1	4.1
Industrial production	9.0	1.0	- 5.5	- 3.1	3.3	5.9	5.3	6.7
Housing starts, private	-20.4	10.3	87.0	32.1	66.1	8.5	13.9	-29.5
Sales new U.S.-made autos	- 4.4	- 9.7	-50.3	53.1	-26.6	- 6.9	30.1	25.0

*Projected

<u>Industrial production</u>. The March rise in industrial production of .6 of one point was due mainly to recovery in output of the automotive industry (.4) and to increases in coal and steel (.2). By and large, output in most industries was unchanged in March, with a few small increases offset by a few declines. Industrial production at 162.1 per cent was slightly above the record 162.0 reached last December but only 1.4 per cent above the fourth quarter 1966 high.

The priod of little change in total industrial production since December 1967 can be seen in the table, which also shows some interesting differences among some major components.

INDUSTRIAL PRODUCTION
(Indexes, 1957-59=100, seasonally adjusted)

	Indexes		Per cent change:
	Dec. 1967	March 1968	Dec. '67 to Mar. '68
Total index	162.0	162.1	.1
Consumer goods	152.8	153.5	.5
Automotive products	170.0	170.9	.5
Home goods and apparel	152.4	152.5	.1
Staples	150.1	151.0	.6
Business equipment	183.4	183.4	0
Industrial	168.9	166.8	-1.2
Commercial	204.7	205.8	.5
Defense equipment	175.2	177.7	1.4
Materials	162.2	161.6	- .4
Durable	155.7	156.0	.2
Steel	140.9	138.0	-2.1
Nondurable	168.9	167.3	- .9

There were roughly parallel changes shown by BLS manhours and other data for the sector covered by the production index. The table below compares quarterly average changes (to smooth out monthly irregularities) in industrial production and comparable BLS production worker manhours, and also, for reference, GNP total and goods only in constant dollars. The manhour data show no change from the fourth quarter of 1967 to the first quarter of 1968 and are still 2.8 per cent below the fourth quarter 1966 high. In contrast, industrial production in the first quarter of 1968 was 1.3 per cent above the preceding quarter and total GNP in constant dollars was 1.5 per cent above.

CHANGES IN INDUSTRIAL PRODUCTION AND OTHER MEASURES OF ACTIVITY
Per cent change from previous quarter

	GNP (Constant Dollars)		Manhours (BLS prod. worker)	Industrial Production (FRB, total)
	Total	Goods		
IV Q'66 to IQ '67	-.8	-1.2	-1.9	-1.4
I Q '67 to II Q '67	.6	.8	-2.1	- .7
II Q '67 to III Q '67	1.1	.9	.1	.8
III Q '67 to IV Q '67	1.1	1.0	1.1	1.4
IV Q '67 to I Q '68	1.5	n.a.	0.0	1.3

Production indicators for April are only fragmentary. Output of raw steel is up, but auto assemblies are off from March and from the scheduled April rate. If, however, auto output for the rest of the month continues at the rate set in the week ending

April 19 (the highest since October 1966) this month's assemblies will be little changed from March. Output of crude oil and coal are down somewhat from the high March level, but gains following settlements of the glass and copper strikes may more than offset these declines.

Capacity utilization Utilization of capacity by manufacturers was estimated to be 84.0 per cent in March, down very slightly from 84.1 per cent in February. After falling sharply in early 1967, the operating rate has remained almost unchanged since early last summer.

Utilization rates continue to be high in the manufacture of aircraft and electric power generating equipment. Only moderate amounts of unused capacity are available for the production of most textile products. Steel production is at record levels but over-all capacity appears to be adequate.

UTILIZATION RATES
(per cent)

Industry	1967				1968			
	QI	QII	QIII	QIV	QI	Jan.	Feb.	Mar.
Manufacturing	87.1	84.9	84.1	84.4	84.1	84.3	84.1	84.0
Primary processing	86.0	83.1	82.5	84.6	83.9	84.3	83.9	83.5
Advanced processing	87.8	86.2	85.2	84.3	84.3	84.4	84.2	84.3

Retail sales. Retail sales are continuing strong following an accelerated tempo during the first quarter. The first quarter as a whole was up 4.5 per cent from a relatively weak fourth quarter, with the greatest strength in durables--particularly automobiles.

Nondurables goods sales increased 4 per cent, with strength in nearly all major groupings.

Expansion appears to be continuing in April, although civil disorders adversely affected sales early in the month in many areas. Auto sales were off in early April from the advanced March rate but general merchandise and apparel sales were strong just before Easter.

INCREASES IN DOLLAR VOLUME OF RETAIL SALES
(Per cent)

	QI 1968 from:	
	QI 1967	QIV 1967
Total all stores	7.4	4.5
Excluding automotive group	6.5	3.9
Durable goods stores	7.8	5.7
Automotive group	11.3	7.5
Lumber	9.9	10.7
Furniture and appliances	6.5	4.0
Nondurable goods stores	7.2	4.0
Eating and drinking	9.9	5.2
Apparel	7.7	6.7
General merchandise	10.5	4.1

Retail prices have been rising generally but considerably faster for nondurable goods than for durable goods. From November 1967 to February 1968, average nondurable goods prices increased 4.8 per cent, with food and beverages for home use up 7.6 per cent, apparel 4.8 per cent, and gasoline 5.2 per cent--all at seasonally adjusted annual rates. In contrast, durable goods prices at retail increased at a 2.8 per cent rate in the same period, despite a rise of 7.2 per cent in furniture and floor coverings.

The ebullience in retail sales was not foreshadowed by the Census Consumer Buying Survey in January. There was a clue in the February Michigan Survey which found consumer attitudes somewhat improved from the preceding November but consumers were still far less optimistic than in 1965.

Unit auto sales and stocks. Dealer deliveries of new domestic autos in the first 10 days of April declined substantially to an estimated seasonally adjusted annual rate of about 7.5 million units owing in part to civil disorders. In March, the sales rate was 8.7 million units, up one-tenth from February and up one-sixth from a year earlier. The March total was boosted by a sharp jump in the final sales period as several major sales contests were ending.

Sales in the first quarter of 1968 were at an annual rate of 8.2 million units compared to 7.4 million in the final quarter of 1967 and 7.2 million in the first quarter of 1967. Trade sources now forecast auto sales for calendar year 1968 will be about 8.3 million units (excluding some 850,000 imports), compared to 7.6 million in 1967. If this number is realized, auto sales in the remaining three quarters would average only moderately above the first quarter rate.

The stock of new cars increased 4 per cent in the first period of April and on April 10 totaled 1.5 million units, slightly more than a year earlier. Entering the second quarter, the days' supply of new cars (based on the seasonally adjusted sales rate of the first quarter) was about 50 days.

Sales of used cars in March were little changed from February and a year earlier,, while stocks were up 5 per cent from a year earlier.

Sales of imported cars in March were up almost 30 per cent from a year earlier, and for the first quarter as a whole were up 40 per cent.

Consumer credit. Not surprisingly, the surge in consumer spending in the first quarter has been accompanied by sharp increases in instalment credit. Credit financing is involved in two-thirds of all new cars sold, and in half of all used cars. And for other consumer goods--including household durables and apparel--the proportion of credit sales runs to more than 30 per cent of the total.

The turnaround in the consumer credit situation first became apparent last November, but the sharpest advances have been reserved for early 1968. In February--the latest month for which complete data are available--consumer instalment credit was expanding at an annual rate of $6.8 billion, up $2 billion from January and the highest rate since August 1966. March also looks strong, particularly in autos, with the picture less clear for other types of credit. The annual rate for the first quarter as a whole should be about double for the $3.3 billion increase for all of 1967 but still less than the record $8 billion expansion in 1965.

This step-up in credit expansion reflects both new borrowings and a changing pattern of repayments on old debt. Demands for consumer credit have been rising ever since last summer, but the recent uptrend in credit extensions has been both sharper and more persistent. Meanwhile, the slackening in repayments from last summer's unusually fast pace has also contributed to growth in outstanding consumer debt. It also seems clear that having reduced their debt burden last year by maintaining a high level of repayments, consumers have found it easier to take on new commitments during the current buying surge.

The principal factor in the increased use of credit has been the renewed strength in consumer spending. But credit intensity has also increased, as indicated by the fact that the ratio of amounts borrowed to amounts spent has risen both from last summer and a year ago.

CREDIT INTENSITY IN AUTO AND GAF SALES

	Ratio of credit extensions to sales	
	Autos	GAF*
	(Per Cent)	
1967 - QI	48.5	33.5
Q2	47.0	32.6
Q3	44.5	34.2
Q4	49.1	35.0
1968 - QI (e)	50.2	34.8

* From monthly retail sales series in current dollars. GAF includes general merchandise, apparel, furniture, and appliances.

The pick-up in consumer borrowing has affected virtually all major credit categories and lender groups. Among the latter, banks and credit unions continue to increase their penetration of the market. Among types of credit, autos have been the standout. Extensions of auto credit in the first quarter (with March partly estimated) were running at an annual rate of $30 billion, up more than $2 billion from the fourth quarter and $3.5 billion from the first quarter of 1967. The major area of weakness in consumer borrowing continues to be home improvement loans and this may stem in part from lender reluctance to become locked into longer-term consumer loans at a time of uncertainty about the future course of interest rates.

Lending standards in the consumer area show little sign of increased restrictiveness. Average maturities on new car loans granted by sales finance companies have, if anything, risen slightly further in recent months. The typical 36-month contract now accounts for about 82-83 per cent of all contracts, up a point from the fourth quarter and about the same proportion as a year ago. The only significant note of tightening has come in downpayment requirements for used car loans. Since last fall, the proportion of used car contracts with dealer cost ratios over 110 per cent (loan as a per cent of wholesale value) has declined from one-fourth of the total to about one-fifth.

Orders for durable goods. New orders for durable goods rose 7-1/2 per cent in March as orders received by the aircraft industry increased 82 per cent, steel orders declined 21 per cent, and other durables on balance showed a moderate gain.

New orders for the producers' equipment category ("machinery and equipment") increased 3 per cent, recovering almost half the sharp decline in the preceding month, but they remained well below shipments and unfilled orders declined for the fourth consecutive month--for a total decline of 5 per cent over the period. The unfilled orders-shipments ratio for machinery and equipment in March was about 3.7, down from 4.2 in early 1967.

The record rise in aircraft orders in March apparently reflected mainly increased civilian business but defense orders also rose and the new unfilled order levels for the industry reached all-time highs. In dollar amounts, the March jumps in the aircraft new order level and in its order backlog each totaled $2 billion--exceeding the March increases in new and unfilled orders for all durable goods combined.

New orders received by steel mills were at the lowest level since last September, and unfilled orders, which had increased sharply from last August through February, declined moderately. Incoming business may have slowed in part because of the extraordinary surge in import buying, at prices well below domestic prices. However, the steel mill order backlog at the end of March was, except for February, the highest since April 1965.

Business inventories. The rate of inventory accumulation declined sharply in the first two months of the year. In book value terms, manufacturing and trade inventories increased only $225 million in February and $600 million in January. For the two months combined this represented a seasonally adjusted annual rate of $5 billion, as compared with nearly $12 billion in the fourth quarter.

Price increases have been accounting for a progressively larger portion of the rise in manufacturing and trade inventories and the recent build-up of stocks in real terms has thus been substantially smaller than that in terms of book value--in fact, after allowance for price increases, inventories may have declined somewhat in February.

The Commerce Department is currently estimating first quarter nonfarm business inventory accumulation on a GNP basis at an annual rate of $3 billion--down from $7.7 billion in the fourth quarter. These estimates incorporate substantial adjustments in the book value figure for inventory revaluation and they also include allowances for changes in stocks outside manufacturing and trade. In the first quarter estimate, a further build-up has been assumed in these other areas, and a rise in manufacturing and trade stocks for March has also been incorporated in the estimate.

The January-February increase in book values was roughly equally divided between manufacturing and trade, as was the increase in the final quarter of 1967. The relatively large accumulation of stocks by retail and wholesale distributors, which began last summer, stands in sharp contrast to the liquidation during the first half of last year. Nevertheless, despite the January-February increase, the ratio of distributors' inventories to sales resumed its downward trend early this year when sales rose sharply, and in February the ratio was about at the level of last September and of two years ago.

CHANGE IN BOOK VALUE OF NONFARM BUSINESS INVENTORIES
(Billions of dollars; seasonally adjusted annual rates)

	1967				1968
	I	II	III	IV	Jan.-Feb.
Manufacturing and trade, total	6.3	.0	4.0	11.8	4.9
Durable, total	3.1	.0	3.6	8.4	1.5
Nondurable, total	3.2	.0	.4	3.4	3.5
Manufacturing	7.4	2.8	2.9	6.3	2.6
Durable	4.7	2.4	3.1	5.4	.8
Machinery & Equipment	1.0	.7	.7	.7	-1.2
Defense products	2.7	1.7	1.5	2.3	.7
Consumer durables & motor veh.	.4	-1.1	1.0	1.0	1.1
Other durables	.7	1.0	- .1	1.5	.2
Nondurables	2.7	.4	- .2	.9	1.8
Wholesale and Retail Trade	-1.1	-2.8	1.1	5.5	2.3
Durable	-1.6	-2.4	.6	3.0	.6
Retail automotive group	-2.4	-1.4	- .5	.4	1.0
Other than retail auto group	.8	-1.0	1.0	2.6	- .4
Nondurable	.5	- .4	.5	2.5	1.7

Note - Components may not add to totals because of rounding.

The decline in manufacturing inventory accumulation early this year resulted from a sharp drop for durable goods, where accumulation had bulged in late 1967. Inventory accumulation by defense products industries[1/] in the first two months of this year, at a $700 million annual rate, was only slightly more than a third of the 1967 rate. Stocks of machinery and equipment producers declined in January and February--at an annual rate of more than $1 billion in contrast to an increase in last year at a rate of $800 million.

A smaller buildup in inventories this year than last by producers of machinery and equipment would seem to be indicated by recent developments in these industries. New and unfilled orders for machinery and equipment in 1967 did not continue the strong upward expansion of 1964 to 1966 and early this year they declined. Recent investment anticipations surveys, after allowing for higher prices, indicate only a relatively small further increase in equipment spending this year. New and unfilled orders of defense products producers seemed to have leveled out after rising fairly sharply since early 1965, but in March, aircraft--particularly civilian--orders rose sharply. This may act to slow further reduction in the rate of inventory accumulation--or possibly lead to renewed pick-up--in this sector.

1/ The defense products grouping includes the aircraft and other industries whose major products are defense-type goods irrespective of whether the goods actually are used for defense purposes. Orders for new aircraft from both domestic and foreign airlines increased substantially last year; thus recent changes in stocks in the aircraft industry-- as well as in sales and orders--are not related exclusively to defense business. Moreover, in March, a sharp rise in aircraft orders was reportedly chiefly from commercial airlines.

