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UNITED STATES MONETARY POLICY IN 1969

An Assessment

A Paper Presented

By

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Member
Board of Governors of the
Federal Reserve System

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Andrew F. Brimmer*

Any thorough assessment of current monetary policy in the United States necessarily must be postponed at least until the year is over. However, after the passage of nine months of substantial restraint, it is possible to sketch the principal ways in which financial flows have been affected, and a tentative appraisal can be made of the contribution of monetary policy in the fight against inflation.

It is abundantly clear by now that the task of stabilization policy in 1969 has been far more taxing than was anticipated as the year began. The national economy has expanded more rapidly, resources have been used more fully, and inflationary pressures have been more intense. Paralleling these developments -- and partly stimulated by the extra strength in the economy -- credit demands have also been much stronger than expected as the year began.

At the same time, however, Federal fiscal policy (as measured by the surplus or deficit position in the Federal budget) registered its biggest anti-inflationary impact in the first half of the calendar

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*Member, Board of Governors of the Federal Reserve System. I am indebted to several members of the Board's staff for assistance in the preparation of these remarks -- particularly to Messrs. Joseph Burns and Frederick M. Struble.

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year. Since mid-year, the fiscal policy component of national stabilization policy has been wanning. For instance, while the Federal budget (on the NIA basis) may show a surplus of $9-1/2 billion in calendar 1969 -- compared with a deficit of $5.2 billion in 1968 -- the peak in net revenue was set in the second quarter, when it amounted to $12.5 billion at a seasonally adjusted annual rate. In the first quarter, the surplus was at an annual rate of $9.6 billion. It may have shrunk to $7-1/2 billion in the third quarter, and it may not rise much above $8 billion in the closing three months of this year. Moreover, given the projected pattern of Federal Government receipts and expenditures, the surplus may disappear completely by the second quarter of next year. Thus, as calendar year 1969 has unfolded, monetary policy has carried an increasing proportion of the stabilization assignment in the face of persistent inflation.

The impact of monetary restraint has become much more evident since mid-year. On balance, during the summer months, there was considerable weakening in the growth of credit at commercial banks and at nonbank savings institutions. As the summer progressed, the Federal Reserve became less-and-less willing to provide the reserves sought by the banks to accommodate continuing strong demands for loans. As more of this demand found its way into the money and capital markets, both short- and long-term interest rates rose substantially. The attractiveness of these market yields greatly reduced the ability of savings institutions (including commercial banks) to

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bid for funds. In turn, these institutions became less able to supply funds to the mortgage market.

Among commercial banks, monetary restraint has had its most noticeable impact on the largest banks -- and especially on those which had depended so heavily on large denomination negotiable certificates of deposits (CD's) as a source of funds. About a dozen of these institutions were able to compensate partially for the attrition in deposits by drawing in Euro-dollars through their London branches. However, while this source of funds allowed them to postpone for a while the need to modify lending policies in the face of monetary restraint, they have had to make such adjustment in recent months. Moreover, since mid-year, the impact of monetary policy has even reached the medium-sized banks, and they too are finding it necessary to moderate their pace of lending.

While monetary restraint has obviously had a differential impact on some sectors of the economy (such as residential construction), it appears that the effects have not fallen disproportionately on small firms.

This assessment of monetary policy against the background of economic developments during 1969 has convinced me that the present course followed by the monetary authorities is the correct one. Thus, I personally see no need at this time for any relaxation in the policy of credit restraint. Given the outlook for continued inflation -- despite the fragmentary signs that the rate of growth of output is

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slowing somewhat -- I think the task of monetary policy is clear: we must keep a steady course and see the assignment through.

Economic Performance in 1969

So far in 1969, the American economy has expanded at a pace considerably greater than was anticipated at the beginning of the year. Just how much greater strength the economy has exhibited can be seen by a comparison of 1969 projections made by the Federal Reserve Board's Staff last February with my own recent estimates derived on the basis of nine months experience. The two sets of projections of gross national product (GNP) and related items are shown in Table 1 (attached). (It should be noted that GNP figures for 1968 were revised upward, and the February projections for 1969 were adjusted accordingly.)

