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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

July 9, 1969

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SUMMARY AND OUTLOOK

Outlook for economic activity

Expansion in economic activity in the second quarter now appears to have been about the same as in the preceding quarter, when real GNP increased at an annual rate of 2.8 per cent. Assuming extension of the surtax, the available evidence continues to suggest further slackening of real growth in the second half of the year. However, only a modest slowing in the pace of price advance from the exceptionally rapid rate of the first half of the year is in prospect.

In the present quarter, current dollar GNP will be lifted by the Federal pay raise. In addition, growth in disposable income and consumption is being raised temporarily by the ending of tax payments on 1968 liabilities; virtually all of the prospective advance in personal income will be translated into an increase in disposable income. Thus, a faster rise in consumer spending appears likely this quarter.

But some major forces making for slowing in overall expansion are likely to be evident this quarter and their impact should be more pervasive later in the fall when consumer spending is projected to moderate in line with smaller prospective growth of employment and incomes. Chief among these forces is the anticipated erosion of the expansive thrust of business spending on plant and equipment, as indicated in the recent Commerce-SEC survey.

Residential construction activity declined in June and further declines are in prospect this year. The much tighter availability of funds may be substantially curtailing new commitments by thrift institutions and construction loans by banks, and may operate to reduce fourth quarter starts below present projections. Apart from the pay raise, Federal expenditures appear to be under considerable restraint, with some decline in prospect in the fourth quarter. Finally, in contrast to earlier judgments, net exports of goods and services are now expected to provide virtually no lift to activity to the end of the year.

In summary, most major factors point to the probability of a further slowing in economic growth over the months ahead, although the timing and pattern of change are uncertain. Our projection calls for a sharp fall-off in final sales in the fourth quarter, but for GNP expansion to be sustained by continued inventory accumulation, in part involuntary. With this background, real growth appears likely to halt or even turn negative in the first half of 1970.

Outlook for resource use and prices

Key measures of resource use have shown little change since early this year. Industrial production increased strongly in June, bringing the second quarter annual rate of increase to about 6 per cent, and keeping pace with estimated growth in capacity. Some moderation in growth of industrial production is in prospect for the third quarter, but the rate of advance as of now seems likely to be relatively well maintained. This appraisal is based on the index level reached in June, auto production schedules for the summer, reportedly strong orders for steel, and the likelihood that the upward momentum in output of machinery and equipment will not be reversed in a short time. In the fourth quarter, with expansion in real takings of goods dropping off, industrial production appears likely to show little or no increase and the capacity utilization rate a significant decline.

The labor market continued tight throughout the second quarter but nonfarm payroll employment advanced strongly in June and the unemployment rate edged down to 3.4 per cent from 3.5 per cent in May. Expansion in employment for the second quarter as a whole, however, was appreciably less than the advanced first quarter pace. For the rest of the year, the projected slackening in GNP growth suggests further moderation in employment gains and a slow rise in the unemployment rate from the 3.5 per cent average of the second quarter.

On the labor cost side, increases in average hourly earnings in recent months have been smaller than in late 1968. But recent contract settlements, though relatively few, have provided first year wage increases of 10 per cent or more, suggesting that pressures on prices from the cost side will continue strong. With the intensity of demand in markets easing, profit margins are likely to come under increasing constraint.

The wholesale industrial price average has been virtually stable in the most recent months because a rapid decline in lumber and plywood prices has offset widespread increases for other commodities. When lumber prices bottom, as may already be occurring, the average is likely to resume an appreciable rate of increase even though advances in other commodity groups may slow. The prospects for any sizable moderation in the rate of increase of consumer prices later this year have been dampened by a sharp decline in fourth quarter pork supply prospects. Thus, retail food prices are likely to advance more than had been estimated earlier, and there is little reason to expect any marked abatement in the continued advance of services.

Outlook for supply of funds

Bank deposits will remain under downward pressure so long as current high market yields and present Regulation Q ceilings prevail. Outstanding negotiable CD's are expected to continue declining during the next several weeks, although at a somewhat more moderate pace than in June as the amount of CD's maturing is reduced. Consumer-type time and savings deposits at large banks probably will decline rather sharply in the first half of July and then more moderately in the ensuing weeks, while growth in such deposits at smaller banks will remain quite constrained. Private demand deposits, aside from the influence of changes in Treasury deposits, would be expected to show only relatively slow growth under existing conditions of reduced credit availability and high interest rates.

With such a deposit outlook, and with liquidity already sharply reduced, banks will probably have to tighten lending terms still further as summer progresses and become more selective in their mortgage, consumer, and business lending activity. Banks will also be of limited, if any, support to the State and local and U.S. Government securities markets.

The supply of funds to the mortgage market is likely to be dampened also by the experience of thrift institutions around the midyear interest-crediting period. Although it is still too early to make firm judgments, all indications suggest that savings outflows at thrift institutions are likely to be around mid-1966 proportions. And net inflows are likely to remain at a reduced pace over the balance of the summer, given current market yields and judging from second quarter experience.

The effect on the mortgage market may be pronounced, though not as drastic as in 1966. The institutions seem to be better prepared for outflows, and the FHLBB has begun to make large advances to cover both withdrawals and mortgage expansion. In addition, FNMA is a major factor sustaining Federally-underwritten mortgages. Still, new commitment activity can be expected to moderate further and mortgage interest rates to remain under upward pressure.

Outlook for credit flows

Corporate demands on the capital market are expected to remain quite large over the next several weeks, and the increase in offerings has again placed upward pressure on yields. The bulk of recent and prospective offerings is from large issuers and, in contrast to the previous nine months, includes several large industrial offerings. This step-up in capital market borrowing apparently reflects the erosion of corporate liquidity and the reduced availability of bank credit.

Business loans at banks are expected to increase less rapidly in July and August than in the first 5 months of this year, but to show more strength than in June, a month in which outstanding business loans showed little net change. While last month's experience was in part a reflection of anticipatory borrowing earlier, sales of loans, and statistical aberrations, the recently intensified efforts of banks to cut back on the volume of new loan commitments and to discourage new borrowing should serve to keep a renewed business loan rise to relatively moderate proportions. Demand factors, too, would appear to be working in that direction over the summer, as the rise in business fixed investment expenditures is expected to slacken and record high interest rates may induce businesses to economize on working capital.

In the long-term tax-exempt market, offerings are expected to remain considerably below normal as State interest rate ceilings limit new issues and as some borrowers await lower rates in the future. The light calendar has insulated the municipal market from recent upward yield pressure, but the withdrawal of commercial banks from the market makes tax-exempts very sensitive to any small increases in borrowing demand that might develop.

While the State and local government area appears relatively quiescent at the moment, the Federal Government and Federal agencies are likely to be additional sources of market pressure over the weeks ahead. It would appear that the Federal Home Loan Banks may attempt to borrow about $2 billion in July and August, which would raise a little more than $1 billion of new cash. FNMA will also probably be forced to reduce its liquid asset holdings and increase its borrowings, though by only a total for both of about $500 million, to finance earlier commitments coming due. And the Treasury will probably have to raise another $1-1/2 billion or so of new cash by August in addition to the current $3-1/2 billion tax bill offering. Finally, the Treasury at the end of July will announce refunding terms for at least the mid-August maturities of coupon issues of which $3.2 billion are publicly held.

Against the background of prevailing monetary restraint, the corporate bond market calendar and the Agency financing demands in combination with Treasury requirements suggest continued upward interest rate pressures over the next few weeks--pretty much along the shole maturity spectrum (except possibly for very short-term rates). With little prospect for any pick-up in the flows of funds available for lending and investing from institutional sources, especially banks and thrift institutions, an abatement of interest rate pressures appears to depend on shifts in expectations or an unanticipated moderation of near-term credit demands.

Balance of payments outlook

Although demand conditions abroad are expected to remain very strong throughout 1969, the prospects are poor for any significant improvement in the U.S. current account balance this year. Some further rise in the level of U.S. imports of goods is virtually certain, while the continuing rise in exports of goods is being dampened by a drop in commercial aircraft shipments pending next year's crop of Boeing 747's. In services, including investment income payments and receipts, no sizable net improvement can be expected.

The outlook for capital flows--other than flows dominated by fears and expectations of changes in currency parities--remains as it was described in the chart show two weeks ago. During the next several quarters the average levels of inflows of foreign long-term capital into U.S. stocks and into new securities issued to finance corporate direct investments are likely to be lower than they were in 1968 or in the first few months of 1969.

Because these inflows, together with the small current account surplus, will fall far short of matching outflows of U.S. private and government capital, further sizable quarterly overall deficits on the liquidity basis lie ahead. Whether in any particular quarter the deficit on this basis will be greatly swollen--as it was in the second quarter of this year--by massive outflows of funds from the United States into other currencies or into Euro-dollars is conjectural. So too is the future course of U.S. banks' borrowings of Euro-dollars; among the uncertainties is the reaction of the banks to the imposition of reserve requirements on these borrowings.

The impact on the official settlements balance of any flows of funds from the United States feeding the Euro-dollar market would of course be offset by associated expansion of the U.S. banks' Euro-dollar borrowings. It is not impossible that the further growth of these borrowings may at times be large enough to prevent additions to net foreign official reserve claims on the United States--as it has during the past year and a half. Protection of our reserve position in this manner becomes more and more precarious as time goes on, depending as it does on continuation of severe monetary tightness in the United States.

SELECTED DOMESTIC NONFINANCIAL DATA June 8, 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.)	Jun '69	80.4	80.1	78.9	1.9	4.3
Unemployment (mil.)	"	2.8	2.8	2.9	-5.2	-8.0
Unemployment (per cent)	"	3.4	3.5	3.7	--	--
Nonfarm employment, payroll (mil.)	"	70.2	70.0	67.8	3.5	n.a.
Manufacturing	"	20.2	20.1	19.8	2.0	n.a.
Other industrial	"	8.5	8.5	8.2	4.0	n.a.
Nonindustrial	"	41.5	41.4	39.8	4.2	n.a.
Industrial production (57-59=100)	May'69	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/	"	126.8	126.4	120.3	5.4	9.7
Commodities except food	"	117.5	117.2	112.5	4.4	8.1
Food	"	123.7	123.2	118.8	4.1	8.6
Services	"	142.7	142.0	133.0	7.3	12.4
Hourly earnings, mfg. ($)	Jun'69	3.17	3.15	3.00	5.7	n.a.
Weekly earnings, mfg. ($)	"	129.13	128.23	122.81	5.1	n.a.
Personal income ($ bil.)2/	May'69	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	29.2	29.4	28.2	3.6	12.3
Autos (million units)2/	Jun'69	9.0	8.5	8.8	2.2	6.3
GAF ($ bil.)	May'69	7.9	8.1	7.4	6.5	15.1
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	"	1,509	1,556	1,364	10.6	18.4
Factory workweek (hours)	Jun'69	40.7	40.7	40.9	-0.5	n.a.
New orders, dur. goods ($ bil.)	May'69	29.9	30.9	27.2	10.2	18.3
New orders, nonel. mach. ($ bil.)	"	5.6	5.7	4.7	20.0	32.6
Common stock prices (1941-43=10)	Jun'69	99.14	104.62	100.53	-1.4	8.4
Manufacturers' inventories, book val. ($ bil.)	May'69	92.0	91.0	85.3	7.9	13.3
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 July 5, 1969	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent) 9/	8.54	8.71	9.45	5.89
U.S. Treas. bills, 3-mo., yield (per cent)	6.58	6.52	6.65	5.91
U.S. Treas. bills, 1-yr., yield (per cent)	7.33	7.02	7.33	5.86
Net free reserves 2/ ($ millions)	-1,214	-1,105	-296	-1,242
Member bank borrowings 2/ ($ millions)	1,634	1,383	1,634	687
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	7.01	6.82	7.01	6.17
20-year U.S. Treas. bonds 1/	6.30	6.27	6.41	5.93
Corporate new bond issues, Aaa adj. 8/	7.63	7.64	7.75	6.90
Corporate seasoned bonds, Aaa 1/	7.03	7.01	7.03	6.55
Municipal seasoned bonds, Aaa 1/	5.55	5.58	5.60	4.57
FHA home mortgages, 30-year 3/	--	8.06	8.06	7.50
Common stocks, S&P composite series 4/				
Prices, closing (1941-43=10)	99.61	98.07	105.94	96.67
Dividend yield (per cent)	3.18	3.23	3.26	2.99

	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	July '69e	2,100	1,837	484	272
State & local govt. public offerings	"	800	862	-669	-474
Comm. & fin. co. paper (net change in outstandings) 6/	May '69	+1,105	+877	+197	+676

	Latest month	Outstandings Latest month	Change: Latest month	Change: 3-month average	Annual rate of change from: Preceding 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/	June '69	27.58	-0.28	-0.02	-12.1	-0.8	4.3
Credit proxy 1/ 10/	"	289.8	-3.2	-0.8	-13.1	-3.4	4.1
Bank credit, total 6/	May '69	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/	May '69	715.2	0.7	2.5	1.2	4.2	6.5
Demand dep. & currency 1/	June '69	195.4	0.2	0.5	1.2	2.9	4.3
Time & sav. dep., comm. banks 1/	"	199.1	-1.0	-0.6	-6.0	-3.8	5.8
Savings, other thrift instit. 6/	May '69	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 July 2. 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 July 6. 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.

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

	1968^r Year	I	II	III	IV	1969 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	93	-79
Exports 2/	33,598	7,941	8,395	8,879	8,383	7,474	3,250	3,177
Imports 2/	-32,972	-7,817	-8,131	-8,566	-8,458	-7,577	-3,157	-3,256
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	*-72	*-288
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	-880	-2,186	-55	21	-1,138		
Int'l and reg., liq. & nonliq. 3/	243	-19	-97	78	281	95		
Foreign private non-bank, liq.	374	4	102	45	223	-23		
Foreign commercial banks, liq.	3,450	457	2,358	724	-89	3,001		
New direct invest. issues 4/	2,129	580	585	586	378	401		
Other	3,849	745	1,006	727	1,371	1,052		
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	-907	-1,529
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	-65	-1,264
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	-936	-1,489
Financed by: Liab. to comm. banks abroad, N.S.A. (decrease -)	3,450	638	2,266	976	-430	3,181	871	225
Official settlements, N.S.A. 7/	-1,639	-91	-1,550	-72	74	-1,711	65	1,264
			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.

* Not seasonally adjusted.

THE ECONOMIC PICTURE IN DETAIL

The Nonfinancial Scene

Gross national product. The increase in current dollar GNP in the second quarter is now expected to be close to the $16 billion gain of the first quarter. Price increases continue widespread, and the GNP implicit price deflator is estimated to have advanced at a 4.3 per cent per year rate--as rapidly as in the first quarter. Higher prices accounted for three-fifths of the increase in total expenditures. The rise in real GNP in the second quarter--2.6 per cent--also was about the same as in the first quarter but the rate of growth continued to be less than half as rapid as a year earlier.

Recent information provides little basis for changing the pattern of activity projected in the June 24 presentation to the FOMC. Thus, we continue to project growth in real GNP slowing appreciably after midyear and ceasing in the first half of next year. Consequently, the substantial price increases of recent quarters are projected to begin easing a little before the end of this year, and to moderate somewhat further by mid-1970.

The increase now estimated for GNP in the second quarter is slightly larger than projected three weeks ago.[1/] This is due mainly to indications of a quickened pace of inventory investment. Inventory

1/ The official Commerce estimates of second quarter GNP will be available about mid-month; these figures, it should be noted, will reflect the annual GNP revisions, covering the 1966 to 1968 period.

accumulation by manufacturers accelerated appreciably in May--to $980 million in book value terms from $700 million in April. Stocks of merchant wholesalers are now reported to have risen by $260 million instead of declining nearly $50 million, and preliminary figures indicate a further small rise in May. And accumulation of inventories at retail stores, because of relatively sluggish May and June sales, probably will also exceed earlier expectations. Accumulation of nonfarm business inventories, GNP basis, is now estimated to have exceeded $7 billion, annual rate, in the second quarter, nearly $1.5 billion more than estimated three weeks ago.

GNP was also raised last quarter because of higher expenditures reported for residential construction than had previously been anticipated; the higher level reflects a sharp jump in estimated spending for additions and alterations. This increase in additions and alterations, which more than offset a drop of nearly $1 billion in outlays for new dwelling units, may be substantially overstated and revised downward as soon as a firm basis for estimate becomes available. On the other hand, available data now suggest only a $.3 billion increase (annual rate) in net exports of goods and services, in contrast to a rise of nearly $2.5 billion estimated earlier.

Some slackening in the advance of consumption expenditures has apparently developed recently. May retail sales are now indicated to have decline 1 per cent, instead of holding at the advanced April level; and weekly data for June suggest only a small increase in that month. Dealer deliveries of new autos, however, increased in both months, reaching a 9.0 million annual rate for domestic-type cars in June. The saving rate was little changed.

Beyond the second quarter, the projected pattern continues to assume Federal budget outlays for fiscal 1970 limited to $192.9 billion, extension of the tax surcharge, the elimination of the investment tax credit, and continuation until fall of a restrictive monetary policy.

Growth projected for current dollar GNP this quarter, $15 billion annual rate, is only slightly smaller than in the second quarter. The pace of expansion in current dollar GNP is being maintained by the Federal pay raise, effective this month and totaling $2.8 billion, and the reduction in Federal tax payments following final settlement of 1968 tax liabilities including the retroactive portion of the surcharge. These factors raise disposable income substantially, and a larger gain in consumer spending this quarter--projected at $10 billion--than last thus seem likely even with the assumed small increase in the saving rate.