RATIOS OF NONFARM BUSINESS INVENTORIES TO SALES

	1967 March	June	Sept.	Dec.	1968 Feb.
Manufacturing and trade, total	1.57	1.55	1.55	1.52	1.52
Manufacturing	1.78	1.79	1.81	1.71	1.75
Durable	2.21	2.25	2.29	2.13	2.19
Machinery & equipment	2.77	2.80	2.77	2.69	2.71
Defense products	3.00	3.13	3.08	2.95	3.09
Consumer durables & motor veh.	1.45	1.32	1.53	1.37	1.45
Other durables	2.12	2.24	2.19	2.02	2.05
Nondurables	1.31	1.31	1.31	1.24	1.26
Wholesale and retail trade	1.35	1.30	1.29	1.32	1.29
Durable	1.82	1.72	1.69	1.75	1.69
Nondurable	1.08	1.05	1.06	1.07	1.05

In contrast, nondurable goods producers showed a large spurt in inventories in January and, despite a slight decrease in February, the rate of accumulation for the two months combined was as large as in the fourth quarter. This rise for nondurable goods accounted for about two-thirds of the overall January-February rise, in sharp contrast to their relatively small contribution to the rise throughout 1967.

In contrast to distributors, manufacturers' sales declined in January and February and their stock-sales ratio rose. However, it remained lower than any time last year except in December. The January-February rise in inventories relative to sales was widespread among the major industry groups and contrasts with widespread declines in 1967. In addition, inventories of the major durable goods manufacturing industries remained high, or increased, in the January-February period relative to their unfilled orders.

Construction and real estate. New construction put in place--already at successive new highs in January and February--edged upward further in March to a seasonally adjusted annual rate of $81.9 billion. Residential construction continued to play a major role in the advance, rising in March for the fifteenth consecutive month to virtually the high reached in November of 1963. Private nonresidential construction, which in January had recovered appreciably from last year's lows, continued to change little. Public construction also held at an advanced rate, following some upward revision in the series back through the fourth quarter of last year. For construction activity as a whole, about half of the year-to-year increase in March reflected higher costs as estimated by the Department of Commerce.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	March 1968 ($ billions) 1/	Per cent Change from	
		February 1968	March 1967
Total	81.9	1	12
Private	55.4	1	18
Residential	27.5	1	-32
Nonresidential	27.9	--	7
Public	26.5	--	2

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

Private housing starts, which were revised moderately downward for February, declined in March to a seasonally adjusted annual rate of 1.48 million units. This brought the average for the first quarter as a whole to 1.49 million, the highest rate for any quarter since late 1965 and in line with staff expectations. While multi-family starts turned upward in March, all of the increase in the first quarter average stemmed from single-family starts and from the North Central states and the West.

A decline in starts is projected for April and the spring quarter as a whole partly because of the relatively advanced rate already reached and partly because of the slowing in commitments which began to develop before the end of last year when uncertainties about prospective net inflows of new funds to major lenders began to reappear. However, a sharp downward shift is not likely in the next few months. The further increase in the discount rate effective April 19 came at a time when mortgage commitments were still comparatively high, liquidity built up during 1967 by both lending institutions and the Federal Home Loan Banks was still relatively intact, and builders' plans through the important spring months and into summer, had been largely made. Moreover, seasonally adjusted permits in March were holding at about the high February rate and, while down in the North Central states and the South, were rising further in the Northeast and the West.

PRIVATE HOUSING STARTS AND PERMITS

	I Q 1968 (Thousands of units) 1/	Per cent change from: IV Q 1967	I Q 1967
Starts	1,487	3	33
1 - family	960	8	21
2 - or more family	527	-6	63
Northeast	205	-5	2
North Central	416	9	39
South	592	--	29
West	274	7	71
Permits	1,275	4	38
1 - family	675	1	22
2 - or more family	599	6	62

1/ Seasonally adjusted annual rates; preliminary.

Seasonally adjusted sales of new single-family houses by speculative builders turned upward again in February and averaged more than a fourth above a year earlier. With basic demand pressures higher in spite of rising mortgage rates and other costs, seasonally adjusted stocks of speculatively built homes available for sale continued exceptionally low. While supply limitations have also been a constraining factor in existing home sales, such activity also continued at a substantially higher level in February and at prices averaging about 4 per cent more than a year earlier, according to the National Association of Real Estate Boards.

The recent open housing legislation signed by the President on April 11 promises some further changes in the structure and level of effective demands for all types of housing over the long run. However, the direct impact of the legislation on real estate markets will be limited this year. This is because until January of next year, the Act will apply specifically only to dwellings owed and/or operated by the Federal Government and to dwellings financed with the help of Government agencies and built since November 20, 1962, the date of President Kennedy's original executive order affecting such housing. Starting in 1969, however, coverage will extent to all apartment buildings, however financed, and to new single-family homes constructed by builders in the buoiness of selling more than two houses a year. At that time, discrimination--including price-discrimination--to real estate borrowers solely because of race, religion or national origin will also be expressly prohibited. After January 1, 1970, coverage will be extended further to include all single-family, owner-occupied homes sold through real estate brokers. When all phases of the Act are in effect, it will cover as much as 70 to 80 per cent of all sale and rental transactions.

Plant and equipment spending. (Confidential until released Friday, April 26). According to advance information, the McGraw-Hill survey of business plans for new plant and equipment expenditures this year indicates an increase of 7.8 per cent from 1967. In 1967 plant and equipment spending increased only 1.7 per cent. This survey, was taken during March and early April and shows a slightly larger increase than the 5.8 per cent rise indicated by the Commerce-SEC survey taken in late January and February. Although the McGraw-Hill survey is designed to yield results comparable to Commerce-SEC, the coverage tends to be more limited to the larger companies and the coverage of the commercial sector is considerably more limited. Thus, the small difference between the McGraw-Hill and the Commerce-SEC survey may not necessarily indicate a significant change in business plans.

Two aspects of the McGraw-Hill survey, however, suggest that businesses may now plan larger increases in fixed capital spending than were planned earlier in the year. The later date of the private survey may have caught a real change as investment plans were more nearly completed. Moreover, in durable goods manufacturing, an area where the McGraw-Hill survey has been fairly close to actual investment in recent years, the increase indicated is 10 per cent--twice as large as that shown by the Commerce-SEC January-February survey. The McGraw-Hill survey shows larger increases or smaller declines than the Commerce-SEC survey for each of the major durable goods industries, except non-ferrous metals and motor vehicles.

The McGraw-Hill survey also found that manufacturers increased capacity by 5 per cent in 1967, and they plan to increase capacity 6 per cent further this year.

<u>Labor market</u>. The labor market continues to show considerable strength. Although employment in manufacturing was little changed in March, the workweek held firm at relatively high levels, and employment in most nonmanufacturing sectors continued to expand vigorously. The over-all unemployment rate edged down one-tenth of a point to 3.6 per cent, and for adult men (25 and over), the unemployment rate dipped to 1.8 per cent, matching the lowest rate achieved during the Korean War.

Unemployment insurance claims were still declining in mid-April (seasonally adjusted), and were close to the low levels of early 1966. Strong employment gains are apparently continuing in April, reflecting further expansion in nonmanufacturing and renewed growth in manufacturing, in part because of the return from strike of glass and copper workers. Hours of work, however, may decline because of riots which affected activity in the survey week.

Nonfarm payroll employment rose by 140,000 in March, compared with an average monthly rise of 240,000 since August 1967 (prior to the auto strike). Although there was no employment increase in the industrial sector, construction held the very strong job gain of the previous month. In trade and State and local government, employment gains were particularly brisk in March.

For the first quarter as a whole, nonfarm payroll employment was an impressive 800,000 higher than the fourth quarter level--an annual rate of increase of 3.2 million; over the year nonfarm employment was up by 1.9 million. The sharper rate of growth in the first quarter reflected an accelerated rate of job gains in government and trade, augmented by a continued increase in construction and manufacturing employment.

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

	QI 1967 to QI 1968	QIV 1967 to QI 1968
Total nonfarm	1,900	806
Manufacturing	16	158
Durable	-46	126
Nondurable	63	33
Nonmanufacturing	1,884	647
Mining	-23	4
Construction	34	66
Transportation and public utilities	67	36
Trade	486	175
Finance and service	666	157
Government	654	209
Federal	47	16
State and local	606	192

Gains in manufacturing were widespread, with relatively large increases in the defense-related, consumer goods, and metals and machinery industries. Despite the resurgence in factory employment--which began in the third quarter of 1967--the first quarter level was only slightly higher than a year earlier. But with output expected to increase sharply in the second quarter, with retail sales strong and defense spending up, the first quarter job growth in manufacturing will probably continue and nonfarm employment as a whole should expand by an additional 600,000 in the current quarter.

Demand for labor over the past year has been met by a growth in the civilian labor force that has been about in line with "normal" trends. In the first quarter, the civilian labor force was 1.6 million larger than last year. Total employment increased by a like amount and the unemployment rate edged down from 3.7 to 3.6 per cent. Adult women continued to account for the bulk of the labor force increase, or about 950,000, with adult men contributing the rest. The extra workers needed to meet the expected large increase in employment in the second quarter may be supplied by additional women entering the labor market; there should also be a small further decline in unemployment to 3.5 per cent in the second quarter.

Earnings. Average hourly earnings of production workers in manufacturing continued to rise in March to a level 6 per cent above a year earlier, the largest rate of increase since 1957. In addition to the substantial contract settlements which continue to raise wages, an important factor has been the minimum wage increase on February 1st. Over 7 million workers obtained wage increases, totaling $2.3 billion; more than 3 million of these workers were in manufacturing.

In virtually every major industry, average hourly earnings in March were more than 6 per cent higher than a year earlier.

AVERAGE HOURLY EARNINGS
Per cent change

	March 1967 to March 1968
Manufacturing	6.1
Mining	4.7
Construction	6.8
Trade	6.3
Finance, insurance and real estate	6.6

Output per manhour and unit labor costs. Some recovery in the year to year rate of growth of manufacturing productivity has been evident in the past quarter, accompanying the rise in manufacturing output. A six-tenths of a point rise in the manufacturing production index in March--with manhours down slightly--raised productivity by enough to offset the continued increase in compensation costs, and unit labor costs leveled off for the month. For the first quarter as a whole, output per manhour in manufacturing averaged 2.5 per cent above the year-earlier level, a still modest rate, but the largest year-over-year gain in over a year. Compensation per manhour increased 6.7 per cent over the year. But, as a result of the larger productivity gain, the over-the-year increase in unit labor costs was reduced to 4 per cent, the smallest since 1966.

OUTPUT PER MANHOUR, HOURLY COMPENSATION
AND UNIT LABOR COSTS IN MANUFACTURING

	Per cent change from year earlier		
	Output per manhour	Hourly compensation	Unit labor costs
1967 - I	0.8	6.5	5.5
II	1.0	6.5	5.4
III	1.0	6.5	5.5
IV	1.3	5.9	4.6
1968 - I	2.5	6.7	4.0

Compensation per manhour in manufacturing is likely to continue to grow at an annual rate at least equal to the recent increases of 6-1/2 - 7 per cent, reflecting the tight labor market, sharply rising prices and continued substantial wage settlements. Thus, further gains in productivity at the current rate would still leave unit labor costs rising at an annual rate of close to 4 per cent.

<u>Wholesale prices</u>. The rise in prices of both industrial and agricultural commodities slowed between mid-February and mid-March and the BLS wholesale price index increased only 0.2 per cent further, to 108.2 per cent of the 1957-59 average. (Confidential until release April 26.)

Slowing of the rise for agricultural commodities (to only 0.1 per cent) reflected in large part decreases for pork, poultry, and vegetable oils following sharp increases over the preceding three months. Prices of milk and dairy products declined seasonally. Prices of liverstock--both cattle and hogs--continued up, and prospects are favorable for continued strength in livestock prices, with supplies diminishing--in part seasonally--and consumer demands strong. Moreover, prices of milk and dairy products are probably now rising again; a 7 per cent increase in the support price for manufacturing milk became effective April 1. And short supplies of fresh fruits and vegetables, which led to a sharp price run-up last winter, are likely to extend through the spring. Average prices of foods and foodstuffs in mid-March were about 1-1/2 per cent above the 1967 average and further advances will undoubtedly average much less than the extraordinarily rapid rate of increase from last November through February.

The industrial commodity average increased 0.3 per cent in March, as had been estimated a month ago, after speeding up to 0.4 and 0.5 per cent, respectively, in January and February. Features of the March showing were:

1) A decline in the number of product classes showing increases, to about the late 1967 monthly average (when the BLS

industrial average was also increasing at a 0.3 per cent rate per month.)

2) Sharp decreases in prices of container board and liquefied petroleum gas, which caused appreciable declines in the paper and fuels major groups. The former decline apparently reflected replacement of list prices with actual market prices now available--a telescoped adjustment that might well have been made much earlier or over a period of months. Container board prices reportedly are now firming. The decline in liquefied petroleum gas is attributed to an over-hanging surplus at a time of seasonal price softening at the end of the heating season. Both these large price declines thus appear to be one-shot affairs. Mainly because of these price decreases, the special FR groupong of "other" (sluggish) industrial materials showed no change in March, despite a further upcreep in prices of steel mill products and various other metallic and nonmetallic materials--particularly for construction.

3) A slowing of the rise in the price average for consumer nonfoods, which had stepped up in January and February. Prices of apparel and major appliances and most other household goods continued to rise in March, but textile housefurnishings and television prices reportedly declined somewhat and prices of autos and small electirc appliances were unchanged.

4) Persistence, for the second month, of a much slower rise in average prices of producers' equipment than that prevailing from last September through January, presumably in response to the moderate demand situation.

5) Sharp further increases in copper, lumber and plywood, which brought the FR sensitive industrial materials index to the highest level since April 1956. Since mid-March, however, average prices of copper scrap and of refined and semi-fabricated copper have been declining, with renewed availability of domestic copper at prices well above pre-strike levels but well below prices of copper available (from imports or scrap) towards the end of the 8-1/2 month strike. Lumber prices (nearly 15 per cent above a year earlier in March) are likely to level off or recede with seasonal improvement in supplies and stabilizing of home building demands.

Reversal of the earlier run-up in copper prices and tapering off or reversal of the lumber price increase could be important moderating influences on the rise in industrial prices. The combined weighted increases in basic copper and lumber and plywood prices equalled two-thirds of the rise in the total industrial commodity average in March. Over the 5-month period from last October to March--when upward price pressures were generally strong and pervasive--the FR industrial commodity average excluding basic copper and lumber and plywood increased at an annual rate of about 3 per cent, compared with 4.3 per cent for the grand total (shown in the table below).