Even a cursory examination of projected and actual developments reveals a shortfall in projected levels of activity not only for the economy as a whole but for almost every sector as well. Currently, only business fixed investment, residential construction, and Federal receipts and expenditures are estimated to be at or below the February projections.

With respect to the economy as a whole, it appears now that GNP in 1969 may amount to $931-933 billion (in current dollars); this would represent an increase of $65-67 billion -- or about $7 billion more than was projected at the beginning of this year. In

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1968, GNP rose by $72 billion. Thus, in 1969, GNP may expand by more than 7-1/2 per cent, compared with just over 9 per cent last year.

The household sector has been a leading source of extra strength this year. Personal income has risen much more rapidly than was anticipated, and consumer purchases have responded accordingly. Last February, personal income in 1969 was projected to rise by $49-51 billion before taxes and by $33-35 billion after taxes. However, reflecting the sizable gains in wages and salaries during the first three quarters of this year, total personal income in 1969 is now projected to advance by $58-60 billion, and after tax income may climb by $37-39 billion. Thus, despite the impact of the 10 per cent surtax which will be in effect for all of calendar year 1969, disposable personal income may run approximately $4 billion higher than the amount projected early this year. In the case of household spending, personal consumption outlays were projected in February to rise by $33-35 billion during 1969. Currently, the increase is projected at $40-42 billion. If this pattern actually materializes, the expansion in household spending would run ahead of the gain in disposable personal income, and the savings rate would decline from 6-1/2 per cent in 1968 to about 5-1/2 per cent this year.

The business sector, on balance, has also provided more underpinning to the economy than was anticipated earlier in the year. Last February, corporate profits before taxes in 1969 were projected

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to remain unchanged or to decline by perhaps $3 billion; now it appears that an increase of $2-3 billion may be recorded. Business inventories were previously projected to rise by $1-3 billion less in 1969 than they did in 1968. In contrast, the latest projection suggests an increase perhaps $2 billion greater than that which occurred last year. Business fixed investment outlays are currently projected to rise by $8-10 billion during 1969, about the same increase anticipated in February.

State and local governments have been another source of added spending above that expected earlier. Purchases of goods and services by these units in 1969 may rise by $12-14 billion from the 1968 level, while last February the year-to-year gain was projected at $10-12 billion.

In contrast, during 1969, the Federal Government is still expected to hold its purchases of goods and services down to the level projected earlier. In fact, the actual rise may be even smaller. Last February, an increase of $3 billion was projected for 1969, but currently it appears that the gain may be as small as $2 billion. The sharply reduced rate of increase is evident in both defense and non-military outlays.

Residential construction and the foreign trade sectors have both shown considerably less strength than anticipated as the year began. In the case of residential construction, the current projection suggests a gain of about $200 million in 1969, substantially below the

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rise of $1-2 billion projected in February. The sharp downward revision clearly reflects the reduced availability of mortgage funds at savings institutions. The excess of exports over imports in 1969 was earlier projected to rise by $1-2 billion, but it now looks as though no increase will occur -- and a modest deterioration in our net trade position may come about. This poor performance can be traced directly to the acceleration in our domestic inflation and the associated spurt in imports.

Resource Use and Prices

Moreover, it is now quite clear that the growth in real output has also been greater than expected earlier, and there has been considerably more inflation than was anticipated. As shown in Table 2, real GNP (expressed in constant 1958 dollars) is currently projected to rise by 2-1/2 - 3-1/3 per cent in 1969. Last February, the year-to-year advance was expected to be 2-3 per cent. In 1968, real output rose by almost 5 per cent. However, the more vigorous demand for goods and services put extra pressure on an economy which was already under strain, and the general price level rose even more rapidly. For example, the GNP implicit price deflator (the most broadly based of the various price indexes) rose by 4 per cent in 1968. As of February, the annual increase in 1969 was expected to be smaller, about 3 - 3-1/2 per cent. The latest projection, however, suggests a rise of 4-1/2 - 5 per cent.