A marked slowing of the rise in business plant and equipment expenditures is indicated for the current quarter--to an advance of 2 per cent compared with 4-1/2 per cent in the first half of the year, according to the April-May Commerce-SEC survey. Residential construction activity is also expected to be a significant retarding influence in the economy, with expenditures projected to fall by a $1.5 billion annual rate reflecting limited availability of mortgage funds and high prevailing interest rates.

Without the stimulus of the Federal pay raise, downward pressures on the economy should intensify and in the fourth quarter GNP is projected to rise by only $11 billion. Final demands are expected to moderate considerably, with the sustained impact of fiscal and monetary policies acting further to ease business spending and residential construction activity and with Federal spending under constraint. With softening in these important sectors, gains in employment and income should slow appreciably and limit the rise in consumer expenditures. However, some involuntary inventory building may result from the slowing of growth in final demands. Altogether, real GNP may rise at a rate of only about 1 per cent.

After the turn of the year growth in final sales should be further retarded, thereby weakening this major incentive for accumulation, which is projected to fall substantially in early 1970--from an $8 billion annual rate in the fourth quarter to $5 billion in the first and $2 billion in the second. With key sources of strength in the economy significantly weakened, expansion in real GNP is projected to come to a halt in the first half of next year. Demand pressures on labor, production facilities, materials, and financial resources should tend to ease, and increases in the overall price deflator may moderate to around 3.0 per cent, annual rate, by midyear.

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July 9, 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)

	1967	1968	1969 Proj.	1969 I	1969 II (Projected)	1969 III (Projected)	1969 IV (Projected)	1970 I (Projected)	1970 II (Projected)
Gross National Product	789.7	860.6	925.3	903.3	919.0	934.0	945.0	953.0	959.5
Final sales	783.6	852.9	917.9	896.7*	911.3	926.7	937.0	948.0	957.5
Private excluding net exports	600.4	653.7	704.2	688.5*	699.8	710.2	718.1	725.1	732.7
Net exports	4.8	2.0	1.5	1.3*	1.6	1.3	1.7	3.7	4.2
Personal consumption expenditures	492.2	533.8	571.1	557.4	566.1	576.5	584.2	592.5	600.7
Durable goods	72.6	82.5	88.0	86.8	88.3	89.0	88.0	88.0	87.0
Nondurable goods	215.8	230.3	244.0	238.1	240.8	246.2	250.7	254.7	259.7
Services	203.8	221.0	239.1	232.5	237.0	241.3	245.5	249.8	254.0
Gross private domestic investment	114.3	127.7	140.5	137.7*	141.4	141.0	141.9	137.6	134.0
Residential construction	24.6	29.9	31.8	32.5	32.7	31.2	30.9	30.6	32.0
Business fixed investment	83.6	90.0	101.3	98.6*	101.0	102.5	103.0	102.0	100.0
Change in business inventories	6.1	7.7	7.4	6.6*	7.7	7.3	8.0	5.0	2.0
Nonfarm	5.6	7.3	7.1	5.8*	7.2	7.3	8.0	5.0	2.0
Net exports of goods and services	4.8	2.0	1.5	1.3*	1.6	1.3	1.7	3.7	4.2
Gov't. purchases of goods & services	178.4	197.2	212.3	206.9	209.9	215.2	217.2	219.2	220.6
Federal	90.6	100.0	103.7	102.4	102.7	105.2	104.5	103.8	102.5
Defense	72.4	78.9	81.0	80.2	80.2	82.2	81.5	80.8	79.5
Other	18.2	21.1	22.7	22.2	22.5	23.0	23.0	23.0	23.0
State & local	87.8	97.2	108.6	104.5	107.2	110.0	112.7	115.4	118.1
Gross national product in constant (1958) dollars	673.1	706.7	728.8	723.5	728.2	730.9	732.7	732.5	731.7
GNP implicit deflator (1958=100)	117.3	121.8	127.0	124.9	126.2	127.8	129.0	130.1	131.1
Personal income	628.8	685.8	740.2	721.7	735.0	747.0	757.0	766.5	775.0
Wages and salaries	423.4	463.5	504.3	490.8	500.6	509.3	516.5	522.5	527.1
Disposable income	546.3	589.0	624.1	609.2	618.5	630.7	637.8	649.1	655.4
Personal saving	40.2	40.7	38.1	36.9	37.3	38.9	39.1	40.8	38.8
Saving rate (per cent)	7.4	6.9	6.1	6.1	6.0	6.2	6.0	6.3	5.9
Corporate profits before tax	81.6	92.3	95.3	96.5	96.0	95.5	93.0	89.0	86.0
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	151.2	176.9	200.2	197.1	201.0	200.5	202.1	196.5	197.2
Expenditures	163.6	182.2	193.3	189.7	192.0	195.7	195.8	196.6	197.8
Surplus or deficit (-)	-12.4	-5.4	6.9	7.4	9.0	4.8	6.3	-0.1	-0.6
Total labor force (millions)	80.8	82.3	84.0	83.7	83.8	84.1	84.3	84.7	85.0
Armed forces "	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Civilian labor force "	77.3	78.7	80.5	80.2	80.3	80.6	80.8	81.2	81.5
Unemployment rate (per cent)	3.8	3.6	3.6	3.3	3.5	3.6	3.9	4.1	4.5
Nonfarm payroll employment (millions)	65.9	67.9	70.1	69.5	70.0	70.3	70.5	70.6	70.6
Manufacturing	19.4	19.8	20.1	20.1	20.1	20.2	20.1	20.0	19.9
Industrial production (1957-59=100)	158.1	164.7	172.9	170.2	172.8	174.1	174.9	174.4	173.0
Capacity utilization, manufacturing (per cent)	85.3	84.5	84.3	84.5	84.5	84.4	83.7	82.5	80.5
Housing starts, private (millions A.R.)	1.29	1.51	1.53	1.72	1.51	1.45	1.42	1.50	1.60
Sales new domestic autos (millions, A.R.)	7.57	8.62	8.51	8.37	8.56	8.60	8.50	8.50	8.35

* Commerce estimates modified to reflect revised and later data.

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July 9. 1969

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967	1968	1969 Proj.	1969 I	1969 Projected II	1969 Projected III	1969 Projected IV	1970 Projected I	1970 Projected II
	---In Billions of Dollars---								
Gross National Product	42.1	70.9	64.7	15.9	15.7	15.0	11.0	8.0	6.5
Inventory change	-8.6	1.6	-0.3	-4.0*	1.1	-0.4	0.7	-3.0	-3.0
Final sales	50.8	69.3	65.0	19.9*	14.6	15.4	10.3	11.0	9.5
Private excluding net exports	28.8	53.3	50.5	15.7*	11.3	10.4	7.9	7.0	7.6
Net exports	-0.3	-2.8	-0.5	0.3*	0.3	-0.3	0.4	2.0	0.5
Government	22.2	18.8	15.1	3.9	3.0	5.3	2.0	2.0	1.4
GNP in constant (1958) dollars	16.0	33.6	22.1	5.1	4.7	2.7	1.8	-0.2	-0.8
Final sales	24.0	32.4	22.7	8.7*	4.0	3.3	1.1	2.3	2.0
Private	9.8	23.9	18.6	7.4*	3.1	3.0	1.1	2.8	2.3
	---In Per Cent Per Year---								
Gross National Product	5.6	9.0	7.5	7.2	7.0	6.5	4.7	3.4	2.7
Final sales	6.9	8.8	7.6	9.1*	6.5	6.8	4.4	4.7	4.0
Private	5.0	8.3	7.6	9.5*	6.7	5.8	4.7	5.0	4.4
Personal consumption expenditures	5.7	8.5	7.0	7.8	6.2	7.3	5.3	5.7	5.5
Durable goods	3.0	13.6	6.7	8.0	6.9	3.2	-4.5	0.0	-4.5
Nondurable goods	4.4	6.7	5.9	7.5	4.5	9.0	7.3	6.4	7.9
Services	8.2	8.4	8.2	7.9	7.7	7.3	7.0	7.0	6.7
Gross private domestic investment	-5.4	11.7	10.0	3.2*	10.7	-1.1	2.6	-12.1	-10.5
Residential construction	-0.8	21.5	6.4	11.4	2.5	-18.3	-3.8	-3.9	18.3
Business fixed investment	2.8	7.7	12.6	18.2*	9.7	5.9	1.9	-3.9	-7.8
Gov't. purchases of goods & services	14.2	10.5	7.7	7.7	5.8	10.1	3.7	3.7	2.6
Federal	17.1	10.4	3.7	2.8	1.2	9.7	-2.7	-2.7	-5.0
Defense	19.5	9.0	2.7	1.0	0.0	10.0	-3.4	-3.4	-6.4
Other	8.3	15.9	7.6	9.2	5.4	8.9	0.0	0.0	0.0
State & local	11.4	10.7	11.7	13.0	10.3	10.4	9.8	9.6	9.4
GNP in constant (1958) dollars	2.4	5.0	3.1	2.8	2.6	1.5	1.0	-0.1	-0.5
Final sales	3.7	4.9	3.2	4.9	2.2	1.8	0.6	1.3	1.1
Private	1.9	4.5	3.4	5.3	2.2	2.1	0.8	2.0	1.6
GNP implicit deflator	3.1	3.8	4.3	4.3	4.3	5.0	3.7	3.5	3.2
Personal income	7.2	9.1	7.9	7.6	7.4	6.5	5.4	5.0	4.4
Wages and salaries	7.3	9.5	8.8	9.9	8.0	6.9	5.7	4.6	3.5
Disposable income	6.8	7.8	6.0	4.5	6.1	7.9	4.5	7.1	3.9
Corporate profits before tax	-4.7	13.1	3.3	3.3	-2.1	-2.1	-10.5	-17.2	-13.5
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	5.7	17.0	13.2	21.6	7.9	-1.0	3.2	-11.1	1.4
Expenditures	14.9	11.4	6.1	6.0	4.8	7.7	0.2	1.6	2.4
Nonfarm payroll employment	3.0	3.0	3.2	4.7	2.9	1.7	1.1	0.6	0.0
Manufacturing	1.0	2.1	1.5	4.0	0.0	2.0	-2.0	-2.0	-2.0
Industrial production	1.2	4.2	5.0	6.6	6.1	3.0	1.8	-1.2	-3.2
Housing starts, private	10.9	16.7	1.2	28.2	-47.1	-16.9	-6.9	21.1	26.7
Sales new domestic autos	-9.7	14.0	-1.4	-20.4	9.0	2.0	-4.7	0.0	-7.1

* Commerce estimates modified to reflect revised and later data.

Industrial production. On the basis of available product and employment data, industrial production in June is estimated to have risen one point, and possibly more, to 174 per cent of the 1957-59 average, about the same increase as from April to May. This would bring the second quarter annual rate of increase to about 6 per cent compared with 6.7 per cent in the first quarter and 5 per cent in the fourth quarter of last year.

Auto assemblies in June rose to an annual rate of 8.6 million units from the strike curtailed rate of 7.6 million in May. Production schedules for the third quarter are set higher than the June rate. Among other consumer goods, output of furniture increased and production of television sets changed little from the reduced May level. Production of industrial and commercial equipment rose substantially further and output of trucks recovered following the strike settlements in the automotive industry. Production of defense equipment, however, was curtailed by a strike at Bell Helicopter Co. Output of most industrial materials is estimated to have increased further except coal, as production declined sharply in observance of the death of John L. Lewis.

Despite an apparent leveling off in output in some sectors--notably home goods and apparel which changed little after March, even though the second quarter as a whole is up--there is little evidence as yet of an overall slowdown in industrial production.

While a further rise in industrial production is anticipated in the third quarter, a somewhat larger proportion of total output appears to have been going into inventories and this--combined with the softness in retail sales, some further turndown in output of defense equipment, and the predicted easing in production of business equipment--could well lead to a marked slowing of output growth in the later months of the year.

INDUSTRIAL PRODUCTION
Per Cent Change at Annual Rates

	QIV 1968 to QI 1969	QI 1969 to QII 1969p	QII 1968 to QII 1969p
Total index	6.7	6.1	5.2
Automotive products	- 8.0	-15.2*	- 3.8
Home goods & apparel	8.0	4.7	5.7
Consumer staples	6.9	2.0	5.8
Business equipment	5.9	7.7	7.2
Defense equipment	-14.8*	17.1	2.4
Materials	7.9	8.0	5.6

* Strike periods
p-Projected

Retail sales. The latest figures suggest a continuation of the faltering growth of retail sales that began last fall. Second quarter sales may be only 1 per cent above the first quarter as a result of a downward revision in the May figures--which now indicate a 1 per cent decrease from April rather than the slight increase of the advance report. Weekly sales reports for June suggest that there will be some increase from May but probably only back to the April level. In real terms, the second quarter level of sales may be only a negligible amount above a year earlier.

Department stores sales in June, on a year-over-year basis, again appear to have been considerably higher than sales in general. But the group showed substantially greater declines than the total of retail sales from April to May, and June sales will probably only be at about the April level. The important chain stores recently reported the smallest gains over-the-year since the fiscal year began in late January.

Unit sales of new autos, however, have recently been an exception to the overall pattern of retail sales. Thus sales of new domestic autos rose 6 per cent further from May to June and at an annual rate of 8.9 million units were 2 per cent above a year earlier, reflecting in part the end of work stoppages at General Motors. Average sales for the second quarter were at an annual rate of a little over 8.5 million units. Dealer's stocks of new autos declined further in June bringing the seasonally adjusted stock-sales ratio down to 49.6 days. This is considerably below the high of about 62 days earlier this year and about the same as a year earlier.

Seasonally adjusted auction prices of used cars in May were down somewhat from April, but were still 3 per cent above a year earlier.

RETAIL SALES
Per Cent Change

	1969			
	From Previous Quarter		From a Year Earlier	
	QI	QII*	QI	QII*
All Retail Stores	1.6	1.0	5.7	4.5
Durable goods	1.9	0.5	7.5	4.6
Auto	1.1	-0.7	7.3	2.8
Furniture	3.8	0.9	4.2	4.2
Lumber, Building material, Farm equipment, & Hardware	0.7	2.5	4.8	6.5
Nondurable goods	1.4	1.2	4.8	4.5
General merchandise	-0.1	4.1	6.7	8.7
Department stores	0.8	4.3	10.3	11.6
Addendum:				
Total: ex. auto	1.7	1.4	5.3	4.9
Real Total Retail deflated by all commodities CPI	0.8	n.a.	1.7	n.a.

* Estimated

Consumer credit. While extensions of consumer instalment credit were somewhat smaller in May than in April, there was an even larger decline in repayments. As a result, the May increase in instalment credit outstanding--nearly $10.2 billion at a seasonally adjusted annual rate--was the largest so far this year, and close to the peak rates of the second half of 1968.

Monthly increases in outstandings have been uneven for the year to date; on balance, however, growth has amounted to more than

\$8.8 billion at an annual rate, about the same as for the full year 1968. Nevertheless, gains have moderated since the large advances in last year's third and fourth quarters, with the increases occurring primarily at commercial banks. These institutions had raised their holdings of consumer credit paper very sharply in the second half of 1968 and had accounted for nearly one-half of the overall increase in instalment credit at that time. Finance companies and credit unions have continued to increase their holdings of consumer credit more rapidly than in late 1968.

NET CHANGES IN INSTALMENT CREDIT OUTSTANDING, BY HOLDER
(Billions of dollars, seasonally adjusted annual rates)

	Total	Commercial Banks	Sales Finance Companies	Other Financial Institutions	Retail Outlets
1968 - I	7.0	3.6	1.1	1.7	.6
II	8.4	3.5	1.4	2.4	1.1
III	10.0	5.0	1.1	2.7	1.2
IV	10.2	4.8	1.8	2.5	1.1
1969 - I	8.3	3.5	1.7	2.6	.5
II 1/	9.6	4.0	2.0	3.1	.5

1/ Based on data for April and May.

The Michigan Survey Research Center Survey. The index of consumer sentiment declined significantly in the May-June survey from the February level. Generally, large movements in this index have been a reasonably reliable indicator of a future change in the same direction in consumer expenditures for durable goods. But it is uncertain whether this generalization will apply to recent experience since the increase in the February 1969 index may have reflected initial optimism about the economic policies of a new Administration and the recent decline has brought the index back to the general range prevailing over the past two years.

INDEX OF CONSUMER SENTIMENT
(February 1966 = 100)

Date of Study	All Families
May 1968	92.4
August 1968	92.9
Nov.-Dec. 1968	92.1
February 1969	95.1
May-June 1969	91.6

Three-fourths of the recent decline was attributable to a shift in the number of families expecting either to be "worse off" or that general business conditions would become bad. Generally, pessimistic families were also families with heightened inflationary fears. Also, the survey found some indication that consumers have become more sensitive to the interest rates charged on credit for automobiles and household durables, and might delay expenditures because rates were too high. The survey reported a further deterioration over the year in the number of families with favorable views of purchasing conditions for a house--but a growing number of families (about 10 per cent) thought it was a good time to buy a house because interest rates were going higher.

Intentions to purchase both new and used cars in the next 12 months were up over the year, but an unusually high proportion of people were uncertain when they would make the actual purchase.

