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CONFIDENTIAL (FR)

CURRENT ECONOMIC and FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

June 18, 1969

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SUMMARY AND OUTLOOK

Outlook for economic activity

The pace of real growth appears to have edged down further in the quarter just ending, to a little under a 2-1/2 per cent annual rate. Assuming extension of the surtax, available evidence continues to suggest a further slowing in the rate of real growth in the second half of the year to about a 1 - 1-1/2 per cent annual rate. There was apparently no diminution in price pressures, in the second quarter as measured by the GNP implicit deflator, and only a modest abatement is anticipated for the second half of the year.

The projected further slowing in economic activity reflects in large part a sharp deceleration from the recent rapid rate of growth of business spending for fixed capital, as indicated in the most recent Commerce-SEC survey. Demands in other key sectors of final sales are likely to be either less expansive or no more so than over the past two quarters. Consumer spending has shown little buoyancy in recent months, although auto sales have strengthened in the past few weeks. And further growth in consumption is likely to be held down, on balance, in the second half of the year, when employment and income gains in private sectors are projected to be smaller than in the second quarter. However, in the third quarter, growth in disposable personal income and consumption will be lifted temporarily by the Federal pay raise and the end of payments on last year's tax obligations.

Residential construction activity turned down in May in lagged response to the drop in starts since January. Further tightening in the availability of mortgage funds and record mortgage interest rates are likely to result in some further reduction in starts, although the decline may be limited by the very large volume of outstanding lender commitments. Meanwhile, Federal Government expenditures are expected to be edging down apart from the July 1 pay raise.

Outlook for resource use and prices

Industrial production is now tentatively estimated to be up at an annual rate of 6 per cent in the second quarter, about in line with growth in capacity. Expansion in industrial production this year has been heavily dependent on a sharp advance in the business equipment sector and in related materials industries. In the second half of 1969, with the projected deceleration in growth of real GNP and of fixed capital spending, the rise in industrial production is expected to slacken markedly, with little advance in the fourth quarter. Manufacturing capacity is estimated to increase almost as much over 1969 as the 6 per cent expansion of 1968, and the capacity utilization rate would decline from its recent plateau of around 84.5 per cent.

In contrast to industrial production, growth in nonfarm employment has moderated considerably in the past 3 months and the unemployment rate has edged up to 3.5 per cent. The current GNP projection implies a marked further slowing of growth in nonfarm employment in the second half of the year. Even on the assumption incorporated in the projection that growth in the labor force would be far smaller than normal, the unemployment rate appears likely to move up and at year-end may be close to 4 per cent. An early test of strength in the labor market will come this spring and summer with the usual influx of young people.

Pressures on prices remain strong, but are expected to ease somewhat by year end. This judgment represents a net balancing of the strong and persistent increases in costs, whose momentum cannot be stopped quickly, and the weakening anticipated for demands and resource use. On the cost side, while recent wage settlements have been very large (especially in construction), the overall rise in labor compensation has edged off somewhat this year and is likely to ease further as collective bargaining activity remains at a fairly low level. But productivity gains in the nonfarm economy also have slowed, and further easing--particularly in manufacturing where recent gains have apparently been large--seems likely to accompany moderation in output gains.

The consumer price index probably increased considerably further in May as the very sharp rise in wholesale meat prices was partly carried through to retail prices; a further rise in meat prices probably occurred this month. Most recently, livestock prices have stabilized at very high levels, but it may be late summer before increased marketings bring prices down. A leveling off in mortgage interest costs could also exert a slowing influence as the summer progresses.

Prices of industrial commodities again showed only a small increase to mid-May as substantial increases in metals and machinery prices were largely offset by a further sharp drop in lumber and plywood. Prices of important steel products and nonferrous metals have been increased further since mid-May. Looking ahead, strong demands abroad may maintain price pressures on key materials, despite an easing in domestic demands.

Demands for funds

With liquidity positions of nonfinancial corporations reduced and corporate uses of funds continuing to exceed internal sources by a wide margin, business demands for credit are likely to remain relatively strong into the summer. Recently there have been reports of new bond offerings by a scattering of major industrial corporations. But no sizable rush to the bond market appears in the offing, since many economic forecasters are anticipating an appreciable net decline of bond yields by year-end.

In these cirsumstances, the prevailing squeeze on corporate financial positions will continue to require active business borrowing at commercial banks and in the commercial paper market, although the strength of even these demands should moderate somewhat now that the second quarter bulge in tax payments is past. Most recently the cost of commercial paper to business borrowers has again moved up sharply. If this cost should climb significantly above the 8-1/2 per cent prime rate, relatively heavy borrowing demands at banks rather than in the open market could be expected.

Federal credit demands, on balance, are projected to be fairly substantial during the summer. New cash raised by the Treasury should be significantly smaller than in third quarters of other recent years. But borrowing demands generated by Federal programs now outside the Budget are likely to be considerably larger. In particular, the combined new money requirements of the Federal Home Loan Banks and FNMA could range from $1.5 to $2.0 billion. This would be in addition to large liquid asset sales by the Home Loan Banks.

In the case of State and local governments, demands on bond markets have been running at a substantially reduced volume in June and seem likely to remain unusually low in July as well. While these cutbacks reflect postponements and cancellations of new issues, total borrowing by State and local governments is not being reduced commensurately, because borrowers are shifting much of their demands to short-term market through temporary financing in tax exempt notes.

Supply of funds

By paying record interest rates, commercial banks managed to obtain sufficient funds from Euro-dollar and other nondeposit sources to weather the initial tax date squeeze. With the tax date behind us, the next critical test for financial markets will be provided by the month-end interest and dividend crediting period at savings institutions.

Nonbank thrift institutions are approaching this test quite cautiously. While recent experience has amply demonstrated the lower interest rate sensitivity of savers who have remained with thrift institutions, the recent quantum jump in short-term interest rates may highlight the current relative attractiveness of market yields. This, together with attrition in the sizable volume of maturing 3-year bonus account certificates that had been issued at premium rates by California savings and loans in the third quarter of 1966 before rate controls were instituted, could result in savings outflows considerably larger than those experienced in 1968 and approaching the 1966 record.

At commercial banks, consumer-type time and savings deposits are also expected to show a substantial decline during the reinvestment period. And the advanced level of interest rates will force continuing rapid attrition in negotiable CD's as well. With total demand deposits also projected to show little or no increase on average, banks are likely to be reluctant lenders and will probably be forced to continue to scramble actively for funds from nondeposit sources.

Under these circumstances, credit conditions in mortgage markets should tighten further as thrift institutions become much more cautious in making new mortgage commitments and commercial banks continue cutting back on construction lending. Also, minicipal bond yields are likely to be subject to addition upward pressure due to the continued squeeze on banks. The outlook for yields on taxable bonds is more doubtful. Corporate bond yields may now be at or close to their peaks, although the high level of yields may persist into the summer in view of the sizable new issue calendar expected for July.

Balance of payments outlook

In the past eight or nine weeks changes in current transactions and in the more familiar kinds of capital movements have been overshadowed by what appears to be a wave of transfers of funds from the United States, for a while (up to May 9) into German mark assets and claims and more recently into high-yielding Euro-dollar deposits. So far in June the balance on the liquidity basis has remained in heavy deficit. On the official settlements basis, however, there has been a very large surplus.

The liabilities of banks in the United States to commercial banks abroad, including liabilities to branches, have increased since January 1 by more than $7 billion. In the five weeks to Monday June 16 the increase exceeded $4 billion. Although a contribution apparently was made to this figure by funds flowing from the United States (and then back to U.S. banks), the shrinking of U.S. liabilities to foreign official reserve holders gives evidence that large movements of private funds out of other currencies into Euro-dollar deposits (or into repayment of Euro-dollar loans) have also been occurring, as U.S. banks have bid actively for Euro-dollars through their branches. During recent weeks flows from Germany to the Euro-dollar market were very large. There are indications that relatively large movements--relative, that is, to the size of the financial markets concerned--have come from Belgium, the Netherlands, Sweden, and France; also Japanese borrowings of Euro-dollars have been reduced.

Improvement in the liquidity balance may now depend on cessation (or reversal) of the flows of nonbank funds from the United States that have been helping to feed the Euro-dollar market, and this in turn may depend on developments affecting U.S. banks' demands for Euro-dollars. Whether repayments of the U.S. banks' Euro-dollar borrowings would be accompanied mainly by improvement of the liquidity balance (through a flow of nonbank funds to the United States) or by a worsening of the official settlements balance (through flows from the Euro-dollar market into other currencies) is debatable; mid-year windowdressing by European banks would tend to have the latter effect. If speculation on a mark revaluation, now dormant, should revive, the balance on both bases might be adversely affected.

The U.S. merchandise trade picture remains obscure; especially unclear for the near-term future is the size of the backlogs of delayed exports and imports still to be worked off. A little further ahead we still expect exports to rise more than imports. With respect to the inflow of foreign capital to buy U.S. corporate stocks, data for March and April show a marked slowing. Whether this has since led to net liquidations is not known--this could be one source of funds to the Euro-dollar market. In any case it is presumed that inflows in the near future will not be large, assuming a continuation of recent weakness in the stock market.

SELECTED DOMESTIC NONFINANCIAL DATA

June 17, 1969

(Seasonally adjusted)

	Latest Period	Amount: Latest Period	Amount: Preced'g Period	Amount: Year Ago	Per Cent Change: Year Ago*	Per Cent Change: 2 Yrs. Ago*
Civilian labor force (mil.)	May'69	80.1	80.5	78.7	1.7	4.7
Unemployment (mil.)	"	2.8	2.8	2.8	-0.1	-5.6
Unemployment (per cent)	"	3.5	3.5	3.6	--	--
Nonfarm employment, payroll (mil.)	"	70.3	70.2	67.8	3.7	7.0
Manufacturing	"	20.1	20.1	19.7	2.1	4.0
Other industrial	"	8.5	8.5	8.2	4.4	5.7
Nonindustrial	"	41.7	41.5	39.9	4.3	8.8
Industrial production (57-59=100)	"	172.8	171.8	164.2	5.2	11.1
Final products	"	170.6	170.0	163.0	4.7	9.1
Materials	"	174.3	173.4	165.2	5.5	12.7
Wholesale prices (57-59=100)1/	"	112.8	111.9	108.5	4.0	6.6
Industrial commodities (FR)	"	111.2	111.1	107.8	3.2	5.7
Sensitive materials (FR)	"	114.0	114.8	106.0	7.5	13.9
Farm products, foods & feeds	"	114.1	110.9	107.9	5.7	8.7
Consumer prices (57-59=100)1/	Apr'69	126.4	125.6	119.9	5.4	9.6
Commodities except food	"	117.2	116.8	112.2	4.5	8.1
Food	"	123.2	122.4	118.3	4.1	8.4
Services	"	142.0	140.9	132.5	7.2	12.2
Hourly earnings, mfg. ($)	May'69	3.16	3.14	2.98	6.0	12.9
Weekly earnings, mfg. ($)	"	128.95	128.09	121.92	5.8	13.7
Personal income ($ bil.)2/	"	735.0	731.2	678.2	8.4	18.4
Corporate profits before tax ($ bil.)2/	QI '69	96.5	95.7	88.9	8.5	20.8
Retail sales, total ($ bil.)	May'69	29.4	29.4	28.2	4.5	13.4
Autos (million units)2/	"	8.5	8.2	8.7	-2.0	6.9
GAF ($ bil.)	"	7.9	8.0	7.4	6.4	14.9
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	"	1,509	1,556	1,364	10.6	18.4
Factory workweek (hours)	"	40.8	40.8	40.9	-0.2	0.7
New orders, dur. goods ($ bil.)	Apr'69	31.0	29.7	27.4	13.1	28.8
New orders, nonel. mach. ($ bil.)	"	5.6	5.5	4.7	21.2	35.4
Common stock prices (1941-43=10)	May'69	104.62	101.26	97.87	6.9	13.0
Inventories, book val. ($ bil.)	Apr'69	157.3	156.5	146.5	7.4	12.6
Gross national product ($ bil.)2/	QI '69	903.3	887.4	831.2	8.7	17.0
Real GNP ($ bil., 1958 prices)2/	"	723.5	718.4	692.7	4.4	8.7

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

SELECTED DOMESTIC FINANCIAL DATA

	Week ended June 14, 1969	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent) 9/	8.84	9.08	9.45	5.68
U.S. Treas. bills, 3-mo., yield (per cent)	6.65	6.26	6.65	5.42
U.S. Treas. bills, 1-yr., yield (per cent)	6.89	6.44	6.89	5.49
Net free reserves 2/ ($ millions)	-906	-1,149	-207	-1,242
Member bank borrowings 2/ ($ millions)	1,260	1,361	1,603	498
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	6.71	6.66	6.71	5.69
20-year U.S. Treas. bonds 1/	6.27	6.31	6.41	5.59
Corporate new bond issues, Aaa adj. 8/	7.75	7.50	7.75	6.86
Corporate seasoned bonds, Aaa 1/	6.96	6.87	6.99	6.33
Municipal seasoned bonds, Aaa 1/	5.60	5.46	5.60	4.40
FHA home mortgages, 30-year 3/	--	8.06	8.06	7.36
Common stocks, S&P composite series 4/				
Prices, closing (1941-43=10)	98.65	102.21	107.93	98.00
Dividend yield (per cent)	3.20	3.09	3.21	2.87

	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/	June '69[e]	1,725	1,678	0	324
State & local govt. public offerings	"	550	1,134	-845	151
Comm. & fin. co. paper (net change in outstandings) 6/	April '69	+709	+859	+1,687	+1,146

	Latest month	Out-standings Latest month	Change Latest month	Change 3-month average	Annual rate of change from Pre-ceding month	Annual rate of change from 3 months ago	Annual rate of change from 12 months ago
Banking (S.A.)		($ billions)			(per cent)		
Total reserves 1/ 12/	May '69	27.84	0.35	0.03	15.2	1.4	6.1
Credit proxy 1/ 10/	"	293.0	-0.5	-0.6	-2.5	-2.4	5.8
Bank credit, total 6/	"	390.8	0.9	1.0	2.8	3.0	9.4
Business loans	"	102.6	1.4	1.2	16.6	14.1	15.0
Other loans	"	160.7	1.3	0.5	9.8	3.5	12.1
U.S. Govt. sec.	"	56.0	-1.6	-0.7	-33.3	-14.5	-8.2
Other securities	"	71.5	-0.2	--	-3.3	--	12.4
Total liquid assets 1/ 6/ 11/	"	715.2	0.7	2.5	1.2	4.2	6.5
Demand dep. & currency 1/	"	195.3	-0.4	0.5	-2.5	3.1	4.9
Time & sav. dep., comm. banks 1/	"	200.1	-0.7	-0.3	-4.2	-1.8	6.7
Savings, other thrift instit. 6/	"	199.4	0.5	0.7	3.0	4.5	5.8
Other 6/ 7/ 11/	"	120.4	1.3	1.6	13.1	16.2	10.1

N.S.A.--Not seasonally adjusted. S.A.--Seasonally adjusted. e - Estimated.
1/ Average of daily figures. 2/ Average for statement week ending June 11. 3/ Latest figure is monthly average for May. 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. 9/ Federal funds data are 7-day averages for week ending Sunday: latest figure is for week ending June 15. 10/ Reflects $400 million reduction in member bank deposits resulting from withdrawal of a large country bank from System membership in January 1969. Percentage annual rates are adjusted to eliminate this break in series. 11/ Reflects $1.7 billion increase beginning January 1969 in U.S. Government securities maturing within 1 year to conform to the new Budget concept. Percentage annual rates are adjusted where necessary. 12/ Revised series.