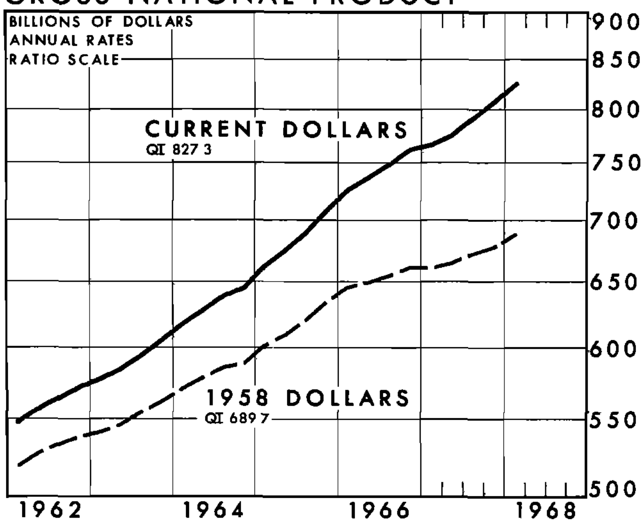
WHOLESALE PRICES OF INDUSTRIAL COMMODITIES
(Special FR Groupings, 1957-59 = 100)

	1967 October	1968 Feb.	1968 Mar.	Per cent change Oct.'67 to Mar. '68 (annual rates)
Industrial commodities	105.9	107.5	107.8	4.3
Materials	104.2	106.2	106.6	5.5
Sensitive	101.1	106.4	108.2	16.8
Other	105.2	106.2	106.2	2.4
Products	108.1	109.1	109.2	2.4
Consumer nonfoods	106.0	106.7	106.8	1.9
Producers' equipment	112.6	114.2	114.4	3.8

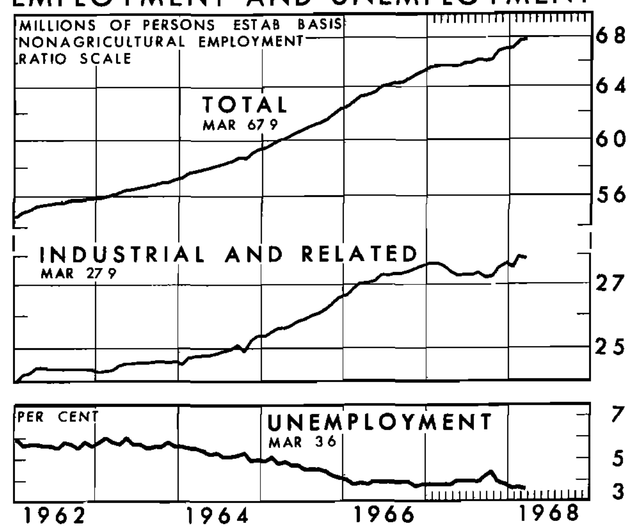
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

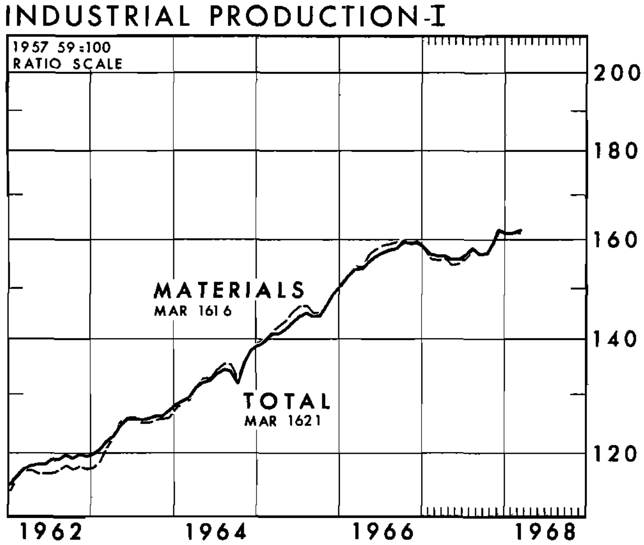
GROSS NATIONAL PRODUCT



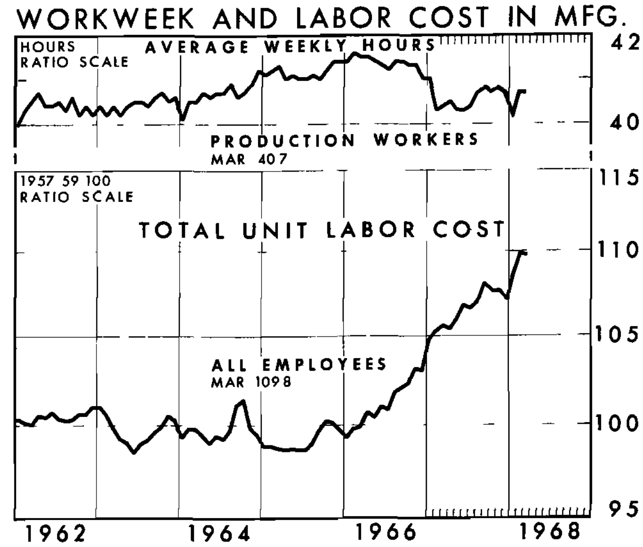
EMPLOYMENT AND UNEMPLOYMENT



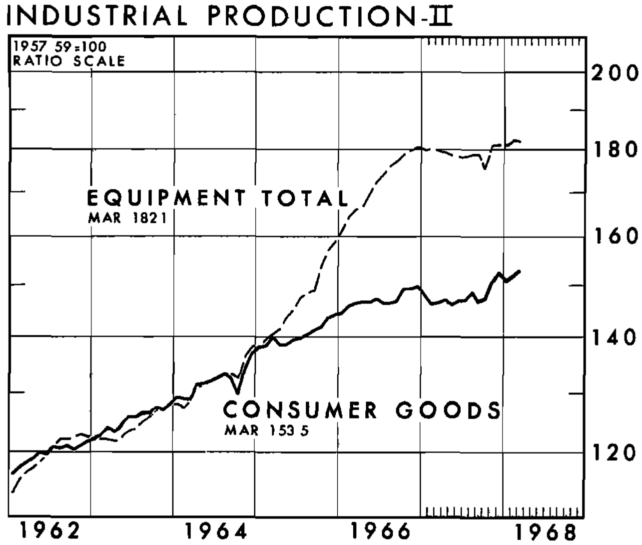
INDUSTRIAL PRODUCTION-I



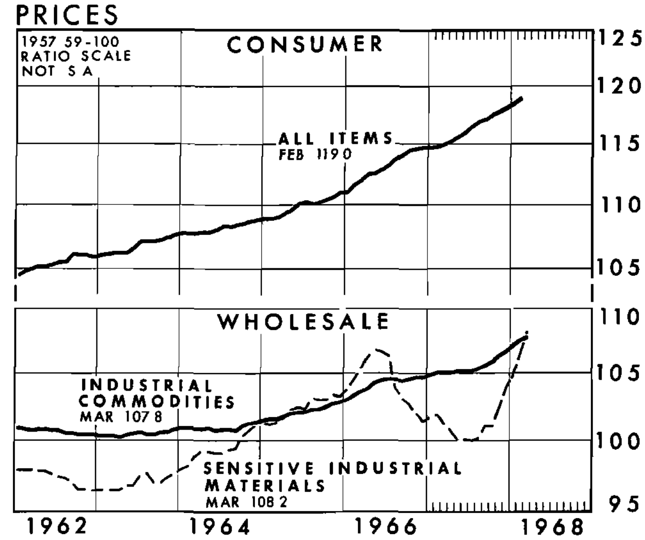
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