INTENTIONS TO BUY CARS DURING NEXT 12 MONTHS

May	All Cars	New Cars	Used Cars
1966	14.1	10.0	4.1
1967	19.4	10.8	8.6
1968	17.5	10.5	7.0
1969	19.0	11.1	7.9

Leading indicators. The composite leading indicator for May was down slightly, but was higher than any month except April. This series is sufficiently irregular that no significance should be ascribed to May's small decline. There were declines in nonagricultural placements, private housing building permits, durable new orders, and plant and equipment contracts and orders; the last two were expected following April's spurt in equipment ordering. Series increasing in May were industrial materials prices, the monthly average of stock prices, and the ratio of price to unit labor cost in manufacturing. In June, materials prices continued to rise, the manufacturing workweek continued unchanged, the stock price average declined sharply, and there are reasons for expecting some further decline in new orders for durable goods. The coincident and lagging indicators continued to rise in May.

COMPOSITE CYCLICAL INDICATORS
1963 = 100

	12 Leading Indicators	5 Coincident Indicators	6 Lagging Indicators
1969: January	144.4	164.7	177.0
February	147.0	166.4	179.8
March	145.3	167.3	182.4
April	148.3	167.7	183.7
May (prel.)	147.5	168.5	185.8

Manufacturers' inventories and shipments. The book value of manufacturers' inventories rose nearly $1 billion in May, more than in April or the average of the first quarter. Much of the increase has been in durable goods industries, especially in holdings of goods in process. Machinery and equipment manufacturers continued to build stocks rather rapidly, and there was an exceptionally large increase at defense industries. Nondurable inventories also expanded at a faster rate than in the first quarter.

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

	1966	1969		
	QIV Average	QI Average	April	May
Manufacturing, total	874	579	701	980
Durable	707	519	448	743
Nondurable	167	61	253	237
Machinery & equipment	166	221	150	167
Defense products industries	228	76	83	357

Durable goods shipments changed little in May and the durable goods inventory-shipments ratio rose to 2.03, higher than in December 1966 and about as high as last spring when steel stocks were at their pre-strike peak. Durable unfilled orders continued to rise, but stocks also remained high realtive to unfilled orders, particularl y in the defense industries.

SELECTED RATIOS, MANUFACTURING
Seasonally adjusted

	1966	1969		
	Dec.	Mar.	Apr.	May
Inventories to sales				
Manufacturing, total	1.72	1.70	1.71	1.71
Durable	2.00	2.00	2.00	2.03
Nondurable	1.37	1.33	1.34	1.31
Inventories to unfilled orders				
Durable manufacturing	.64	.69	.69	.69
Machinery & equipment	.58	.65	.63	.63
Defense products industries	.30	.35	.36	.37
Consumer durables (ex. autos)	2.16	2.52	2.55	2.71
Materials held & ordered to:				
Sales of end products	2.08	1.82	1.84	1.85
Unfilled orders for end products	1.07	.98	.98	.99

Although both the overall ratios and the recent rate of accumulation are relatively high, there are indications that high rates of inventory growth in manufacturing could continue for some months. For example, the relatively low levels of materials held and on order relative to sales and orders for end products suggest the likelihood of continued stock building for the near term. Defense products and consumer durables are the principal areas where there may be an effort to slow inventory growth in the near future unless orders increase.

Construction and real estate. Total outlays for new construction, which were revised upward somewhat for recent months, dipped slightly in June to a seasonally adjusted annual rate of \$91.1 billion. All of the June decline was attributed to residential outlays, which fell 3 per cent further from May, based on confidential Census Bureau extrapolations.

For the second quarter as a whole, preliminary estimates of total expenditures for new construction changed little from the record first quarter rate. However, the slight quarter-to-quarter increase now indicated in the private residential component may be overstated. Outlays for new dwelling units dropped nearly \$1 billion, or 4 per cent, as shown in the table, but this was more than offset by a sharp rise in "other" residential expenditures. Official downward revision in the "other" category is planned as soon as firmer figures can be secured on its major component, additions and alterations. Meanwhile, outlays for private nonresidential construction apparently declined from the first quarter, but were still at a very advanced rate. Public construction outlays are estimated to have reached a new high in June as well as for the second quarter. Most of the year-to-year change in total construction outlays during the second quarter reflected higher costs.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	Q II 1969 ($ billions) 1/	Per cent change from	
		Q I 1969	Q II 1968
Total	91.5	--	+ 9
Private	61.6	- 1	+ 9
Residential	31.4	+ 1	+ 8
Dwelling units	24.4	- 4	+11
Other	7.1	+21	+ 1
Nonresidential	30.1	- 3	+10
Public	30.0	+ 2	+ 8

1/ Seasonally adjusted annual rates; preliminary. Data for most recent quarter include confidential Census Bureau extrapolations for June. In no case should public reference be made to them.

Labor market. Employment demand was strong enough in June to absorb a larger-than-usual proportion of the summer jobseekers, and the seasonally adjusted teenage unemployment rate fell nearly a full point to 11.6 per cent. This improvement was large enough to bring the overall unemployment rate down to 3.4 per cent, although the employment situation for adults remained basically unchanged. Despite the continued strength of the labor market, employment increases in the second quarter were considerably smaller than in the first.

NONFARM PAYROLL EMPLOYMENT
(In thousands, seasonally adjusted)

	(Change from preceding quarter)		
	1968	1969	
	Q IV	Q I	Q II
Nonfarm payroll employment	579	810	545
Manufacturing	90	163	83
Nonmanufacturing	489	647	462

The composition of the June employment rise (192,000) followed the pattern of recent months. There were moderate to strong increases in the private and public service sectors and in capital goods industries. In the consumer-goods and defense industries employment showed little change.

Manufacturing employment recorded a fairly large advance. The bulk of the rise was concentrated in electrical equipment, fabricated metals, and primary metals industries. In other durable and nondurable goods industries, employment remained at about March levels. Hours worked in manufacturing held steady in June at 40.7 hours, slightly below a year ago. Over the past few months, the recent strong advances in manufacturing output and the slow rate of increase of labor input (hours steady and employment rising slowly) indicate relatively strong productivity gains.

Construction employment rose further in June, with about half the increase attributable to reduced strike activity. The resilience of construction employment appears to be related to continued strong demands for commercial and industrial buildings and for highway construction.

Wages and collective bargaining. Increases in hourly earnings in both manufacturing and for the private economy as a whole have edged down from the very rapid rates evident in late 1968. Because of the rise in consumer prices, however, "real" hourly earnings have barely grown at all in 1969. And, with both income and social security taxes higher than in early 1968, the purchasing power of the average worker's paycheck was slightly below a year ago.

AVERAGE HOURLY EARNINGS*
Per Cent Change From Preceding Quarter,
Annual Rates, Seasonally Adjusted

	1968 IV Q	1969 I Q	1969 II Q
Current dollars:			
Private economy, total	7.7	6.0	5.5
Manufacturing	7.7	4.5	4.9
Constant dollars: 1/			
Private economy, total	3.1	1.0	-0.5
Manufacturing	3.2	-0.3	-1.3

* Of nonfarm production and nonsupervisory workers.
1/ Adjusted to allow for increases in the consumer price index; II Q 1969 CPI was estimated.

The absence of real income gains and anticipated further sharp increases in prices continue to generate demands for very large wage increases. Recent contract settlements, while not large in number, have provided first-year wage boosts averaging about 10 per cent; in some construction settlements, first-year increases have been as large as 15 per cent. Moreover, most agreements are now providing for larger second and third year increases than those provided in the contracts of 1967 and 1968. There are relatively few major collective bargains negotiations scheduled in the next two quarters, and the rate of increase of wages is likely to continue near current levels for the remainder of the year. But as bargaining becomes more widespread early next year and as new higher demands are incorporated in the wage structure, efforts to obtain even larger increases will likely occur.

Wholesale prices. A sharp rise in prices of farm and food products caused the wholesale average to rise 0.4 per cent from mid-May to mid-June. Average prices of industrial commodities were unchanged in June for the first time since mid-1968, as further increases for metals, machinery and gasoline were fully offset by marked declines in prices of lumber, plywood and hides. Prices of softwood plywood in mid-June were over 50 per cent below the previous peak, and well below year earlier levels.

Nonferrous metal prices, which have advanced almost 10 per cent since year end, are not yet leveling off. In June they rose one per cent, and in early July the fifth increase in lead prices this year was announced. The price of zinc may be raised shortly to restore the customary differential between the domestic price and that on the London Metal Exchange, and labor problems may reduce the supply of other scarce nonferrous metals in the second half of this year.

INDUSTRIAL COMMODITY PRICES[1/]
(Monthly, percentage changes)

	Jan.	Feb.	March	Apr.	May	June
Total	0.6	0.5	0.5	0.1	0.1	0.0e
Nonferrous metals	3.1	1.3	0.8	1.9	1.3	1.0
Lumber and plywood	4.2	6.2	4.2	-6.5	-5.7	-8.8e
All commodities excluding lumber and plywood and nonferrous metals	0.3	0.2	0.4	0.2	0.2	0.2e

e Estimated.
1/ FRB grouping.

Steel mill products prices have advanced about 3.5 per cent since December, and are going up further this month. Increases have been announced for tires and industrial chemicals--which are now beginning to move up more rapidly have also been announced.

Prices of farm products and foods rose substantially further in June, reflecting large increases in livestock, meat, and eggs. Marketings of livestock declined to a level below that of 1968 in the quarter just ended. Livestock and meat prices have been fluctuating at a very advanced level in recent weeks, and any marked decline seems unlikely in view of potential supply. Although there may be some rise in beef marketings in the months just ahead, pork production this fall will be far below previous expectations. The total supply of red meat this fall will almost certainly be less than a year ago and early winter prices at wholesale are therefore unlikely to show the usual seasonal decline.

Consumer prices. Consumer prices increased at an annual rate of 3.6 per cent in May, much less rapidly than in March and April. The slowdown is in part attributable to a moderation in the rise in service costs, especially for home finance (mortgage interest, taxes and insurance), medical care, and utilities and public transportation. Among the commodities, apparel and food prices continued to rise strongly in May, but a decline in prices of automobiles, especially used cars, and in gasoline provided a partial offset.

May retail food prices did not fully reflect recent increases in food prices at wholesale. Consequently, a substantial further increase probably occurred in June, and one may be anticipated in July, partly reflecting seasonal factors.

A considerable part of the more rapid rise in the CPI this year is attributable to the inflation in home prices, to a rise in used car prices through April, and to rising mortgage interest, taxes, and other home maintenance costs. The implicit deflator for consumer expenditures in the GNP accounts, treats and weighs these components quite differently and this partly accounts for the rise of only 3.6 per cent (annual rate) in the latter from the fourth to the first quarter, compared to a 4.9 per cent increase in the CPI.

CHANGES IN CONSUMER PRICES
(Per cent change at annual rates)

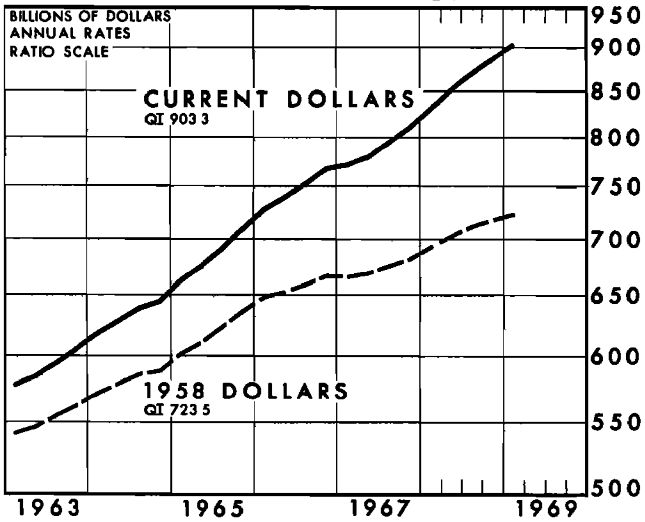
	Total	Nondurables			Durables		Services	
		Total	Food	Apparel	Total	Total less home-purchase and used cars	Total	Total less home-finance 1/
May 1968-May 1969	5.4	4.4	4.1	6.1	4.1	3.6	7.3	n.a.
Dec. 1968-Feb. 1969	4.4	2.0	3.5	-2.9	5.5	2.8	6.9	5.9
Feb.-April, 1969	8.7	6.9	6.4	8.8	9.3	4.5	9.9	6.5
April-May, 1969	3.8	4.9	4.9	10.6	-1.1	5.6	5.9	4.6

1/ Mortgage interest, taxes, and insurance.

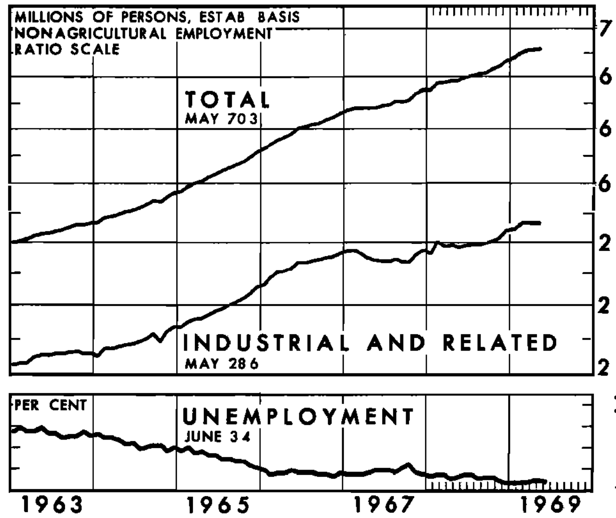
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

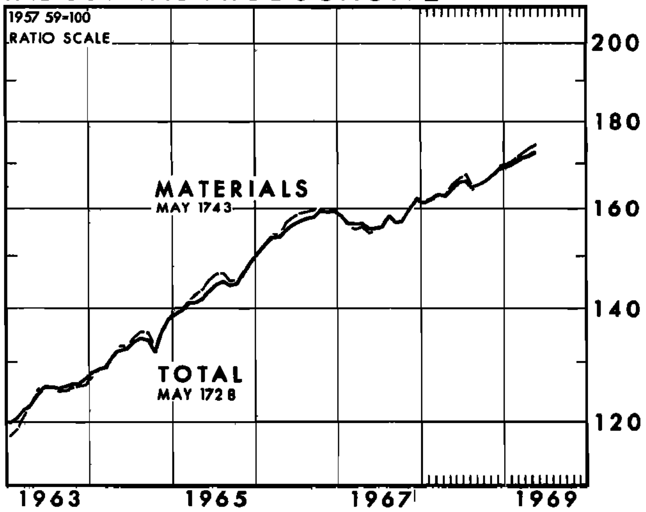
GROSS NATIONAL PRODUCT



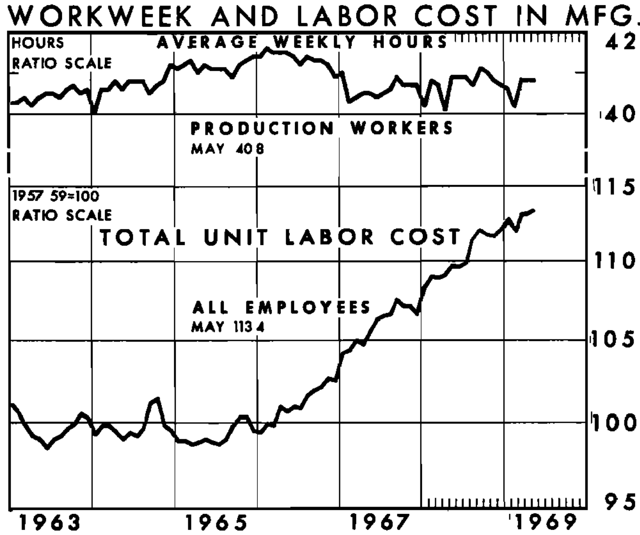
EMPLOYMENT AND UNEMPLOYMENT



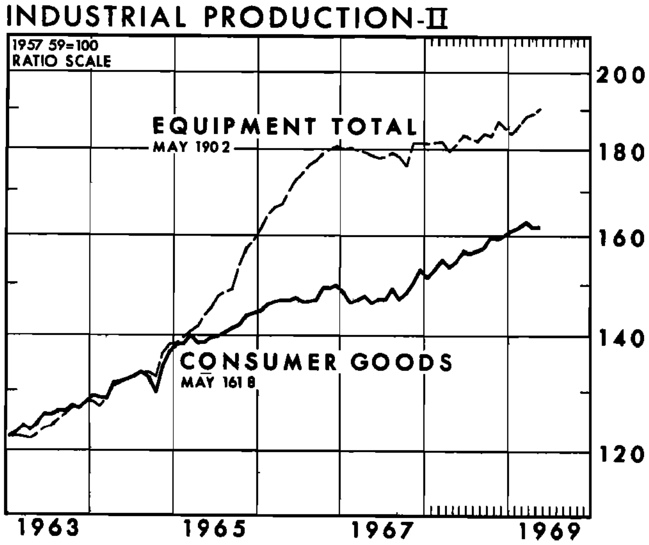
INDUSTRIAL PRODUCTION-I



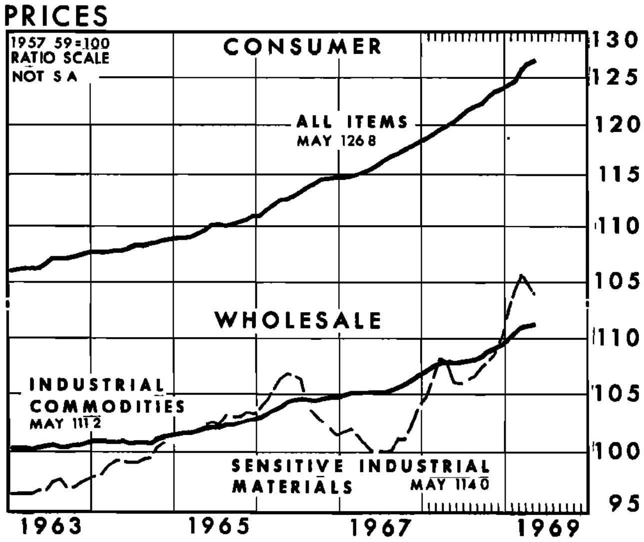
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