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The civilian labor force has expanded more rapidly than was anticipated earlier, and the unemployment rate has climbed less rapidly. Last February, the civilian labor force was projected to increase during 1969 by 1.3 - 1.8 million; the latest projection lifted the advance over 1968 to a range of 1.7 - 2.2 million. The unemployment rate for 1969 was originally projected at 3.8 - 4.0 per cent, compared with an average of 3.6 per cent for 1968. Currently, it looks as though for 1969 as a whole the unemployment rate may remain in the range of 3.5 - 3.8 per cent.

The more rapid growth of output has exerted considerably more pressure on industrial capacity than was initially anticipated. In 1968, the capacity utilization rate in manufacturing averaged about 84.5 per cent. The February projection showed a decline during 1969 to a range of 81-1/2 - 82-1/2 per cent. Now, however, there may be little, if any, year-to-year decline in the rate of use of factory capacity.

In summary, all of these indicators point to the same conclusion: the nation's resources have been much more fully utilized so far in 1969 than was anticipated as the year got under way.

Financial Developments: Anticipated and Actual

Financial developments in 1969 have generally paralleled the more vigorous expansion of the economy described above. As shown in Table 3, total funds raised by all borrowing groups over the first

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six months of this year amounted to $43.7 billion. This was somewhat more than half of the total funds which were expected to be raised during the current year on the basis of the February projection. Thus, at a seasonally adjusted annual rate of $87.4 billion, total borrowings during the January - June period ran about 10 to 15 per cent above the February projection for the year as a whole.

Borrowing by consumers, business firms and foreigners was responsible for the comparatively strong growth in total indebtedness. In the six months ending last June, the consumer and business sectors raised $37 billion in credit markets, or $74 billion at a seasonally adjusted annual rate. This was roughly one-sixth more than was expected on the basis of the February projection. The acceleration in foreign borrowing in the U.S. credit markets was proportionately greater.

Mortgage indebtedness increased by $13.4 billion in the first half of 1969, or by $26.8 billion at a seasonally adjusted annual rate. This rate was 16-17 per cent above the annual increase expected in February. State and local governments raised about $4.7 billion during the first six months of this year -- an amount roughly in line with the February projection for 1969 as a whole. Borrowing activity by the Federal Government also was generally in line with February expectations. During the first half, Federal indebtedness (including borrowing by Federal agencies as well as by the Treasury) declined by $300 million. However, such borrowing was expected to

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pick up substantially in the second half -- to register an annual total in the range of $3 - 4 billion.

The somewhat stronger than anticipated increase in funds raised during the first half of 1969 occurred despite a sizable shortfall in actual bank credit expansion relative to what had been expected. As may be seen in Table 4, bank credit rose at a seasonally adjusted annual rate of only 3 per cent during the January - June months, compared with a projected growth rate of 4-7 per cent for the year as a whole. This shortfall in bank credit expansion was the rule rather than the exception: total reserves supplied to the banking system and time deposits at commercial banks were both considerably weaker than what would have been expected on the basis of February projections.

The money supply (defined to include privately held demand deposits and currency in the hands of the public) during the first six months rose at a seasonally adjusted rate of 4.3 per cent. This rate of increase was about in the middle of the range of 3-6 per cent projected earlier for 1969 as a whole. On the other hand, savings accounts at nonbank financial institutions expanded at a rate about in the middle of the range of growth rates projected in February.