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

	1968^r					1969		
	Year	I	II	III	IV	I^p	Apr.^{p}	May^p
	Seasonally adjusted							
Goods and services, net 1/	2,516	471	841	909	301	365		
Trade balance 2/	626	124	264	313	-75	-103	103	
Exports 2/	33,598	7,941	8,395	8,879	8,383	7,474	3,260	
Imports 2/	-32,972	-7,817	-8,131	-8,566	-8,458	-7,577	-3,157	
Service balance	1,890	347	577	596	376	468		
Remittances and pensions	-1,159	-276	-274	-325	-285	-283		
Govt. grants & capital, net	-3,955	-1,097	-1,055	-968	-835	-783		
U.S. private capital	-5,157	-806	-1,537	-1,868	-947	-1,201		
Direct investment	-3,025	-472	-1,009	-1,262	-283	-776		
Foreign securities	-1,266	-311	-164	-337	-455	-325		
Banking claims	269	236	243	-90	-120	71		
Other	-1,134	-259	-607	-179	-89	-171		
Foreign Capital	9,352	1,215	2,705	2,538	2,894	3,351		
Official foreign, nonliquid	2,407	328	937	433	709	-37		
Official foreign, liquid	-3,100	-1,358	-2,190	-38	486	-1,706	206	
Int'l and reg., liq. & nonliq. 3/	583	133	-8	158	300	-133		
Foreign private non-bank, liq.	374	4	102	45	223	-23	-10	
Foreign commercial banks, liq.	3,450	638	2,266	976	-430	3,181	802	
New direct invest. issues 4/	2,129	580	585	586	378	401		
Other	3,509	890	1,013	378	1,228	1,668		
Errors and omissions	-717	-410	-540	286	-52	-1,398		
	Balances, with and without seasonal adjustment (deficit -)							
Liquidity balance, S.A.		-564	-51	-162	870	-1,704		
Seasonal component		297	96	-269	-124	388		
Balance, N.S.A.	93	-267	45	-431	746	-1,316	-844	
Official settlements balance, S.A.		-379	1,553	97	368	1,151		
Seasonal component		470	-3	-25	-442	560		
Balance, N.S.A. 5/	1,639	91	1,550	72	-74	1,711	-77	
Adjusted over-all balance, S.A. 6/		-844	-812	-635	480	-1,858		
Seasonal component		297	96	-269	-124	388		
Balance, N.S.A.	-1,811	-547	-716	-904	356	-1,470	-879	
Financed by: Liab. to comm. banks abroad, N.S.A. (decrease -)	3,450	638	2,266	976	-430	3,181	802	
Official settlements, N.S.A. 7/	-1,639	-91	-1,550	-72	74	-1,711	77	
	Reserve changes, N.S.A. (decrease -)							
Total monetary reserves	880	-904	137	571	1,076	48	190	122
Gold stock	-1,173	-1,362	-22	74	137	-56	100	217
Convertible currencies	1,183	401	-267	474	575	73	23	-150
IMF gold tranche	870	57	426	23	364	31	67	55

1/ Equals "net exports" in the GNP, except for latest revisions.
2/ Balance of payments basis which differs a little from Census basis.
3/ Long-term deposits and Agency securities.
4/ New issues sold abroad by U.S. direct investors.
5/ 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.
6/ Represents the net result of all international transactions of the U.S. other than changes in reserve assets, in all liabilities to foreign monetary authorities and in liabilities to commercial banks abroad (including U.S. bank branches) reported by banks in the U.S.
7/ Minus sign indicates decrease in net liabilities.
r/ Trade revisions largely reflect valuation adjustments; exports being raised, imports lowered. See part IV.

NOTE: Data for first quarter STRICTLY CONFIDENTIAL until released by Commerce Department about July 2.

THE ECONOMIC PICTURE IN DETAIL

The Nonfinancial Scene

Gross national product. Total spending for goods and services is now estimated to rise in the current quarter by about $15 billion, only a little less than the increase in the first quarter. But with prices continuing to move up at a rapid pace, a further dip in growth of real GNP appears likely--to about a 2.3 per cent annual rate, from 2.8 per cent in the first quarter. The rise in current dollar GNP in the third quarter will probably be sustained by the Federal pay raise and its stimulative effect on consumer spending. Assuming prompt extension of the surcharge, monetary and fiscal restraints should reduce income flows and expenditures significantly further by the fourth quarter, and the rise in final sales is expected to drop to $10 billion--about half that in the first quarter. Growth in real GNP is projected to slow to an annual rate of around 1.0 per cent and some moderation in the rate of price advance is projected.

The rise in GNP now expected in the current quarter is somewhat larger than projected earlier, mainly because of the changed pattern of business plant and equipment expenditure plans this year as shown by the April-May Commerce-SEC survey. In the first quarter, according to this survey, capital spending rose much less than had been indicated earlier; and plans for the second quarter now suggest that such outlays will rise about as rapidly as in the first, rather than declining a bit as earlier plans had indicated. However business fixed investment in the GNP accounts covers a broader area of expenditures and is not likely to rise quite as much in the current quarter as in the first. Although there will be no revision in the official Commerce GNP estimates until July, the first quarter GNP figures shown in the accompanying tables incorporate staff adjustments to reflect the spending pattern indicated by this new survey as well as some other later information. The overall GNP total remains unchanged; most of the downward adjustment in business fixed investment is offset by an upward revision in inventory investment and in net exports.

In addition to the rise in fixed capital spending, GNP growth was helped in the second quarter by a rise in net exports of goods and services following the end of the dock workers' strike. However, there have been indications of further easing in several key sectors. Retail sales in May were virtually unchanged from April--although unit sales of new autos were up some. May retail sales were only moderately higher than last September and in real terms they were probably no higher than a year earlier. New residential housing starts have moved down fairly sharply since the beginning of the year, and in May at 1.5 million units, annual rate, they were a fifth per cent below their January peak. Both residential construction expenditures and employment are beginning to reflect this decline. Total nonfarm employment in recent months has risen much less rapidly than during the winter. And the limited data available on inventory developments, mainly for April, suggest the likelihood of a continued moderate accumulation this quarter at about the first quarter rate.

A further slowing in the expansion of overall activity by the end of the year is suggested by both the sharp deceleration in the rise in capital spending planned for the last half of the year and the stringent Federal government budget expenditure limitations in prospect. According to the recent plant and equipment survey, business fixed investment will rise only about 2 per cent in the third quarter and less than 1 per cent in the fourth, as compared with 4.5 per cent in each of the first two quarters. This survey was taken after the announced proposal to repeal the investment tax credit, but it is doubtful that spending plans for the remainder of this year were apppreciably reduced; the repeal of the investment stimulant is expected to have the bulk of its effects on outlays in subsequent years.

Although activity in a number of sectors should be easing further, GNP growth in the third quarter may equal the $15 billion second quarter rise. The Federal pay raise totaling $2.8 billion and the reduction in Federal tax payments following final settlements, including the retroactive portion of the tax surcharge, will boost spendable income substantially. A sizable increase in consumer spending is thus projected for the third quarter, though it will probably be a little less than the rise in income. But with employment growth continuing to slow, and with the saving rate already at a relatively low rate, growth in consumption expenditures in the fourth quarter is projected to ease significantly, rising about in line with the reduced rise of income. In addition, Federal outlays should be inching downward, assuming stringent budgetary controls, and little rebound in residential construction activity seems possible even though housing starts are projected to bottom out.

We are projecting little change in overall inventory accumulation in the third quarter, given the expected growth in final sales. But some increase in the rate of accumulation is probable in the fourth quarter as expansion of final demands eases considerably. With business fixed investment, residential construction, Federal government purchases, and consumption rising more slowly--or declining--growth in final sales in the fourth quarter is expected to decline from $15 billion to a $10 billion rate.

The rise in the budget surplus of $7 billion (NIA basis) in the first quarter undoubtedly was a significant factor in helping to slow the rate of increase in real activity. Heavy tax receipts in this quarter just ending probably boosted the surplus to about a $9 billion, annual rate. The surplus is projected to dip to an average of about $5.5 billion in the last two quarters of 1969.

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June 18, 1969

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)

				1968		1969			
							Projected		
	1967	1968	1969 Proj.	III	IV	I	II	III	IV
Gross National Product	789.7	860.6	924.8	871.0	887.4	903.3	918.3	933.3	944.3
Final Sales	783.6	852.9	917.4	863.5	876.8	895.8	911.4	926.3	936.3
Private excluding net exports	600.4	653.7	703.3	660.6	672.8	688.6*	698.6	709.2	716.9
Net exports	4.8	2.0	1.7	3.3	1.0	0.3*	2.7	1.7	2.0
Personal consumption expenditures	492.2	533.8	570.7	541.1	546.8	557.4	566.0	576.0	583.3
Durable goods	72.6	82.5	87.5	85.1	85.1	86.8	87.5	88.2	87.5
Nondurable goods	215.8	230.3	244.1	232.7	233.7	238.1	241.5	246.5	250.3
Services	203.8	221.0	239.1	223.4	228.0	232.5	237.0	241.3	245.5
Gross private domestic investment	114.3	127.7	140.0	127.1	136.6	138.7*	139.5	140.2	141.6
Residential construction	24.6	29.9	31.4	29.5	31.6	32.6*	31.6	30.7	30.6
Business fixed investment	83.6	90.0	101.3	90.1	94.3	98.6*	101.0	102.5	103.0
Change in business inventories	6.1	7.7	7.4	7.5	10.6	7.5*	6.9	7.0	8.0
Nonfarm	5.6	7.3	7.1	7.3	9.7	6.7*	6.5	7.0	8.0
Net exports of goods and services	4.8	2.0	1.7	3.3	1.0	0.3*	2.7	1.7	2.0
Gov't. purchases of goods & services	178.4	197.2	212.4	199.6	203.0	206.9	210.1	215.4	217.4
Federal	90.6	100.0	103.8	101.2	101.7	102.4	102.9	105.4	104.7
Defense	72.4	78.9	81.0	79.6	80.0	80.2	80.2	82.2	81.5
Other	18.2	21.1	22.8	21.5	21.7	22.2	22.7	23.2	23.2
State & local	87.8	97.2	108.6	98.4	101.2	104.5	107.2	110.0	112.7
Gross national product in constant (1958) dollars	673.1	706.7	728.4	712.3	718.4	723.5	727.6	730.3	732.2
GNP implicit deflator (1958=100)	117.3	121.8	127.0	122.3	123.5	124.9	126.2	127.8	129.0
Personal income	628.8	685.8	739.6	694.3	708.2	721.7	734.1	746.6	755.8
Wages and salaries	423.4	463.5	504.0	469.0	479.0	490.8	500.0	509.2	516.0
Disposable income	546.3	589.0	623.4	592.7	602.4	609.2	617.7	630.0	636.5
Personal saving	40.2	40.7	37.5	37.1	40.9	36.9	36.9	39.0	38.0
Saving rate (per cent)	7.4	6.9	6.0	6.3	6.8	6.1	5.9	6.1	5.9
Corporate profits before tax	81.6	92.3	95.3	92.7	95.7	96.5	96.5	95.0	93.0
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	151.2	176.9	199.9	182.1	187.0	197.1	200.6	200.1	201.8
Expenditures	163.6	182.2	193.1	184.9	186.9	189.7	191.7	195.4	195.7
Surplus or deficit (-)	-12.4	-5.4	6.7	-2.8	0.2	7.4	8.9	4.7	6.1
Total labor force (millions)	80.8	82.3	94.0	82.4	82.6	83.7	83.8	84.1	84.3
Armed forces "	3.4	3.5	3.5	3.6	3.5	3.5	3.5	3.5	3.5
Civilian labor force "	77.3	78.7	80.5	78.8	79.1	80.2	80.3	80.6	80.8
Unemployment rate (per cent)	3.8	3.6	3.6	3.6	3.4	3.3	3.5	3.7	3.9
Nonfarm payroll employment (millions)	66.0	68.1	70.4	68.3	69.0	69.9	70.3	70.6	70.7
Manufacturing	19.4	19.7	20.1	19.8	19.9	20.1	20.1	20.1	20.0
Industrial production (1957-59=100)	158.1	164.7	172.6	165.2	167.4	170.2	172.8	173.5	174.0
Capacity utilization, manufacturing (per cent)	85.3	84.5	83.9	84.0	84.2	84.5	84.4	83.8	82.9
Housing starts, private (millions A.R.)	1.29	1.51	1.53	1.55	1.60	1.72	1.51	1.45	1.45
Sales new domestic autos (millions, A.R.)	7.57	8.62	8.49	9.01	8.82	8.37	8.50	8.60	8.50

* Commerce estimates modified to reflect revised and later data.

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June 18, 1969

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967	1968	1969 Proj.	1968 III	1968 IV	1969 I	1969 Projected II	1969 Projected III	1969 Projected IV
					In Billions of Dollars				
Gross National Product	42.1	70.9	64.2	18.1	16.4	15.9	15.0	15.0	11.0
Inventory change	-8.6	1.6	-0.3	-3.2	3.1	-3.1	-0.6	0.1	1.0
Final Sales	50.8	69.3	64.5	21.4	13.3	19.0*	15.6	14.9	10.0
Private excluding net exports	28.8	53.3	49.6	16.2	12.2	15.8	10.0	10.6	7.7
Net exports	-.3	-2.8	-0.3	1.3	-2.3	-0.7*	2.4	-1.0	0.3
Government	22.2	18.8	15.2	3.9	3.4	3.9	3.2	5.3	2.0
GNP in constant (1958) dollars	16.0	33.6	21.7	8.9	6.1	5.1	4.1	2.7	1.9
Final sales	24.0	32.4	22.2	12.0	3.2	8.6	4.1	2.4	1.0
Private	9.8	23.9	18.1	11.1	2.1	7.4	3.1	2.1	0.9
					In Per Cent Per Year				
Gross National Product	5.6	9.0	7.5	8.5	7.5	7.2	6.6	6.5	4.7
Final sales	6.9	8.8	7.6	10.2	6.2	8.7	7.0	6.5	4.3
Private	5.0	8.3	7.5	10.8	6.0	9.0	7.2	5.5	4.5
Personal consumption expenditures	5.7	8.5	6.9	10.0	4.2	7.8	6.2	7.1	5.1
Durable goods	3.0	13.6	6.1	20.2	0.0	8.0	3.2	3.2	-3.2
Nondurable goods	4.4	6.7	6.0	7.9	1.7	7.5	5.7	8.3	6.2
Services	8.2	8.4	8.2	8.6	8.2	7.9	7.7	7.3	7.0
Gross private domestic investment	-5.4	11.7	9.6	-0.6	29.9	6.1*	2.3	2.0	4.0
Residential construction	-0.8	21.5	5.0	0.0	28.5	12.7*	-12.3	-11.4	-1.3
Business fixed investment	2.8	7.7	12.6	14.3	18.6	18.2*	9.7	5.9	1.9
Gov't. purchases of goods & services	14.2	10.5	7.7	8.0	6.8	7.7	6.2	10.1	3.7
Federal	17.1	10.4	3.9	4.8	2.0	2.8	2.0	9.7	-2.7
Defense	19.5	9.0	2.7	3.0	2.0	1.0	0.0	10.0	-3.4
Other	8.3	15.9	8.1	9.5	3.7	9.2	9.0	8.8	0.0
State & local	11.4	10.7	11.7	11.7	11.4	13.0	10.3	10.4	9.8
GNP in constant (1958) dollars	2.4	5.0	3.1	5.0	3.4	2.8	2.3	1.5	1.0
Final sales	3.7	4.9	3.2	6.9	1.8	4.9	2.3	1.3	0.6
Private	1.9	4.5	3.3	8.2	1.5	5.3	2.2	1.5	0.6
GNP implicit deflator	3.1	3.8	4.3	3.4 1/	4.1	4.3	4.3	5.0 2/	3.7
Personal income	7.2	9.1	7.8	9.6	8.0	7.6	6.9	6.8	4.9
Wages and salaries	7.3	9.5	8.7	10.0	8.5	9.9	7.5	7.4	5.3
Disposable income	6.8	7.8	5.8	4.4	6.5	4.5	5.6	8.0	4.1
Corporate profits before tax	-4.7	13.1	3.3	3.9	12.9	3.3	0.0	-6.2	-8.4
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	5.7	17.0	13.0	23.5	10.8	21.6	7.1	-1.0	3.4
Expenditures	14.9	11.4	6.0	6.6	4.3	6.0	4.2	7.7	0.6
Nonfarm payroll employment	3.1	3.2	3.4	2.9	4.1	5.2	2.3	1.7	0.6
Manufacturing	1.0	1.5	2.0	2.0	2.0	4.0	0.0	0.0	-2.0
Industrial production	1.2	4.2	4.8	2.4	5.3	6.7	6.1	1.6	1.2
Housing starts, private	10.9	16.7	1.6	29.7	14.5	28.2	-47.1	-16.9	0.0
Sales new domestic autos	-9.7	14.0	-1.5	27.1	-8.5	-20.4	6.3	4.7	-4.7

1/ Excluding Federal pay increase, 2.8 per cent per year.
2/ Excluding Federal pay increase, 3.9 per cent per year.
* Based on Commerce estimates modified to reflect revised and later data.

Industrial production. Industrial production in May was 172.8 per cent of the 1957-59 average--up 0.6 per cent from the upward revised April figure and up 5.2 per cent from a year earlier. If the index registers a similar gain in June, as now appears likely, production in the second quarter would have increased at a 6.2 per cent annual rate, as compared with a 6.6 per cent rate from the fourth quarter of 1968 to the first quarter of 1969.

As in April, the May rise was concentrated in output of business equipment and industrial materials. Production of consumer goods leveled off following a decline in April. Auto assemblies were about unchanged from the reduced April level as strikes continued through most of May. With most of the General Motors strikes settled by the end of the month, output in the first two weeks in June rose to an annual rate of 8.5 million units from 7.6 million in May. Among other consumer goods, production of television sets declined further in May and output of most other products changed little at advanced levels.

Production of industrial and commercial equipment increased further and so far this year has risen at an annual rate of 11 per cent. On the other hand, output of freight and passenger and farm equipment has been about unchanged since the beginning of the year.

Production of iron and steel rose again in May and output of construction materials was maintained. Production of most textile and paper products, however, changed little. Revised data for industrial chemical production indicate a marked growth in output since January--a 9 per cent annual rate--in contrast to the leveling off shown by earlier figures.

Retail sales. Retail sales in May were virtually unchanged from April, according to the advance report, suggesting continuance of the less exuberant consumer buying attitude that began last fall. Sales of durable goods stores increased modestly from April, largely as a result of considerable strength in the lumber, building material, and hardware group. The automotive group was virtually unchanged from the previous month despite a rise in unit sales of new cars. Sales of furniture and appliance stores declined. Sales of nondurable goods stores were unchanged from April.