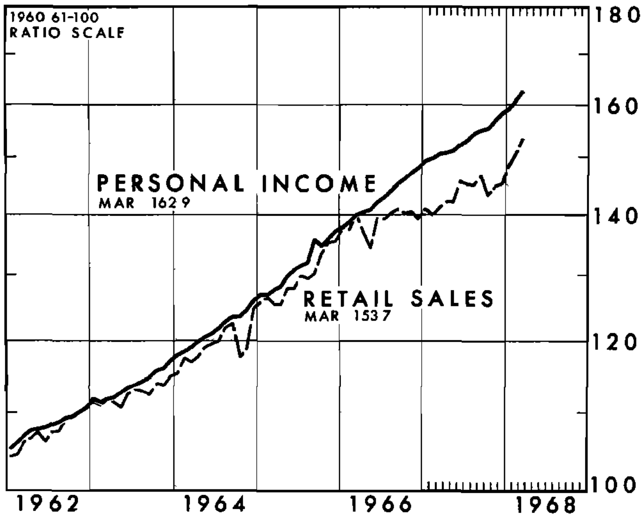
PRICES



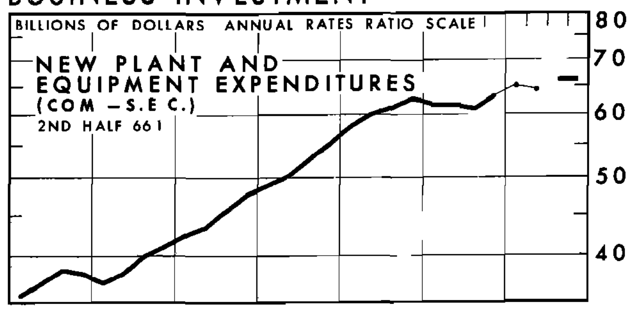
ECONOMIC DEVELOPMENTS - UNITED STATES

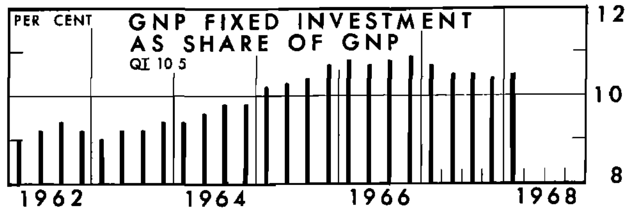
SEASONALLY ADJUSTED

INCOME AND SALES

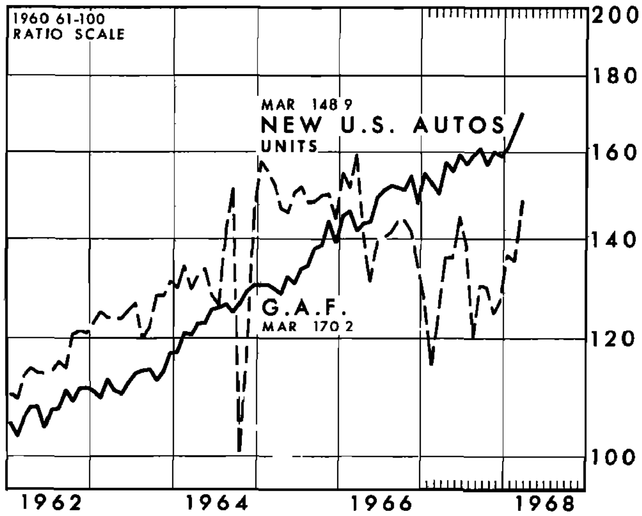


BUSINESS INVESTMENT

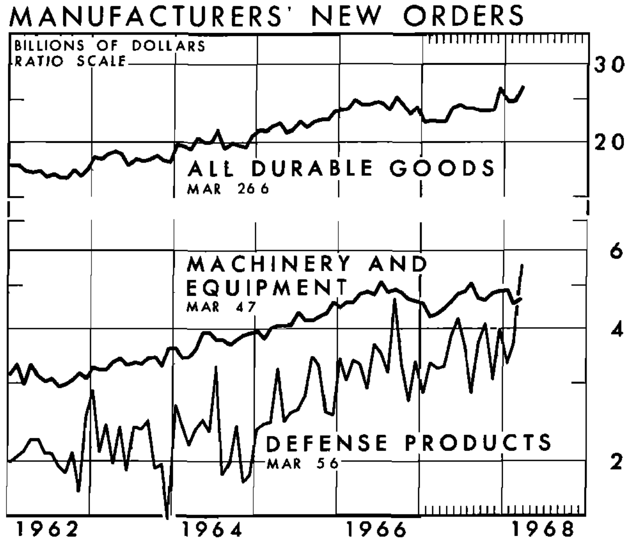




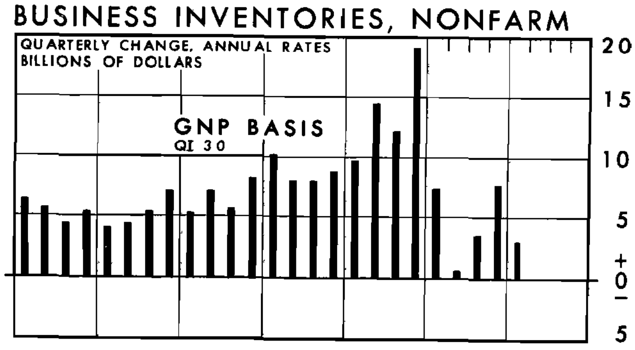
RETAIL SALES

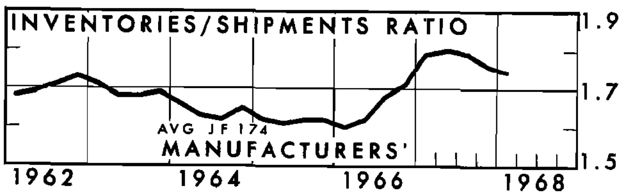


MANUFACTURERS' NEW ORDERS

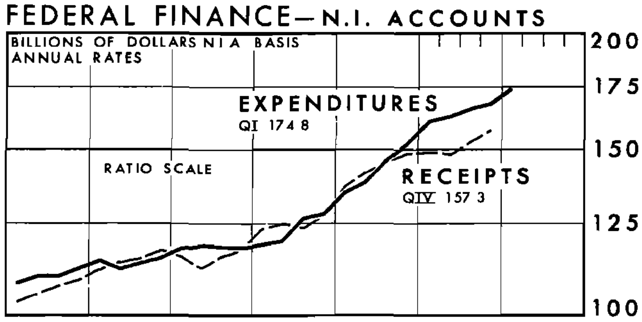


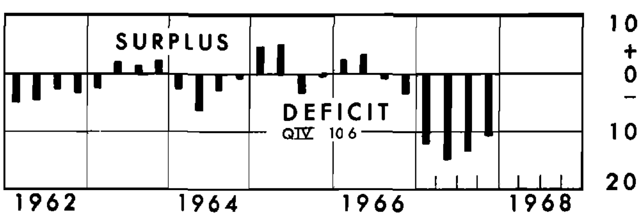
BUSINESS INVENTORIES, NONFARM





FEDERAL FINANCE—N.I. ACCOUNTS





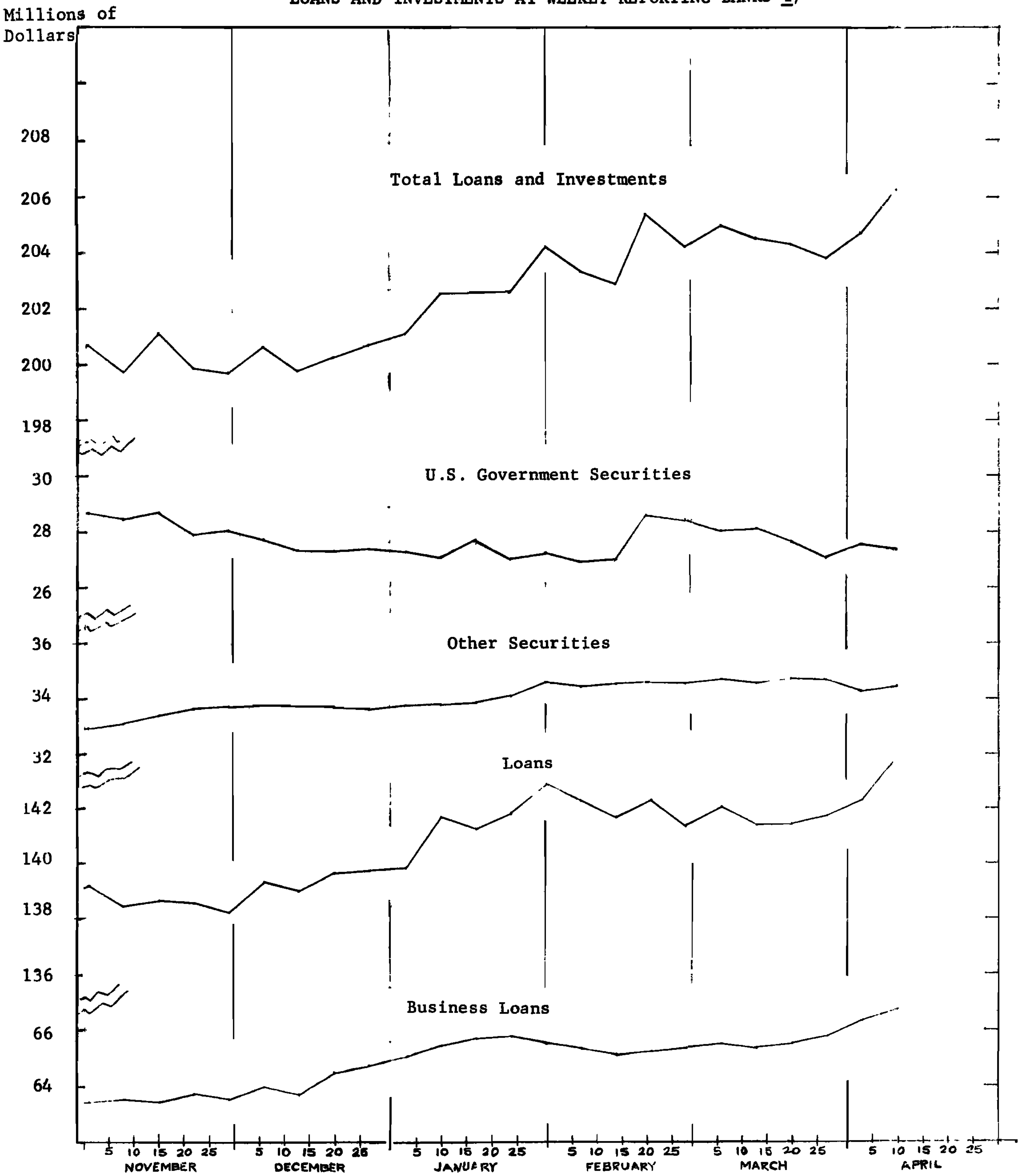
DOMESTIC FINANCIAL SITUATION

Bank credit. Following the 4 per cent annual rate of expansion in March, commercial bank credit, as measured on a daily average basis by the credit proxy, is projected to decline somewhat in April. Data thus far available, prior to the raising of the discount rate and Regulation Q ceilings, indicate that the proxy may decline at a 1.5 per cent annual rate for the month as a whole, the largest decrease since November 1966.

Although expected to decline late in April, total loans and investments at large banks, after declining throughout most of March as banks liquidated almost $2 billion of Government security holdings, began to expand rapidly late in the month and into early April. As indicated by the chart on the following page showing seasonally adjusted weekly reporting bank data, this recent growth reflects primarily expansion of bank loans, particularly those to businesses.

Apart from a temporary increase in bill holdings by New York banks at the end of March, presumably for "window dressing" purposes, weekly reporting banks continued to liquidate Government securities in early April. Bank acquisitions of other securities also seem to have declined somewhat on a seasonally adjusted basis in late March and early April. In particular, the increase in municipal holdings at New York banks during the first three weeks in April was considerably below acquisitions both in the same period for previous years and in the first three weeks of March. With continuation of the run-off of

LOANS AND INVESTMENTS AT WEEKLY REPORTING BANKS 1/



1/ Seasonally adjusted levels; experimental series based on preliminary seasonal factors.

CD's after the March tax and dividend period, banks probably found it necessary to sell Governments and to curtail acquisitions of the securities to meet increased loan demands that began around mid-March.

After showing only a moderate increase since year end, as inventory accumulation remained relatively light, business loans expanded rapidly after mid-March. The recent acceleration in business loan growth was fairly widely distributed among industries and about equally divided between banks in New York City and outside. The industries that showed the largest increase in business loans were primary metals, textiles, mining, retail and wholesale trade, and services. Borrowing by the primary metals group remained strong as iron and steel producers presumably continued to finance both fixed capital outlays and inventory accumulation. The large increase in bank borrowing in the mining category reflects primarily financing by a major copper company for the acquisition of another firm. The recent increase in bank borrowing also may have reflected some shift of financing to banks from commercial paper in view of the rise in the effective cost of commercial paper financing above the former prime rate. That incentive, however, was eliminated with the rise in the prime rate to 6-1/2 per cent last week, although commercial paper rates also moved up 1/8 of a percentage point following the prime rate increase.

Part of the recent business loan growth reflects the strength in term loans (business loans with maturities greater than one year), which continued to expand more than seasonally, rising approximately $550 million in March. Although declining somewhat from the end of February, the ratio of term to total business loans at the end of March remained high--45.4 per cent as compared with 43.7 per cent a year earlier. Almost half of the March increase in term loans occurred in durable goods manufacturing, including primary metals which increased almost 115 per cent over the level outstanding in March, 1967.

Data for New York City banks suggests that while direct corporate borrowing from banks for tax payments was substantial, it was somewhat less than last year, even though corporate income tax payments in April were marginally higher than in 1967. The lower level of bank borrowing probably reflects the larger amount of tax bills turned in for taxes and increased resort to CD and finance paper run-offs as sources of financing.

Real estate loans at all commercial banks continued to expand in March at about the same relatively rapid rate that has prevailed since autumn. Expansion in consumer loans maintained the higher rate of growth that developed in February. Although security loans declined throughout most of March, they rose sharply in the second week of April when dealer positions rose substantially. Data for New York City banks, however, suggest that they receded again the following week.

Bank deposits. With short-term market rates continuing to rise and offering rates of CD's pushed to the Regulation Q ceilings on all maturities prior to the increase in these ceilings on April 19, time and savings deposits at banks declined considerably following interest crediting at the end of March. While these interest rate relationships account for most of the recent decline in time and savings deposits, the reduced rate of consumer saving in the first quarter probably also contributed to the slower rate of growth in these deposits since the end of the year. For all commercial banks, total time and savings deposits, on a daily average basis, are projected (made prior to the increase in Regulation Q ceilings) to expand at only a 1.5 per cent annual rate in April.

NET CHANGE IN TIME AND SAVINGS DEPOSITS
WEEKLY REPORTING BANKS
(Millions of dollars, not seasonally adjusted)

	1965 Mar. 31- Apr. 14	1966 Mar. 30- Apr. 13	1967 Mar. 29- Apr. 12	1968 Mar. 27- Apr. 10
Total time & savings deposits	386	268	250	-636
Consumer-type deposits	n.a.	n.a.	210	-141
Savings deposits	-107	-1,297	-133	-340
Time deposits, IPC (other than CD's)	n.a.	n.a.	343	199
CD's	370	105	-153	-360
Memo:				
Total time & savings deposits excluding CD's	16	163	403	-276

n.a. - Not available.

More than half of the decline in time and savings deposits at large banks during the first two weeks in April was due to a run-off in CD's. As has been the case since the first of the year, and in past periods of CD run-offs, most of the attrition occurred at the major money market banks in financial centers, particularly in New York. Following the recent increases in Regulation Q ceilings, preliminary reports indicate that some banks are already paying the maximum 6 per cent rate on 90-day maturity CD's, but no data are yet available as to the inflows responding to these higher rates.

Outflows of consumer-type time deposits also contributed substantially to the decline in total time and savings deposits at large banks during this period. In particular, regular savings deposits, in contrast to the strength they have been showing in recent months, almost matched the decline in CD's in early April. While the magnitude of the decline in savings deposits is more than twice that of 1965 and 1967, it does not approach the outflow in 1966. On the other hand, preliminary estimates indicate that savings deposits at country banks will continue to expand in April at about the same average rate as over the first quarter.

Following the gold crisis week in mid-March, banks liabilities to foreign branches fluctuated widely, rising sharply in late March and declining during the first two weeks in April. By the week ending April 17, however, these liabilities had risen back to approximately their average level in March.

The money stock in April, on a daily average basis, is currently projected to expand more rapidly than the 4.5 per cent annual rate for the first quarter. This estimated higher rate of growth reflects largely the recent expansion in business loans, the continued decline in U.S. Government deposits and a more than normal increase in currency.

The currency component of the money stock in April is now projected to continue increasing at the more than 11 per cent annual rate that prevailed in March, about twice the average rate of growth during 1967. Although probably associated in some degree with the recent spurt in retail sales, the increase in currency outstanding also is reported to reflect some withdrawals for hoarding. In addition, some special circumstances, such as an armored car strike in California in March and early April which caused some businesses to hold extra cash, and larger than normal cash demands by the military also contributed to the increase in currency outstanding.

Nonbank depositary institutions. In line with the improved inflows to savings and loan associations and mutual savings banks in February and March, withdrawals from both institutions during the entire March-April reinvestment period were less than the attractiveness of other financial assets might have suggested. On the other hand, the resurgence in net inflows typical of later stages of a reinvestment period did not develop this year.

MARCH-APRIL REINVESTMENT PERIOD SAVINGS FLOWS
NONBANK DEPOSITARY INSTITUTIONS
(Millions of dollars, not seasonally adjusted)

	3-day grace period in March	Balance of reinvestment period in April	Total reinvestment period
Savings & loan associations			
1966	n.a.	n.a.	n.a.
1967	$-256	$ 327	$ 71
1968	-274	-265	-539
Mutual savings banks*			
1966	-214	-123	-337
1967	-129	11	-118
1968	-174	- 55	-228

* - 15 largest Mutual Savings Banks in New York City.
NOTE: Reinvestment period for S&L's includes the last three business days of March and the first ten calendar days of April. The data for the New York City mutuals covers the last three business days of March and the first five business days of April.

The level of outflows at savings and loans during the April portion of the reinvestment period was dominated by the experience of the California associations, which accounted for three-fourths of the $265 million total net attrition of share capital in this period and for more than one-half of total S&L outflows during the reinvestment period as a whole. Industry surveys indicate that--as in 1966--most of the outflows from California S&L's reflected withdrawals by the presumably more market-sensitive out-of-state depositors. There may also have been further savings capital depletions after the reinvestment period ended by withdrawals of in-state depositors to cover California state income tax payments which had increased sharply this year.

The general weakness of savings flows toward the end of the reinvestment period probably reflected the increased attractiveness of other financial assets which had developed since March. These included the improved outlook for stock prices associated with the President's late-March announcements, rising short-term market yields, and, to a minor degree, payments made to purchase attractively-priced PC's.

The attractiveness of other financial assets in April contrasted with conditions in February and March, when stock market volume was more moderate and the volume of new issues and market yields were declining. These factors probably contributed to the improved February-March inflows at nonbank intermediaries.

CHANGES IN INFLOWS TO NONBANK FINANCIAL INTERMEDIARIES
(Seasonally adjusted annual rates)

	Mutual savings banks	Savings and loan associations
	(Per cent)	
1967 - QI	9.8	9.0
QII	11.0	11.4
QIII	8.6	9.8
QIV	6.7	5.8
1968 - QI	8.1	5.5
January	6.7	2.4
February	8.8	6.0
March	8.6	8.2

NOTE: These data are based on preliminary revisions in seasonal adjustment factors.

Mortgage market developments. Reflecting mixed savings experience over the March-April reinvestment period, S&L's and savings banks were apparently continuing to restrain their new residential mortgage commitment activity through mid-April. As in other recent months, hesitancy of the thrift institutions as well as other lenders to commit on mortgages reportedly stemmed mainly from uncertainties about future cash inflows, already advanced levels of outstanding commitments, the possibility of further advances in mortgage rates, and unusually attractive bond yields. (All of these factors will, of course, tend to be reinforced by the midmonth increase in the discount rate.) Lenders were also restrained by expectations that Congress might soon remove the restrictive rate ceilings on FHA and VA mortgages, and the FNMA would soon implement its plan to auction secondary market purchase commitments. The latter action, which was formally announced April 18 to begin May 6, will result in more competitive yields on Government underwritten mortgages throughout the secondary market, and will thus work toward enhancing flows of funds into such loans within the primary market relative to conventional home mortgages or other types of investments.

Contract interest rates on new-home mortgages, which had shown signs of leveling off in February and early March, edged up during the remainder of March to reach new postwar highs in both the primary and secondary market, according to the FHA series. For reporting mortgage lenders, meanwhile, aggregate outstanding residential mortgage commitments increased further in March on a seasonally adjusted basis, with S&L commitments reaching a record high. Taking all three lender groups together, the backlog of residential mortgage commitments finally reattained its end-of-1965 level, as the table shows. For the thrift institutions during recent months, however, there are indications that takedowns of old mortgage commitments have tended to slacken, and that new mortgage commitments have probably been running at least moderately below the peak rates reached last fall.

INDEX OF RESIDENTIAL MORTGAGE COMMITMENTS OUTSTANDING
(December 1965 = 100)

	Volume at end of:		
	April 1967	November 1967	March 1968
Savings and loan associations	72	107	112p
Savings banks in New York State	80	98	91p
Reporting thrift institutions	(75)	(104)	(105p)
Reporting life insurance companies	76	77	86*
All three groups	75	97	100*

NOTE: Based on seasonally adjusted data which are confidential for life insurance companies. Data for savings and loan associations and savings banks include some nonresidential mortgages.

* February 1968 for life insurance companies.

The relatively minor over-all change in home mortgage yields during March, as in other recent months, reflected partly the seasonally low supply of new mortgages plus apparently greater borrower recourse to loan assumptions, all-cash transactions, and installment land contracts in lieu of new borrowing at record contract rates or at discounts which averaged as much as 7 points on certain FHA mortgages. The cumulative extent of these pressures is suggested by reports from a number of areas that some existing houses have been selling at premiums if they carry large outstanding loans which buyers can readily assume.