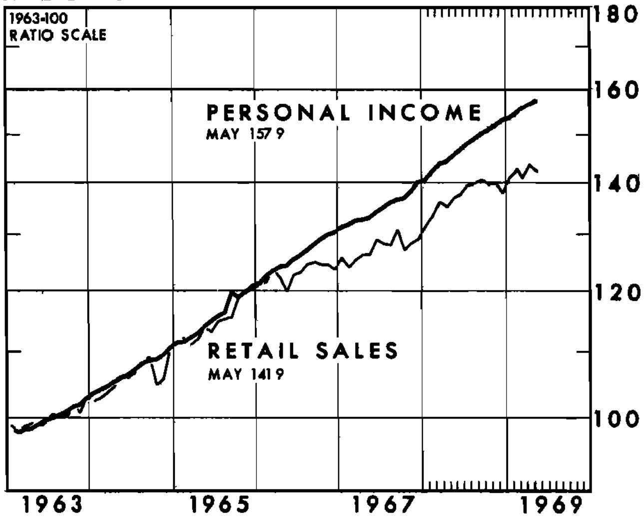
PRICES



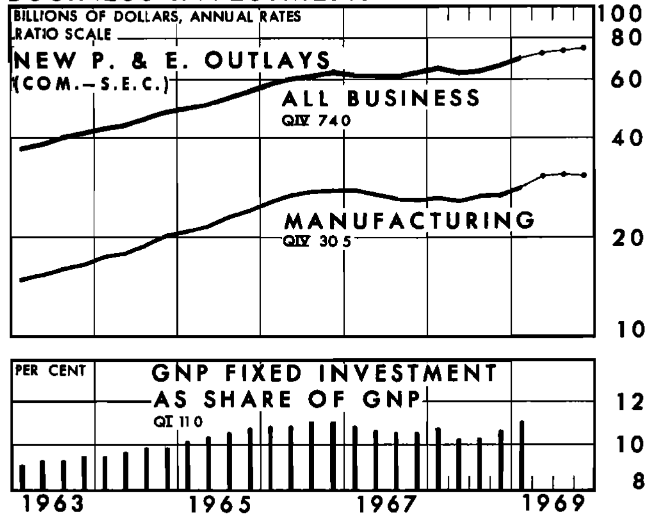
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

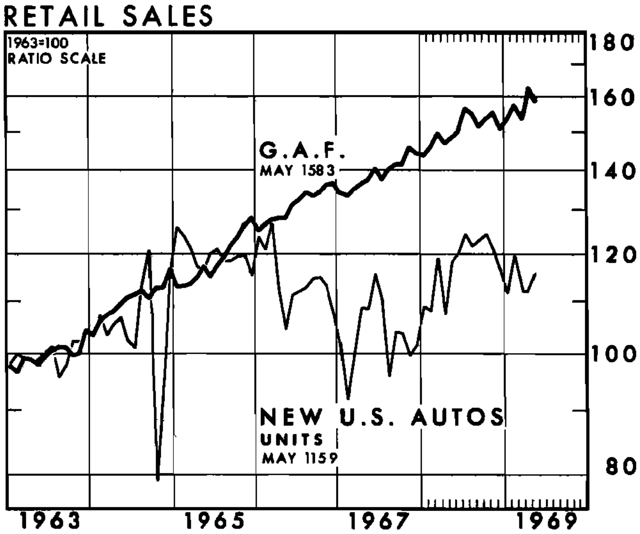
INCOME AND SALES



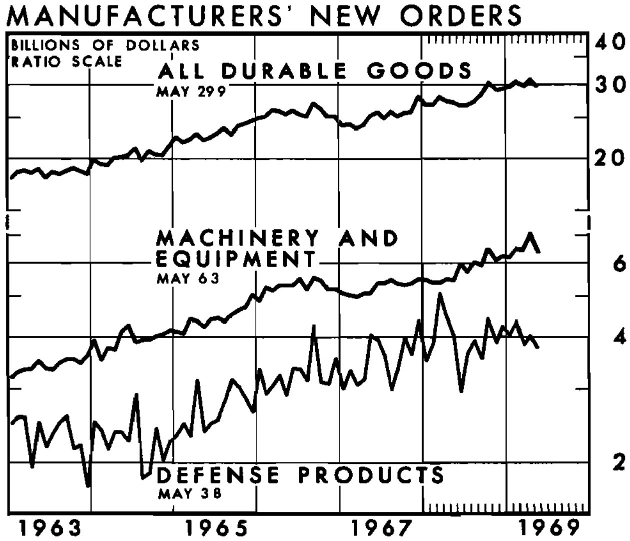
BUSINESS INVESTMENT



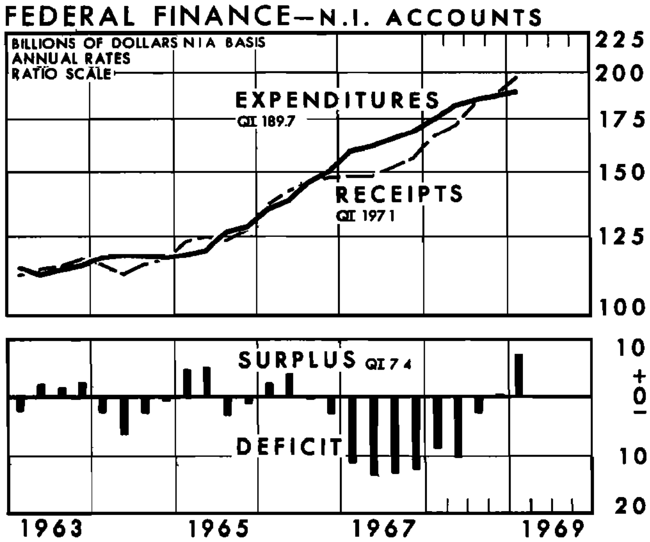
RETAIL SALES



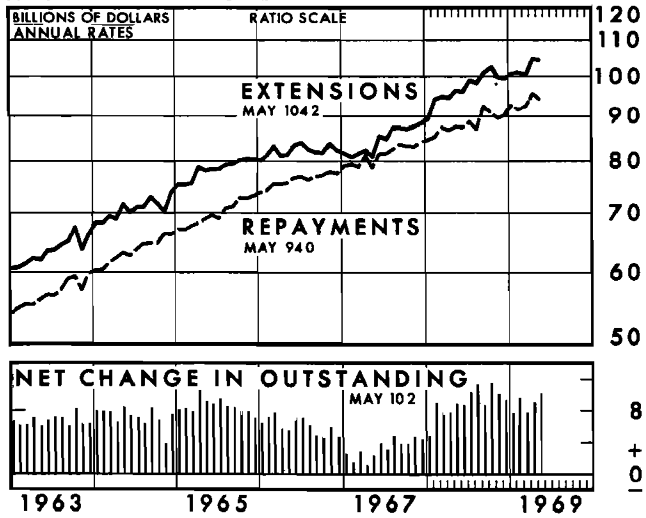
MANUFACTURERS' NEW ORDERS



FEDERAL FINANCE—N.I. ACCOUNTS



INSTALMENT CREDIT



DOMESTIC FINANCIAL SITUATION

Bank credit. Total commercial bank credit is estimated to have declined slightly in June. Loans outstanding fell somewhat, as business loans remained unchanged and the level of all other loans fell slightly, on balance. The loan figures were reduced by sales of loans by banks to affiliates, which amounted to $600 million during the first three weeks in June. Bank holdings of securities also declined slightly, reflecting reductions in holdings of municipal and agency issues.

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

	1968	1969			
	QIV	QI	QII	1st Half	June 1/
Total loans & investments 2/	10.7	2.3	3.8	3.1	-0.9
U.S. Gov't. securities	-15.6	-26.7	-9.8	-17.9	--
Other securities	26.9	2.2	-2.8	-0.3	-1.7
Total loans	13.1	9.4	8.7	9.1	-0.9
Business loans	15.2	16.3	11.2	14.0	--
All other loans	11.9	5.1	7.1	6.2	-1.5
MEMO:					
Credit Proxy 3/	11.7	-2.4	0.3	-1.2	-3.6

1/ All June figures are preliminary estimates and are subject to change.
2/ Last Wednesday of the month series.
3/ Monthly average of daily figures, adjusted to include Euro-dollar borrowings.

Outstanding business loans remained unchanged in spite of the very large volume of corporate taxes due at mid-month and continued inventory accumulation. While a large part of the recent sale of loans by banks undoubtedly consisted of business loans, the failure of business loans to rise in June may also reflect some repayment of bank loans as demand shifted back to the commercial paper market following the prime rate increase early in the month. In addition, business borrowing during the tax and dividend period was less than usual as corporations liquidated a large volume of CD's and other money market instruments to meet tax payments, probably in response to the recent increase in the cost of bank credit. There may also have been some anticipatory borrowing to meet tax payments prior to the increase in the prime rate. The June weakness in business loans was somewhat more pronounced at banks in New York City, and was fairly widespread among industry categories, although borrowing by metals producers and fabricators was particularly small.

Growth of real estate loans slowed markedly further in June, while consumer loans continued to expand at about the reduced pace prevailing since year-end. Virtually all other major types of loans declined.

Banks reduced their holdings of securities only nominally in June, following substantial liquidation earlier in the year to meet heavy loan demands in the face of deposit outflows. Bank holdings of U.S. Government securities showed no change while holdings of other securities--mainly municipals and agency issues--declined slightly further. The relative stability of bank holdings of securities in June may reflect the reluctance of banks to reduce these holdings much below current low levels.

Bank deposits. Total bank deposits declined rapidly in June, and banks with foreign branches apparently preferred to augment their funds available for loans by borrowing in the Euro-dollar market rather than by reducing further their already low holdings of securities. In spite of Euro-dollar rates ranging from 10 to 12 per cent on most maturities, bank liabilities to foreign branches rose by about $3.5 billion in June, or more than the increase over the first five months of the year.

The June decline in bank deposits consisted in large part in heavy further CD attrition, although consumer-type time and savings deposits also declined contraseasonally. Outstanding CD's at weekly reporting banks fell by more than $1.7 billion in June, and New York and Chicago banks lost another $234 million in the first week in July. This brought the total decline since December 11 to more than $9.2 billion or nearly 40 per cent of the amount of CD's outstanding at that time.

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

	Dec. 11-May 28 1/			May 28-June 25 1/		
	1967	1968	1969	1967	1968	1969
Total time & savings deps.	9,068	777	-6,449	1,020	-318	-2,221
Consumer-type deposits	4,316	2,102	697	1,037	402	-192
Savings deposits	299	-106	-1,081	454	187	-141
Time deps., IPC (other than CD's, IPC)	4,017	2,208	1,778	583	215	-51
Negotiable CD's	3,669	-1,572	-7,286	77	-272	-1,703
All other time deps. 2/	1,083	247	140	-94	-448	-326
MEMO:						
Euro-dollar borrowings 3/	-1,573	1,254	3,103	391	353	3,569

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 fell substantially further in June, following a small decline in May. The fact that banks did not experience the rise in these deposits that usually follows the outflows in April--associated with quarterly interest crediting--may reflect the diversion of funds to market instruments in view of the current level of market rates of interest. Most of the reduction in these deposits in May and June were in time certificates and open accounts at New York City banks, although outside banks also lost a sizable amount of regular savings deposits in June. Inflows of time and savings deposits at country banks slowed markedly in June, and were much less than in comparable periods of other recent years.

With bank reserve positions under continuing pressure and market rates increasing further, the money stock, measured on a daily average basis, rose at only a 1.2 per cent annual rate in June. However, the June increase would have been larger had it not been for the rise in cash items in the process of collection (a deduction item in calculating the money stock) associated with large increases in bank borrowing in the Euro-dollar market through their foreign branches. The June rise brought the annual rate of increase in the money stock for the second quarter to about 2.9 per cent and the increase for the first half of the year to 2.4 per cent. U.S. Government deposits fell by $1.9 billion in June, bringing the average level of these deposits to about that existing in December of last year.

Nonbank depositary intermediaries. With the rising level of market yields, a further marked slowdown in the rate of growth of savings and loan share capital occurred in June. Growth during the second quarter was nearly halved from the first quarter rate. Patterns of savings flow during the early days of the current reinvestment period appear to have been similar to those of 1966. (Direct comparison of the savings and loan association experience with 1966 is not possible because data were not collected for the grace days in that year.) However, the grace period data may have become a premature indicator of S&L reinvestment period flows because certificates often come due on the first of the month. It is apparent, nevertheless, that the current outflow from both savings and loans and mutual savings banks is substantial.

GROWTH IN SAVINGS AT
NONBANK DEPOSITARY INTERMEDIARIES
(Seasonally adjusted annual rates, in per cent)

	Mutual Savings Banks	Savings & 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
II p/	n.a.	3.2	n.a.
April	2.9	1.7	2.1
May	6.7	4.5	5.2
June p/	n.a.	3.4	n.a.

p/ Preliminary.

REINVESTMENT PERIOD SAVINGS FLOWS

	1966	1967	1968	1969
(5 days)				
New York Savings Banks* (millions of dollars)	-169	- 68	-122	-238
as per cent of deposits	-1.09	-.41	-.67	-1.26
(3 days)				
Savings and Loan Associations** (Millions of dollars)	n.a.	-568	-610	-718
as per cent of deposits/shares	n.a.	-.48	-.48	-.54

* - 15 largest New York City savings banks.
**- Universe estimates based on sample of 480 associations.

Reports indicate that the reinvestment period experience so far has been in line with industry projections, and the savings institutions apparently had prepared for this by reducing new mortgage commitments. Savings and loan associations also increased their advances from the FHL Banks by nearly $500 million during June--a relatively large amount. In early July, a high rate of borrowing from the FHL Banks continued, reducing the liquid resources of the FHLB System on July 3 to $0.9 billion--$700 million below the end-of-May level.

S&L borrowing from the FHLBB is expected to continue rising. Commitments are very high relative to recent cash flow. Moreover, even after the recent increase in advances, associations' borrowing as a proportion of total S&L funds remains considerably below the 1966 peak. Finally, the FHLBB has continued to emphasize its liberal lending policy, and the Board plans to raise new funds in July and possibly in August, though it has just increased the rates on both new and outstanding advances to the 6.50-6.75 per cent range. In another action, the FHLBB has announced its intention to advance funds with maturities of 5 years as opposed to the present one-year maximum. These long-term funds would be financed by FHLBB issuance of notes of similar maturity, the first of which is expected in August for about $200 million. 1/

1/ The procedure will be that associations will extend commitments to borrow these long-term funds, at a maximum per S&L of 1 per cent of share capital or $10 million, whichever is smaller. The FHLBB will then issue notes only in the amount of total S&L commitments received.

<u>Mortgage market</u>. With the capital markets generally continuing under heavy pressure and the critical savings reinvestment period still under way, private mortgage lenders have apparently remained quite selective. As a result, demands for FNMA's forward-purchase commitments of Government-underwritten home mortgages, while below their recent high, have continued much larger than usual, with FNMA apparently accounting for the major--if not the sole--source of new commitments for FHA and VA loans in numerous areas.

Intensified trade expectations of further increases in returns on all types of mortgages, including an upward regulatory revision in FHA and VA contract rates, have contributed to restrictive market conditions. As an indication of the underlying pressures, secondary market yields in FNMA's July 7 auction rose for the seventh consecutive week, reaching a new high of 8.47 per cent. At that level, the larger discounts on these fixed-rate mortgages have posed an even stronger barrier to transactions in this sector of the market. Meanwhile, following the hike in the bank prime rate early last month, additional restraint on housing starts and other real estate activity has come from increases--often of 100 basis points or more--in interest rates on short-term construction loans as well as on interim mortgage warehousing credit.

FNMA WEEKLY AUCTION
(Dollar amounts in millions)

	Amount of total offers Received	Amount of total offers Accepted	Implicit private market yield 6-month commitments (per cent)
Highs			
1968	$232 (6/3)	$ 89 (7/1)	7.71 (6/10)
1969	410 (6/16)	124 (6/23)	8.47 (7/7)
June 2	305	103	7.95
9	292	100	8.01
16	410	100	8.26
23	304	124	8.40
30	246	122	8.43
July 7	196	121	8.47

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 services. The first auction date was May 6, 1968.

These recent developments will undoubtedly continue the shift in net mortgage lending that was already under way. During the second quarter as a whole, net expansion in total mortgage debt--which varies with both new credit extensions and loan repayments--appears to have declined further from the record rate reached late last year. The drop reflected a considerable reduction in net lending by commercial banks--which nevertheless remained high--plus an estimated further reduction in life insurance company net mortgage acquisitions. Although net lending by savings banks dropped somewhat also, S&L net mortgage acquisitions probably held close to, if not moderately above, the volume attained earlier this year.

Corporate security and municipal bond markets. During the last two weeks in June, corporate bond yields declined from recent peaks as investors stepped up their demand and as underwriters priced new issues somewhat more aggressively in light of this demand and their smaller inventory positions. In the tax-exempt market also, increased purchases by individuals and casualty insurance companies combined with a sharply reduced calendar in this period to reduce both the level of yields and the inventory position of dealers, despite the virtual withdrawal of commercial banks from the market. Stock prices, on the other hand, continued to fall sharply in the second half of June, but recovered somewhat in the early days of July. 1/

1/ Effective July 7, the equity markets lengthened their trading period by 30 mintues to 4-1/2 hours, still one hour short of the traditional 5-1/2 hour trading day. The extension was approved by the SEC in view of lighter trading and improvement in the back-office log jam.