Department stores showed a 2 per cent decline in May after surging 5 per cent in April. In terms of year-over-year comparisons, however, department stores in May, with a gain of 11 per cent, continued to out perform retail stores as a whole, which excluding department stores were only 3.9 per cent higher than in May 1968.

In May, sales of domestic cars rose moderately to a seasonally adjusted annual rate of 8.5 million units, 2 per cent below a year earlier. Sales of imported cars were at a seasonally adjusted annual rate of 1.1 million units, an increase of 19 per cent over a year ago. Sales of new domestic autos rose further in the first 10 days of June to a seasonally adjusted annual rate of well over 9 million units, a 12 per cent increase from last year. Part of the early June surge in sales reflected settlement of several of the strikes that idled 7 General Motors plants in May; strong post-introductory sales of the new Ford Maverick line also boosted the total. Stocks of new domestic autos on June 1 were reduced to less than 1.7 million units, and the seasonally adjusted stock/sales ratio dipped to 54 days' supply from 59 days in April and 60 in March.

RETAIL SALES
(Percentage Change From Previous Quarter)

	1968		1969	
	III Q	IV Q	I Q	May 1/
Total sales	2.5	-0.6	1.6	1.3
Total, ex. automotive	1.8	0.0	1.7	1.6
Durable	3.9	-1.7	1.9	1.5
Automotive	5.3	-2.7	1.1	0.1
Furniture & appliance	2.9	-3.4	3.8	-2.9
Nondurable	1.7	0.0	1.4	1.1
Food	0.8	0.2	2.3	0.2
General merchandise	4.0	0.5	-0.1	3.0
Dept. stores	4.4	1.7	0.8	3.3
Real total retail *	1.5	-1.6	0.8	n.a.

* Deflated by all commodities CPI.
1/ From monthly average of second quarter.

Consumer credit. Increases in outstanding consumer instalment credit have shown considerable month-to-month fluctuation since last summer, but a diminishing rate of gain is clear when the figures are grouped in two-month intervals. Average monthly increases, at seasonally adjusted annual rates, have declined from about $10 billion in the September-October 1968 period to less than $8-1/2 billion in March-April this year.

The pattern is less well defined among major types of instalment credit within the total, partly because of distortions in car sales resulting from the strike by longshoremen and also because of a rise in personal loans in April that probably reflected larger final payments on income taxes due this year. However, each of the major groups shows smaller increases in the most recent two-month period than in the latter part of 1968.

NET CHANGE IN CONSUMER INSTALMENT CREDIT OUTSTANDING
(Billions of dollars, average monthly increase
at seasonally adjusted annual rates)

	Total	Automobile	Other Consumer Goods	Personal Loans
1968 - Sept.-Oct.	10.0	4.2	2.0	3.6
Nov.-Dec.	9.7	3.3	2.9	3.2
1969 - Jan.-Feb.	8.6	2.7	2.8	3.0
Mar.-Apr.	8.4	2.9	2.2	3.1

Inventories. Book values of nonfarm business inventories increased in April at close to the first-quarter average monthly rate. With prices continuing to rise rapidly, it is probable that the valuation adjustment will again be relatively large in the second quarter, so that the April figures are consistent with a continuation of inventory accumulation (GNP basis) at about the first quarter rate.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
Monthly, seasonally adjusted, millions of dollars

	1969	
	Q I average	April
Manufacturing and trade, total	877	771
Manufacturing	579	697
Durable	519	423
Nondurable	61	274
Wholesale trade	182	-40
Retail trade	116	114

The May survey of manufacturers' expectations indicates that durable goods manufacturers expect their inventories to rise at a monthly average rate of over $550 million this quarter, while non-durable goods manufacturers expect to continue their April rate of inventory accumulation. Both anticipate some increase in their inventory-sales ratio by June, as a result of a relatively small prospective rise in sales. For the third quarter, manufacturers anticipate continuation of this rate of increase in book value of inventories along with a somewhat larger sales increase than in the second quarter, resulting in no further change in the anticipated inventory-sales ratio.

These anticipations do not seem out of line with the current position of inventories and orders. Further increases in production and inventories of business equipment, materials, and components seem assured by recent levels of orders. Defense products inventories will probably continue to change little; they are at advanced levels, relative to shipments and unfilled orders, but judging by past performance they are not likely to decline until the order backlog declines, and at the end of April the defense products backlog was at a new high.

Plant and equipment. Business plans for fixed capital expenditures this year have been revised downward from those reported three months ago, according to the Commerce-SEC survey conducted in late April and May. Current plans call for a 12.6 per cent increase in spending over 1968; the earlier survey had indicated a 13.9 per cent increase.

Although this change in magnitude is slight, there is a significant modification of the profile of expenditures within the year. In the earlier survey, there was an extremely sharp increase in the first quarter (which has now been almost halved), a slight dip in the second, and a moderate gain thereafter. In the current survey, expenditures show sizable increases in both the first and second quarters, and successively smaller gains in the third and fourth. For the fourth quarter of 1969, the rise in outlays is expected to be at an annual rate of only 3 per cent, compared to rates of about 18 per cent in each of the first two quarters.

Another indication that capital spending is slowing is the recent National Industrial Conference Board survey of new capital appropriations of 1,000 manufacturers which shows a decline from \$6.76 billion in the fourth quarter of 1968 to \$6.60 billion in the first quarter of 1969. At the same time, both current expenditures and unspent backlogs of already appropriated funds rose. Backlogs would sustain activity for 3.3 quarters at the first quarter spending rate, i.e., until January 1970. This figure had been running at an average of 3.7 quarters in recent years and was as high as 3.9 quarters in the second quarter of 1968.

BUSINESS SPENDING FOR NEW PLANT AND EQUIPMENT

	1968 Actual	1969 Planned	1969 Actual Q I	1969 Planned Q II	Q III	Q IV
	Dollar (Bil.) Change from Preceding Period					
Total	2.42	8.09	3.00	3.10	1.45	0.55
Manufacturing	-0.25	3.55	1.35	2.10	0.45	-0.30
Durable goods	-0.19	2.10	1.10	0.85	0.15	-0.50
Nondurable goods	-0.07	1.45	0.25	1.25	0.30	0.15
Nonmanufacturing	2.67	4.54	1.70	1.00	1.00	0.85
	Per Cent Change from Preceding Period					
Total	3.9	12.6	4.6	4.5	2.0	0.7
Manufacturing	- 0.9	13.4	5.0	7.4	1.5	- 1.0
Durable goods	- 1.4	15.5	7.9	5.7	0.9	- 3.1
Nondurable goods	- 0.5	11.2	1.9	9.5	2.1	1.0
Nonmanufacturing	7.6	12.1	4.4	2.5	2.4	2.0
Mining	0.0	11.3	14.8	9.7	- 8.8	0.0
Railroad	-12.4	14.9	17.4	7.4	17.2	0.0
Nonrailroad transportation	11.1	12.1	0.0	- 9.4	17.2	0.0
Public utilities	16.8	13.4	8.8	1.9	- 1.1	- 2.3
Communication	7.6	19.5	4.3			
Commercial and				4.8	1.4	5.2
other	2.7	6.9	0.0			

Construction and real estate. Outlays for new construction, changed very little in May and, at a seasonally adjusted annual rate of $90.9 billion, were below the peak reached last January. With the year-to-year rise in construction costs continuing at about 8 per cent, such outlays in real terms also remained below a year earlier.

Reflecting the downtrend in housing starts since January, current dollar outlays for residential construction declined in May. While outlays for private nonresidential construction apparently held at the advanced April rate, they were appreciably below the peak earlier this year. Public construction outlays edged upward in May, but also remained below the high established last November.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	May 1969 ($ billions) 1/	Per cent change from	
		April 1969	May 1968
Total	90.9	--	+ 6
Private	61.2	--	+ 7
Residential	31.7	- 1	+ 7
Nonresidential	29.5	--	+ 7
Public	29.7	+ 1	+ 4

1/ Seasonally adjusted annual rates; preliminary. Data for the most recent month (May) are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Seasonally adjusted private housing starts in May continued downward for the fourth consecutive month to an annual rate of 1.51 million, about in line with projections. Unlike most other recent months, single family starts rose markedly. Multifamily starts, on the other hand, showed a sharp decline though they still accounted for more than two-fifths of the total. Regionally, starts in all areas except the South pointed lower.

A "fillip" in the volatile starts series cannot be ruled out in June when builders in a position to do so may attempt to accelerate schedules again in the wake of the uncertainties caused by the further tightening in financial markets early this month. However, given the pronounced drop in permits reported for May and other factors, the June rate may at best hold at about the May level. This would bring the second quarter average to about 1.52 million--well below the 1.72 million annual rate now reported for the first quarter of the year, and about the same as the average for the year 1968.

PRIVATE HOUSING STARTS AND PERMITS

	May 1969 (Thousands of units)1/	Per cent change from April 1969	Per cent change from May 1968
Starts	1,509	- 3	+11
1-family	875	+11	+ 4
2-or-more-family	634	-17	+21
Northeast	228	-10	+ 6
North Central	343	- 4	+ 7
South	606	+ 4	+ 8
West	332	- 9	+25
Permits	1,370	- 9	+ 7
1-family	637	- 3	- 3
2-or-more-family	733	-13	+18

1/ Seasonally adjusted annual rates; preliminary.

While increased financial market pressures have continued to dampen builders' initial expectations for activity this year, basic shelter demands have remained very strong. Both rental and home-owner vacancy rates in the first quarter were the lowest for any first quarter since 1957 and sharply lower than at the same time in 1966 when supplies available from earlier "overbuilding" were still a significant market factor.

VACANCY RATES
(Per cent)

	Average for first quarter of:					
	1957	1965	1966	1967	1968	1969
Rental units	4.8	7.7	7.5	6.6	5.5	5.0
Northeast	3.0	5.5	4.9	5.0	3.4	2.9
North Central	4.6	7.2	6.4	5.3	5.0	4.9
South	5.7	8.3	8.7	6.9	6.8	6.6
West	6.6	10.6	10.7	10.0	7.3	5.9
Home-owner units	0.8	1.5	1.4	1.3	1.0	0.9
Northeast	0.7	0.9	0.8	0.9	0.7	0.6
North Central	0.8	1.2	1.0	1.0	0.9	0.8
South	0.8	1.9	1.8	1.7	1.3	1.2
West	1.0	1.9	2.1	1.8	1.1	1.0

Labor market. Signs of easier labor demand were again apparent in May but the overall labor market remained on the tight side. Over the past 3 months, the growth of nonfarm payroll employment--92,000 in May--has slackened to about one-third of the very rapid pace that had prevailed from September to February. The rise in joblessness thus far has been moderate -- from 3.3 per cent of the labor force last winter to 3.5 per cent in both April and May. Slower employment growth and a lower rate of increase of hourly earnings have reduced the growth rate of personal income somewhat.

Although signs of moderation have been in evidence for 3 months, there have been no indications of any significant layoffs and insured unemployment continues very low. June and July should bring a test of the strength of underlying labor demand as several million high school and college students enter the market in search of summer or permanent jobs.

Employment and hours. The slowing of employment growth has been widely distributed, although a big swing in construction employment--off 32,000 in May, in part reflecting strikes--from strong growth last fall to declines this spring played a large part in the slowdown of total job growth. In May, construction employment was still 144,000 above a year ago.

Manufacturing employment has grown slowly since February after expanding at a rate of 60,000 a month between September and February. Gains have continued in capital-goods industries but at slower rates in recent months. Employment has shown little change in most consumer-goods and defense industries.

NONFARM PAYROLL EMPLOYMENT*
Average monthly changes
(Seasonally adjusted, in thousands)

	September 1968 to February 1969	February 1969 to May 1969
Total	323	114
Construction	50	- 18
Manufacturing	61	19
Trade	51	43
Service	79	38
Government	66	23
All other	16	9

* Adjusted for major strikes.

Employment advances in the nonindustrial sector have also become spotty in recent months and gains are averaging about half the size of those late last year. Among private services, only medical and other health services have continued to register large gains, while growth has slowed in business and personal services. State and local government hiring has slowed in recent months, and, reflecting budget and hiring restraints, Federal employment has been comparatively stable since February after declining somewhat in the last half of 1968. Trade employment remains relatively strong, despite some signs of weakness in retail sales.

During the September-February period of rapid employment growth, manufacturers reduced the workweek somewhat. However, over the past 3 months, average hours have held firm (at a high 40.8 hours) as net additions to payrolls edged down. Thus, demand for labor appears to have leveled off on a high plateau in recent months after rising strongly in late 1968.

Wages and income. Average hourly earning increases have eased somewhat since late last year. In the organized sector, a reduced number of collective bargaining situations combined with a large number of smaller second and third year wage increases specified in earlier settlements served to moderate the rate of increase of average hourly earnings. Nevertheless, the underlying upward pressure on wage rates persists.

PER CENT INCREASES IN AVERAGE HOURLY EARNINGS*
(Seasonally adjusted, annual rates)

	May 1967 to Nov. 1967	Nov. 1967 to May 1968	May 1968 to Nov. 1968	Nov. 1968 to May 1969
Total private	5.2	7.4	7.0	6.2
Manufacturing	5.4	7.2	6.6	5.6

* Of production and nonsupervisory workers on private payrolls.

Contracts negotiated with construction, maritime, cement and airline unions in recent months have involved first-year wage increases in the 8 to 10 per cent range, up from an average of 7-1/2 per cent in 1968. More importantly, these contracts include somewhat larger second and third year increases than were granted in the big industrial contracts of 1967-68, suggesting increased efforts to protect wage gains from possible price erosion in the future.

With employment growth off sharply and wage increases somewhat smaller, gains in gross wage and salary payments were reduced to about $2-1/2 billion in April and May from average monthly increments of $3-1/2 billion over the year ending in March 1969. Although the growth rate of income flows from nonwage sources has continued high, April and May increases in personal income averaged about one-fifth less than the monthly average from March 1968 through March 1969.

PERSONAL INCOME
(Monthly change in billions of dollars, seasonally adjusted)

	March 1968 to March 1969	1969 April	1969 May
Personal income	4.8	3.5	3.8
Wages and salaries	3.6	2.3	2.6
Manufacturing	1.0	0.5	1.0
Nonmanufacturing	2.6	1.9	1.6
Other income	1.2	1.1	1.3

Wholesale prices. The WPI rose by 0.8 per cent from mid-April to mid-May, mainly because of an exceptionally large rise in farm and food products. Prices of industrial commodities rose only 0.1 per cent, following a similarly small rise in March. Increases in metals and machinery prices were relatively large, exceeding those in April, but a further decline in prices of lumber and plywood dampened the industrial advance and also helped to push the sensitive materials index lower again.

The May rise in farm and food products prices of 2.9 per cent was the largest since February 1951, and reflected large increases in livestock and meats, in fruits and vegetables, and a rise in the price of corn. Livestock prices increased 8 per cent from mid-April to mid-May, (and the price of beef reached a 17-year high) while meat prices at wholesale rose almost as fast. Production of red meat this year has been above the record levels of 1968 except in the last four to six weeks, when it has been a little below. However, per capita consumption in the first quarter was about the same as last year because imports were restricted by the dock strike. With consumer demand for meat, especially for beef, at record levels, the volume of marketings and imports has been insufficient to prevent a sharp spurt in prices.

Since mid-May, livestock prices initially rose somewhat further, but more recently have been on a high plateau. The Department of Agriculture thinks most of the bulge in animal and meat prices at wholesale is behind us. However, retail meat prices probably rose strongly in May and are expected to increase further this month.

Poor weather conditions were mainly responsible for the large increase in vegetable prices in May. Egg prices dropped sharply.

Among industrial commodities, increases were slightly less numerous in May than in the previous months of this year, and there were about the same percentage of decreases. Of the major groups, plywood and wood products dropped sharply further; textiles and rubber products also decreased. Nonferrous metals continued to rise strongly in May, as did iron and steel and their products. Since mid-May, further increases for these two groups have been announced. Machinery and equipment prices generally rose further in May.

WHOLESALE PRICES
(Per cent change, annual rates)

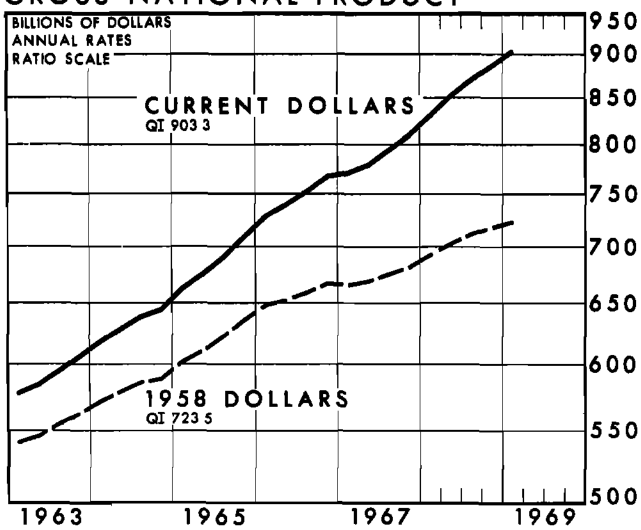
	May 1968 to May 1969	Dec. 1968 to April 1969	April 1969 to May 1969
WPI - total	4.0	5.7	9.6
Foods and foodstuffs	6.4	7.6	36.9
Livestock and products	10.6	12.2	45.8
Industrial commodities	3.2	4.9	1.1
Materials	3.7	6.4	1.1
Products	2.3	2.7	0
Consumer nonfoods	2.1	2.5	0
Producer's equip.	3.1	2.6	4.1

Sensitive materials prices have declined in the last two months, despite continued sharp increases in the prices of nonferrous metals at an annual rate of about 20 per cent. Lumber and plywood prices, which rose at a rate of over 60 per cent from December to March, declined almost as much in the last two months and in May were 4 per cent above the December level.