The slight upturn in home mortgage rates during March was associated with a pick-up in offerings of Government underwritten loans to FNMA for purchase under its secondary market operations. This increase plus heavy FNMA acquisitions of FHA and VA mortgages during the first quarter as a whole led FNMA to announce a long overdue cut of 1-1/2 points in its purchase prices, effective March 30, thus raising the yield to FNMA on such loans by about 18 basis points. It marked the third time during the past seven months that FNMA has reduced its purchase prices in an effort to bring them closer in line with the general advance in home mortgage yields.

Although returns on home mortgages tended higher in March, yields on new issues of high-grade corporate bonds rose sharply over the period. Thus the already narrow gross-yield spread of home mortgages over such bonds shrank back virtually to a postwar low, as the table shows. Allowing for servicing costs which are a good deal higher on mortgages than on bonds, implied net yield spreads were probably negative on the average, as during the fourth quarter of last year. This development has led several mortgage companies to pare their regular servicing fees somewhat in an effort to augment the net yield on home loans delivered to permanent investors.

AVERAGE RATES AND YIELDS ON SELECTED NEW-HOME MORTGAGES

	Primary Market: Conventional loans		Secondary Market: FHA-insured loans		
	Level (per cent)	Yield spread (basis points)	Level (per cent)	Yield spread (basis points)	Discount (points)
1967					
April	6.40	101	6.29	90	2.5
May	6.45	79	6.44	78	3.8
June	6.50	71	6.51	72	4.4
July	6.50	72	6.53	75	4.6
August	6.55	66	6.60	71	5.2
September	6.55	67	6.63	75	5.4
October	6.55	43	6.65	53	5.6
November	6.65	12	6.77	24	6.5
December	6.70	19	6.81	30	6.8
1968					
January	6.75	51	6.81	57	6.8
February	6.75	46	6.78	49	6.6
March	6.80	24	6.83	27	7.0

NOTE: FHA series; interest rates on conventional first mortgages (excluding additional fees and charges) are rounded to the nearest 5 basis points; secondary market yields and discounts are for certain 6 per cent, FHA-insured Sec. 203 loans. Gross yield spread is average mortgage return minus average yield on new issues of high grade corporate bonds.

Some of the uncertainties and structural problems in the home mortgage market have indirectly bolstered apartment-house lending which has sustained the advanced level of multi-family starts in recent quarters. The restrictive usury ceilings in 15 States, which set limits of 6 or 7 per cent on returns on mortgage loans made to individuals, are usually inapplicable to loans extended to those apartment-house developers that are incorporated. Even more important, going yields on multi-family loans are much more competitive with returns on alternative types of long-term instruments. Some multi-family mortgages, in addition, now carry an added attraction for the lender of an equity-type participation in rental income.

Corporate and municipal bond markets. Yields on recently offered corporate and municipal bonds advanced about 10 to 15 basis points in the three trading days after the April 18 announcement of an increase in the discount rate; at the close of business on April 23, yields on new issues in the corporate market were approximately at their March peaks. This increase in yields is not reflected in the data for the week ended April 19 shown in the yield table. But the market had already exhibited a tendency toward higher yields in the week prior to the discount action, largely due to reappraisals of the Vietnam peace situation. Most recently, an Aaa-rated $100 million Bell Telephone of Pennsylvania issue was offered to yield 6.75 per cent, 20 basis points above a directly comparable issue 3 weeks earlier. This higher yield did not illicit a particularly enthusiastic response from investors.

BOND YIELDS
(Weekly averages, per cent per annum)

	Corporate Aaa New With call protection	Corporate Aaa Seasoned	State and local Government S&P High Grade	State and local Government Bond Buyer's (mixed qualities)
1966				
Late summer high	5.98*	5.44	4.26	4.24
1967				
Low				
Late January-early February	5.03	5.00	3.43	3.40
High - December	6.55*	6.24	4.51	4.45
1968				
Low	6.12(2/2)	6.07(3/8)	4.23(2/2)	4.16(2/2)
High	6.64(3/29)	6.24(1/5)	4.61(3/13)	4.62(3/14)
Weeks ending:				
April 5	6.58	6.20	4.44	4.31
12	--	6.19	4.34	4.29
19	6.41*	6.20	4.37	4.33
Memo: 23e	6.67	n.a.	n.a.	n.a.

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

Even before the discount rate action, the prospective volume of publicly-offered corporate bonds was already dampening investor enthusiasm for new issues at the then current yield levels. Although it does not appear likely that a surge of industrial financing will occur over the near-term, the addition of several large issues to the April and May calendars has reversed the decline in public volume evident since December. In April, publicly-offered corporate bonds are estimated to aggregate $825 million, slightly above March but about the same as the first quarter monthly average rate. (As with March, a sizable Canadian corporate offering to U.S. investors accounts for part of the estimated April volume.) Total bond and stock offerings, however, will probably aggregate $1.7 billion, about $0.3 billion below the seasonally higher March as well as the corresponding month a year earlier.

Flotations of public bond issues scheduled for May amount to nearly $700 million and may ultimately rise to about $900 million. This would place the May volume as the heaviest since January. As now constituted, the calendar contains an unusually large number of public utility issues as well as a $150 million convertible bond offering to stockholders by Chase Manhattan Bank. While the growth of private placements was somewhat less than estimated during the first two months this year, a further expansion in takedowns of private placements is indicated and this will likely help to push total corporate security financing in May to nearly $1.9 billion.

CORPORATE SECURITY OFFERINGS 1/
(Millions of dollars)

	Bonds				Total bonds and stocks	
	Public Offerings 2/		Private Placements			
	1966	1967	1966	1967	1966	1967
Average monthly for the year	668	1,249	629	580	1,506	2,067
	1967	1968	1967	1968	1967	1968
Average monthly for QI	1,088	820e	604	611e	1,821	1,807e
March	1,618	760e	601	900e	2,362	2,060e
April	1,368	825e	410	700e	2,016	1,725e
May	965	900e	396	700e	1,519	1,875e

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

State and local government bond volume continues to remain relatively large, although below the unusually rapid 1967 pace. The volume of issues in April is expected to aggregate $1.1 billion, $250 million below March. Even before the move towards further monetary restraint, however, new issues had been accorded an unenthusiastic response by investors, and dealer inventories advanced. Underwriters report that commercial banks in particular have shown very limited and selective interest in new municipal issues. In light of the current level of yields, further upward rate pressures might result in a significant number of postponed issues. Thus, the final volume of offerings in May might fall below the $1 billion estimate--which, while large by historical standards, would by itself be the smallest total this year.

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

	1966	1967
Average monthly	950	1,221
	1967	1968
Average monthly for QI	1,391	1,232e
March	1,455	1,350e
April	1,130	1,100e
May	1,247	1,000e

1/ Data are for principal amounts of new issues.

<u>Stock market</u>. During the first half of April, stock prices rose rapidly on record trading volume. By April 18, when the discount rate was raised, prices had approximately returned to their peak levels of mid-January, while during the first two and a half weeks of April average trading volume was about two-thirds greater than in February or March. Indeed New York Stock Exchange volume was about one-fourth greater than the previous record month of January.

AVERAGE DAILY TRADING VOLUME IN 1968

	New York Stock Exchange	American Stock Exchange
January	11.9	7.3
February	9.2	4.1
March	9.2	3.6
Week ending:		
April 5	15.7	5.3
12	15.9	5.5
19	14.9	6.9
3 days ending April 23	13.4	6.9

The increase in the discount rate led to a sharp immediate drop in stock prices and a further, though lesser, retreat on the subsequent Monday. On April 23, however, prices turned up in enthusiastic trading. Market participants reportedly consider the signal of further future monetary restraint to be outweighed by several favorable factors. More and more corporations are displaying excellent first quarter earnings, and the market was also influenced by reports that hopes for a tax increase are somewhat brighter, and that possibilities of Vietnam peace negotiations still exist.

STOCK PRICES IN 1968

	Dow-Jones Industrial Average	New York Stock Exchange Index	American Stock Exchange Index
Mid-January high	908.92	54.17	25.73
March low	825.13	48.70	21.58
March 29	840.67	50.05	22.42
April 18	909.21	54.06	24.89
April 23	897.48	53.77	25.23

The abrupt upturn in the stock market during the first half of April was universally attributed to the sudden change in the Administration's position on peace negotiations. Each small move in the direction toward negotiations was greeted by soaring trading volume and large price advances. An industry-by-industry analysis, however, shows that although the stocks of virtually all groups have advanced, investors expect the greatest economic gains resulting from an end to Far Eastern hostilities to be experienced in housing and industries formerly expected to suffer from stringent measures to correct the imbalance in international payments.

Nonetheless, during the first half of April, last year's most favored stocks--which had been depreciating even during March--also recovered significantly, and the American Exchange Index, reflecting the prices of less-seasoned stocks, rose quite rapidly. Most glamour stocks, however, have not re-attained their 1967-68 highs.

Preliminary estimates for March show margin debt advancing sharply by $80 million to $6,230 million in the face of modest stock market activity. However, technical difficulties with the series, already evident in February, were doubtless accentuated in March, and thus, it seems at this point imprudent to attach any real significance to the advance.[1/] Free credit balances remained unchanged as did the status of most accounts. Securities loans by large banks to non-brokers declined sharply in March, by $50 million, but this decline may simply reflect the loss to brokerages of margin customers interested in convertible bonds. With the revisions in Regulations T and U regarding these bonds--in effect since March 11--brokers presumably have a heretofore non-existent comparative advantage in the financing of customer purchases of convertibles; they can now offer the same credit terms while also providing greater convenience. That the number of margin accounts at brokerages rose sharply by 15,000 offers some confirmation of this hypothesis.

1/ The February data--after several revisions, showing debt unchanged at $6,150 million--may well have been distorted by the lengthening of the settlement period from four to five days, and the extreme variation in trading volume during January, February, and March. In addition, in March margin debt reported by the panel may well in some cases include--despite requests to the contrary--debt associated with convertible bonds as well as stock. Furthermore, the change-over in accounting procedures at all firms, required by the new separation of accounts rule, has in general required re-programming by the automated panel firms and, although it is hoped that this data-processing job has been effected successfully, some errors may have occurred.

U.S. Government securities market. Yields on U.S. Government securities moved markedly higher in the wake of the Board's actions on the discount rate and the Regulation Q ceiling for large time CD's. Advances in bill yields ranged to 25 basis points, while yields on most longer maturity coupon issues moved up about 10 to 20 basis points. In both sectors of the market these increases came on top of advances which had already developed during the first half of the month. At present levels, bill yields are the highest they have been since November 1966, and the 3-month bill yield is only 10 basis points below its peak in September 1966. Yields on longer-term Treasury issues, however, are still about 20 basis points below the peak levels touched briefly in mid-March of this year.

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

	1966 Highs	1967 Highs	1968 Mar. 14 1/	1968 Apr. 1	1968 Apr. 18 2/	1968 Apr. 23
Bills						
1-month	5.60 (9/19)	4.75 (1/4)	5.10	5.05	5.35	5.45
3-month	5.59 (9/21)	5.07 (12/15)	5.45	5.29	5.34	5.49
6-month	5.98 (9/19)	5.60 (12/1)	5.63	5.67	5.46	5.60
1-year	5.94 (8/21)	5.71 (12/29)	5.65	5.67	5.32	5.57
Coupons						
3-years	6.22 (8/29)	5.87 (11/13)	6.03	5.69	5.76	5.93
5-years	5.89 (8/29)	5.91 (11/13)	6.00	5.63	5.72	5.84
10-years	5.51 (8/29)	5.87 (11/13)	5.95	5.64	5.64	5.73
20-years	5.12 (8/29)	5.81 (11/20)	5.77	5.53	5.44	5.52

1/ 1968 highs.
2/ Latest discount rate increase announced after market closed on April 18.

The steady upward drift in yields on longer-term Treasury issues prior to the discount rate change generally reflected an increasingly cautious view of the prospects for peace in Vietnam and an eroding optimism about the chances for effective near-term fiscal action. The increase in bill yields in the first half of April may be attributed to some of the same factors as well as to the approach of the April tax period. In addition, the cumulative impact of greater monetary restraint on money market rates caused dealer borrowing costs to increase sharply and made dealers more reluctant holders of both bills and coupon issues. With financing costs to dealers high in the market, the System made repurchase agreements during the period at 5-1/8 per cent, 1/8 of a percentage point higher than the discount rate then prevailing.

Upward pressure on short-term yields was augmented when the Treasury announced weekly additions to the 6-month bill auction, beginning with the auction on the April 15 tax date. Upward pressures on bill rates peaked on that date, and then showed a tendency to decline in the period just prior to the discount rate action. In part this movement represented seasonal demands from public funds and anticipation of the reinvestment of proceeds from maturing tax anticipation bills--only about 40 per cent of which were turned in for taxes. During this period dealers made net sales of nearly $1 billion of bills (a sizable portion of which was to the System) thus sharply reducing their trading positions. With demands for bills continuing relatively large in recent days, the new three-month bill was auctioned at 5.54 per cent on April 22, the first auction following the discount rate increase, and then declined to 5.49 per cent in the immediate after market.

Other short-term rates have also moved up in response to the change in the discount rate and the corresponding increase in Treasury bill rates, as shown in the accompanying table.

SELECTED SHORT-TERM RATES

	1966 High	1967 High	1968 March 14	1968 April 1	1968 April 18	1968 April 23
1-month						
CD's (prime NYC)						
Highest quoted new issue	5.50 (12/31)	5.50 (12/29)	5.25	5.50	5.50	5.50
Secondary market	5.75 (9/28)	5.45 (1/18)	5.25	5.55	5.55	5.70
3-month						
Bankers' acceptances	5.75 (10/25)	5.63 (12/29)	5.63	5.75	5.63	5.88
Federal agencies	5.76 (9/21)	5.30 (12/29)	5.47	5.29*	5.44	5.66
Finance paper	5.88 (12/31)	5.88 (1/6)	5.38	5.50	5.50	5.75
CD's (prime NYC)						
Highest quoted new issue	5.50 (12/31)	5.50 (12/29)	5.50	5.50	5.50	5.88
Secondary market	5.90 (9/21)	5.70 (12/29)	5.60	5.70	5.70	5.90
6-month						
Bankers' acceptances	6.00 (9/23)	5.88 (12/29)	5.75	5.88	5.75	6.00
Commercial paper	6.00 (12/31)	6.00 (1/16)	5.63	5.75	5.75	5.88
Federal agencies	6.04 (9/21)	5.55 (12/29)	5.88	5.67*	5.73	5.81
CD's (prime NYC)						
Highest quoted new issue	5.50 (12/31)	5.50 (12/29)	5.50	5.50	5.50	6.00
Secondary market	6.30 (9/28)	6.00 (12/29)	5.88	5.90	6.00	6.10
1-year						
Federal agencies	6.13 (9/23)	5.95 (12/29)	5.79	5.67*	5.60	5.53
Prime municipals	4.25 (9/21)	4.00 (12/29)	3.60	3.60*	3.50	3.70

N.B. - Latest dates on which high rates occurred are indicated in parentheses.
* - Rates on March 29.