SECURITY PRICES AND YIELDS

	Stock Prices 1/		Bond Yields 2/	
	NYSE	AMEX	New Corporate Aaa 3/	Long-term State & local Bonds 4/
1968				
Low	48.66 (3/4)	21.58 (3/5)	6.13 (8/30)	4.07 (8/9)
High	61.14 (12/2)	33.25 (12/20)	6.92 (12/13)	4.85 (12/29)
1969				
Low	53.32 (/23)	27.72 (6/27)	6.90 (1/10)	4.82 (1/24)
High	59.32 (5/14)	32.91 (1/3)	7.75 (6/13)	5.82 (6/13)
Week of:				
May 23	58.44	31.08	7.28	5.46
29	57.9	30.98	7.44	5.60
June 6	7.38	30.74	7.52	5.73
13	55.00	29.27	7.75	5.82
20	53.65	27.99	7.66	5.79
27	53.88	27.75	7.50	5.68
July 4 p/5/	55.21	28.64	7.63	5.68

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/ July 4 a holiday; yields based on 4-day average and stock prices as of July 3.
p/ Preliminary.

In very late June and early July, several factors combined to put upward pressure on corporate yields again. Foremost among these was a ballooning of new offerings, with at least two large issues shifted forward from July to late June and several large industrial and telephone issues newly announced for July. The staff now estimates that total July offerings in the public bond market could total about $1.3 billion, the largest volume since mid-1968. The increased volume of corporate offerings does not seem to signify either a further narrowing of the gap between internal funds generation and corporate expenditures or issuer speculation on higher rates later. Rather the erosion in corporate liquidity and cumulative reduction in credit availability from both banks and the commercial paper market appears to have shifted some large borrowers to the capital market.

In addition to the expanding new issue volume, the publicity given Congressional testimony on interest rates and recent Federal Reserve proposals on Eurodollars and Federal funds probably have also influenced the behavior of some market participants. In any case, several new issue syndicates--some of which were for new issues priced ahead of the previously declining yields--were terminated in early July with upward yield adjustments of 15 to 25 basis points.

CORPORATE SECURITY OFFERINGS 1/
MONTHLY OR MONTHLY AVERAGES
(Millions of dollars)

	Public Bond Offerings		Private Bond Offerings		Stocks		Total	
	1968	1969	1968	1969	1968	1969	1968	1969
YEAR	894	--	554	--	382	--	1,830	--
Q I	821	886	574	513	330	674	1,726	2,073
Q II	1,035	1,127e	548	611e	319	702e	1,902	2,439e
June	1,340	1,210e	685	650e	385	700e	2,410	2,560e
July	1,244	1,300e	528	500e	372	800e	2,144	2,600e
Aug.	637	1,000e	400	500e	396	600e	1,433	2,100e

e/ Estimated.
1/ Data are gross proceeds.

Total corporate security offerings for July are estimated to reach $2.6 billion, with the large volume of bond offerings supplemented by an increased schedule of new stock issues. The further increase in new equity offerings reflects a large issue scheduled by a major oil company on top of the continued large volume of very small issues reported in the last Greenbook. Estimates for August suggest a continued relatively large volume of corporate security offerings, after rough adjustment for seasonal factors; corporate volume traditionally declines significantly in August because of vacation schedules.

Yields in the tax-exempt market, where the forward calendar remains unusually light, did not rise from late June levels during early July. Although June new issues were somewhat larger than originally projected, they remained considerably smaller than in other recent months, and it is now estimated that July and August offerings will also remain significantly below $1 billion.

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	1,188e	125	172
June	1,395	700e	91	222
July	1,469	800e	10	--
August	1,699	700e	40	--

e/ Estimated.
1/ Data are for principal amounts of new issues.
2/ Imputed from published sources. Does not include issues postponed that were never officially scheduled.

The smaller volume reflects announced postponements and issues failing to reach the offering stage because of the level of yields. In many cases, State rate ceilings make it impossible for local governments to bring new issues to market, but apparently some of those with the flexibility to borrow have chosen to await a lower level of yields.

Other short-term credit markets. During June, short-term interest rates outside of the Treasury short-term bill market rose sharply further. Rates on 4- to 6-month commercial paper have made the greatest advances increasing from a level of 7.50 per cent at the end of May to around 8.63 per cent most recently. Three-month finance paper has also shown a significant rate increase to 7.50 per cent, an increase of 62 basis points. At the beginning of the year, both of these short-term instruments had been quoted at 6.25 per cent. The three-month bankers' acceptance rate has also risen substantially from 7.50 per cent at the end of May to 8.50 on July 7.

The amount outstanding of commercial and finance paper continued to increase markedly in May, although at a reduced pace from April. The rise in such paper placed through dealers, representing primarily corporate commercial paper issuance, totaled $165 million in May compared to the $1.3 billion seasonally adjusted increase in April. The volume of new issues placed through dealers picked up again in early June in anticipation of the prime rate hike but then slackened off late in the month and in early July.

CHANGES IN COMMERCIAL AND FINANCE PAPER
AND BANKERS' ACCEPTANCES OUTSTANDING
(In millions of dollars)

	1966		1967		1968		1969	
	Apr.	May	Apr.	May	Apr.	May	Apr.	May
Commercial & finance paper								
Total	213	-46	304	568	-718	689	1,125	890
Placed through dealers	184	-56	76	441	237	-87	1,301	165
Bankers' acceptances	76	-46	126	134	94	-71	46	158

Data for Commercial and Finance Paper is seasonally adjusted, data published in Bulletin is seasonally unadjusted. Adjustment factors are revised at the end of each year.

Short-term rates in the Agency market have also shown substantial increases during June. For example, the June 19 FICB offering of 9-month notes was priced to yield 7.90 per cent, compared with a yield of 7.10 per cent on a comparable May 21 issue. Offerings in the Agency market in May and June were quite heavy. These offerings raised a total of $2,230 million of new money; this was $935 million more than in May-June 1968 and only $284 million less than the very large amount raised in May-June 1966, the previous period of heavy Agency financing.

FEDERAL AGENCY FINANCING RATES
IN MAY AND JUNE

	Maturity of offering					
	Less than 6 months	6-9 months	9-12 months	12-18 months	18-24 months	Greater than 2 years
Offering (new money) (In millions of $)						
5/14 $450 FHLB ($500)		7.00				
5/14 350 FHLB ( )					7.00	
5/15 289 COOPS(-9)		6.90				
5/21 445 FICB (132)		7.10				
5/27 100 TVA (10)	7.16					
5/28 400 FNMA (350)				7.38		
5/28 200 FNMA ( )						7.40
6/3 100 TVA (100)						7.75
6/12 550 FHLB (260)			8.00			
6/17 700 CCC (700)	8.72*					
6/17 249 COOPS(-19)		7.85				
6/19 432 FICB (106)		7.90				
6/24 90 TVA ( )	8.21*					
6/26 250 FNMA (100)				8.10		
Total new money($2,230)						

* - Average discount.

General movements in short-term interest rates for selected recent dates are summarized in the following table.

SHORT-TERM INTEREST RATES

	1969 1/		1969			
	Lows	Highs	June 3	June 17	June 24	July 7
1-month						
CD's (prime NYC)						
Highest quoted new issue	5.50	5.50	5.50	5.50	5.50	5.50
Secondary market	6.45 (3/14)	8.37 (7/2)	7.50 (5/28)	8.05 (6/11)	8.05 (6/18)	8.37 (7/2)
3-month						
Treasury bills	5.87 (4/30)	6.88 (7/7)	6.14	6.52	6.45	6.88
Bankers' acceptances	6.38 (2/17)	8.50 (7/7)	7.50	8.00	8.25	8.50
Federal agencies	6.13 (4/4)	7.47 (7/2)	6.85 (5/28)	7.25 (6/11)	7.36 (6/18)	7.47 (7/2)
Finance paper	6.13 (1/24)	7.50 (7/7)	6.88	7.13	7.50	7.50
CD's (prime NYC)						
Highest quoted new issue	6.00	6.00	6.00	6.00	6.00	6.00
Secondary market	6.40 (1/30)	8.70 (7/7)	7.40 (5/28)	8.00 (6/11)	8.25 (6/18)	8.70 (7/7)
6-month						
Treasury bills	5.96 (4/30)	7.12 (7/7)	6.47	6.63	6.97	7.12
Bankers' acceptances	6.50 (2/17)	8.62 (7/7)	7.63	8.12	8.38	8.62
Commercial paper	6.25 (1/6)	8.63 (7/7)	7.62	8.25	8.50	8.63
Federal agencies	6.32 (1/17)	8.02 (7/2)	6.77 (5/28)	7.61 (6/11)	7.78 (6/18)	8.02 (7/2)
CD's (prime NYC)						
Highest quoted new issue	6.25	6.25	6.25	6.25	6.25	6.25
Secondary market	6.50 (1/30)	9.00 (7/7)	7.50 (5/28)	8.10 (6/11)	8.25 (6/18)	9.00 (7/7)
1-year						
Prime municipals	3.90 (1/2)	5.40 (6/11)	4.40 (5/28)	5.40 (6/11)	5.25 (6/18)	5.10 (7/2)

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

Government securities market. Yields on most U.S. Government securities have risen considerably since the last FOMC meeting. Note and bond yields generally have advanced some 5 to 40 basis points as indicated in the following table, while bill rates have gained around 5 to 55 basis points.

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

	1969 1/		1969		
	Lows	Highs	June 24	July 1	July 8
Bills					
1-month	5.30 (3/25)	7.00 (7/1)	6.40	6.85	6.90
3-month	5.87 (4/30)	6.98 (7/8)	6.45	6.67	6.98
6-month	5.96 (4/30)	7.18 (7/8)	6.97	7.10	7.18
1-year	5.86 (1/16)	7.08 (7/8)	7.09	7.47	7.08
Coupons					
3-year	6.02 (1/20)	7.34 (7/8)	6.94	7.27	7.34
5-year	6.11 (1/20)	7.04 (7/8)	6.80	7.02	7.04
10-year	5.95 (1/20)	6.79 (7/8)	6.63	6.75	6.79
20-year	5.91 (5/5)	6.46 (5/28)	6.27	6.29	6.36

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

Delays in Congress on extension of the surtax contributed to the market's weaker atmosphere; and the addition of several sizable forthcoming new offerings in the corporate market also has put upward pressure on Government yields. Finally, the System's recent announcements of proposed marginal reserve requirements on Euro-dollar holdings and proposed applicability of reserve requirements and Regulation Q to certain types of Federal funds transactions caused some uncertainty in the market as to the near-term course of interest rates and credit availability.

In light of these developments, and with financing costs remaining high--recently ranging generally between 9 and 10 per cent in New York and 7--8-1/2 per cent on repurchase agreements out of New York--dealers at times have sought to lighten their positions. Professional selling, plus System purchases of $67 million of notes and bonds on July 2, has helped to reduce dealer inventories of notes and bonds somewhat. Between June 24 and July 8, holdings of coupon issues declined $25 million on balance, as the table shows.

DEALER POSITIONS IN GOVERNMENT SECURITIES
(Millions of dollars)

	June 24	July 1	July 8
Total	1,726	2,528	1,930
Treasury bills (total)	974	1,763	1,202
Due in 92 days or less	-447	362	130
93 days and over	1,421	1,401	1,072
Treasury notes and bonds (total)	752	765	727
Due within 1 year	241	276	317
1-5 years	114	123	105
Over 5 years	397	366	305

Bill rates have fluctuated widely in the last three weeks. Actual and anticipated reinvestment demand from the over $950 million of maturing 2-1/2 per cent bonds not exchanged in the May refunding and from the $4.5 billion of June tax bills not turned in for taxes tended to put downward pressure on yields in the latter half of June. In the last few days of the month, bank window-dressing demand for the mid-year statement date tended to depress rates temporarily.

The bulk of the demand for bills during this period was concentrated in the shorter maturities, and in consequence, dealers ran down their holdings of bills due within 92 days to large net short positions in late June, at one time to deeper than $600 million.

More recently, dealers' holdings of shorter bills have been replenished somewhat, reflecting some professional short covering as well as some customer selling, including reversal of window-dressing operations. In an already nervous market, this recent selling, combined with the prospect of a large supply of new issues, has put renewed upward pressure on bill yields.

The Treasury announced its July cash financing plans a few days earlier than generally had been expected. The debt managers are auctioning a total of $3.5 billion of tax anticipation bills--$1.75 billion of December tax bills on Wednesday, and another $1.75 billion of March maturities on Friday. Commercial banks may pay for their awards in full by crediting tax and loan accounts, which are estimated by the market to have an average life of 8 or 9 days. The payment date for both issues is July 18.

<u>Federal finance</u>. From preliminary June budget data, it now appears that the fiscal 1969 budget was in surplus by about $1 billion. This was the amount predicted by Budget Director Mayo in his May 20 review, but the levels of receipts and expenditures, which appear to be $187 billion and $186 billion, respectively, would each

be about $500 million higher than the Administration's forecasts. To insure this surplus, the CCC issued $700 million of participation certificates, which were offset against expenditures under last year's accounting practices.

As had been expected, the Treasury cash balance was $5.9 billion at the end of June, but revised estimates of third quarter cash flows--mainly due to larger anticipated outlays indicate a tighter Treasury cash situation during this quarter than had been anticipated in the last Greenbook. The Treasury is offering $3-1/2 billion of tax bills in early July and will probably raise about $1-1/2 billion of additional cash in August. Even with $5 billion of new cash raised during July and August, the operating balance could fall below $1 billion in mid-September before the quarterly tax receipts buoy it to a comfortable level. Toward the end of July, the Treasury will be announcing plans to rerund $3.2 billion of publicly-held coupon issues maturing in mid-August.

A recent House-Senate conference agreement on the fiscal 1970 spending ceiling provides a target ceiling of $191.9 billion, one billion below the Administration estimate. The ceiling is cushioned by allowance for $2 billion of overruns in specified uncontrollable categories; but overruns in excess of this amount would have to be offset by cuts in other programs. In addition, Congress will change the level of the ceiling if it approves spending authority different from the Administration's April requests. The format of this spending ceiling suggests that the Administration's $192.9 billion estimate of 1970 outlays is a reasonable projection at this time.

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

	Fiscal 1969		Calendar	Fiscal 1970		Calendar quarter					
						1969				1970	
	May Budg. Bureau est.	FR. Bd	year 1969 e/	May Budg. Bureau est.	FR. Bd	I	II e/	III e/	IV e/	I	II e/
Quarterly data, unadjusted											
New budget:											
Surplus/deficit	.9	1.0	6.8	6.3	2.5	- 2.0	13.3	.2	- 4.7	- 4.1	11.1
Receipts	186.5	186.9	195.2	199.2	195.4	44.1	59.9	47.9	43.3	43.5	60.7
Total expenditures and net lending	185.6	185.9	188.4	192.9	192.9	46.1	46.6	47.7	48.0	47.6	49.6
Means of financing:											
Total borrowing from the public		- 1.0				.1	-12.2	3.8			
Decrease in cash operating balance		- .6				- .1	- 1.1	-3.1			
Other 1/	n.e.	.6		n.e.		1.9	- .1	- .9		n.e.	
Cash operating balance, end of period		5.9				4.8	5.9	9.0			
Seasonally adjusted annual rate											
Federal surplus/deficit in national income accounts	3.4 2/	3.5	6.9	6.3 2/	2.6	7.4	9.0	4.8	6.3	- .1	- .6
Receipts	191.3	191.8	200.2	202.8	199.1	197.1	201.0	200.5	202.1	196.5	197.2
Expenditures	188.0	188.4	193.3	196.5	196.5	189.7	192.0	195.7	195.8	196.6	197.8
High-employment surplus/deficit 3/	n.e.	1.0	6.5	n.e.	6.0	5.7	7.5	4.8	8.1	4.4	6.9

e--Projected. Assumes extension of surcharge at 10 per cent through end of calendar year 1969 and at 5 per cent for January to June 1970. Also assumes repeal of investment tax credit.
n.e. - Not estimated.
n.a. - Not available.
1/ Includes various accrual items, such as deposit fund accounts and clearing accounts.
2/ National Income account translation estimated by Federal Reserve staff.
3/ Estimated by Board staff using QIII 1969 as the base quarter.