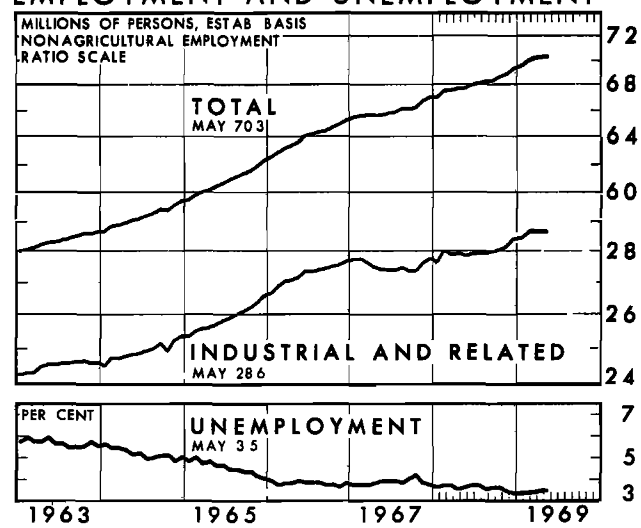
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

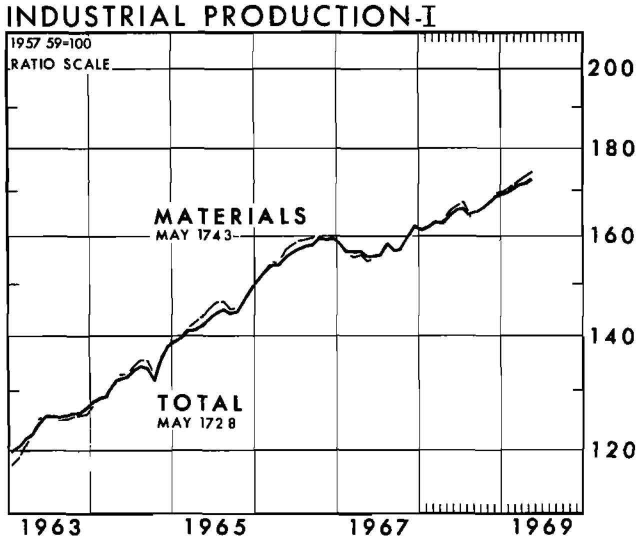
GROSS NATIONAL PRODUCT



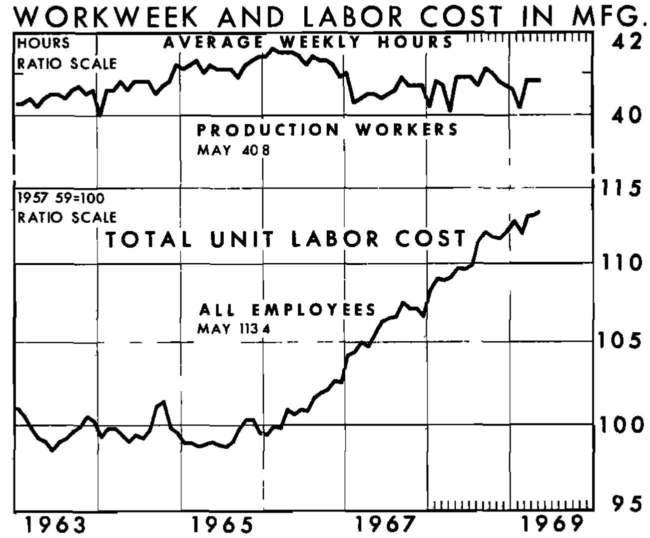
EMPLOYMENT AND UNEMPLOYMENT



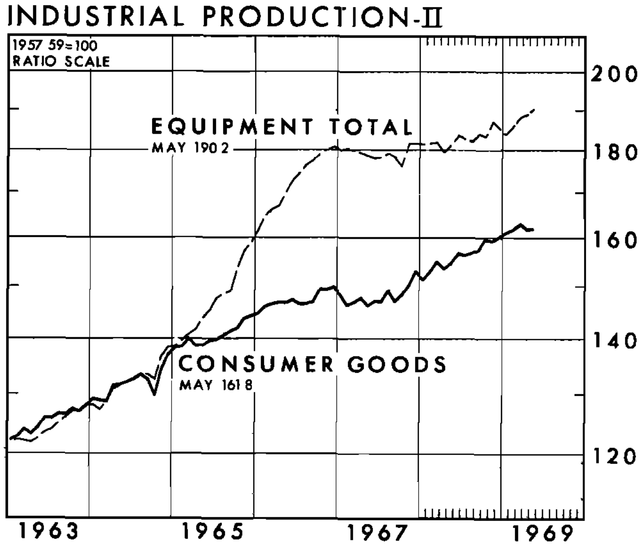
INDUSTRIAL PRODUCTION-I



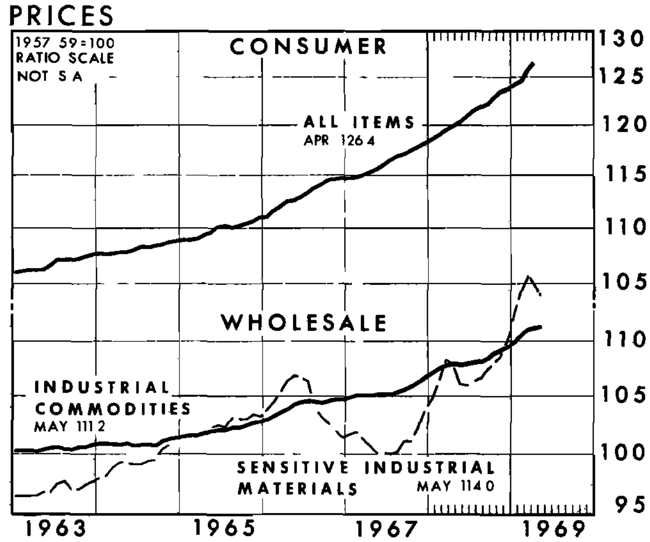
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



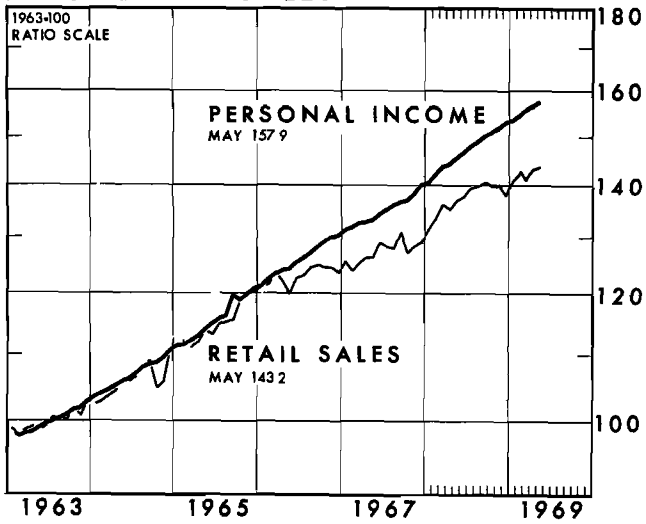
PRICES



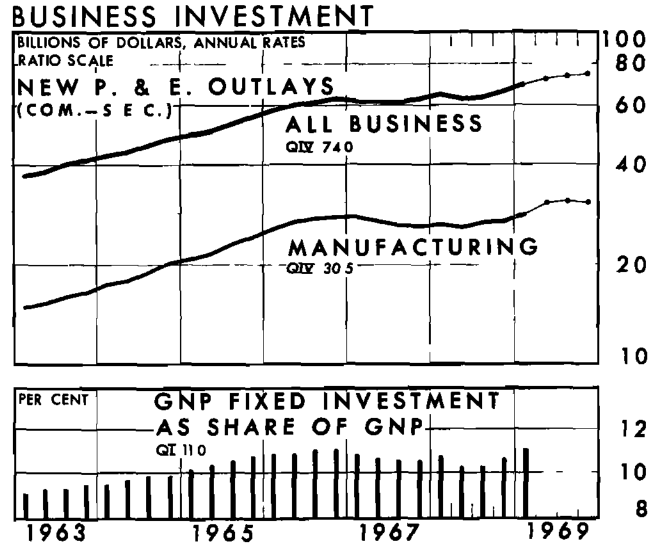
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

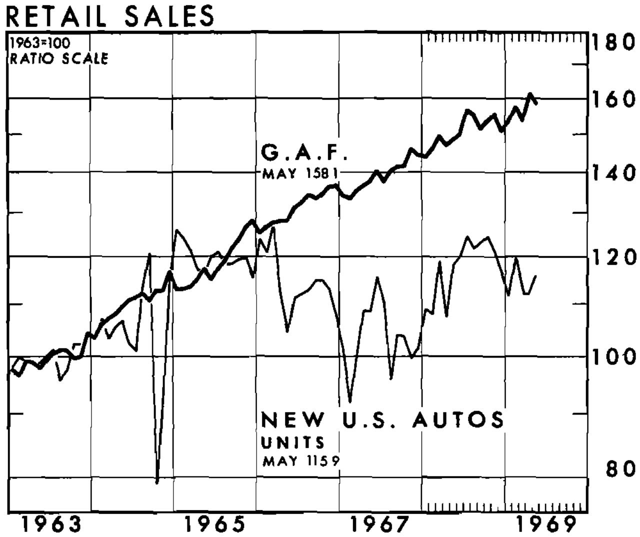
INCOME AND SALES



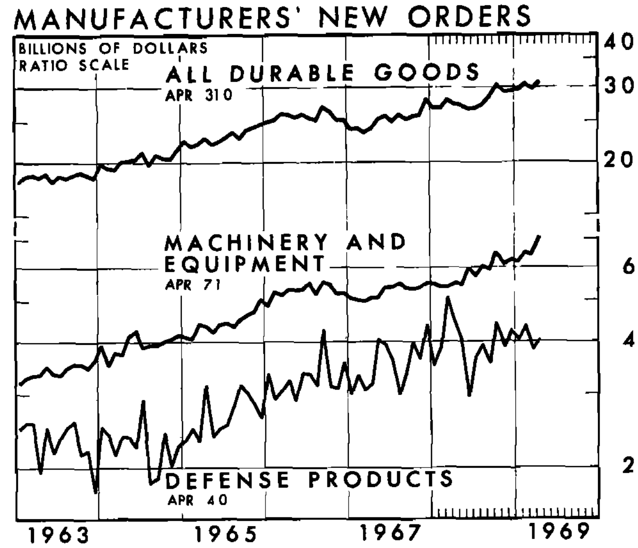
BUSINESS INVESTMENT



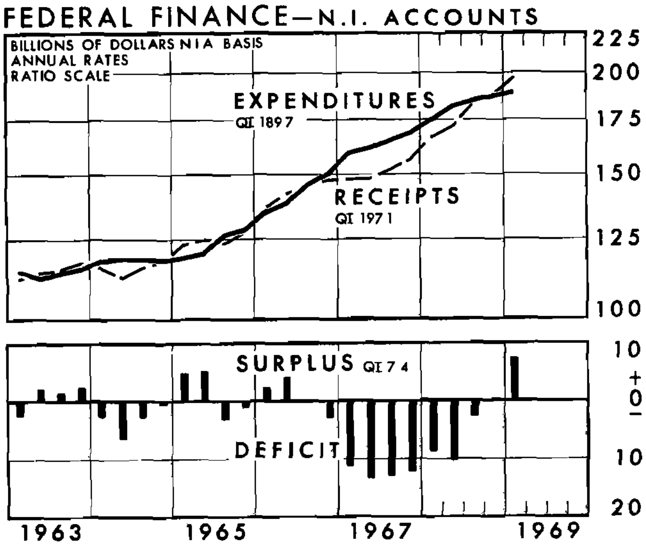
RETAIL SALES



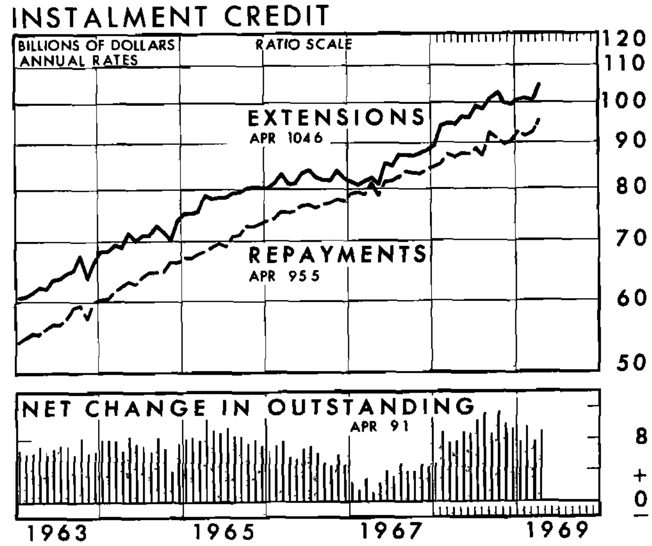
MANUFACTURERS' NEW ORDERS



FEDERAL FINANCE—N.I. ACCOUNTS



INSTALMENT CREDIT



DOMESTIC FINANCIAL SITUATION

Bank credit. Expansion of total loans and investments at all commercial banks in May dropped back to about the low first quarter rate, following the April surge associated with Treasury financing and borrowing for tax payments. Business loan demand remained heavy in May and total bank loans continued to grow at a rapid rate. But with deposits under continued pressure, banks also reduced sharply further their holdings of securities, and more banks initiated financing arrangements outside the scope of Regulations D and Q--particularly the issuance of commercial paper through holding companies and the sale of loans.

NET CHANGE IN BANK CREDIT
All Commercial Banks
(Seasonally Adjusted annual rates, in per cent)

	1968	1969			
	QIV	QI	April	May	1st 5 Months
Total loans & investments 1/	10.7	2.3	9.6	2.8	3.9
U.S. Gov't securities	-15.6	-26.7	4.2	-33.3	-21.5
Other securities	26.9	2.2	-3.3	- 3.3	--
Total loans	13.1	9.4	14.4	12.4	11.2
Business loans	15.2	16.3	16.8	16.6	16.8
All other loans	11.9	5.1	12.9	9.8	7.7
MEMO:					
Credit proxy 2/	11.7	-2.4	6.0	-2.0	- 0.8

1/ Last Wednesday of the month series.
2/ Monthly average of daily figures, adjusted to include Euro-dollar borrowing.

Banks liquidated $1.8 billion of securities in May--about 90 per cent of which were Governments--following substantial reductions earlier in the year. As has been the case since year-end, the recent liquidation of Governments at weekly reporting banks was confined largely to issues maturing within one year. Reductions in holdings of other securities continued to be in both long- and short-term municipals. Recent declines in holdings of long-term municipals have been in line with reductions earlier in the year and data are not available to distinguish whether these represent actual sales or simply attrition resulting from failure to replace maturing issues.

The continued rapid expansion of bank loans in May and early June reflected in large part further heavy borrowing by business, as growth in real estate loans slowed and consumer loans maintained approximately the reduced rate of growth of recent months. May expansion in business loans, even with a substantial volume of loan sales by banks excluded, continued at around the 16 per cent annual rate prevailing since last fall. While these increases probably reflected in good part financing of inventory accumulation--and are generally consistent with the inventory investment projected for the second quarter--some of the recent rise also represented diversion of demand from the commercial paper market prior to the increase in prime rate to 8-1/2 per cent in early June. As in April, the increases in business loans in May and early June were large at both New York and outside banks and were fairly widespread among industry categories. Increases earlier in the year and in late 1968 had been concentrated at banks outside of New York and within a relatively few industry categories.

Bank deposits. Time and savings deposits at all commercial banks declined further in May, reflecting continued CD attrition, which was offset only in part by an unusually small rise in consumer-type deposits. Outstanding negotiable CD's at all large banks fell by nearly $1 billion in May and in the first week in June, and New York and Chicago banks lost another $150 million in the following week. This brought the total decline since December 11 to about $7.8 billion, or almost one-third of outstanding CD's at that time. Consequently, banks with foreign branches continued to borrow heavily in the Euro-dollar market, and bank liabilities to foreign branches rose by nearly $600 million during May and by an additional $2 billion in the first two weeks in June.