<u>Federal finance</u>. With Federal tax collections in April not yet complete, forecasts of Treasury cash requirements over the remainder of the fiscal year still contain a sizable margin for error. Recognizing this limitation, the staff is currently projecting the following pattern of tax collections:

FEDERAL TAX RECEIPTS
(In millions of dollars, not seasonally adjusted)

	1968			
	March a/	April(e)	May(e)	June(e)
Corporate income taxes	4.6	4.6	.9	8.4 1/
Individual income taxes:				
Withheld	4.8	4.1	5.7	4.8
Nonwithheld	.6	6.7	.8	3.3
Refunds	-3.1	-2.8	-2.4	- .8
All other tax receipts	5.0	5.4	7.1	4.6
Total budget receipts (New concept)	11.9	18.0	12.1	20.3

a/ Based on actual collections.
1/ Includes $500 million for expected legislation providing for corporate tax acceleration.

These projections allow for levels of corporate profits and personal incomes higher than in the model underlying the January Budget Document. However, total Treasury receipts are shown only marginally larger than in the Budget, because personal refunds on 1967 tax liabilities are estimated to total $1.5 billion more than projected in the Budget. The graduated withholding tax tends to provide large refunds to many taxpayers.

If the pattern of receipts shown in the table is realized, total receipts for the fiscal year would amount to $153.9 billion. This would be only about $300 million more than estimated in the January Budget (after deducting $2.2 billion from the Budget total that was assumed to be raised in fiscal 1968 by the income tax surcharge and by earlier passage of the corporate income tax acceleration than is now possible). With Federal outlays for fiscal 1968 now projected at $177.5 billion, or $1.9 billion more than in the January Budget, the estimated deficit for the fiscal year amounts to $23.6 billion. This would be nearly $4 billion larger than shown in the Budget.

These numbers imply further gross Treasury cash borrowing of at least $4 billion over the remainder of the fiscal year--even if the Treasury does not try to accumulate an end-of-June balance much in excess of $5 billion. Of the $4 billion of remaining needs, $1.4 billion is being provided by already announced additions to weekly and monthly bill auctions and another $400 million, by sales of Export-Import Bank discount notes. For the residual $2 to $2.5 billion for which no plans have yet been announced, the Treasury has several options. In the May refinancing it could elect to offer new issues for cash and raise a little new money through a moderate overallotment of these issues. Even if this were done, however, a sizable amount of additional cash would have to be raised in June through a regular Treasury offering, a participation certificate offering, or a combination of the two. Depending on the timing of the borrowing, it is also possible that the Treasury may have to borrow directly from the Federal Reserve to cover the seasonal low in its balance prior to the receipt of mid-June taxes.

NEW BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	Fiscal years				Calendar quarters			
	1966	1967	1968e Budget Doc.	1968e F.R.B.	1967 III	1967 IV	1968 Ie	1968 IIe
Quarterly data, unadjusted								
New Budget:								
Surplus/deficit	-3.7	-8.8	-22.0	-23.6	-8.5	-11.0	-8.5	4.4
Receipts	130.9	149.6	153.6	153.9	35.4	31.9	36.3	50.3
Total expenditures and net lending	134.6	158.4	175.6	177.5	43.9	42.9	44.8	45.9
Means of financing:								
Total borrowing from the public	6.0	3.6	23.0	22.1	9.0	10.1	6.4	-3.3
Decrease in cash operating balance	.6	5.2	-1.0	.4	-1.0	1.1	.1	.1
Other 1/	-2.9	--	--	1.1	.5	-.2	2.0	-1.2
Cash operating balance, end of period	10.9	5.7	6.7	5.3	6.7	5.6	5.4	5.3
Seasonally adjusted annual rate								
Federal surplus/deficit in national income accounts	.9	-7.5	-13.2	-13.0	-13.2	-10.6	-10.2	-14.5
Receipts 2/	132.9	147.6	157.9	160.0	152.7	157.3	164.6	168.7
Expenditures	131.9	155.1	171.1	173.0	165.9	167.9	174.8	183.2

e - Projections based on existing tax rates, including extension of telephone and auto taxes. Assumes corporate tax acceleration of $500 million in June 1968. Budget Document has been adjusted to remove surtax collections and to remove corporate tax acceleration in April.

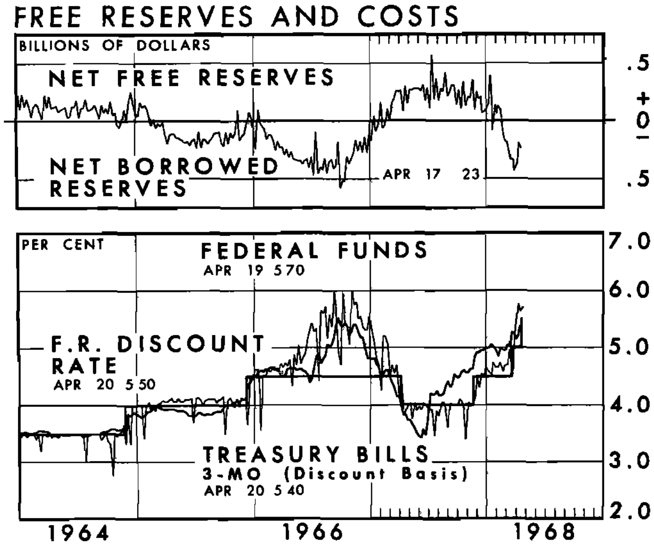
NOTE: The quarterly data for the new budget represent preliminary adjustment to new budget concepts and may be revised later.

1/ Includes various accrual items, such as deposit fund accounts and clearing accounts.

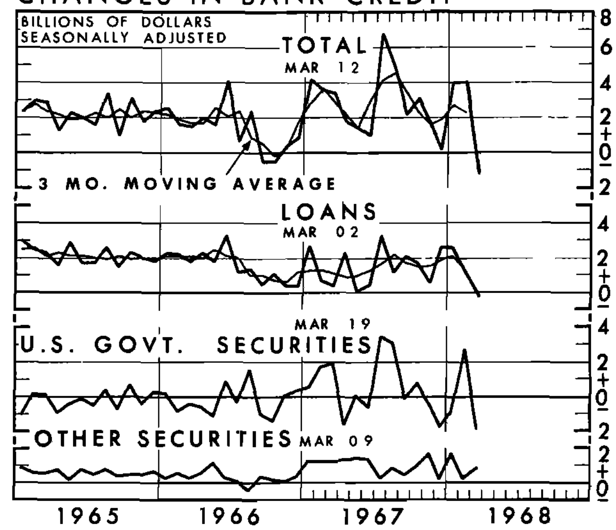
2/ Quarterly receipts do not add to fiscal year totals.

FINANCIAL DEVELOPMENTS - UNITED STATES

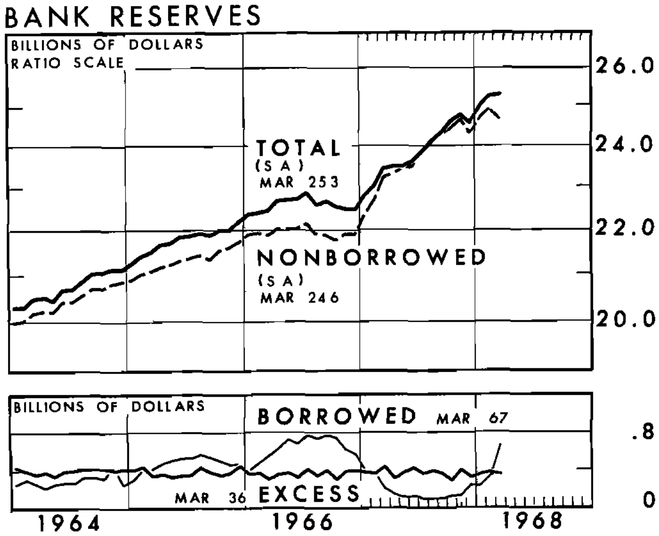
FREE RESERVES AND COSTS



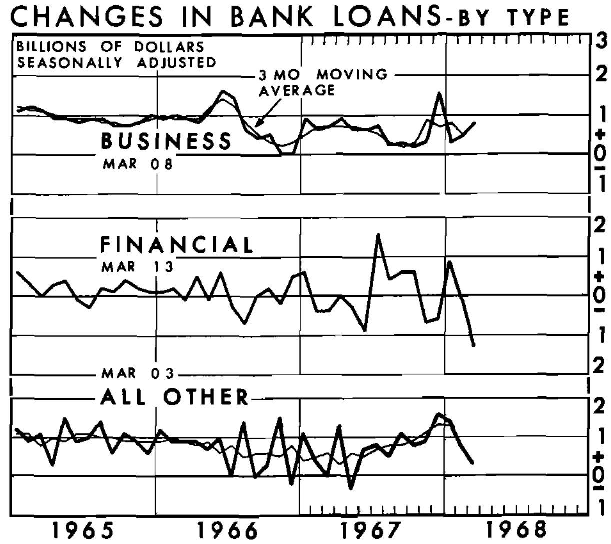
CHANGES IN BANK CREDIT



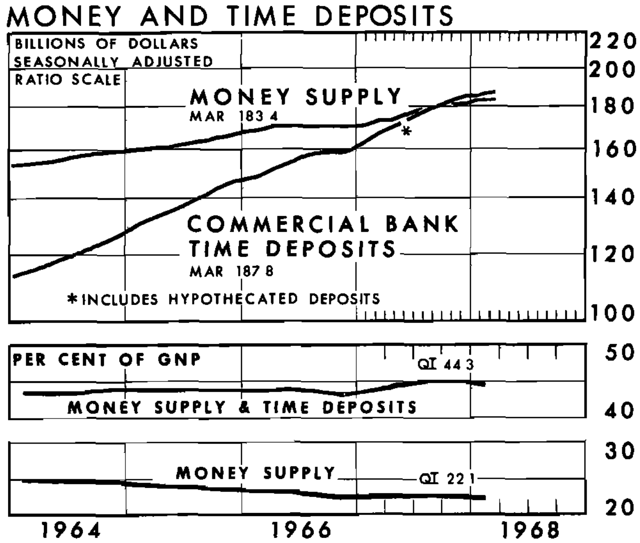
BANK RESERVES



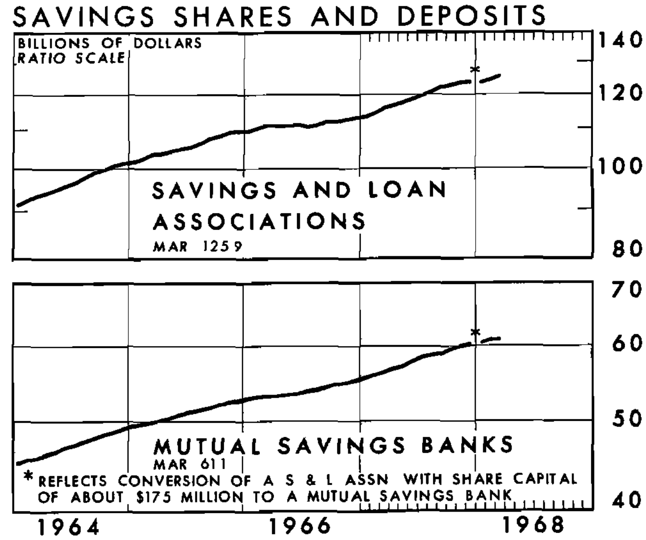
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