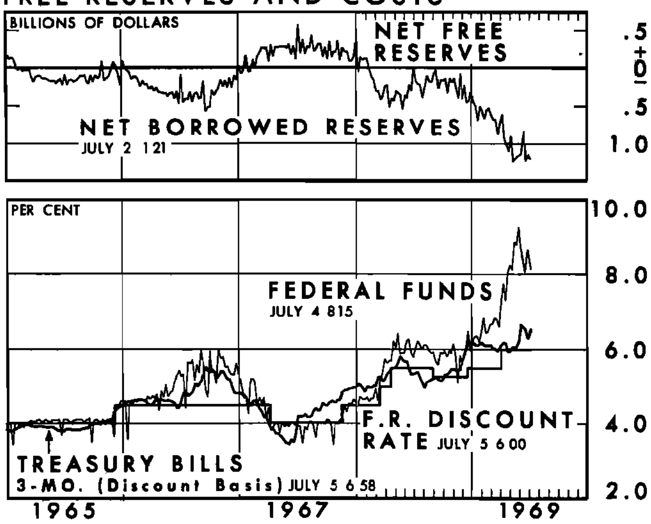
PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	June[a]	July	Aug.	Sept.
Borrowing operations				
New cash raised:				
Weekly and months bills	--	--	--	--
Tax bills	--	3.5	1.5	--
Coupon issues	--	--	--	--
Other (agency, debt repayment, etc.)	-8.2	--	-1.2	--
Total net borrowing from public	-8.2	3.5	.3	--
Plus: Other net financial sources[b]	.2	- .6	-1.3	1.0
Plus: Budget surplus or deficit (-)	8.2	-2.9	-1.6	4.7
Equals: Change in cash balance	.2	--	-2.6	5.7
Memoranda: Level of cash balance end of period	5.9	5.9	3.3	9.0
Derivation of budget surplus or deficit				
Budget receipts	23.0	12.0	14.8	21.1
Budget outlays	14.8	14.9	16.4	16.4

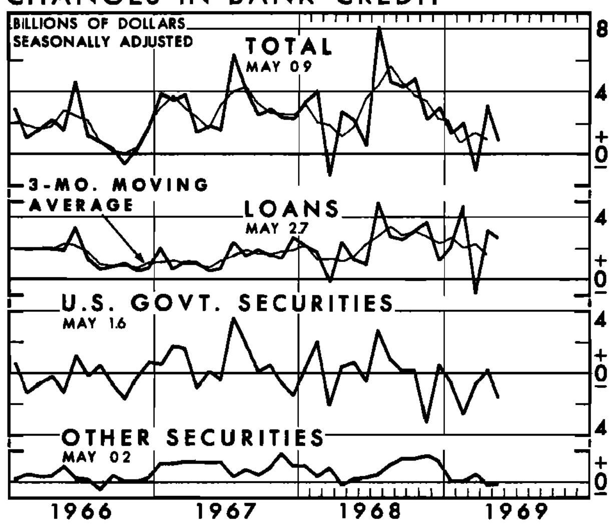
a/ Actual and estimated data.
b/ Checks issued less checks paid and other accrual items.

FINANCIAL DEVELOPMENTS - UNITED STATES

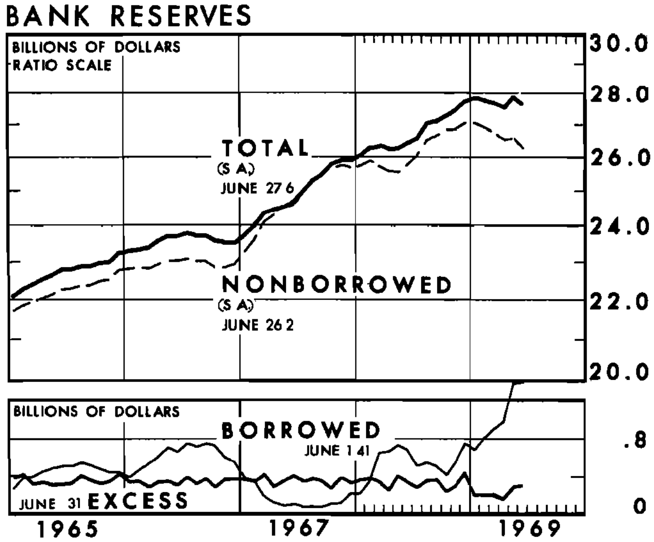
FREE RESERVES AND COSTS



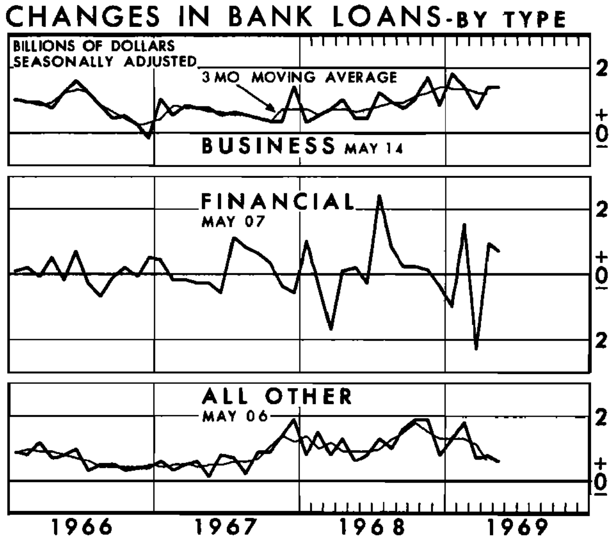
CHANGES IN BANK CREDIT



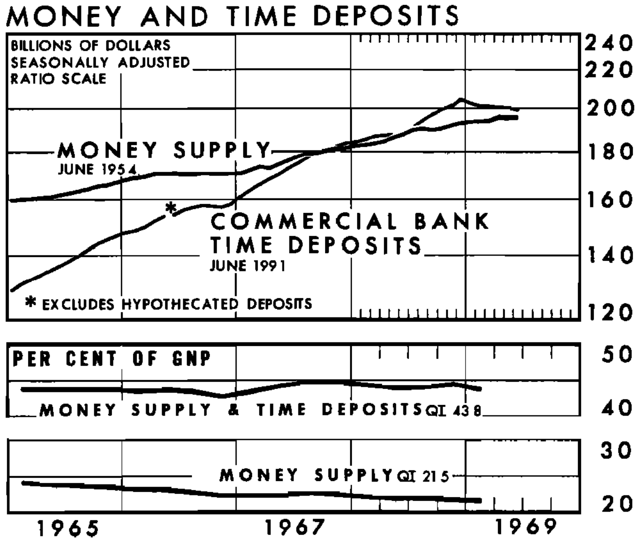
BANK RESERVES



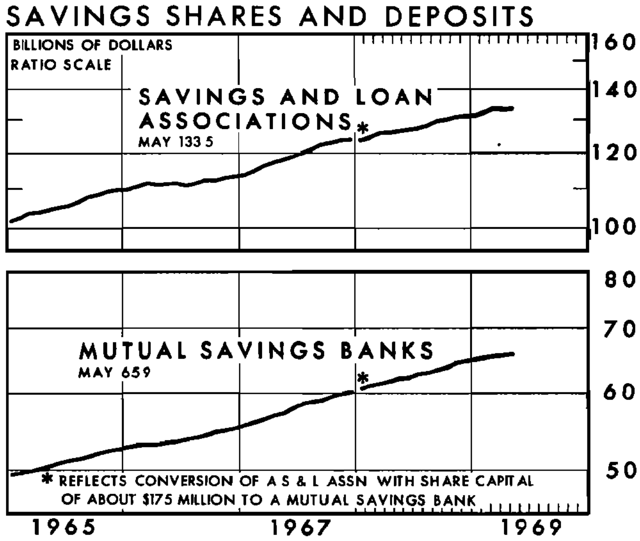
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

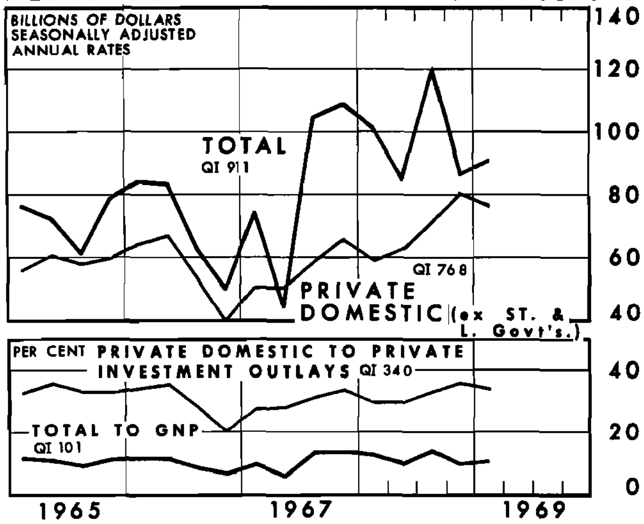


SAVINGS SHARES AND DEPOSITS

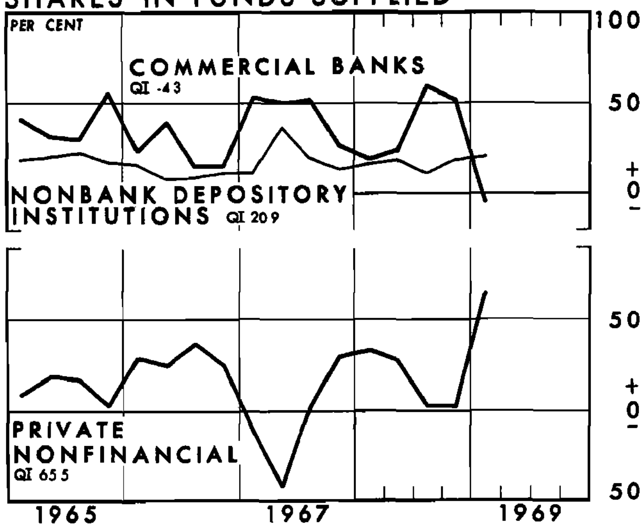


FINANCIAL DEVELOPMENTS - UNITED STATES

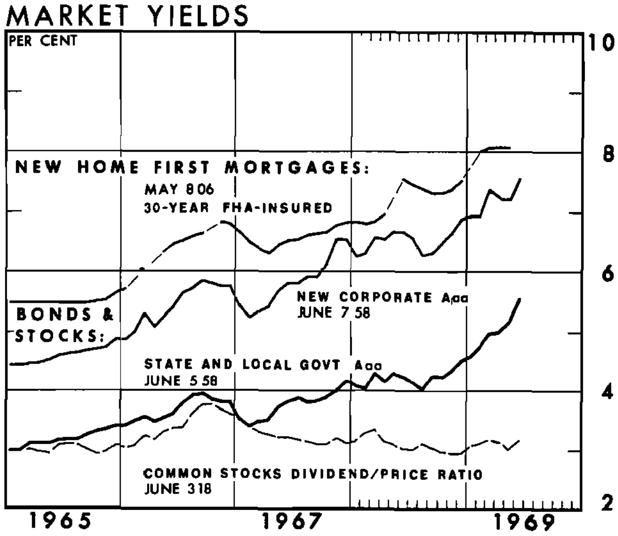
NET FUNDS RAISED - NONFINANCIAL SECTORS



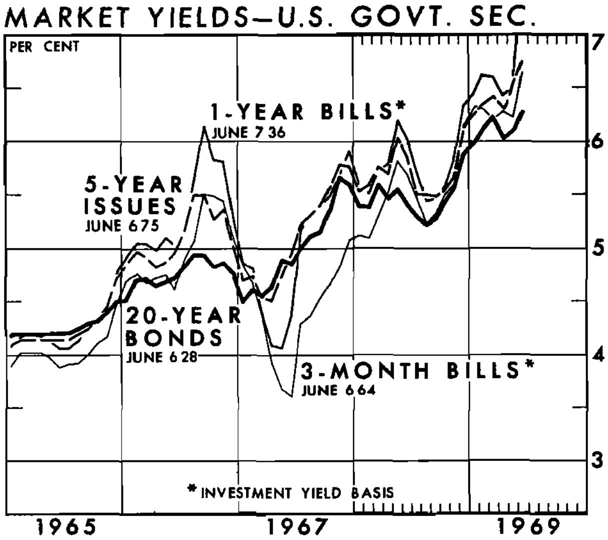
SHARES IN FUNDS SUPPLIED



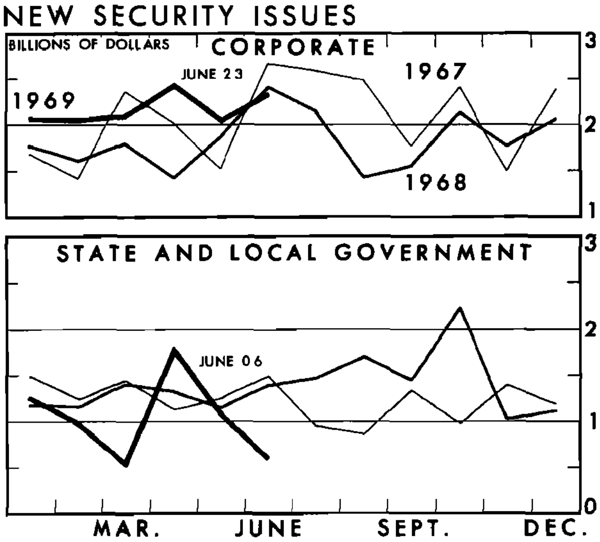
MARKET YIELDS



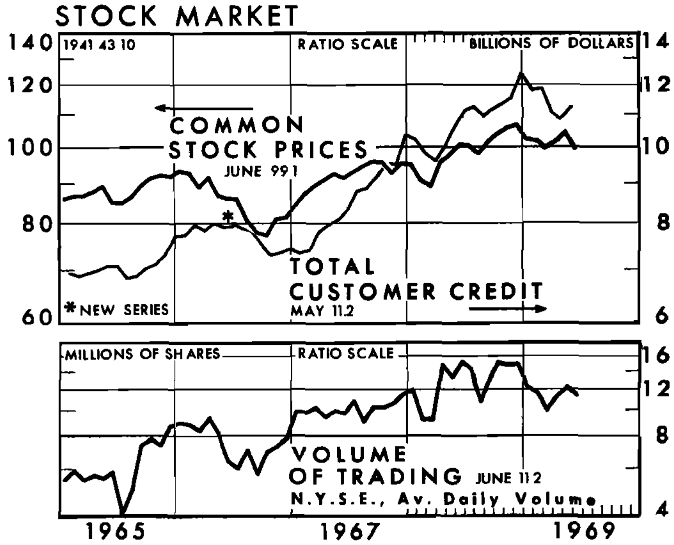
MARKET YIELDS—U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

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U.S. balance of payments. The over-all structure of U.S. international transactions to mid-year has been dominated by flows of liquid capital and the after-effects of the dock strike. Outflows of mobile funds from the United States were already a principal factor in the spurt of the deficit on the liquidity basis to $1.7 billion (seasonally adjusted) in the first quarter and contributed greatly to the estimated $4 billion deficit in the second quarter. However, there was a large surplus on the liquidity basis in the last few days of June, suggesting that there had been at least a temporary reversal of the flow.

Although the reasons for such outflows are readily apparent -- especially in May speculation on a German mark revaluation and very high yields on Euro-dollar deposits in June -- they seem to be taking forms that tend to escape the normal process of statistical reporting. Consequently the size of the flows can only be inferred by comparing the measured changes in U.S. reserves and liquid liabilities to foreigners with such estimates as can be made at this time of the course of the usual current and capital transactions. For the first half of 1969, as a very rough order of magnitude, outflows motivated by expectations of DM revaluation or by an opportunity for high yields could account for half, or perhaps somewhat more, of the nearly $6 billion liquidity deficit. If so, the liquidity deficit resulting from all other transactions in the first half of the year would still be very high -- at an annual rate well in excess of $4 billion.

In May and again in June the monthly liquidity deficit (not seasonally adjusted) reached about $1.5 billion, but the financing of the deficit changed drastically. In May there was only a minor increase in U.S. liabilities to commercial banks abroad, but liabilities to foreign official accounts rose by $1.5 billion, as most of the flow of funds from the United States, and from other countries as well, went into German official reserves. By the middle of May funds were moving out of Germany, some with forward cover back into marks, and, together with fresh outflows from the United States and other countries, were being lodged in the Euro-dollar market, where the intense demand for funds, chiefly by U.S. banks, was driving up interest rates. Consequently in June there was a decline of some $2-1/4 billion in U.S. liabilities to foreign official accounts, but a rise approaching $4 billion in liabilities to commercial banks abroad, including an increase of about $3-1/2 billion in liabilities to foreign branches of U.S. banks.

For the second quarter as a whole, it is estimated on the basis of incomplete data that the liquidity deficit of about $4 billion was financed by an increase in liabilities to private foreign accounts of nearly $5 billion (very largely as liabilities to foreign branches), a decrease of somewhat over $1/2 billion in liquid liabilities to foreign official accounts, and a small gain in reserve assets.

Although the nature of the outflow of funds from the United States that contributed to the supply of funds in the Euro-dollar market is obscure, it seems likely that part of what we have been seeing is a circular flow of funds normally held directly in the United States (including perhaps foreign funds held here but not ordinarily identified as foreign) but now redeposited abroad to escape the interest rate ceiling.

Apart from the distortions of the accounts resulting from abnormal movements into German marks or into Euro-dollar deposits, there remains a disturbingly large liquidity deficit. Part of the worsening in the second-quarter deficit is identifiable as a shift in claims on foreigners by U.S. banks from an inflow (seasonally adjusted) of $70 million in the first quarter to an outflow of perhaps $300 million in the second. (The latter number involves an assumption, based on very partial information, that the net flow in June was negligible.) In April-May, when there were sizable bank credit outflows, the principal recipients were France, Germany, Canada, Israel and Korea; claims on Japan, by far the largest single borrower, did not change significantly. It has been reported that some lending has occurred under long-standing commitments, presumably reflecting the sharp rise in the cost of borrowing in the Euro-dollar market since April.

Foreign purchases of U.S. corporate securities (including new issues sold abroad) have dropped off sharply from the $1.2 billion recorded in the first quarter. Net purchases of corporate equities in the U.S. market in May were over $150 million; this was larger than the amounts purchased in March or April, but considerably short of the peak inflows of earlier months. There is no reliable evidence yet of the net balance of these stock market dealings in June, but the total for the quarter was certainly far less than the inflow of over $700 million in the first quarter. Sales of new issues by U.S. corporations in foreign markets were also greatly reduced in the second quarter, and probably totalled about $100 million compared to $400 million in the first quarter. (These figures include sales of securities abroad by foreign affiliates to the extent the proceeds are for use in the United States.)