NET CHANGE IN TIME AND SAVINGS DEPOSITS
Weekly Reporting Banks
(Millions of dollars, not seasonally adjusted)

	Dec. 11-Apr. 30 1/			Apr. 30-June 4 1/		
	1967	1968	1969	1967	1968	1969
Total time & savings deps.	7,809	687	-5,688	1,740	-58	-1,046
Consumer-type deposits	3,344	1,645	710	1,281	479	80
Savings deposits	- 16	- 190	-1,035	426	106	-34
Time deposits, IPC (other than CD's, IPC)	3,360	1,835	1,745	855	373	114
Negotiable CD's	3,201	-1,407	-6,637	681	-240	-997
All other time deps.	1,264	449	239	-222	-297	-129
MEMO:						
Euro-dollar borrowings 3/	-1,506	150	2,267	12	1,269	1,601

1/ Dates are for 1969, comparable dates used for other years.
2/ Consists primarily of time deposits held by State and local governments and by foreign institutions.
3/ Liabilities of major U.S. banks to their foreign branches, Wednesday figures.

Consumer-type time and savings deposits at large banks declined slightly further in May, following the substantial decline in April attributable to quarterly interest crediting. Although these banks began to experience moderate inflows in early June, the recovery has taken much longer and has been much smaller than during comparable post-interest crediting periods in the past, probably reflecting the diversion of funds to market instruments in view of further increases in market rates. Large banks in New York City sustained most of the recent losses--mainly in time certificates and open accounts. Consumer-type deposits at large banks outside New York and time and savings deposits at country banks both increased, although much less than usual, in May and early June.

The money stock, measured on a daily average basis, declined at a 2.5 per cent annual rate in May. For the first five months of the year the money stock rose at only a 2.7 per cent annual rate. Although a somewhat lower average volume of stock market activity and a $1.7 billion increase in U.S. Government deposits over this 5-month period may have contributed to this reduced rate of growth, it is likely that the principle source of the slowdown has been the increased pressure on bank reserve positions that has raised market rates of interest and has induced additional economies in the management of money balances.

Nonbank depositary intermediaries. Inflows to mutual savings banks approached those a year earlier during May and apparently in early June. After the prime rate increase, however, New York City savings banks actually lost funds after allowance for passbook loans. Looking at combined April-May patterns, it is clear that the mutuals' deposit growth had slowed noticeably. We unfortunately have no information on inflows to the savings and loan associations in May, but expect to have it for the Supplement. Savings and loan associations, however, did increase their borrowings from the Federal Home Loan Bank System during May by a relatively large $300 million.

SAVINGS GROWTH AT NONBANK DEPOSITARY INTERMEDIARIES 1/
(Seasonally adjusted annual rate in per cent)

	Mutual Savings Banks	Savings and Loan Associations	Both
1968 - I	7.1	5.6	6.1
II	6.7	5.7	6.0
III	6.5	5.9	6.1
IV	7.1	6.2	6.5
1969 - I	6.2	6.1	6.1
March	7.1	8.1	7.8
April	2.9	1.9	2.2
May	6.7	n.a.	n.a.
Memo: April - May			
1968	6.8	4.9	5.5
1969	4.8	n.a.	n.a.

1/ Because of seasonal adjustment difficulties, quarterly or bi-monthly patterns are more reliable than monthly.

In reaction to the prime rate increase, the intermediaries are reported to be preparing for relatively heavy outflows in the coming reinvestment period and to be acting with increasing caution on new mortgage commitments. In June, the FHLBB took steps to increase the associations' funds available for mortgages. The required level of liquidity holdings was reduced from 6.5% to 6% of share capital--which is equivalent to freeing $650 million from cash and Government holdings. In addition, the Government securities suitable for liquid holdings have been redefined to include certain Agency issues. On the other hand, the Board has requested member S&L's to meet out of liquid reserves withdrawals amounting to 1 per cent of share capital, instead of one-half per cent, before applying for withdrawal advances. The FHLBB continues its lenient stance in granting advances for expansion purposes, however, and those loans often substitute for withdrawal advances.

Policy loans and life insurance companies. The net increase in policy loans at life insurance companies during May continued at the near-record level of the previous month. Policy loan activity this year to date has, as expected, absorbed a record amount from the investment funds of insurance companies. The industry expects continued large policy loan volume, and apparently has remained well prepared for the current experience. In contrast to the pattern earlier this year, but in line with 1966 experience, an important share of policy loan activity now is reported to be relatively large business borrowing in response to the reductions in credit available from normal channels.

NET CHANGE IN POLICY LOANS AT 15 LIFE INSURANCE COMPANIES 1/
(Millions of dollars)

	1965	1966	1967	1968	1969
January	20	36	70	57	81
February	25	33	56	57	82
March	35	57	64	67	106
April	37	69	60	73	139
May	31	68	51	85	124
Total, 5 months	148	263	301	339	532

1/ These companies account for about two-thirds of industry policy loan volume.

Mortgage market. Following the recent hike in the bank prime rate, home mortgage lenders apparently became still more selective, particularly in view of large backlogs of outstanding mortgage commitments and the approaching mid-year savings reinvestment period. These and other developments suggest a further reduction in residential mortgage credit availability this month. Even before the prime rate increase, FHA field offices had reported that funds available for FHA-insured home mortgages had declined to the lowest level of the year.

As general credit conditions have tightened in recent weeks, average yields in the secondary market for Government-underwritten home mortgages have turned up again. In the June 16 weekly FNMA auction--the first since the latest bank prime rate increase--yields on FNMA's 6-month forward purchase commitments jumped as much as 25 basis points to reach a new high for the year. Meanwhile, FNMA resources have come under growing pressure as FNMA borrowing costs have continued to increase faster than its portfolio earnings. Reflecting this and other pressures, FNMA, since mid-May, has expanded the weekly supply of its commitments much l has increased for this type of market support.

FNMA WEEKLY AUCTION
(Dollar amounts in millions)

	Amount of total offers		Implicit private market yield 6-month commitments (per cent)
	Received	Accepted	
Highs			
1968	$232 (6/3)	$ 89 (7/1)	7.71 (6/10)
1969	410 (6/16)	103 (6/2)	8.26 (6/16)
May 12	210	85	7.89
19	236	83	7.88
26	263	96	7.91
June 2	305	103	7.95
9	292	100	8.01
16	410	101	8.26

NOTE: Average secondary market yield after allowance for commitment fee and required purchase and holding of FNMA stock, assuming prepayment period of 15 years for 30-year Government-underwritten mortgages. Yields shown are gross, before deduction of 50 basis point fee paid by investors to servicers. The first auction date was May 6, 1968.

In view of the prime rate increase, trade expectations are for still higher mortgage returns in the period immediately ahead. There has also been growing talk about the possibility of another upward revision in the 7-1/2 per cent regulatory ceiling on FHA and VA mortgage rates, as sharply higher discounts on these loans have become a barrier to market transactions. From April to May, however, average yields required by lenders in both primary and secondary market were unchanged for new-home mortgages, and yield spreads over corporate bonds remained relatively unattractive.

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)
1968					
Low	6.75 (Jan., Feb.)	23(Mar.)	6.78 (Feb.)	26(Mar.)	4.4(Sept.)
High	7.40 (Dec.)	115(Aug.)	7.52 (June)	120(Aug.)	7.9(April)
1969					
January	7.55	63	7.85e	93e	2.8e
February	7.60	69	7.99	108	3.9
March	7.65	r/28	8.05	r/68	4.4
April	7.75	r/58	8.06	r/89	4.5
May	7.75	53	8.06	84	4.5

Note: FHA series: Interest rates on conventional first mortgages (excluding additional fees and charges) are rounded to the nearest 5 basis points. Data for January 1969 estimated by Federal Reserve for 7-1/2 per cent regulatory interest rate, on which a change of 1.0 points in discount is associated with a change of 12 to 14 basis points in yield. Gross yield spread is average mortgage return, before deducting service fees, minus average yield on new issues of high grade corporate bonds with 5-year call protection.

r/ Revised.
e Estimated.

<u>Corporate security and municipal bond markets</u>. Increased market emphasis on the degree of monetary restraint--with particular attention to the prime rate and soaring short-term money market rates--produced a rapid deterioration in both the stock and bond markets after mid-May. By mid-June, average stock prices had declined by about 7 per cent from month-earlier levels, falling in the case of some indices, from near highs for the year to new 1969 lows.[1/] Long-term bond yields in municipal and corporate markets have increased from 50 to 70 basis points since mid-May, while short-term market yields had risen from 50 to 100 basis points; at current levels, most market yields are at all time highs.

1/ With the volume of stocks not delivered by the end of the settlement period apparently continuing relatively low in May, with improvement in the New York Stock Exchange's Central Certificate Service, and with volume considerably below past highs, the Exchanges have petitioned the SEC to extend daily trading hours from 4 hours to 4-1/2 hours, still below the traditional 5-1/2 hour trading day.

SECURITY PRICES AND YIELDS

	Stock Prices 1/		Bond Yields 2/		
	NYSE	AMEX	New Corporate Aaa 3/	Long-term State & Local Bonds 4/	Short-term St. & Local Notes 5/
1968					
Low	48.66(3/4)	21.58(3/5)	6.13(8/30)	4.07(8/9)	2.60(8/16)
High	61.14(12/2)	33.25(12/20)	6.92(12/13)	4.85(12/29)	3.50(5/24)
1969					
Low	54.93(3/14)	29.27(6/13)	6.90(1/10)	4.82(1/24)	3.30(1/3)
High	59.32(5/14)	32.91(1/3)	7.76(6/13)	5.82(6/13)	5.25(6/13)
Week of:					
May 2	57.72	30.62	7.18	5.10	4.15
9	58.62	31.19	7.10	5.17	4.20
16	59.04	31.32	7.08	5.31	4.35
23	58.44	31.08	7.28	5.46	4.60
29	57.97	30.98	7.44	5.60	4.65
June 6	57.38	30.74	7.52	5.73	5.00
13p/	55.00	29.27	7.76	5.82	5.25

1/ Prices as of the day shown. NYSE is New York Stock Exchange. AMEX is American Stock Exchange.
2/ Yields are weekly averages.
3/ With call protection (includes some issues with 10 year call protection).
4/ Bond Buyer (mixed qualities.)
5/ Morgan Guaranty Trust Company series. Yields on PHA notes with 6 month maturity.
p/ preliminary.

Deterioration in the markets for municipal bonds and short-term notes has been particularly sharp. Long-term offerings in June are estimated to have sharply declined to $600 million and--with little relief from pressures in sight--July volume will probably be about the same. Such a reduced volume over two consecutive months would represent the most substantial reduction in long-term issue volume in the postwar period. Even with the low volume in June, dealers found it necessary to price reofferings at sharply increasing yields to attract casualty insurance company and individual investors to replace bank buyers. Moreover, sizeable week-to-week price declines produced large dealer losses, and, with dealer financing costly, not only did underwriters bid very cautiously but the number of syndicates willing to bid for specific issues also declined.

LONG-TERM STATE AND LOCAL GOVERNMENT
BOND OFFERINGS AND POSTPONEMENTS 1/

Monthly or Monthly Averages
(Millions of dollars)

	Gross Offerings		Postponements 2/	
	1968	1969	1968	1969
YEAR	1,381	--	86	--
Q I	1,246	924	83	281
Q II	1,285	1,134e	125	145e
March	1,404	525	48	385
April	1,318	1,778	30	95
May	1,143	1,075e	253	203e
June	1,395	600e	91	250e
July	1,469	600e	10	--

e/ Estimated.
1/ Data are for principal amounts of new issues.
2/ Imputed from published sources.

Not all of the June decline in long-term tax-exempt offerings reflected the increase in announced postponements; many issuers did not even advertise sales in the rapidly declining bond market. Postponements, cancellations, and reduced offerings apparently reflected not only the effect of interest cost ceilings, but also some speculation on future improvement in the market.

In order to maintain their expenditure plans, issuers have apparently offset a sizeable proportion of the reduced supply of long-term tax-exempts by shifting to the note market, where net new issues have picked up noticeably this year, particularly with contra-seasonal increases in March and June when long-term offerings declined substantially. Earlier this year, when the tax-exempt yield curve was more upward sloping, some of the note issuers may have been forced by rate ceilings to borrow short. More recently, however, many of the 3- and 6-month tax-exempt offerings have been bond-anticipation notes issued by governmental units that could have financed long-term had they chose to do so, but who apparently expected lower interest costs this summer and fall.

NET[1/] SHORT-TERM STATE & LOCAL NOTE OFFERINGS[2/]
Monthly or Monthly Averages
(Millions of dollars)

	1966	1967	1968	1969
Q I	-59	-10	-50	390
Q II	236	385	40	443e
Monthly				
March	-319	-595	-604	281
April	580	827	3	383e
May	462	515	490	441e
June	-334	-187	-373	505e

e/ Estimated partially by the Federal Reserve.
1/ Gross issues less scheduled retirements.
2/ Estimated from Bond Buyer data.

These large offerings of short-term tax-exempts have pressed against a market made tighter by commercial bank liquidation of such obligations, by competition from increased commercial paper issues, and by the reduced liquidity of corporations, who are important buyers of municipal notes. Consequently, the best quality 6-month tax-exempt notes have risen over 100 basis points since early May, as shown in the earlier table on security yields, and almost 200 basis points since the beginning of 1969; these increases are roughly twice those in the long-term bond market. Dealers report very few postponements at these higher yields, but the level of yields has made it impossible to sell outstanding notes in the secondary market except with large capital losses.

In the corporate bond market, new offering yields have increased about 70 basis points since mid-May. With the market under increasing pressure in late May, dealers found it necessary to terminate syndicates on several large issues with resultant upward yield adjustments of 22 to 30 basis points. However, after the prime rate increase on June 9, investor interest in high yielding new issues--e.g., 7.90 to 8 per cent for Aa public utilities--produced rapid sell-outs, with institutional interest reported strong.

CORPORATE SECURITY OFFERINGS[1/]
Monthly or Monthly Averages
(Millions of dollars)

	Bonds				Stocks		Total	
	Public Offerings		Private Placements					
	1968	1969	1968	1969	1968	1969	1968	1969
YEAR	894	--	544	--	382	--	1,830	--
Q I	821	886	574	513	330	674	1,726	2,073
Q II	1,035	1,062e	548	567e	319	633e	1,902	2,262e
May	1,046	900e	521	550e	300	600e	1,867	2,050e
June	1,340	1,100e	685	600e	385	700e	2,410	2,400e
July	1,244	1,100e	528	500e	372	700e	2,144	2,300e

e/ Estimated.
1/ Data are gross proceeds.

With capital outlays large and equity pressed, a negligible amount of new corporate bond issues has so far been postponed or cancelled. The staff now expects both June and July new public offerings of corporate bonds to be slightly over $1 billion, more than 10 per cent above the average pace of 1968 and the first quarter of 1969. While all of the recent bond offerings continue to be accounted for by public utilities and convertible offerings of medium-sized corporations, at least two large industrial corporate offerings of straight debt (amounting in total to $225 million) are expected in the coming weeks--the first such issues since February. There have been unconfirmable rumors that other large industrial borrowers may not be able to postpone their permanent financing much longer; investment bankers have suggested that many of the large firms that had been in a position in early 1969 to postpone their capital market financing into the second half may now be forced to enter capital markets, even at current rate levels.

Our estimates of gross corporate security offerings in the spring and early summer continue to be very large, reflecting the unusually sharp increase in stock offerings to about twice the rate of other recent years. These offerings are composed of a large number of unusually small issues, and the backlog of registrations at the SEC suggests a continued high volume unless there is an even sharper break in stock prices. Aside from the high cost of debt issues, a continued buoyant reception for new issues of stock of companies with undemonstrated earnings and growth patterns has apparently been the major factor.

U.S. Government securities market. After moving up steadily in the last week of May and the first week of June, Treasury bill rates increased sharply in the wake of the prime rate increase but have recently moved back somewhat and are now generally around 40-50 basis points above their levels at the time of the last Committee meeting. Yields on Treasury coupon issues also advanced with the prime rate increase, but since then, their yields have declined to the point where all but the very shortest maturities are now significantly below their May 27 levels. Short- and intermediate-term yields are from 1 to 8 basis points lower than three weeks ago, while longer maturity yields have moved from 1 to 16 basis points lower over the period.

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

	1969 1/		1969			
	Lows	Highs	May 27	June 3	June 10	June 17
Bills						
1-month	5.30(3/25)	6.75(6/13)	6.03	5.93	6.25	6.55
3-month	5.87(4/30)	6.81(6/12)	6.14	6.18	6.62	6.52
6-month	5.96(4/30)	6.98(6/11)	6.30	6.49	6.88	6.63
1-year	5.86(1/16)	6.96(6/12)	6.18	6.49	6.84	6.69
Coupons						
3-year	6.02(1/20)	6.83(6/9)	6.68	6.71	6.76	6.72
5-year	6.11(1/20)	6.76(6/9)	6.67	6.69	6.72	6.68
10-year	5.95(1/20)	6.59(6/9)	6.54	6.55	6.56	6.52
20-year	5.91(5/5)	6.46(5/28)	6.41	6.39	6.30	6.25

1/ Latest dates of high or low rates in parentheses.

The increase in yields on Treasury coupon issues since late May took place in a market that largely comprised professional activity with very little retail demand reported and with dealers generally unwilling to allow much, if any, build-up in their positions. As has been the case for several months, varying reports bearing on the state of the economy and on progress toward peace in Vietnam have produced short-lived rallies or retreats in the coupon market; the sharpest run-up in yields, amounting to 10-20 basis points, took place immediately following the prime rate increase on June 9. Yields on all maturities have moved fairly steadily lower since then, led by long-term rates that have declined by as much as 20 basis points from their highs.