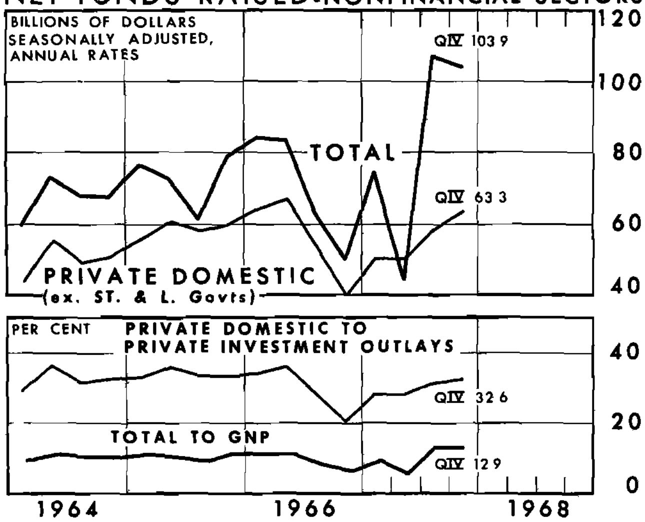


SAVINGS SHARES AND DEPOSITS

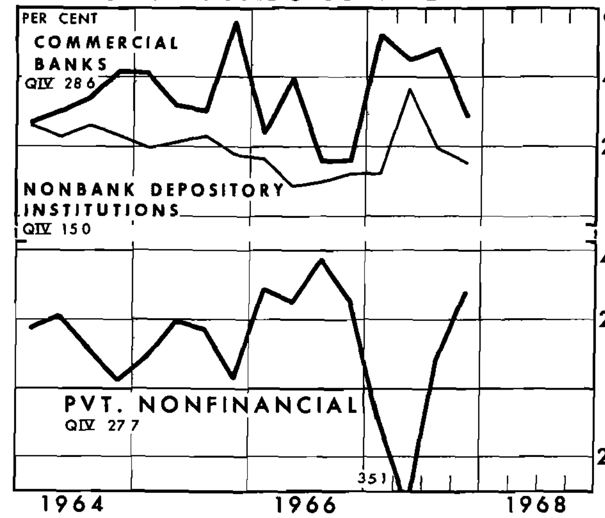


FINANCIAL DEVELOPMENTS - UNITED STATES

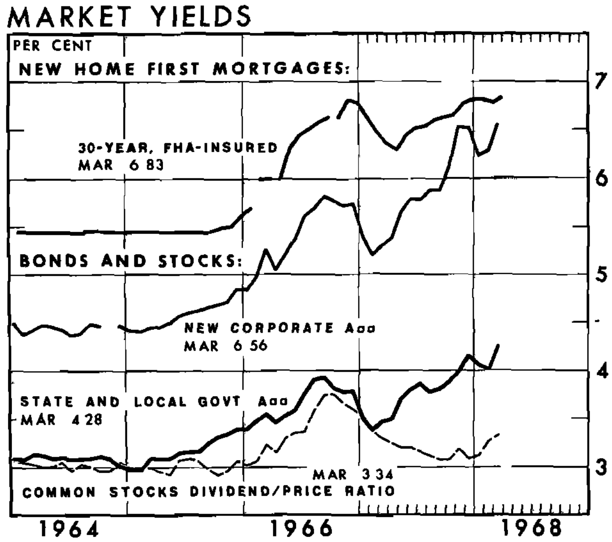
NET FUNDS RAISED-NONFINANCIAL SECTORS



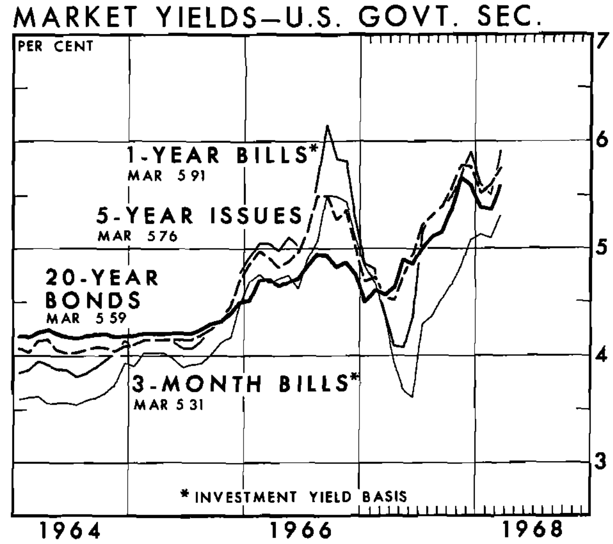
SHARES IN FUNDS SUPPLIED



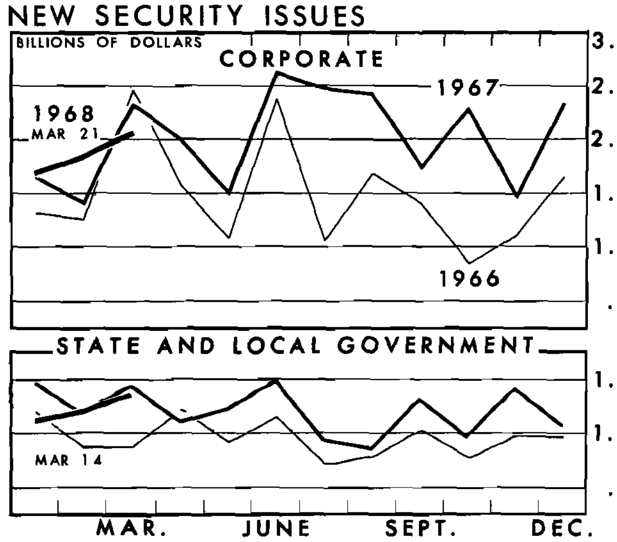
MARKET YIELDS



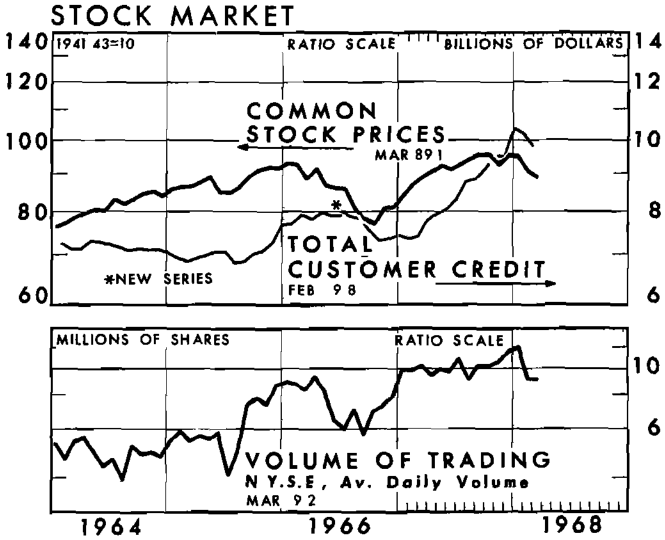
MARKET YIELDS—U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. Preliminary data, including incomplete information for March, would indicate a liquidity deficit in the first quarter of between $600 and $800 million, seasonally adjusted. (A firmer figure may be provided in the Friday Supplement). Sizeable deficits continued to be reported in April, thru the 17th. Before special transactions which favorably affected the liquidity deficit by about $200 million, the deficit range in the first quarter would be from $800 million to $1 billion, somewhat less than the quarterly average during 1967.

Special transactions in the first quarter included a purchase of a $125 million medium-term bond by Germany (in April a fourth and final bond purchase was made in accordance with last year's agreement), a purchase of $60 million of U.S. Government Agency securities by Israel, and transfers of $40 million by Mexico and Venezuela into long-term deposits. A purchase of a $300 million nonconvertible Treasury note by Canada in March was largely offset by redemptions earlier in the quarter. (Additional information on these special transactions is provided in Appendix A). An unusual item not included in the special transactions was a private capital inflow of $200 million resulting from a rights issue by the Shell Oil Company which was subscribed to by the foreign parent company.

On the official reserve transactions basis, the first-quarter deficit is roughly estimated at between $400 and $600 million seasonally adjusted. Unadjusted, the deficit was near zero; the large decline of $1.4 billion in the U.S. gold stock was matched by a $400 million rise in holdings of foreign currencies and a large decline in U.S. liabilities to foreign official agencies.

Gold. Since the establishment of the two-market system for gold on March 17, the price of gold on the "free market" has ranged between $37 and $40 an ounce, except for a price of $44 in Paris on March 18. The present price (April 24) is $38.30. The volume of foreign official gold purchases from the U.S. Treasury has, however, increased considerably since March 17. Except for a single large sale to one Western Europena country, this buying has come from about fifteen small countries purchasing relatively small amounts of gold. In January and February, total central bank purchases from the United States (excluding our sales to the Gold Pool) were $45 and $55 million, respectively. In March such purchases jumped to $365 million, of which $290 million was sold after March 17. Sales in April thru the 19th amounted to $110 million; several of the buyers were probably at the same time converting sterling to dollars with which to make the gold purchases.

Current and capital transactions. The preliminary and partial information available on various components of U.S. international transactions in the first three months of the year indicates a worsening of the balance on goods and services and an improvement in capital transactions. The trade surplus, discussed below, declined further from the very low fourth-quarter rate, and the overall balance for all goods and services probably fell further. In the first quarter, income receipts from U.S. direct investments abroad -- unusually high in the last half of 1967 as a result of abnormal profits of oil company branches abroad and of special dividends -- may have dropped off, while income payments on foreign investments in the U.S. probably rose. Military expenditures abroad and payments for foreign travel are also believed to have expanded from the fourth-quarter rates.

In the capital account, net foreign purchases of U.S. corporate stocks in January-February, not seasonally adjusted, were about equal to the rate in the fourth quarter, which was unusually large.

Bank claims on foreigners reported under the foreign credit restraint program were reduced in the first quarter; the net reflow was nearly $500 million, greater than the target set for the whole of 1968 under the new balance of payments program. There is some evidence, however, that recent outflows of credit from agencies or branches of foreign banks in the United States, not specifically covered by the restraint program, may offset some of the aforementioned gains made by U.S. banks.

While total U.S. liquid liabilities to foreigners decreased in the first quarter, liabilities of U.S. banks to their foreign branches increased substantially. From the first Wednesday in January to the first Wednesday in April, these increased by about $650 million. Since mid-March, however, the net change has not been large. During the three weeks following the Gold Pool communiqué of March 17, interest rates on Euro-dollar deposits moved down from a range of

7 to 7-3/8 per cent, on maturities of from one month to a year, to a range of about 5-7/8 to 6-5/8 per cent on April 4. Subsequently there were increases, especially on April 19 following the Federal Reserve discount rate increase to 5-1/2 per cent. As of April 24 Euro-dollar rates range from 6 per cent on one-month deposits to 6-15/16 per cent on one-year deposits.

U.S. foreign trade. The first-quarter trade surplus is estimated at less than $0.5 billion annual rate (balance of payments basis), even lower than in the fourth quarter. The eleven-day longshoremen's strike in New York at the end of March adversely affected the trade surplus.

Imports in the first quarter were $31.3 billion at an annual rate, about 9 per cent higher than in the fourth quarter. The ratio of imports to GNP was 3.79 per cent, a new high, exceeding the previous peak of 3.71 in the first half of 1951 during the Korean War, and up sharply from 3.44 per cent in the calendar 1967. Despite the port strike, imports in March were no lower than in the preceding two months. No details are yet available on the March imports.

Imports of steel and copper continued to advance in January-February. The rate of increase in steel imports was not large, but with the earlier than usual spring reopening of the Great Lakes heavier shipments are now anticipated. The adverse effect of the copper strike on the trade balance in the first quarter was probably close to $1 billion at an annual rate.

Imports of other industrial materials -- textiles, building materials, and metals other than copper and steel -- also increased sharply. Arrivals of fuels, principally petroleum, which had rebounded strongly in the fourth quarter from the low rate of last summer resulting from the Arab-Israeli War, increased further in the first part of this year.

A sharp spurt in automotive imports, particularly from Canada but also from Europe and Japan, was a major element in the rise of imports, at least in January-February. The customary export balance in automobile trade with Canada shifted to an import balance of about $100 million (at an annual rate) in the first two months of this year.

Heavy arrivals of cars from non-Canadian sources in January-February reflected not only continuing strong sales of such cars but also a substantial increase in inventories. While sales were below those of the fourth-quarter (not seasonally adjusted), they were about 20 per cent higher than in the first quarter of 1967. About 60 per cent of car imports (excluding cars from Canada) in the first two months of the year went into stocks, compared with about 25 per cent in the corresponding periods of the previous two years.

Purchases of foreign capital equipment (excluding automotive equipment) also increased strongly to a record rate in the early months of the year. The ratio of such imports to equivalent total domestic expenditures increased sharply this year after showing little change throughout 1967.

Imports of nonfood consumer goods (excluding autos) advanced at an even greater rate than the exceptionally rapid rise in total domestic expenditures on such goods. Based on imports in January-February, the import-domestic expenditures ratio in the first quarter was about 6.9 per cent, a full percentage point higher than in the fourth quarter, and exceeded the previous peak ratio in the first quarter of 1966. The entire gain in imports was in nondurable goods, mainly clothing and footwear. Arrivals of durable goods (other than cars) in the first two months were below fourth-quarter rates.

Exports in the first quarter are estimated at an annual rate of $31.7 billion (balance of payments basis), about 6 per cent higher than in the fourth quarter. March exports, affected by the port strike, were off 12 per cent from January-February.

Shipments of both agricultural and nonagricultural commodities in January-February were above fourth-quarter rates. The increase in exports of agricultural products reflected, to a large extent, an acceleration of shipments of grains to India and Morocco under the P.L. 480 program. Deliveries of commercial aircraft increased sharply, and together with a rise in shipments of motor vehicles to Canada accounted for over one-third of the total advance in nonagricultural exports in January-February.

The advance in exports was widely distributed by areas. The greatest gains were in shipments to Canada, Asian countries other than Japan, and Latin America. Shipments to Japan recovered after a fourth-quarter dip. Exports to Western Europe, however, including the U.K., were only slightly higher than in the fourth quarter.

Business conditions abroad. Economic activity in Western Europe has advanced unusually rapidly since last autumn, stimulated by strengthening investment demand in Germany, heavy consumer spending in Britain, and substantial demand for European exports coming both from within Europe and from other countries including the United States. While British policies are now strongly oriented towards damping domestic demand pressures, policies in other European countries remain stimulative on the whole, although only cautiously so in some cases.

Outside Europe, the pace of economic advance shows signs of slowing in Canada and Japan in response to fiscal and monetary policies of increasing restraint. Demand in world trade on the part of non-OECD countries, however, has been increasing after a period of weakness in the second half of 1967.

Real GNP in Germany is estimated by the Bundesbank to have increased by an extraordinary 4 per cent (16 per cent, annual rate) from the third quarter of 1967 to the fourth quarter. Data for the early months of 1968 on industrial production, new orders, and unemployment suggest a further vigorous, though less spectacular, advance since the fourth quarter. It is now generally expected that real GNP will increase by 5-1/2 per cent in 1968 over 1967, whereas the Government's medium-term plan published in mid-1967 had envisaged an increase of only 4 per cent.

INDUSTRIAL PRODUCTION
(Seasonally adjusted; 1963 = 100)

	(1963 weight)	1966 Q-II	1967 Q-II	1967 Q-III	1967 Q-IV	1968 Jan.-Feb.
Germany	(10.6)	118	112	115	120	120
France	(7.8)	116	118	120	122	124-1/2
Italy	(4.0)	117	128	125	131	(133 a/)
Netherlands	(1.3)	122	127	130	135	(137 a/
Belgium	(1.2)	110	112	110	114	(120 b/)
Total EEC	(25.0)	117	117	118	123	124e
United Kingdom	(8.6)	112	110	110	112	113-1/2
Sweden	(1.6)	124	128	128	131	(131-1/2 a/)
Spain	(1.4)	141	150	149	145	(150 a/)
Total OECD Europe	(39.8)	117	117	118	121	122e
Japan	(5.7)	132	157	166	174	177
Canada	(3.5)	127	130	132	134	133
United States	(51.0)	125	125	127	128	130
Total OECD	(100.0)	122	124	126	128	130e

e = Partly estimated.
a/ December-January.
b/ December only.

The sharp recovery of activity in Germany since last summer has reflected an abrupt shift in inventory investment from liquidation to accumulation, and also an upturn in spending for plant and equipment which became marked in the fourth quarter, partly reflecting the filling of orders placed by October 31 to take advantage of special depreciation allowances expiring at that date. Exports have also risen, though less rapidly than imports, which were running 13 per cent higher in January-February than in the second quarter of 1967.

Wage and salary incomes, and hence consumer spending, have risen only slowly in Germany. Profits, on the other hand, have risen sharply, reflecting an unusually large 6.5 per cent gain in output per man-hour from the second half of 1966 to the second half of 1967; for the industrial sector alone, the gain was 9 per cent. The rapid rise in real GNP during the second half of 1967 was accompanied by a slight further decline in the general price level, the first time such a combination had been experienced since 1953.

The buoyant German recovery, together with strong demand from other parts of the world, has helped to stimulate an economic advance in other continental European countries. Industrial production in January-February for all EEC countries combined was up about 6 per cent from its second-quarter-1967 level; for Germany alone, the advance was about 7 per cent.

In France, the resumption of growth since last September after an earlier period of stagnation has resulted mainly from increasing export demand. Industrial production increased about 6 per cent from the second quarter of 1967 to January-February 1968. Consumer spending has been rising only slowly in recent months. Automobile sales in late 1967 and early 1968 were still below year-earlier levels.

The Government appears to have committed itself to a reflationary policy, despite some recent weakness in the balance of payments position. In January, it adopted a series of measures to stimulate consumption, including a substantial income tax cut effective in February. In March, instalment buying terms were eased for automobiles and trucks, and new government credits were made available to the agricultural sector. A substantial budget deficit of more than $1 billion equivalent is foreseen for 1968. Business sentiment as recorded in monthly surveys has become increasingly optimistic, and stock market prices have been rising this year after several years of decline.