Among other known features of the second quarter transactions, sales of new foreign bonds in the U.S. market were unusually low at about $250 million, half the first-quarter amount, reflecting the tightening of the securities market here. There is a continuing moderate outflow of U.S. capital to purchase foreign corporate stocks, and this was probably somewhat higher in the second quarter than in the first. It seems likely that the outflow of direct investment capital was larger in the second quarter following the relatively subdued outflow in the earlier months of the year. Such outflows may reflect part of the flow into German marks, if U.S. parent companies took the opportunity to advance funds to their German affiliates to reduce DM debt or acquire DM assets. Also, the second-quarter deficit was probably worsened by a faster rise in income payments to foreigners than in income received. As noted below, the turnaround from a merchandise trade deficit in the first quarter to a surplus in April-May, as the effects of the dock strike were reversed, was quite small; probably the quarter-to-quarter gain in the trade balance was only a few hundred million dollars.

As a result of the huge flow of liquid funds into the Euro-dollar market after mid-May out of other currencies, the U.S. official reserve transactions balance moved into surplus once again. For the month of June the surplus on this basis was about \$2-1/2 billion, and for the entire second quarter it was about \$1-1/4 billion. U.S. reserve liabilities, liquid and non-liquid, were reduced by about \$1 billion in the quarter, and reserve assets rose by about \$300 million.

U.S. foreign trade. The trade balance in May (balance of payments basis) was in deficit, as exports fell while imports rose. For the first five months, the trade balance was a net deficit of about \$1/4 billion at an annual rate, compared with the \$1/2 billion rate of export surplus in the last half of 1968 as measured by recently revised figures. The main explanation for this worsening is the dock strike of December-March.

The permanent loss of trade due to the strike was probably greater for exports than for imports, perhaps \$500 million for exports -- \$300 million in agricultural goods and \$200 million in other types -- and of about $200 million for imports. Port congestion was apparently still slowing cargo movements in June. It has been reported that the railroads were still limiting shipments to West Gulf ports in late May -- nearly two months after the ending of the strike in those ports. Rough estimates indicate that there were still backlogs of $1/2 to $3/4 billion or more each of exports and imports remaining to be moved after May as a result of the strike-induced delays.

Exports in April and May were both above "normal" but not sufficiently to recoup the strike losses of the first quarter. In January-May exports were at an annual rate of $33.4 billion (balance of payments basis), moderately below the rate in the second half of 1968. Shipments to Western Europe in January-May were at a rate about 5 per cent less than in the last half of 1968; exports to Japan were slightly lower. Exports to Europe and Japan had expanded sharply from the first to the second half of 1968 -- 11 and 5 per cent respectively -- and continued growth was expected in view of the economic boom in Europe and continued expansion in Japanese output.

The failure of exports of machinery to rise further in April-May after a sharp pickup in March with the ending of the strike is particularly surprising. Export orders for such equipment had risen sharply in 1968 and these should have been reflected in expanded deliveries by now. The sharp drop in shipments to Europe and the sluggishness in machinery exports through May both suggest that there had been only a partial recovery from the effects of the dock strike.

As noted in the previous Green Book, a decline in commercial aircraft exports began to develop in April. This is likely to go considerably further later this year, until Boeing 747's begin to be shipped in volume, and may significantly retard the expected rise in the trade balance.

Imports in April-May were also estimated to be inflated by post-strike influences, but January-May imports at an annual rate of $33.6 billion (balance of payments basis) were below the rate in the second half of 1968. Imports of automobiles and other nonfood consumer goods were up, but imports of foods and industrial materials were down. The increase in consumer goods possibly reflects the importance of Japan, Hong Kong and Taiwan as suppliers of such products and their access to the West Coast ports, not affected by the strike. Imports of cars from Japan have been particularly strong this year. Sales of Toyotas and Datsuns in the United States were more than twice as large in the first five months as in the year-earlier period. Arrivals of cars from Canada have also increased.

Since economic activity in Europe and Japan has expanded sharply this year, and output and consumption in the United States remain strong, clearly it is not lack of demand that lies behind the relatively low aggregate January-May levels of both exports and imports. Rather it may be that insufficient time has elapsed since the ending of the dock strike -- between 2 to 3 months -- for the ports to handle the tremendous backlog of goods accumulated during the strike. Trade movements in April and May were at record amounts and it may be that for one reason or another, port operations have been as large as they could be. It is likely that exceptionally high rates of trade movements in both directions may continue for several more months, not only because of the cargo backlog but also because of the demands generated by continuing economic growth here and abroad.

Foreign exchange markets. The usual mid-year strengthening in demand for major foreign currencies -- associated with the repatriation of funds by foreign commercial banks to meet late-June domestic liquidity needs -- did not materialize this year in face of the strong pull of extremely high Euro-dollar rates. After a week's lull, the flow of funds from German marks resumed on June 24, since which date the Bundesbank has sold about $450 million on an outright spot basis. The Bundesbank has done no swap business since June 11 when it raised its swap rate to a level uncompetitive with the market forward rate.

The ordinarily large mid-year flow of funds into Swiss francs was apparently damped this year by the attractiveness of Euro-dollar yields. The Swiss National Bank did $250 million of dollar/franc swaps with Swiss commercial banks, which acquired an additional $280 million through the central bank discount window. But Swiss banks did not repatriate any dollars to sell outright to the BNS as had been expected.

The Dutch guilder and Belgian franc have continued under moderate selling pressure, presumably reflecting the movement of funds into Euro-dollars. So far in July the Netherlands Bank has lost about $45 million. On July 2 it announced it is taking measures to moderate the impact of high Euro-dollar rates on capital flows from the Netherlands. It is requiring Dutch commercial banks to adjust their net foreign asset positions so that their average net positions during the second half of 1969 will be 10 per cent less than the level of end-May or the average of March and April.

Selling pressure against the French franc moderated briefly late in June. However, it resumed about July 3 and the Bank of France lost about $100 million in the first six trading days of July. Also, the Italian lira, which had been generally firm during June with the Bank of Italy making very small dollar purchases, weakened substantially beginning July 7 in response to political uncertainty in Italy. Although the Bank of Italy so far has not intervened in the exchange market, the lira rate has fallen sharply to a point just about its lower limit.

The demand for sterling has remained generally firm since mid-May. The Bank of England purchased just over $300 million in the market in June, and so far in July it has purchased $65 million.

The price of gold remained steady at about $41.00 an ounce from mid-June until late the first week of July when it began to rise, reportedly reflecting demand connected with the governmental instability in Italy. On July 9 the price of gold was $41.90 an ounce.

Euro-dollar market. Euro-dollar deposit rates in most maturities advanced moderately as the end of June neared, and then dropped sharply on June 27, perhaps in reaction to the Federal Reserve's proposed imposition of reserve requirements on Euro-dollar borrowings as well as the passing of mid-year pressures. During the first week of July, Euro-dollar rates advanced rather sharply; call deposit rates rose 2 per cent and rates on maturities between one month and one year advanced an average of 3/4 per cent. Early in the second week of July, however, rates in most maturities declined by about half as much as they had increased the previous week. On July 9, call and one-month deposits were bid at about 10-1/4 per cent, three-, and six-month deposits at about 11 per cent, and the twelve-month rate was 10-3/8 per cent.

Liabilities of U.S. banks to their foreign branches reached $13.6 billion on the last Wednesday of June, having increased $3.6 billion in four weeks. In the following week, to July 2, liabilities to branches declined by $475 million -- a decline only about half as large as that recorded at the end of the first quarter. As of July 7, however, liabilities to branches had again increased by nearly $800 million from their level of July 2, according to preliminary data.

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) Differential	(4) 3-month Euro-$ Deposit	(5) 3-month Treasury Bill	(6) =(4)-(5) Differential
May 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	8.54	1.04	11.23	6.65	4.58
25	9.48	8.34	1.14	11.11	6.48	4.63
July 2	10.03	9.00	1.03	10.85	6.38	4.47
9	10.60	9.30p	1.30	11.20	6.87	4.33

p/ Preliminary.

Financial developments in other industrial countries. Financial markets, except in Japan, have been tightening in recent months. Interest rates for all maturities in nearly every industrial nation are at or near their high for the year (see Table) and, indeed, for the decade. Other monetary indicators also show a consistent pattern of increasing tightness in almost all of these countries.

These tightening financial conditions have generally resulted in each country from the same set of factors, although the relative importance of each factor has varied from country to country. On the one hand, the high--and increasing--level of aggregate demand in every country except the U.K. has been accompanied by a strong--and increasing--demand for credit. At the same time, the monetary authorities, increasingly fearful of inflationary pressures, have acted in a variety of ways to restrict the supply of credit. In addition, international capital movements have tended to extend tightness in one market to all of the others. Most significant in this connection is the Euro-dollar market, in which the unprecedentedly high interest rates have exerted a restrictive influence on domestic financial markets, either directly or by inducing domestic monetary authorities to take restrictive actions to protect their foreign exchange reserves.

The outlook for monetary conditions in the industrial countries over the next few months depends partly on monetary developments in the U.S. and their repercussions on the Euro-dollar market. However, it is

SELECTED FINANCIAL YIELDS, MAJOR INDUSTRIAL COUNTRIES, 1969
(per cent per annum)

	Call			3-Month[a]			Long-term[b]		
	Low	High	Latest	Low	High	Latest	Low	High	Latest
Germany	0.50	6.13	6.00	3.75	6.00	5.68	6.19	6.70	6.68
	5/19	6/26	7/4	1/2	6/26	7/2	2/28	6/26	7/3
U.K.	6.81	9.19	8.75	7.75	9.75	9.38	8.05	9.66	9.47
	1/3	5/23	6/27	2/21	6/13	7/7	1/2	6/12	6/26
France	7.75	9.88	9.38	8.00	10.50	10.50	7.02	7.59	7.49
	1/20	6/27	7/4	1/30	6/26	6/26	3/1	5/9	6/20
Italy[c]	--	--	--	--	--	--	6.46	6.49	6.49
							Feb.	Apr.	Apr.
Belgium[d]	--	--	--	5.00	6.60	6.60	6.65	7.19	7.16
				1/13	7/7	7/7	1/1	6/1	7/1
Netherlands	2.50	6.13	6.00	5.63	6.00	5.69	6.70	7.67	7.67
	1/17	6/26	7/4	1/17	6/30	7/4	1/10	6/27	6/27
Switzerland[d]	--	--	--	4.00	5.00	5.00	4.37	4.69	4.69
				1/31	6/25	6/25	1/24	6/20	6/20
Japan	6.94	7.66	7.30	7.36	7.37	7.36	8.71	8.96	8.96
	6/20	3/28	6/27	4/25	1/31	4/25	1/31	4/30	4/30
Canada	4.70	7.34	7.34	6.21	7.23	7.23	7.11	7.60	7.54
	2/7	7/3	7/3	2/14	7/3	7/3	2/14	6/13	7/3
Euro-dollar deposits	6.50	11.50	10.25	7.06	12.50	11.25	--	--	--
	1/22	6/26	7/8	1/22	6/10	7/8			

a/ The rates quoted are for Treasury bills in Belgium and Canada, interbank loans in Germany and France, loans to public authorities in the Netherlands and the U.K., and bank deposits in Switzerland; the Japanese rate is a composite rate.

b/ All yields apply to long-term government bonds; they are either composite rates or rates for specific issues.

c/ Call and three-month rates are not available; long-term yields are monthly averages.

d/ Call rates, though published, are not considered good indicators of market trends.

unlikely that inflationary pressures will abate significantly in the next few months in any country, and in some they are likely to intensify. Monetary policies in all countries will be designed to maintain tight financial conditions. This will certainly be the case in Belgium, Canada, France, the Netherlands, and the Scandinavian countries--where both internal and external considerations call for a restrictive policy posture--and in the U.K.--where external considerations will continue to require tightness and will dominate domestic policy objectives. The German authorities face a classic fixed exchange rate conflict between internal balance (calling for restrictive measures) and external balance (requiring expansionary measures); the authorities appear to be placing increasingly high priority on domestic stabilization objectives. In Italy, the authorities have adopted, and are maintaining, a restrictive posture--in anticipation of, rather than in response to, inflationary pressures; the same may soon be true in Japan.

Thus, financial conditions are likely to remain very tight in the major industrial countries over the next several months. One implication of this is that the supply of funds from these countries to the Euro-dollar market will probably not increase substantially. If, however, the demand for Euro-dollar funds (largely by U.S. banks) were to diminish and Euro-dollar rates were to decline somewhat, reflows of funds to these countries would tend not only to reduce pressure on their international reserve positions but also to offset the domestic impact of restrictive monetary policies.

German interest rates have risen significantly since the beginning of the year, as the Bundesbank has gradually tightened its credit policy. This shift in policy in response to rising inflationary pressures has been constrained by the need to export long-term capital as an offset to Germany's large foreign trade surplus. In the first five months of this year, the net long-term capital outflow was $2.15 billion, of which $888 million consisted of foreign bond issues. In June, foreign bond issues totaled an estimated $65 million.

Pressures on economic resources have apparently built up to levels recorded at the peaks of the 1961 and 1965 booms. The inflationary potential was aggravated in April-May by the large speculative inflow of capital and the consequent large injection of liquidity into the German economy. A large part of the inflow took the form of increased foreign liabilities of non-banks (primarily loans from foreigners or foreign prepayment of exports); non-banks sold the foreign exchange accruing to them, and used the proceeds to pay off outstanding liabilities or deposited them with the German commerical banks. The resulting increase in the banks' deposit liabilities was thus subject only to the standard reserve requirements--not to the 100 per cent marginal requirement applicable to increases in foreign liabilities. An improvement of about DM 10 billion in the liquidity position of the banks in May more than offset a drain of DM 8.5 billion in February-April; the ratio of "free liquid" reserves to deposits rose from 11.7 per cent at the end of April to 14.9 per cent at the end of May, compared to 14.2 per cent at the end of January.

In June, however, there was a sharp increase in interest rates, due to seasonal pressures, higher reserve requirements (announced May 22), and the pull of the Euro-dollar market. German commercial banks built up their gross short-term foreign asset position by an estimated $900 million in the period June 1-15. By mid-June German short-term market rates were substantially higher than the prevailing discount rate of 4 per cent, and banks were discounting heavily at the Bundesbank. On June 19, the discount rate was raised from 4 to 5 per cent, the second full percentage point increase in three months. Following this, short-term rates rose even further.

The May increase in bank liquidity and the shifting of speculative foreign funds into long-term DM paper caused yields on the German capital market to steady, after rising 20 basis points in March-April. In the second week of June, however, the average yield on 6 per cent public authority bonds rose another 28 basis points, to 6.70 per cent.

Interest rates in Germany during the next several months will clearly remain higher than they were prior to the June discount action. Contributing to this is the reduction of banks' rediscount quotas, announced on March 20, which became effective on July 1.

In the United Kingdom short-term interest rates rose in March, slipped back in April, and rose again in May in connection with the rush into DM. In June rates eased, largely in response to the strengthening of sterling and the absence of a rise in the discount rate which had been widely expected prior to publication of improved May trade figures.

Long-term yields on government bonds rose almost continuously from 8.50 per cent in mid-February to 9.50 per cent in mid-June, although they, too, receded in the latter part of June as the outlook for the pound appeared to brighten.

Banks are apparently feeling some pressure on their liquidity positions. The liquidity ratio of two of the clearing banks fell below the required floor of 28 per cent in the month from mid-April to mid-May. This pressure is due in part to the surplus the central government has been running in recent months.

Aggregate demand in Britain dropped from the fourth quarter of 1968 to the first quarter of 1969, and there was at best a very limited recovery in the second quarter. In spite of this, the authorities have clearly been pursuing a tight monetary policy. The Bank of England insists that the clearing banks reduce their lending to the private sector to 98 per cent of the amount outstanding in November 1967. This target, scheduled to be reached in March, has still not been met, though the banks came within 1 per cent of it in June. In a further effort to urge compliance by the banks, the Bank of England early in June halved the interest it pays on the special deposits the clearing banks must maintain at the Bank. Moreover, the Bank has been allowing yields on government bonds to rise, instead of supporting bond prices (as it sometimes did in the past) and thus nullifying attempts to keep the expansion of the money supply in check.

The prospects for the next several months are for continued tight monetary policies. The "letter of intent," sent by the Chancellor to the IMF in connection with the $1 billion stand-by credit to the U.K., specified a goal of limiting domestic credit expansion to £400 million in 1969-70, compared to £1,225 million in 1968-69. The public sector as a whole is expected to be a net repayer of debt in this fiscal year. However, some expansion in credit to the private sector is apparently anticipated, presumably as a result of loans exempted from the 98 per cent ceiling (special loans to finance exports and shipbuilding).

Interest rates in France advanced steadily during the first half of this year, with the largest increases recorded at short-term maturities. The 12-month Treasury bill yield increased from 7.37 per cent in early November to 10.20 per cent on June 25. Similarly, the day-to-day money market rate, which is the most meaningful short-term rate, but is closely controlled by the Bank of France, rose steadily from end-January through June. The yield on public sector bonds moved erratically upward from January to May, but then eased slightly in June. These financial developments in France have been the result of a high level of demand for credit and a progressive tightening of monetary policy; French exchange controls have blocked the direct transmission of monetary stringency from other countries. The demand for credit reflects the buoyancy of the French economy, especially the consumer boom and the rapid expansion of private sector investment.

After the November 1968 crisis, reserve requirements were increased, credit ceilings were imposed, and the discount rate was increased. This tightening of monetary policy was not reinforced, however, by any additional fiscal restraint, and the consumer and import boom continued unabated. Further credit restraint was imposed, in the form of an extension of the short-term credit ceiling, another increase in the discount rate (to 7 per cent), and an effort to slow the expansion of medium-term credit for investment in other than export industries.