The advance in bill rates early in the period following the last Committee meeting continued to reflect dealers' concern with current financing costs and their desire to assure that unwanted inventories of bills were held down and even reduced. An additional factor in the bill market, became considerably more important in early June, was the substantial increase in the market supplies of bills from foreign official sales. In the first two weeks or so of June these sales, of which about two-thirds were purchased directly by the System, totalled in excess of $1.8 billion. Most recently, however, rates on Treasury bills have retreated about 30 basis points from their highs, as Desk sales of foreign-held bills have diminished and as dealers have begun to anticipate reinvestment demand from maturing June tax bills.

The sharp rise in bill rates has brought the investment yields for most issues due in over three months to more than 7 per cent. At these levels, dealers recently may have been able to avoid more than a small negative carry on their positions through increased use of corporate repurchase financing outside of the central money market at rates of 7 - 7-1/4 per cent of slightly lower, even with dealer loan rates at major banks in New York generally at 9 per cent or above since the last week in May. Recently, dealer positions have shown some tendency to rise in anticipation of reinvestment demand from maturing June tax bills. Nonetheless, while positions in Treasury bills are somewhat above their very depleted mid-May levels, at a level of only $2.0 billion these holdings remain relatively small, particularly in trading account. Holdings of coupon issues by dealers also continued to decline generally from their late-May levels, although holdings of issues due in one year or less increased somewhat, probably in part reflecting dealer acquisition of the mid-June maturing issues.

DEALER POSITIONS IN GOVERNMENT SECURITIES
(Millions of dollars)

	May 27	June 3	June 10	June 17
Total	2,299	3,154	2,987	3,251
Treasury bills (total)	1,690	2,412	2,298	2,568
Due in 92 days or less	188	277	295	521
93 days and over	1,502	2,136	2,003	2,047
Treasury notes and bonds (total)	608	741	689	684
Due within 1 year	150	243	254	229
1-5 years	- 29	21	8	35
Over 5 years	488	478	427	420

<u>Other short-term credit markets.</u> Short-term credit demands, especially through the commercial paper market, but also through the markets for bankers' acceptances, finance paper, and short-term municipal notes have increased markedly since the beginning of the year. Greater demands on these markets have reflected the mounting pressure on bank resources and the persistent high level of long-term rates. The result has been that interest rates in all of the short-term markets have risen steadily since the beginning of the year and have very recently moved sharply higher.

In the first four months of this year, outstanding commercial and finance paper and bankers' acceptances rose by nearly $4 billion, considerably in excess of the January-April increase in any of the preceding three years. In April alone, the rise in commercial and finance paper outstanding totalled over $700 million. This advance was more than accounted for by a $1 billion rise in paper placed through dealers, representing primarily corporate finance demands through commercial paper issuance.

CHANGE IN COMMERCIAL AND FINANCE PAPER AND
BANKERS' ACCEPTANCES OUTSTANDING
(Millions of dollars)

	Commercial and finance paper		Bankers' acceptances
	Total	Placed through dealers	
1966			
Jan.-April	2,502	350	72
1967			
Jan.-April	2,970	1,276	227
1968			
Jan.-April	874	1,029	113
1969			
Jan.-April	3,893	2,875	82

Rates on 4-6 month commercial paper have risen by 180 basis points since early January, while the 3-month finance paper rate has moved up by a full percentage point, and the 3-month bankers' acceptance rate by more than 1-1/2 percentage points. As shown in the table below, the greater part of the increase in these rates has come in recent weeks, undoubtedly reflecting an even greater reliance on these markets in May in the face of intense pressures on the supply of bank funds, as well as some probable lessening of availability of funds in these markets. An additional indication of the pressure for funds through these channels is provided by the very sharp rise in secondary market CD rates, which in the week ending June 11 advanced by 50 basis points.

With demands on the Agency market fairly sizeable, short-term Federal agency rates have also risen sharply, with the 6-month rate most recently nearly 90 basis points over the end-May level. As has been the case with other short-term rates, the spread between Agency rates and Treasury bill rates has widened somewhat, although the recent net increase in bill rates has offset a portion of the very large yield spread which developed at the very beginning of June.

SHORT-TERM INTEREST RATES

	1969 1/		1969				
	Lows	Highs	Jan. 7	Mar. 25	Apr. 29	June 3	June 17
1-month							
CD's (prime NYC)							
Highest quoted new issue	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Secondary market	6.45 (3/14)	8.05 (6/11)	6.50 (1/2)	6.60 (3/19)	6.80 (4/23)	7.50 (5/28)	8.05 (6/11)
3-month							
Treasury bill	5.87 (4/30)	6.81 (6/12)	6.20	5.91	5.92	6.14	6.52
Bankers' acceptances	6.38 (2/17)	8.00 (6/13)	6.50 (1/2)	6.62 (3/20)	7.00 (4/23)	7.50 (5/28)	8.00 (6/13)
Federal agencies	6.13 (4/4)	7.25 (6/11)	6.45 (1/2)	6.35 (3/20)	6.49 (4/23)	6.85 (5/28)	7.25 (6/11)
Finance paper	6.13 (1/24)	7.13 (6/13)	6.25 (1/2)	6.50 (3/20)	6.50 (4/23)	6.88 (5/28)	7.13 (6/13)
CD's (prime NYC)							
Highest quoted new issue	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Secondary market	6.40 (1/30)	8.00 (6/11)	6.55 (1/2)	6.75 (3/20)	6.90 (4/23)	7.40 (5/28)	8.00 (6/11)
6-month							
Treasury bills	5.96 (4/30)	6.98 (6/11)	6.41	6.04	6.03	6.47	6.63
Bankers' acceptances	6.50 (2/17)	8.12 (6/13)	6.63 (1/2)	6.75 (3/20)	7.12 (4/23)	7.63 (5/28)	8.12 (6/13)
Commercial paper	6.25 (1/6)	8.25 (6/13)	6.25 (1/2)	6.88 (3/20)	7.13 (4/23)	7.62 (5/28)	8.25 (6/13)
Federal agencies	6.32 (1/17)	7.61 (6/11)	6.59 (1/2)	6.54 (3/20)	6.58 (4/23)	6.77 (5/28)	7.61 (6/11)
CD's (prime NYC)							
Highest quoted new issue	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Secondary market	6.50 (1/30)	8.10 (6/11)	6.65 (1/2)	6.80 (3/20)	7.00 (4/23)	7.50 (5/28)	8.10 (6/11)
1-year							
Prime municipals	3.90 (1/2)	5.40 (6/11)	3.90 (1/2)	4.55 (3/20)	4.05 (4/23)	4.40 (5/28)	5.40 (6/11)

1/ Latest dates on which rates occurred are indicated in parentheses.

<u>Federal finance</u>. Board staff projections of budget receipts and outlays for fiscal 1969 remain unchanged from the last Greenbook, with the Treasury operating balance at the end of the fiscal year estimated at $6.4 billion. This estimate assumes a sizable amount of tax receipts obtained from delayed processing during the remainder of June and some let-up in the very heavy spending rates that have been experienced by the Treasury in the first part of June. If this forecast and staff estimates of budget figures for the third quarter of calendar 1969 prove to be approximately correct, only $2-$3 billion of new cash borrowing for payment in the latter half of July would be required to maintain the cash balance above $3 billion through the end of that month. Another $2 billion would probably be needed in August to carry the Treasury cash balance through its seasonal low in mid-September. Such cash needs would be relatively modest compared to third quarter borrowings in recent years.

Budget prospects for fiscal 1970 would appear to be relatively clear on the outlays side, assuming that something like the rigid[1/] $192.9 billion spending ceiling that passed the House last month is also approved by the Senate. The credibility of this projection for outlays has been increased somewhat by recent indications of some slowing in defense spending. First quarter contract awards, a reliable leading indicator of defense outlays, were 10 per cent below fourth quarter levels.

1/ "Rigid" in the sense that only Congress can change it; none of the so-called uncontrollable programs exempted from last year's ceiling can escape the new limit.

On the receipts side, staff estimates are based on the assumptions that the surtax will be extended and the investment tax credit terminated as the President has recommended. The staff's projection of a further slowing of economic growth results in estimated receipts of only \$195.4 billion, yielding a surplus almost \$4 billion short of the \$6.3 billion Administration estimate. (Staff projection of a high-employment surplus would be in line with the Administration estimate.)

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

	FY 1968 Actual	Fiscal 1969 Jan. Budget	Fiscal 1969 5-20-69 Revision	Fiscal 1969 F.R. Bd	Calendar quarter 1968 III	Calendar quarter 1968 IV	Calendar quarter 1969 I	Calendar quarter 1969 II e/	Calendar quarter 1969 III e/	Calendar quarter 1969 IV e/	Calendar year 1969 e/
Quarterly data, unadjusted											
New budget:											
Surplus/deficit	-25.2	2.4	.9	1.8	- 3.2	- 7.1	- 2.0	14.1	1.7	- 4.7	9.1
Receipts	153.7	186.1	186.5	187.9	43.6	39.3	44.1	60.9	48.4	43.3	196.7
Total expenditures and net lending	178.9	183.7	185.6	186.2	46.9	46.3	46.1	46.8	46.7	48.0	187.6
Means of financing:											
Total borrowing from the public	23.1	- 3.1	n.a.	- .7	7.7	3.4	.2	-11.9	4.1		
Decrease in cash operating balance	.4			- 1.1	- 3.3	3.9	- .1	- 1.6	- 5.0	n.e.	
Other 1/	1.7	n.a.		0.0	- 1.1	- .2	1.9	- .6	- .9		
Cash operating balance, end of period	5.3			6.4	8.6	4.7	4.8	6.4	11.4		
Seasonally adjusted annual rate											
Federal surplus/deficit in national income accounts	-11.3	2.7	1.7	3.4	- 2.8	.2	7.4	8.9	4.7	6.1	6.7
Receipts	161.1	190.0	190.0	191.7	182.1	187.1	197.1	200.6	200.1	201.8	199.9
Expenditures	172.4	187.3	188.3	188.3	184.9	186.9	189.7	191.7	195.4	195.7	193.1

e--Projected. Assumes extension of surcharge at 10 per cent through end of calendar year 1969.
1/ Includes various accrual items, such as deposit fund accounts and clearing accounts.
n.e. - Not estimated.

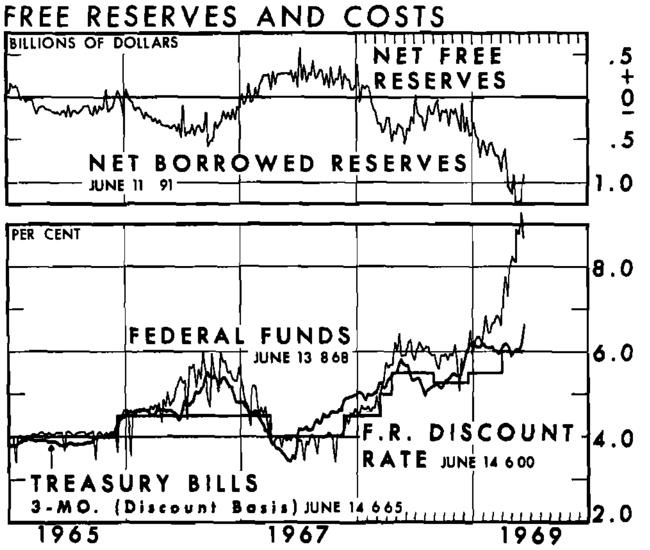
PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	May[a/]	June	July	Aug.	Sept.
Borrowing operations					
New cash raised:					
Weekly and monthly bills	--	--	--	--	--
Tax bills	--	--	2.5	2.0	--
Coupon issues	--	--	--	--	--
Other (agency, debt repayment, etc.)	-1.1	-8.3	- .2	--	- .2
Total net borrowing from public	-1.1	-8.3	2.3	2.0	- .2
Plus: Other net financial sources[b/]	.7	.4	- .9	-1.0	1.0
Plus: Budget surplus or deficit (-)	-2.1	8.6	-2.1	-1.1	5.0
Equals: Change in cash balance	-2.5	.7	- .7	- .1	5.8
Memorandum: Level of cash balance end of period	5.7	6.4	5.7	5.6	11.4

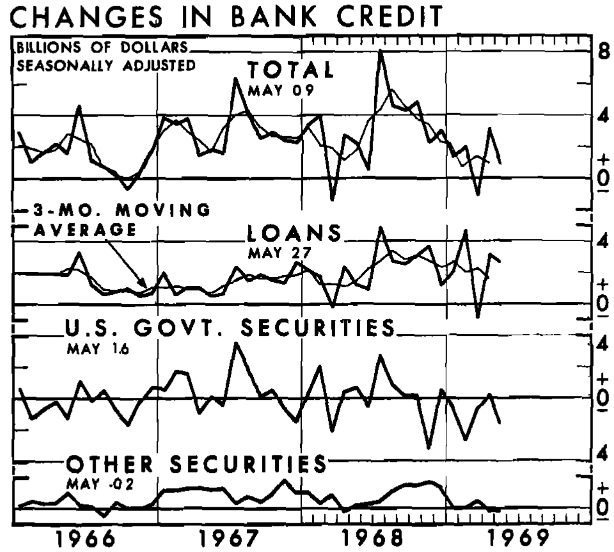
a/ Actual and estimated data.
b/ Checks issued less checks paid and other accrual items.

FINANCIAL DEVELOPMENTS - UNITED STATES

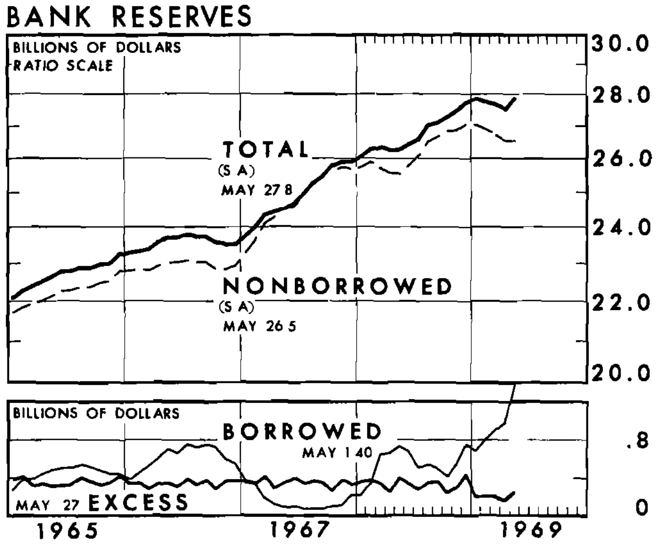
FREE RESERVES AND COSTS



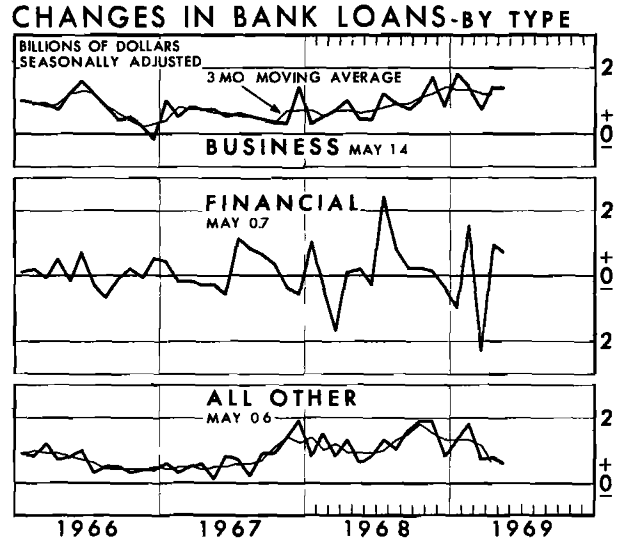
CHANGES IN BANK CREDIT



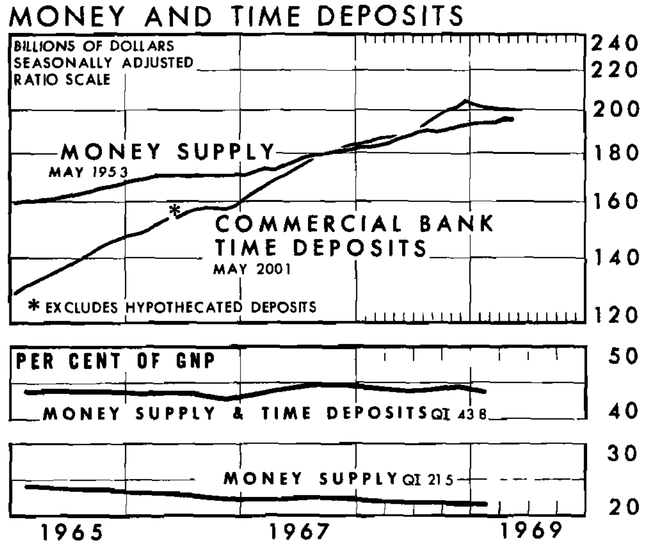
BANK RESERVES



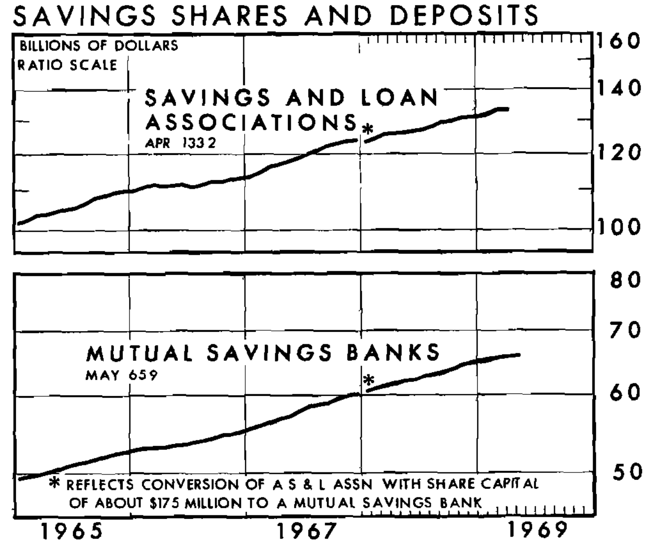
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