In spite of the renewed expansion, registered unemployment in France continued to rise through March, reaching more than 1 per cent of the labor force, which is thought to mean that nearly 2-1/2 per cent are actually unemployed, the highest rate since the early 1950's. The recent increase is partly statistical, reflecting a liberalization of unemployment benefits, but partly genuine, attributable to reduced labor requirements resulting from rationalization and heavy capital investment in French industry in recent years.

In Italy, the cyclical pattern has been different from that in other Common Market countries. Italian output grew rapidly in 1966 and early 1967 when its partner countries were having recessions. Since mid-1967, Italian output has grown somewhat more slowly than before. The slowdown may have reflected a reduction in the rate of inventory accumulation. Also Italian fiscal policy became considerably less expansive in the fourth quarter than before, but this appears to have been a temporary phenomenon -- the result of administrative delays in spending money rather than of deliberate attempts to restrain aggregate demand.

The expansion of Italian exports resumed in the fourth quarter after declines in the two previous quarters. Expansion in plant and equipment spending and in residential construction appears to have continued. Fixed investment outlays in real terms, including housing, were 10 per cent larger in 1967 than in 1966. Total real GNP was up 6 per cent, thanks partly to excellent harvests.

Among other continental European countries, the most buoyant conditions have been experienced in the Netherlands; the Government there has already begun to reverse the expansionary policies followed last year, slowing spending and raising taxes. In Belgium, on the other hand, the upturn -- largely export-induced -- has so far been less than desired, and the Government has taken some steps in recent months to stimulate the economy further. In March, the central bank lowered the discount rate from 4 to 3.75 per cent. Business conditions in Sweden are also subdued, with unemployment unusually high. The Government is apparently relying upon economic revival elsewhere -- especially in Germany -- to stimulate recovery; while the central bank discount rate was cut from 6 to 5-1/2 in February, it remains 1/2 point above the level from which it was raised last December to combat speculation.

In the United Kingdom, consumer spending began to increase last summer, stimulated primarily by wage increases, following the ending of the period of "severe restraint" and by an easing of instalment credit controls. Average weekly earnings increased by more than 5 per cent from June 1967 through January 1968, compared with less than 2 per cent in the preceding seven months. Retail sales at constant prices (which exclude autos and account for about one-half of total consumer expenditures) increased by 1-1/2 per cent in the third quarter and by about 2 per cent in the fourth quarter. Sales of automobiles increased much more sharply.

Through measures taken at the time of the devaluation of November 18 and in the budget of March 19, the Government has sought to damp the consumer spending boom and shift the sources of expansion to exports and investment. Through the first quarter, the shift had not yet been accomplished. Retail trade at constant prices leveled off but consumer purchases of autos and other durables continued to advance in anticipation of new taxes and other restraints and price increases. Exports recovered in the first quarter from the earlier dip occasioned by strikes, but the volume of exports in October-February was running below the third quarter rate. Private plant and equipment outlays in manufacturing are estimated to have declined 2 per cent further in real terms in the fourth quarter, and probably have not increased since then.

During the remainder of the year, consumer spending is expected to decline in real terms, as a result mainly of new taxes and price increases, but also of an incomes policy. It is hoped that -- if major labor disturbances can be avoided -- exports and private business investment will expand from now on by amounts sufficient to keep real GNP rising at a 3 to 4 per cent rate despite the cutback in consumption. Recent surveys of business expectations indicate optimistic export prospects and suggest that a revival in capital spending may now be getting under way.

In Canada, activity advanced briskly late in 1967 but has since leveled off again. Industrial production was reduced in January and February by a strike at General Motors, but would apparently not have increased even without the strike. The unemployment rate has remained around 4-1/2 per cent, well above the low of 3.3 per cent reached early in 1966.

The main expansionary force in the Canadian economy in recent months has come from exports to the United States. These were up 17 per cent from a year earlier in the fourth quarter of 1967 and 23 per cent in January-February. A large proportion of the increase represented once-for-all adjustment of the automotive industry to the U.S.-Canadian agreement of 1965; as this adjustment is completed, further growth of Canadian exports to the United States will depend increasingly upon the course of U.S. demand. Some further portion of the export increase has been the temporary result of the U.S. copper strike, now ended.

Business plant and equipment expenditures in Canada, according to a recent survey, are expected to decline 1-1/2 per cent in dollar terms (and substantially more in real terms) from 1967 to 1968.

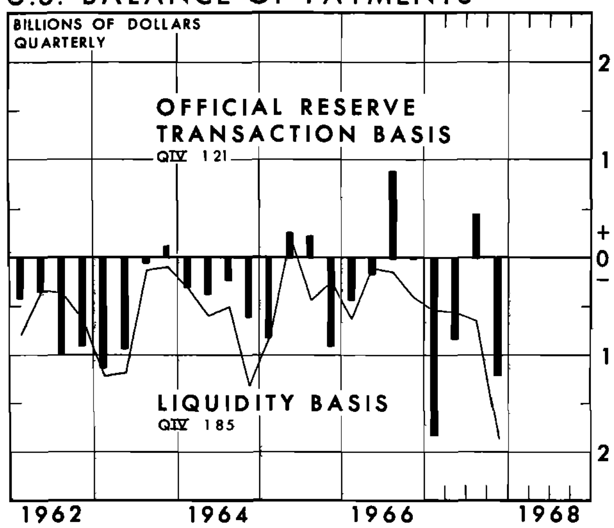
Prices and costs have been rising in lagged reaction to the demand pressures experienced in 1965 and 1966. During 1967, average hourly earnings in Canadian manufacturing increased by 8.3 per cent and the cost of living rose by 4.0 per cent; the comparable figures for 1966 were 6.0 and 3.6 per cent. Hence the Government has felt it necessary to emphasize the containment of inflation, rather than economic growth. The budget for fiscal 1969, incorporating an income tax surcharge, is expected to reduce Government financing requirements to about $750 million, half those of the preceding year. Canadian monetary policy remains restrictive.

Japan, too, is placing increasing policy emphasis upon restraint. Also, although consumer demand remains strong, businessmen are adopting a more cautious attitude, partly in view of the proposed Vietnam peace talks. Through February, industrial production had risen more slowly in recent months than before, and new orders for machinery had fallen off since last November's peak. Cutbacks in capital spending plans have been made in some industries. Inventories increased through February, and the number of medium-sized firms going bankrupt reached a new high in March.

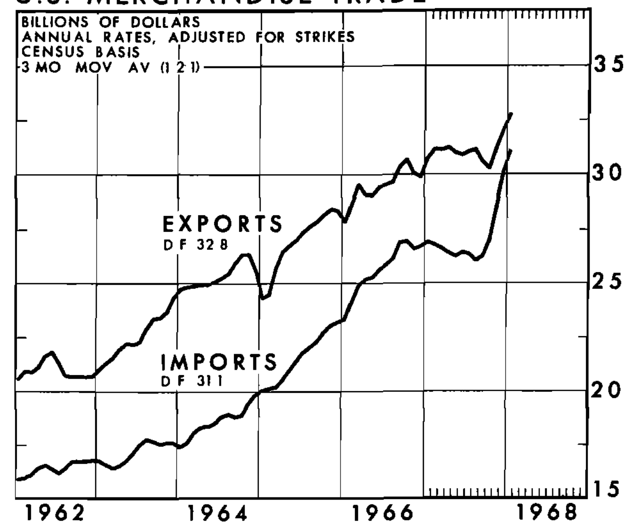
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

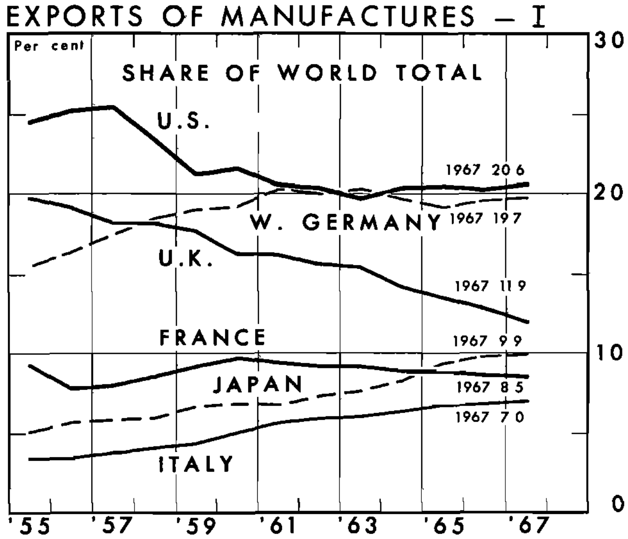
U.S. BALANCE OF PAYMENTS



U.S. MERCHANDISE TRADE



EXPORTS OF MANUFACTURES — I



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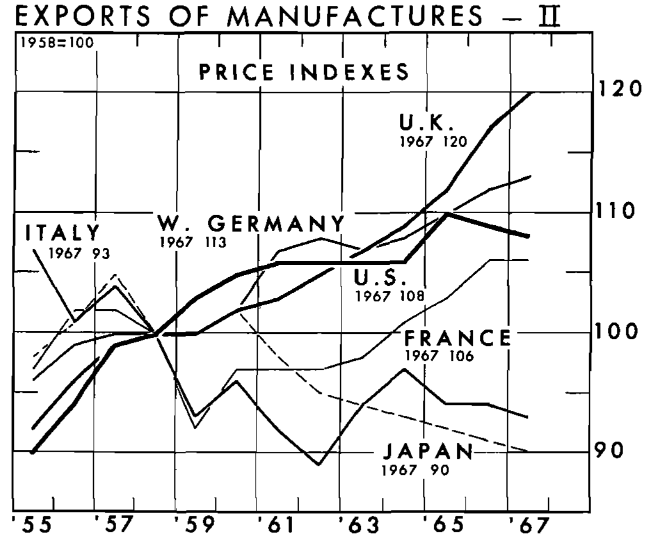
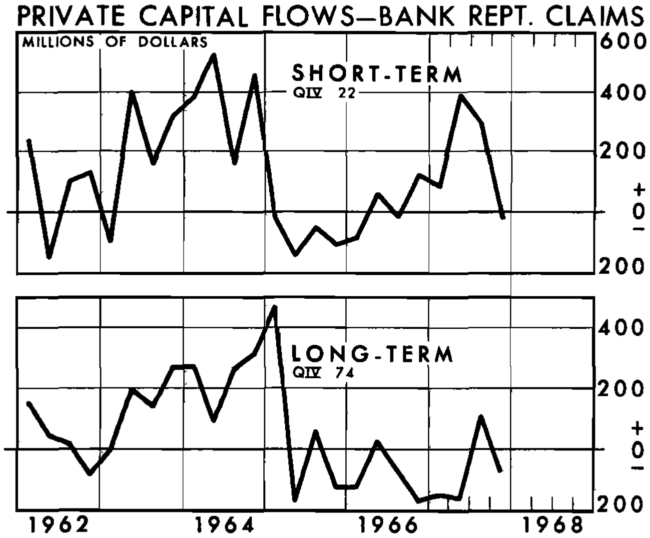
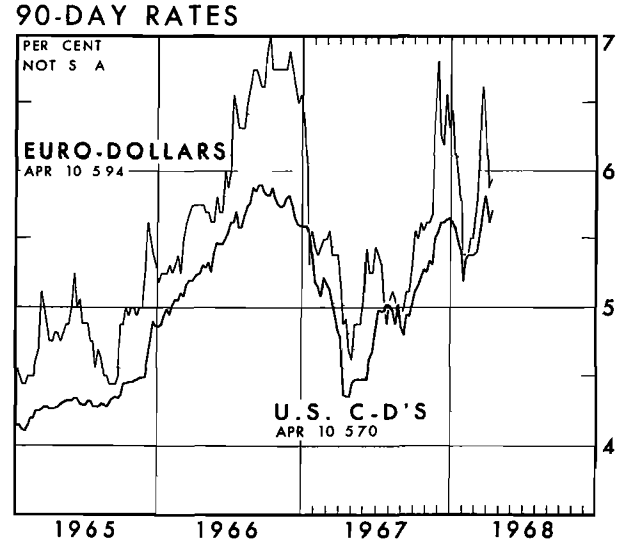


PRIVATE CAPITAL FLOWS—BANK REPT. CLAIMS



90-DAY RATES



APPENDIX A

MEASURES OF THE U.S. BALANCE OF PAYMENTS
AND SELECTED "SPECIAL" TRANSACTIONS
(Millions of dollars) 1/

	1967					196
	Year	I	II	III	IV	I
1. Liquidity deficit (-), NSA	-3,575	-238	-223	-1,211	-1,903	
Seasonal adjustment		-295	-330	573	52	
Liquidity deficit, SA		-533	-553	-638	-1,851	
2. SELECTED "SPECIAL" TRANSACTIONS						
A. Investments in long-term deposits:						
Foreign governments 2/	+893	+306	+634	-214	+167	+9
International and regional institutions	+172	+70	+24	+54	+24	-5
B. Investments in U.S. Govt. Agency securities:						
*Foreign governments 2/	+28	--	--	--	+28	+6
International and regional institutions	+120	-6	+70	+67	-11	-4
C. U.K. official transactions:						
*In U.S. stocks and agency issues	-495	+9	+52	+4	-560	--
Long-term time deposits and Ex-Im participations	-72	-1	-50	-1	-20	-1
D. *Nonscheduled debt repayments to the U.S. Government	+5	--	--	+5	--	--
E. Transactions in nonmarketable, nonconvertible, medium-term U.S. Govt. securities	+414	-1	-3	+323	+95	+20
F. *Canadian Government transactions:						
Advance repurchase of Canadian bonds	+30	--	+30	--	--	--
Purchase of IBRD bonds	+12	--	--	--	+12	-3
Rescheduling of new Canadian issues	--	--	--	--	--	--
TOTAL SELECTED "SPECIAL" TRANSACTIONS	+1,107	+377	+757	+238	-265	+20
3. LIQUIDITY DEFICIT BEFORE REDUCTION BY "SPECIAL" TRANSACTIONS	-4,682	-910	-1,310	-876	-1,586	
4. Official settlements deficit (-), NSA	-3,398	-1,280	-689	-39	-1,390	
Seasonal adjustment		-537	-143	495	185	
Official settlements deficit, SA		-1,817	-832	456	-1,205	
5. "SPECIAL" TRANSACTIONS AFFECTING OFFICIAL SETTLEMENTS BALANCE (Items marked * above)	-420	+9	+82	+9	-520	+2
6. OFFICIAL SETTLEMENTS BALANCE BEFORE REDUCTION BY "SPECIAL" TRANS.	-2,978	-1,826	-914	447	-685	

1/ Figures may not add because of rounding. 2/ Excluding U.K.