Although present conditions in France make policy predictions very uncertain, it is reasonable to expect that monetary policy will continue to carry the burden of restraining the economy, since fiscal restraint runs a greater risk of jeopardizing the wage negotiations and social order in general. Further credit tightening will probably occur, and interest rates in the early fall may be even higher than they are now.

Insofar as internal objectives are concerned, Italian monetary policy has remained unchanged in recent months. At present, the authorities seek to maintain the rate of expansion of demand and output that has prevailed since the latter part of 1968. Expansion has been fairly rapid by most standards, but the remaining unused capacity has prevented any rapid rise in pressure on resources. The basic continuity in monetary policy orientation is reflected in the stability of long-term yields--these are considered by Italian monetary authorities as the most important variable in the control of domestic spending.

Towards the end of March, Italian banks were instructed to liquidate by June 30 their net foreign assets, then amounting to approximately $800 million. This directive was interpreted as being designed in part to keep Italian credit conditions from tightening in response to Euro-dollar market pressures and prospects of increased Treasury borrowing this year; but since a similar effect could have been produced by other means (e.g., additional Bank of Italy advances), the dominant motive apparently was to bolster official reserves. Italian banks reduced their net foreign assets by a total of $272 million in April-May, and presumably reduced them substantially further in June. However, the Bank of Italy apparently allowed some $200 million to remain outstanding after June 30, perhaps for a lengthy period, depending on balance of payments developments.

The upward trend of interest rates in Belgium, which had been very rapid from September 1968 to March 1969, slowed considerably in April and May, but intensified in June.

Conditions in the Euro-dollar market, the rising level of economic activity, and central bank actions all contributed to this development. The Euro-dollar market did not exert a pull directly on the commercial banks after they were instructed in early April to reduce their foreign positions by an estimated $150 million by June 1. However, the Euro-dollar market did affect non-banks, and thus contributed to tighter monetary conditions.

The National Bank raised its discount rate by three half-point jumps on March 6, April 10, and May 29--from 4.5 to 6 per cent--primarily to protect Belgium's official reserves. However, domestic considerations also played a role in the May 29 rise, which was designed to reinforce newly-imposed limits on loans to domestic borrowers. These limits should lead to a substantial slowing of credit expansion this year.

Interest rates in the Netherlands have risen sharply since the end of last year, as authorities have moved to curb strong inflationary pressures in the economy. The discount rate was increased in two steps to 5.5 per cent (the highest level in forty years), credit ceilings have been imposed, and installment purchase regulations have been made more severe. These actions have been complemented by a tightening of fiscal policy and the imposition of price controls.

Dutch authorities were not unhappy about pressure exerted by high Euro-dollar rates, to the extent that this reinforced their own restrictive policies. Heavy reserve losses in June, however, prompted the Netherlands Bank, on July 2, to request that commercial banks keep their net foreign exchange positions down to the level of end-May or the average of March and April; during the second half of 1969, the net position must, on average, be lowered by 10 per cent of this level.

Short-term interest rates in Switzerland have been rising since early February, and the current rate of 5 per cent on 3-month bank deposits contrasts with the low of 4 per cent last winter. The composite yield on long-term government bonds is at a high of 4.7 per cent, up from around 4.4 per cent at the start of the year.

This rise in interest rates has probably been caused mostly by the rise in rates outside the country. There has, however, also been an acceleration in the demand for bank credit.

Monetary and credit policies in the Scandinavian countries are currently directed at moderating the rate of expansion of aggregate demand, to prevent economic overheating. In Norway, central bank credit policy has been restrictive for some time, and has recently been tightened further. In Sweden--and especially in Denmark--central bank policy has been significantly tightened because of pressures on foreign reserves, which reached crisis proportions in the case of Denmark in April and May.

Money-market conditions in Japan have remained relatively easy in recent months, mainly as a result of the Treasury's cash deficit and the balance of payments surplus. The average interest rate charged by banks leveled off at 7.36 per cent in February-April following a decline from the July 1968 peak of 7.52 per cent. The bond market, on the other hand, has been bearish; yields on telegraph and telephone bonds increased from 8.66 per cent in December to 8.96 per cent in April. (The market for these bonds is relatively unregulated, and is, therefore, a good indication of capital market forces.)

The economy is experiencing a persistent expansion in final demand. Indeed, there is some concern that the economy may be entering a period of overheating. Although a seasonal shortage of funds, expected in July and August, will be offset by the Bank of Japan, the Bank may raise its discount rate this fall.

In recent weeks money and capital markets have tightened significantly in Canada. The average tender rate on three-month Treasury bills rose in April, steadied during May, then rose again following the June 11 increase in the Bank of Canada's discount rate (to 7.50 per cent). Long-term interest rates also rose in the second quarter; the average yield on government bonds increased from 7.23 per cent in early April to 7.60 per cent on June 11, before easing slightly.

Commercial banks have come under increasing pressure as strong loan demand and a restrictive monetary policy have led to a sharp rundown in the banks' liquid assets. The chartered banks increased their prime rates to 8 per cent immediately following the discount rate increase on June 11 and, two weeks later, increased their rates to 8.50 per cent. There are reports that banks are turning away loans they would have made two months ago.

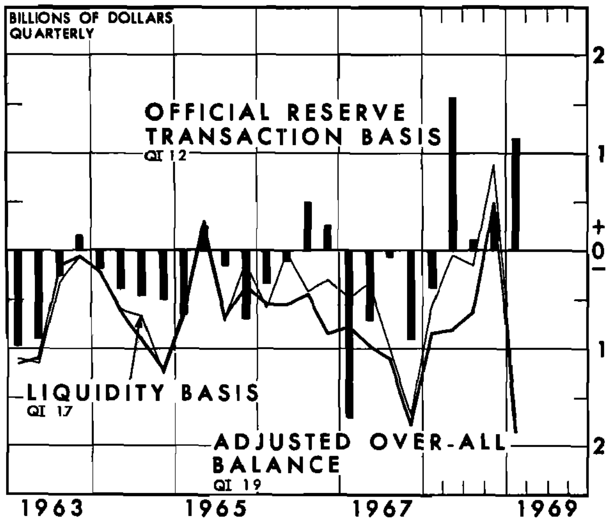
The pressure on interest rates in Canada reflects a variety of market forces: strong credit demands associated with a booming economy, a restrictive monetary policy, and an outflow of short-term funds. The foreign currency "swapped" deposits at Canadian banks increased by nearly C$500 million in the seven weeks following end-April. Canadian banks have moved these funds into the New York inter-bank market, more than offsetting the movement of U.S. non-bank funds to Canada, and accounting for the recent weakening of the spot and strengthening of the forward Canadian dollar.

Short-term rates may rise further before there is a significant turnaround; long-term rates, however, may well be at or near their peak. The recent government budget, with its projected budgetary surplus for FY 1969-70, will substantially reduce the Federal Governments' demands on the capital market. In addition, there are some signs of a slowing in the rate of economic growth (and, with that, a possible erosion of inflationary expectations), even though the rate of real growth in Canada in the second half of 1969 is likely to be higher than that in the U.S.

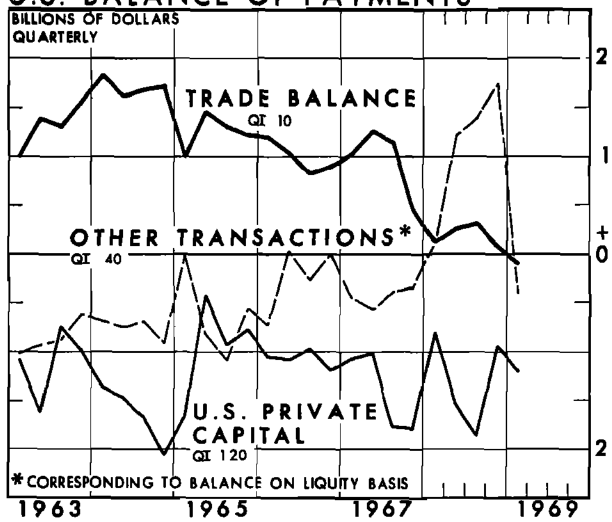
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

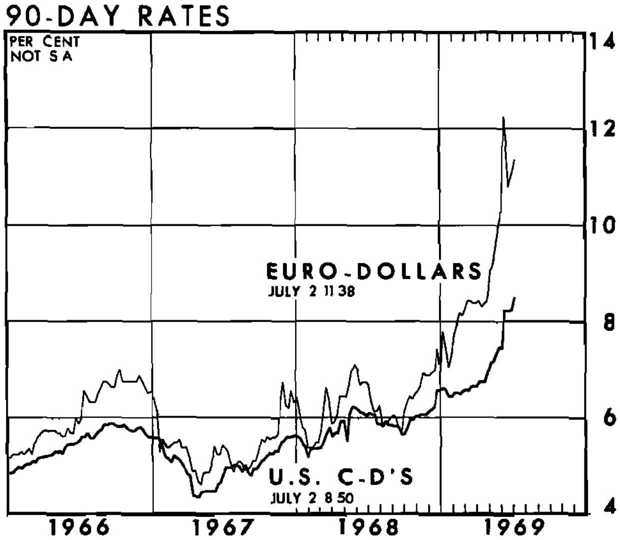
U.S. BALANCE OF PAYMENTS



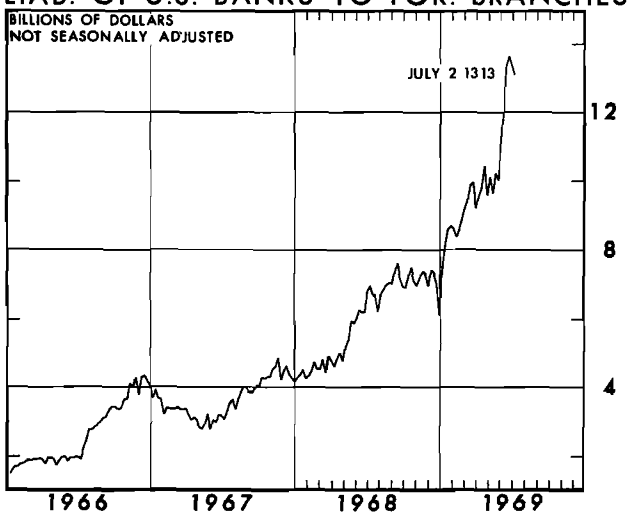
U.S. BALANCE OF PAYMENTS



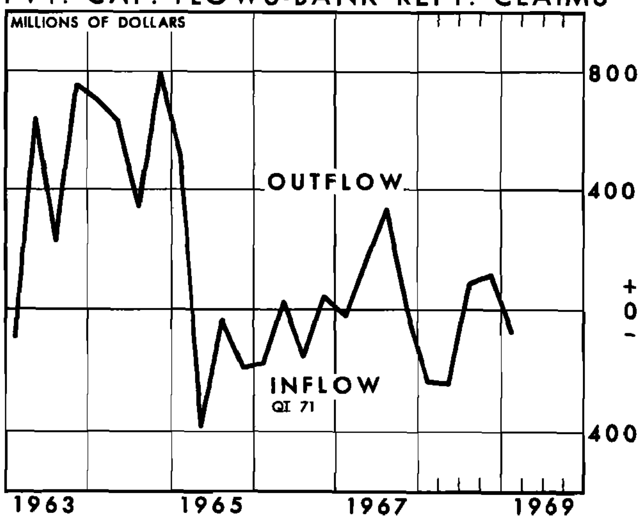
90-DAY RATES



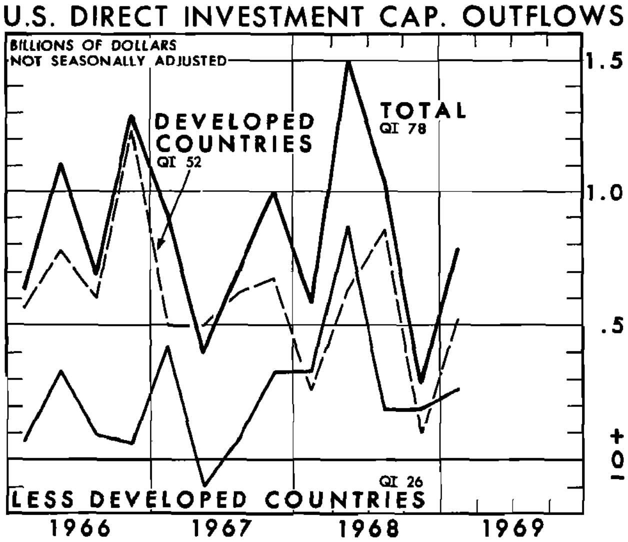
LIAB. OF U.S. BANKS TO FOR. BRANCHES



PVT. CAP. FLOWS-BANK REPT. CLAIMS



U.S. DIRECT INVESTMENT CAP. OUTFLOWS



APPENDIX A: ANNUAL PAYROLL EMPLOYMENT REVISIONS*

Revisions of the payroll employment, hours, and earnings series to reflect new benchmarks (annual adjustments to full reports from the Social Security Administration and other sources), and new seasonal adjustment factors were introduced by the BLS with the preliminary June data on July 8. The benchmark revisions were minor in most industry sectors; the single exception was State and local government employment which had been substantially overstated by the basic estimating equations.1/ In the private sector, revisions were small and should not cause large modifications of series which are heavily dependent on the employment data, such as the productivity measures and private wage and salary estimates. The introduction of revised seasonal factors did not significantly alter the overall pattern of employment growth, although it did tend to smooth several of the more erratic series, especially construction.

NONFARM PAYROLL EMPLOYMENT, 1968
(In thousands)

	Preliminary	Revised	Change
Total	68,146	67,860	-286
Manufacturing	19,740	19,768	28
Durable goods	11,578	11,624	46
Nondurable goods	8,162	8,144	-18
Mining	625	610	-15
Contract Construction	3,259	3,267	8
Transportation	4,348	4,313	-35
Trade	14,111	14,081	-30
Services and finance	13,861	13,975	114
Government	12,202	11,846	-356
Federal	2,737	2,737	0
State and local	9,465	9,109	-356

*Prepared by James R. Wetzel, Economist, National Income, Labor Force and Trade Section, Division of Research and Statistics.

1/ Because the State and local government estimates are based on the Census of State and local governments, the series is benchmarked every 5 years rather than annually.

Marriages have continued to surge thus far in 1969 and the birth rate has moved up, at least temporarily. If current trends continue, this year will record the end of the 12-year decline in the rate of population growth.

INCREASES IN POPULATION, MARRIAGES, AND BIRTHS
(In thousands)

	Population		Marriages		Births	
	Number	Rate 1/	Number	Rate 1/	Number	Rate 1/
1958	2,915	1.7	1,451	8.4	4,279	24.5
1960	2,940	1.6	1,523	8.5	4,307	23.8
1962	2,827	1.5	1,577	8.5	4,213	22.6
1964	2,612	1.4	1,725	9.0	4,070	21.2
1966	2,256	1.2	1,857	9.5	3,642	18.5
1968	2,012	1.0	2,059	10.3	3,507	17.4
1969 - 1st 4 mos. 2/	--	--	2,109	10.4	3,552	17.6

1/ Per 1,000 total population.
2/ Adjusted for under-registration, seasonally adjusted at annual rates.

Marriages. The number of marriages moved above the 2 million mark in 1968 for the first time since 1946, and the marriage rate, which began to advance rapidly in 1963, increased to 10.3 per 1,000 total population from 9.5 in 1966, and 9.0 in 1964. Most of the acceleration in the marriage rate occurred after mid-1968 when many young persons graduated from school and found jobs readily available.

The upper trend in marriages has continued this year. The number married in the first 4 months of 1969 was higher than in the same period a year earlier and th marriage rate averaged 10.4 per 1,000 population (seasonally adjusted), slightly above the 1968 rate. Moreover,

* Prepared by Jane Moore, Economist, National Income, Labor Force and Trade Section, Division of Research and Statistics.

demographic factors continue very favorable to a further rise in marriages. The population in the prime marriage ages of 18 to 24 will increase by nearly 800,000 this year compared with 600,000 in 1968.

Births. The sustained rise in marriages and the burgeoning growth in the number of women in the younger childbearing ages has finally led to a rise in the rate and number of births this year. In the first 4 months of 1969, births were up 4 per cent from the same period a year ago.

The rise in the birth rate early in 1969 to 17.6 per 1,000 total population, appears likely to mark the first firm upturn since the downtrend began in 1957. The upsurge in marriages has been reflected in a rise in the number of first births. Although some young newlyweds may delay starting a family, the cumulative effect of the rise in the number of young married couples has provided the impetus to a rise in births this year as was projected by the C nsus Bureau under its lowest fertility assumption.

Population. The population increased by 2.0 millior or 1 per cent from January 1, 1968 to January 1, 1969. This was the lowest rate in 28 years and contrasts sharply with the 1.8 per cent rate achieved in 1956, when the birth rate was at a very high level. With the rise in births during the first 4 months this year, the annual rate of population growth has also begun to inch up month-by-month from the January 1969 low.

Outlook. Because of the post World War II baby boom, the number of women entering marriage and childbearing ages will continue to increase rapidly over the next decade. In the age group 20 to 29 years, where childbearing is most heavily concentrated, the projected increase is from 14.3 million in 1968 to 15.5 million in 1970 and 18.3 million in 1975. Reflecting this trend, the number of marriages per year is projected to increase from less than 2.1 million in 1968 to about 2.4 million in 1975. Unless birth rates fall drastically further, the effect of the population swing and more marriages is likely to bring a strong, continuing upsurge in the number of births in the early 1970's.