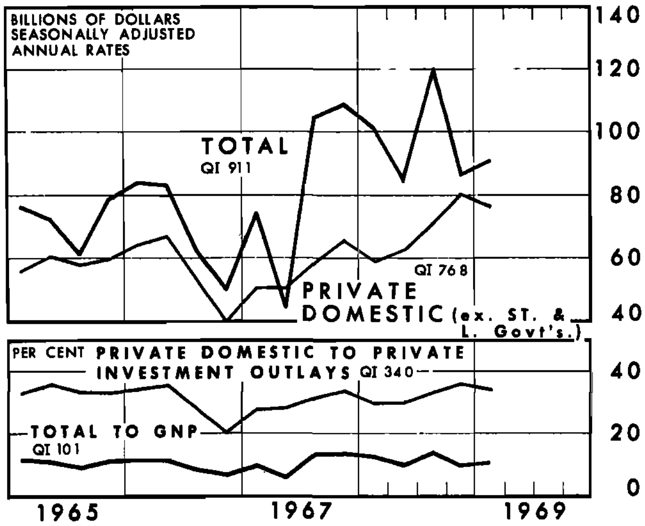


SAVINGS SHARES AND DEPOSITS

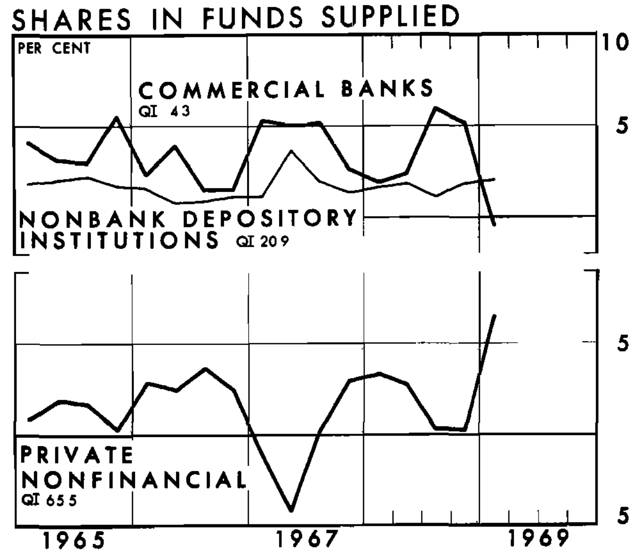


FINANCIAL DEVELOPMENTS - UNITED STATES

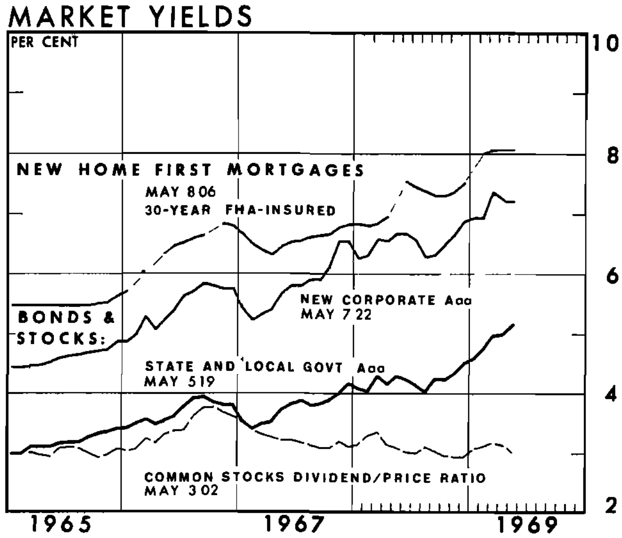
NET FUNDS RAISED - NONFINANCIAL SECTORS



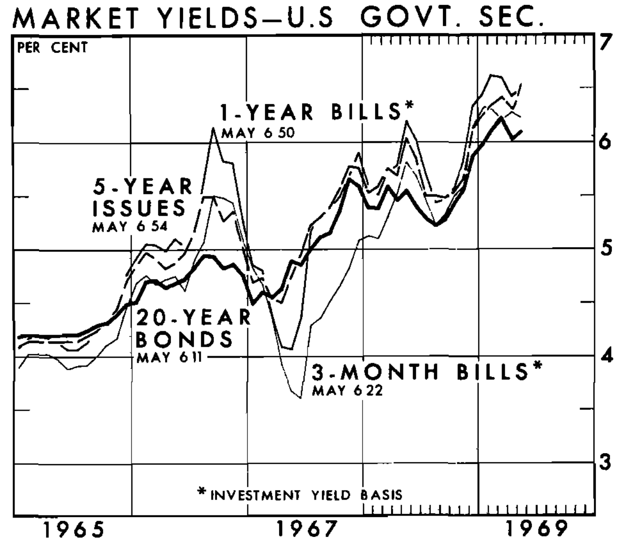
SHARES IN FUNDS SUPPLIED



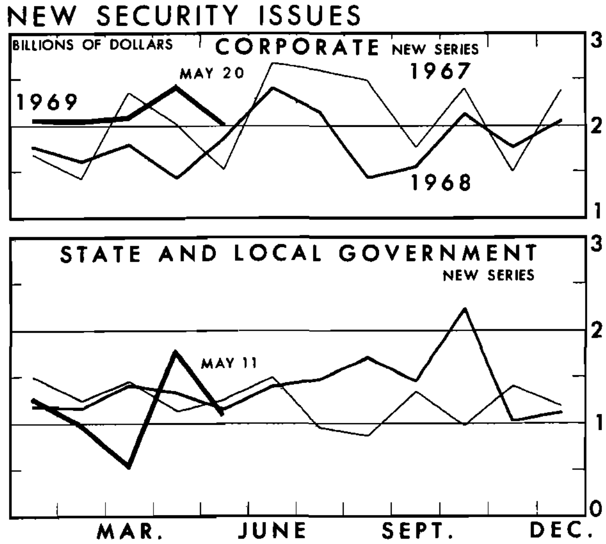
MARKET YIELDS



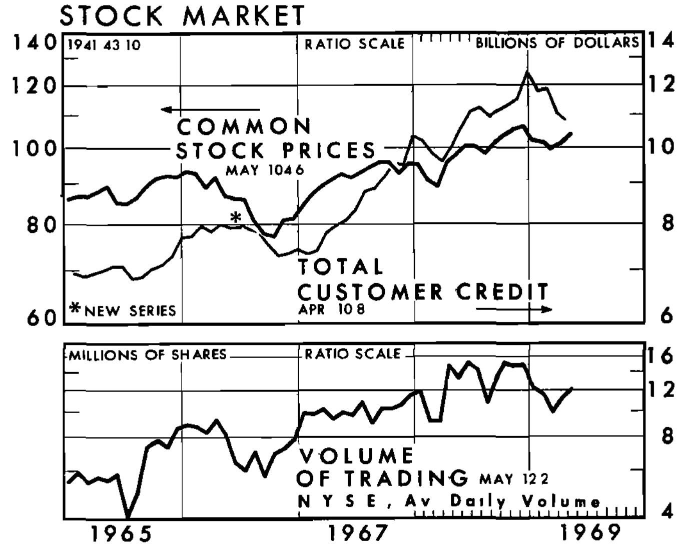
MARKET YIELDS—U.S GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

Contents

U.S. balance of payments. As measured by the adjusted over-all balance or by the liquidity balance, extraordinary deficits accumulated in early June. The data now point to a second-quarter deficit of over $3-1/2 billion, to be added to the first quarter deficit (adjusted over-all) of $1.9 billion. (These are quarterly, not annual rates.)

On the official settlements basis there may be a small surplus in the second quarter, as the underlying deficit plus the massive flows into German marks in early May have been offset since then by a flow of funds from Germany and other foreign sources into the Euro-dollar market, and thence into borrowings of U.S. head offices from their European branches.

A disconcerting feature of developments this year has been the failure of the statistical reporting system to record all flows accounting for the balances measured by settlement items. The accounts for the first quarter have now been assembled (page I--T-3, Confidential until published by the Department of Commerce) and these show negative "errors and omissions" more than $1 billion larger than the average quarterly amount last year or in 1967. Similarly, the second quarter results will probably not be fully explained by the data regularly collected. In any case very little information is yet available on transactions in May or June. Guesses point to shifts of funds from the United States to Europe, into German mark assets in late April and early May and into Euro-dollars throughout the period since February and especially in June. Companies and persons who have made these shifts may include both foreign and U.S. investors. They would not necessarily be major U.S. corporations or nonbank financial institutions, whose operations are kept under review.

In April foreign net purchases of U.S. corporate stocks slowed further, from $100 million in March to $70 million in April. There was a $60 million net outflow of bank-reported claims on foreigners, of which $50 million took the form of increase in foreign currency deposit balances. Information on April merchandise trade is given below.

The new data on the first-quarter balance of payments, besides containing a large negative errors and omissions as noted above, show the following features in transactions other than trade:

(1) Corporate investors put about $600 million, net of the use of foreign funds, into their foreign affiliates, which was about the same as the quarterly average in 1968, well within the rate of

investment allowable under the regulations. There was a small recorded outflow (under $200 million) into short-term assets and claims abroad, of which about half was proceeds of borrowings abroad by U.S. companies. Borrowings abroad through new issues were quite large ($400 million) and included about $150 million of issues to finance domestic rather than foreign ventures. (In the second quarter new issues have been relatively small and show little sign of reviving.)

(2) Receipts from direct investments did reasonably well, reaching an annual rate of $5.3 billion, compared with the 1968 total of $5.0 billion. But income paid abroad--largely as interest on short-term foreign claims on the United States, reached an annual rate of $3.6 billion in the first quarter, against $2.9 billion for the year 1968. Moreover, payments of interest had not yet begun to reflect the peaking of interest rates paid on borrowed Euro-dollars and on U.S. Government obligations.

(3) The flow of U.S. Government grants and credits remained at its fourth-quarter level, somewhat reduced from earlier last year as a result of lower shipments under farm product disposal programs. The cash outlay connected with Government aid programs has declined slightly since 1965, and is now running about $650 million per year.

(4) The balance on military transactions (expenditures abroad less receipts under military sales contracts) has also held steady, running about $3.2 billion per year.

(5) Special financial transactions with foreign governments have been greatly reduced. Last year they amounted to $2.6 billion, and in the fourth quarter alone they were over $800 million; in the first quarter this year they were only $60 million and the only sizable item in the second quarter so far has been the quarterly $125 million receipt from Germany.

U.S. foreign trade. Our basic trade position continues to be obscured by the aftermath of the longshoremen's strike. In April an export surplus was recorded, with exports at $3.3 billion and imports $3.2 billion (both on the balance of payments basis). The surplus was less than half that of March as imports rose more than exports. While both exports and imports in April are estimated to have been above "normal", the recovery from the dock strike is apparently still very partial. Although the strike ended at most Atlantic coast ports by the end of February, facilities at these ports were still congested in April, with adverse effect particularly on exports. In addition, the Boston and West Gulf custom areas did not reopen until early April, further limiting cargo movements in that month. The backlogs of cargo--particularly grains--waiting to be exported at West Gulf ports were reported to be still very large at the end of May.

Even if it is assumed that there was a permanent loss of $400 million in exports and $200 million in imports as a result of the strike, the cargo short-falls of the first four months of 1969 due to be made good later were apparently of the order of magnitude of \$1 billion for imports and somewhat more for exports. Current projections assume that the catch-up would be completed in May-June, but it is possible that it will extend into the third quarter.

In January-April there were continued increases in the two major categories of exports not affected by the strike--aircraft, and shipments to Canada. Deliveries of commercial aircraft in the first quarter of this year were at a rate about 20 per cent above that of the last half of 1968. However, April deliveries and preliminary information for May indicate a sharp decline, possibly reflecting the beginning of a phaseout of exports of current models before deliveries of the large Boeing 747's start in 1970.

As an anti-inflationary measure the Canadian government proposed in early June that the remaining 60 per cent of its Kennedy Round tariff reductions become effective immediately. These reductions had been scheduled to occur in three successive annual stages, ending January 1, 1972. About C\$2 billion of Canadian imports are affected. The U.S. supplies over two-thirds of Canada's imports; the acceleration in tariff reductions should therefore serve to boost our exports there.

In the balance of payments statistics to be published two weeks from now (confidential until then) merchandise trade figures for the first quarter of 1969 and for the years 1946-68 have been revised to incorporate new valuation adjustments for both exports and imports.

The values for exports have been <u>increased</u> for all periods and those for imports from 1965 on <u>decreased</u>. The upward adjustments for exports based on a special study by the Census Bureau range between $150 and $250 million a year, estimated to be the amount of previously omitted U.S. inland freight to the border on exports, other than automobiles, to Canada. The downward adjustments for imports range from $17 million in 1965 to an annual rate of over $300 million in the first quarter of this year. The adjustment reduces the value of imports of automobiles from Canada from the higher custom values required by the U.S. tariff regulations to the transaction values recorded by each parent U.S. automobile company and its Canadian affiliate in intra-company accounts. The adjustment places the value of imports of automobiles from Canada on the same basis as used in reporting automobile exports to Canada, thereby improving the accuracy of the statistics used in measuring the impact of the U.S.-Canadian Automotive Agreement of 1965 on our net balance with Canada.

Both the export and import valuation adjustments are made for balance of payments purposes only and will not be reflected in the trade data released by the Bureau of the Census. The revised figures in the following table reflect the new valuation adjustments as well as other revisions.

U.S. MERCHANDISE TRADE*
(annual rates, billions of dollars)

	1968 Q-1	1968 Q-2	1968 Q-3	1968 Q-4	1969 Q-1
As revised:					
Exports	31.8	33.6	35.5	33.5	29.9
Imports	31.3	32.5	34.3	33.8	30.3
Balance	.5	1.1	1.3	-.3	-.4
As previously published:					
Exports	31.5	33.3	35.3	33.3	29.5
Imports	31.5	32.8	34.5	34.4	30.7
Balance	.0	.5	.7	-.9	-1.2

* Balance of payments basis, seasonally adjusted. Revised figures are Confidential until published.

Euro-dollar market. The combination of very heavy American bank bidding for Euro-dollar funds and normal June tightening of foreign money markets has placed extreme pressure on Euro-dollar interest rates since near the end of May. Rates reached their peak on June 10. In the two weeks ending June 11, U.S. banks increased their borrowings from foreign branches by over $2.0 billion. By Monday, June 16, these borrowings increased by an additional $1.2 billion, according to preliminary data. The Monday figure would reflect bidding for deposits through the previous Thursday.

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES
(weekly average of daily figures)

Average for week ending Wednesday	(1) Call Euro-$ deposit	(2) Federal Funds	(3) =(1)-(2) Differ-ential	(4) 3-month Euro-$ Deposit	(5) 3-month Treasury bill	(6) =(4)-(5) Differ-ential
May 7	8.77	8.23	0.54	8.86	5.97	2.89
14	9.78	8.30	1.48	9.38	6.02	3.36
21	9.50	8.91	0.59	9.55	6.10	3.45
28	9.75	8.92	0.83	9.83	6.07	3.76
June 4	10.23	9.20	1.03	10.48	6.16	4.32
11	10.88	9.13	1.75	11.51	6.50	5.01
18	9.58	8.92 p/	0.66	11.23	6.60	4.63

p/ preliminary

Euro-dollar rates reached their peak levels on Tuesday, June 10, at which time one-month and three-month deposit rates were reported to have reached 13 per cent per annum, or over 3 percentage points above their level of two weeks earlier. Euro-dollar rates in the longer maturities advanced nearly as much, and twelve-month funds were bid at least as high as 11-1/2 per cent. Rates have declined steadily since June 10. As of June 18 the call deposit rate had fallen by over 2-1/2 per cent and rates on maturities between one month and one year had declined by an average of nearly 1-1/2 per cent from their peak levels; one-month deposits were bid at 10-9/16 per cent, three-month deposits at 10-13/16 per cent, and six-, and twelve-month deposits at 10-13/16 per cent and 10-7/16 per cent, respectively.

Foreign exchange markets. Any tendency for seasonal strengthening of European exchange rates has been overshadowed by the pull of the Euro-dollar market. The working down of speculative positions taken earlier in German marks was no doubt accelerated by the attractiveness of Euro-dollar yields. The Bundesbank sold substantial amounts spot, as well as providing dollars through swaps. Some other continental central banks also experienced fairly sizable reserve drains.

Beginning a week ago, the Bundesbank has sought to discourage covered flows of funds from Germany by raising its swap offer rate to a point where market cover can now be obtained on better terms than Bundesbank cover. The swap rate--which had been at 6 per cent per annum for several weeks--was raised to 7-1/2 per cent per annum on June 11. With the market premium on forward marks at about 6-1/2 per cent per annum, the flow of covered funds from Germany has been effectively cut off for the time being.

The French franc has been under fairly continual selling pressure since May 22 and the Bank of France has lost about $350 million since that date. The drain is partly due to the French trade deficit. Selling pressure accelerated after the first round of French presidential elections on June 1, a development which may be related to a widely-held view that the new French government may take some action on the current franc parity.

The Netherlands Bank has lost about $100 million since May 27. The Belgian National Bank and some Scandinavian central banks had small losses during the same period.

The market for sterling, on the other hand, has remained comparatively firm during the past four weeks, and the Bank of England has purchased dollars on balance. Since May 9 it has purchased over $650 million, slightly more than offsetting its losses in the three previous weeks. Sterling money market rates, such as those on local authority deposits, rose in May but showed little sign of Euro-dollar market pressures in June.

The market for Swiss francs has been strong -- in contrast to most other currencies -- reflecting the repatriation of funds by Swiss commercial banks for mid-year liquidity needs. The Swiss National Bank has announced that it will make $250 million equivalent of domestic funds available to Swiss banks through foreign exchange swaps. Additional liquidity will have to be acquired by the banks by selling dollar assets outright and rediscounting eligible paper at the Swiss National Bank.

The price of gold has fluctuated rather widely on European markets during the past three weeks, dropping sharply from $43.50 an ounce on May 23 to $40.62 on June 6. More recently it has been around the $41.00 an ounce level. Market comments indicate belief that the South Africans may be selling some gold and that there may be some movement from gold to dollars in response to very high interest rates.

Price developments in major industrial countries. During the second half of 1968 and the early months of 1969 the rate of wholesale price increases in all major industrial countries, including the United States, accelerated, in some cases quite markedly. Consumer prices continued to rise. In all countries except the United Kingdom, the chief cause of this acceleration has been the pressure of demand, generating and reflecting strong economic expansion. To a lesser extent tax changes and higher interest rates also accounted for price advances. At the wholesale level, world market price increases for materials, including steel and non-ferrous metals, also affected prices in the various countries.

The continuing rise of consumer prices in the United Kingdom reflected seasonal factors and last November's increase in indirect taxes. An easing of British demand pressures is evidenced by the 1 per cent decline in real consumption from the fourth quarter of last year to the first quarter of 1969.

CONSUMER PRICES[a/]
(1963 = 100)

	Index	Average monthly per cent increase						April 1969	
	Dec. 1967	1968 Q-1	1968 Q-2	1968 Q-3	1968 Q-4	1969 Q-1	1969 Apr.	Index	Per cent increase since April 1968
Netherlands	122	.4	.3	.3	.4	1.7	.8	136	8.6
France	114	.4	.3	.5	.6	.6	.5	123	6.2
U.S.	111	.4	.4	.4	.3	.5	.8	119	5.5
U.K.	117	.4	.8	.1	.7	.5	.2	126	4.7
Canada	114	.3	.3	.4	.3	.2	1.2	121	4.5
Japan	125	.5	0	1.1	0	.4	n.a.	131[b/]	3.8[b/]
Belgium	118	0	.2	.2	.2	.5	.2	123	3.5
Germany	111	.4	.2	-.2	.5	.4	.3	116	2.8
Italy	118	.1	.1	0	.2	.3	n.a.	120[b/]	1.5[b/]

a/ Countries are listed in descending order of price increases over the last 12 months.
b/ March 1969.

Although U.S. wholesale prices of manufactured goods have increased faster so far in 1969 than they did last year, their rise has been exceeded in most other industrial countries. Based on 1963 = 100, the U.S. wholesale price index for manufactured goods in 1968 had averaged 1.2 per cent higher than an average of the price indexes of such goods in eight other major industrial countries (weighted by the share of each country in their total industrial exports). In the first quarter of 1969, the U.S. index was only 0.2 per cent higher than the weighted average index of the other countries.

WHOLESALE PRICES, MANUFACTURED GOODS[a/]
(1963 = 100)

	Index Dec. 1967	Average monthly per cent increase 1968 Q-1	1968 Q-2	1968 Q-3	1968 Q-4	1969 Q-1	1969 Apr.	March 1969 Index	March 1969 Per cent increase from March 1968
France[b/]	106	-1.4	.1	.7	1.5	.4	n.a.	110	9.3
Canada	109	.1	.4	.3	.5	.7	n.a.	116	5.6
U.K.	112	1.0	.1	0	.1	.3	.2	114	3.0
U.S.	108	.3	.3	.2	.2	.4	.4	112	2.9
Germany	103	1.3	-.2	.4	.1	.8	n.a.	109	1.8
Belgium	110	.1	-.1	0	.1	.3	n.a.	112	1.6
Italy[c/]	108	.1	-.4	0	.4	.5	n.a.	110	0.9
Netherlands	117	.3	0	0	0	n.a.	n.a.	118[d/]	0.9[d/]
Japan	103	0	-.1	.1	.1	.1	.4	104	0.4

a/ Countries are listed in descending order of price increases from March 1968.
b/ Intermediate goods.
c/ Wholesale indexes for all items.
d/ December 1969.

Beginning with the last quarter of 1968 price increases have accelerated in Germany. This tendency became more marked at the wholesale level during the early months of 1969 and is causing growing concern among German officials, especially in view of their deeply imbedded fears of inflation and the approach of the September parliamentary elections. The authorities took several moderately restrictive measures in April and May, but in spite of strong pressure from the Social Democratic members of the government coalition decided not to revalue the mark, at least during the pre-election period.

There is now considerable tightness in the labor market. The unemployment rate has dropped well below 1 per cent of the labor force, job vacancies are now considerably above the previous peak in 1965, and the number of foreign workers in Germany is again rising rapidly and will soon overtake the 1966 pre-recession figure of 1.3 million. The high demand for labor is reflected in an acceleration of wage rate increases: during the first quarter of 1969 hourly wage rates in industry increased at an annual rate of 6.2 per cent, compared with about 5.4 per cent in the second half of 1968. However, productivity gains have so far been sufficient to hold unit labor costs, which had been declining before 1968, steady in 1968 and the first quarter of 1969.

The rise in consumer prices--due earlier this year mainly to seasonal increases in food prices--appears to have abated a little in recent weeks. However, the lagged effect of increases at the wholesale level will probably soon be reflected in retail prices.

Although prices and costs in Germany have risen since November, German export prices increased only 3.8 per cent between November and March despite the 4 per cent border tax adjustment adopted in November 1968. The expected decline in import prices after the border tax adjustment did not occur. Import prices rose by 1.9 per cent between November 1968 and March 1969. They were influenced by higher foreign prices but also, it seems, by absorption of tax relief into profit margins of German import distributors.

Prices in France continued to advance sharply during the early months of 1969, in response to very strong domestic demand. Increases in the value-added tax rates, applied at the wholesale level last December and on retail goods in January, contributed to the rise. The rate of price increases, which is in excess of the official targets, casts some doubt upon the effectiveness of the system of price controls which is in force in France. On June 13 the Bank of France increased its discount rate from 6 to 7 per cent, foreshadowing fiscal restraint which the new government is expected to impose.

Import prices have risen sharply mainly because of the increase in border taxes and have contributed to the rise in domestic prices. Export prices, however, according to recent French estimates, were only 1 per cent above the 1967 average during the first quarter of 1969. The substitution in November 1968 of a value-added tax, rebatable on exports, for the non-rebatable payroll tax has helped to preserve price competitiveness of French exports.

Wage negotiations, broken off last March, are due to resume soon. Even assuming that the government is successful in limiting wage increases this year to the target figure of 6 per cent--an unlikely development--French consumer prices will continue to advance, probably in excess of the official target of 5.8 per cent, for 1969 as a whole relative to 1968. The French current account deficit continued to widen during the first five months of this year and domestic price increases are likely to be reflected soon in export prices as well, thus aggravating the current account deficit.

In the United Kingdom, consumer prices have increased at an annual rate of about 6 per cent during the first quarter of 1969. The April budget increased some indirect taxes. Furthermore, the higher rate of the Selective Employment Tax, which will be introduced next month, will certainly be passed on, if only in part, to the consumer. Consumer prices are thus certain to continue to advance--although at a diminishing rate--during the remainder of the year.

Wholesale price increases have been much more moderate. Both export and import prices, as measured by the unit value indices, have been stable this year. Since the devaluation of the pound, import prices have risen by about 13 per cent and export prices by about 10 per cent. The latter figure suggests that, in terms of currencies which were not devalued, prices of British exports now average about 5 per cent less than what they were before the change in the parity of the pound.

After a long period of exceptional price stability, Italian prices began showing accelerated increases early last fall, responding to a more rapid expansion of aggregate demand as well as to some seasonal influences. But, compared to other countries, Italian prices are still rising only moderately.

However, the quickening of price increases, both on the wholesale and retail level, has given rise to some official concern. The Governor of the Bank of Italy recently urged moderation in the provision of wage increases in the new labor contracts to be negotiated in the second half of this year, and warned against excessive increases in government expenditures.

Since the end of 1968, there has also been an accelerated rise in wholesale prices in Belgium. The underlying factor has been the continuing and apparently rising expansion in aggregate demand, but increased import prices also contributed very substantially to this process. Consumer prices have also been rising faster and may continue to do so if only in lagged response to recent increases at the wholesale level.

Consumer prices in the Netherlands increased very sharply during the first quarter of this year. Again, the underlying reason has been a very buoyant domestic demand, but in addition, the Dutch introduced the value-added tax system at the beginning of the year. The changeover was accompanied by a great deal of confusion and it is apparent that it was widely used as an opportunity to increase prices, leading authorities to impose a number of restrictive measures, which culminated in a general price freeze on April 9. Prices were frozen at their March 14 level and in some cases are even to be brought back to the level of October 1, 1968. The measure appears to have had some effect since consumer prices declined by 0.2 per cent in May.

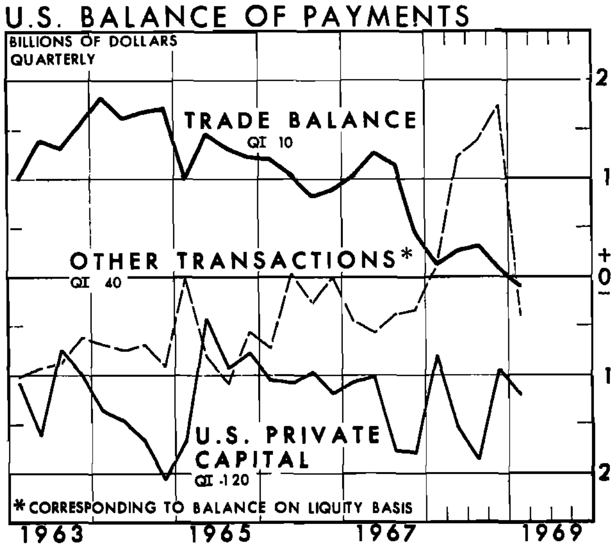
Rapid expansion of the Canadian economy is being reflected in a marked acceleration of price increases. This is especially noticeable at the wholesale level, where prices of manufactured goods have been increasing during the first quarter of 1969 at an annual rate of about 8.5 per cent. The increase in export prices, however, has been somewhat less strong. The consumer price index, which rose moderately during the first quarter of 1969, increased by 1.2 per cent in April. This exceptionally sharp increase appears to reflect price rises at the wholesale level earlier this year. Although the index rose only 0.2 per cent in May, the rate of price increases is likely to accelerate in the next several months. The Canadian authorities are currently pursuing much more restrictive monetary and fiscal policies than in the last half of 1968--the Bank of Canada raised its discount rate from 7 to 7-1/2 per cent on June 11, the third increase in six months. These restrictive policies may begin to reduce inflationary pressures around the end of the year.

Wholesale prices in Japan were quite steady in 1968 but have recently started rising more rapidly, influenced especially by world market conditions for raw materials and semi-finished goods. Later this year, wholesale prices are expected to continue to rise moderately, but Japanese consumer price increases are expected to accelerate slightly.

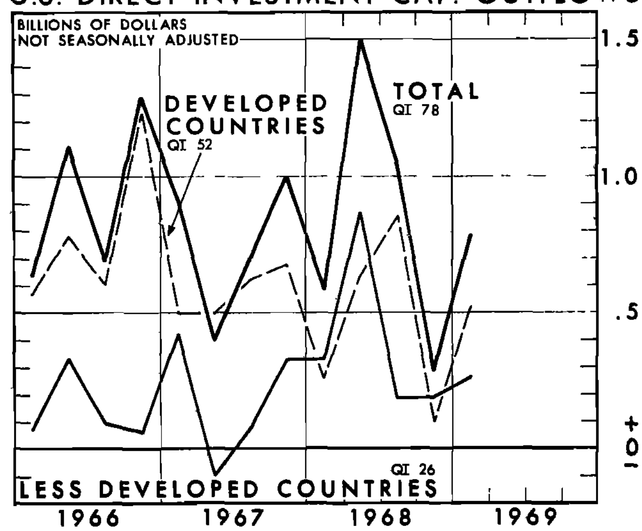
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

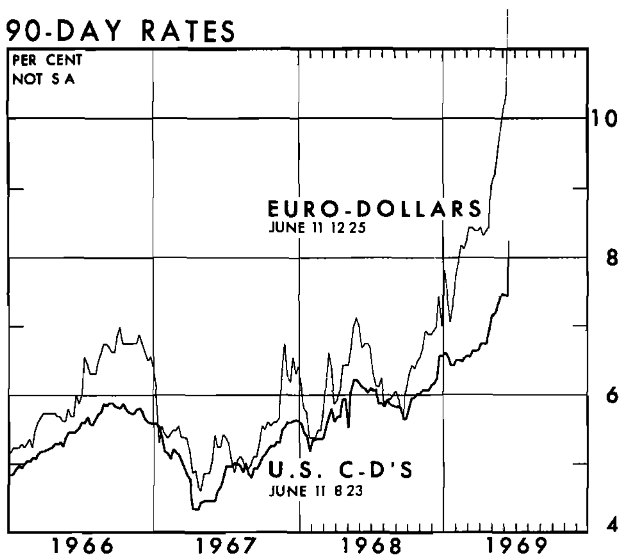
U.S. BALANCE OF PAYMENTS



U.S. DIRECT INVESTMENT CAP. OUTFLOWS



90-DAY RATES



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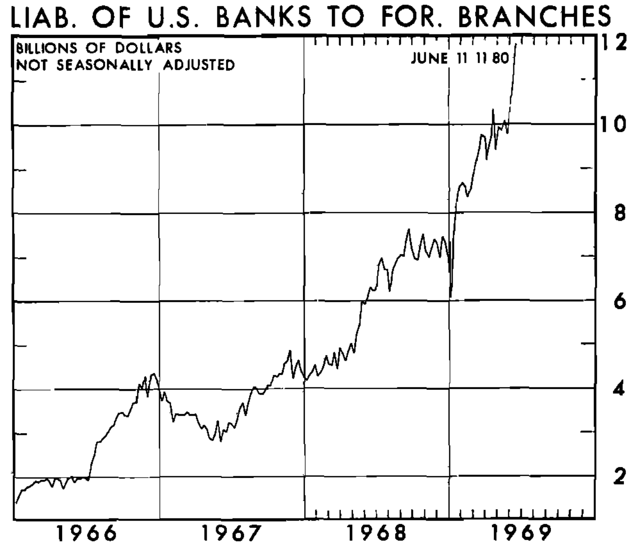
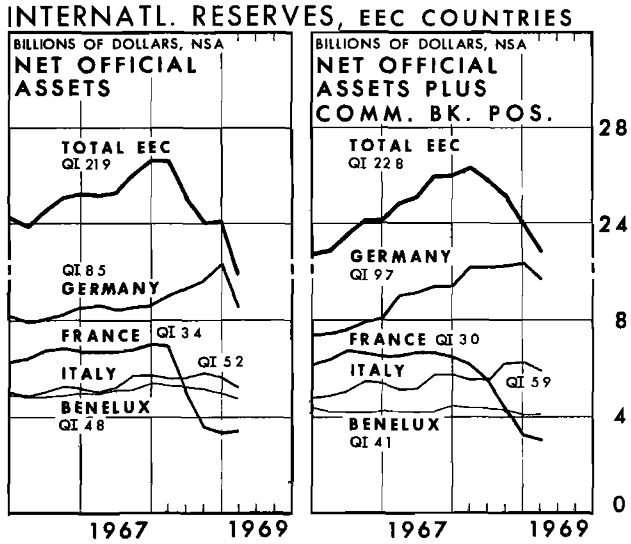


INTERNATL. RESERVES, EEC COUNTRIES



INTERNATL RESERVES, OTHER COUNTRIES