Developments over the summer months have moved the actual behavior of all the financial aggregates even farther away from their projected performance. This can be seen clearly in estimated changes

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in these measures during the third quarter, also shown in Table 4. Since mid-year, all of the measures have grown more slowly -- or declined more sharply -- than they did during the first six months. This generalization is also supported by the pattern of monthly changes in the key monetary indicators since the early part of this summer. (See Table 5.) It is clear from these data that monetary policy registered its strongest impact on the financial markets during July and August. This is true whether one focuses on the major financial flows or on interest rates in the money and capital markets. On balance, it appears that the contraction in the monetary aggregates and the more rapid rise in market yields resulted in part from the decision of the monetary authorities not to supply the additional reserves sought by the banking system to accommodate the persistent strong demand for credit.

The further substantial weakening in the growth of bank credit in the third quarter -- and in the growth of credit extended by nonbank financial institutions -- does seem to increase the likelihood that the February projections for total funds raised during 1969 may turn out to be fairly accurate. As shown in Table 3, in order for this to happen, it would be necessary primarily for loans and mortgages to increase considerably less in the second half of the year than they did in the first half. Considering the important role played by commercial banks and nonbank financial institutions

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in supplying this credit, a second half decline in the volume of these credit flows would appear to be a fairly likely outcome.

Thus, it seems reasonably certain that the growth in the availability of bank credit in 1969 will fail to match the magnitude of the expansion projected in February. Support for this conclusion is also shown in Table 4. As indicated in the last column of that table, the growth of virtually all of the banking and monetary aggregates would have to turn around dramatically in the fourth quarter if the February projections were to be attained. Such a growth could be sparked only by a rather early and sizable relaxation of monetary restraint, a move I am personally not prepared to make at this time.

Monetary Restraint and Bank Behavior in the Euro-Dollar Market

So far in 1969, monetary restraint has had a particularly sharp impact on the large money market banks which account for a disproportionate share of loans to the leading corporations. Even the banks with ready access to Euro-dollars have not avoided the need to modify their lending practices.

The decline in total loans and investments over the entire December, 1968 - August 1969, period was somewhat larger at the 14 major banks with London branches (that account for 95 per cent of all Euro-dollars held by domestic banks) than at other large banks (Table 6.) Although these Euro-dollar banks ran off fewer securities than did other large banks, they reduced slightly their outstanding loans over

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this period -- while other banks continued to add to loans. In percentage terms, the reduction in total loans and investments at Euro-dollar banks was more than twice that of other large banks (Table 7).

The decline in loans at Euro-dollar banks over this period reflected largely reductions in financial loans, since business, real estate, and consumer loans continued to expand, as did these loans at other large banks. While business loans at Euro-dollar banks rose somewhat less -- in both dollar and percentage terms -- than at other large banks, consumer and real estate loans rose more.

Total deposits at both types of banks declined sharply during the first eight months of 1969. However, the composition of the deposits outflow differed markedly as between these two types of institutions. Nearly all of the deposit outflows at Euro-dollar banks represented largely declines in time and savings deposits, which in turn reflected mainly CD attrition. Reductions in demand deposits, on the other hand, made up the major portion of the outflow of deposits at other large banks.

The manner in which these two types of banks attempted to offset these deposit outflows also varied. Naturally, banks with access to Euro-dollar funds through their foreign branches borrowed heavily in this market. Other banks, however, without access to the Euro-dollar market had to rely more on other sources of funds, such as borrowing in the Federal funds market and from the Federal

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Reserve System. This is shown clearly in the "total borrowings" figures in Tables 6 and 7. These borrowings almost doubled at non-Euro-dollar banks, as compared to a much smaller rise in such borrowings at Euro-dollar banks.

In order to view developments at these banks before and after mid-year, the December-August period has been broken into two parts. (See Tables 8 and 9). Clearly most of the reduction in total loans and investments at both types of banks took place largely after mid-year. However, since the July-August period is usually one of a seasonal decline in loans -- and 1968 is not particularly representative of this seasonal decline -- these figures (which are not seasonally adjusted) should be viewed with some caution.

During the first half of the year, holdings of U.S. Government securities ran off sharply at both types of banks. After mid-year, holdings of Governments rose at Euro-dollar banks and slowed appreciably at other large banks -- both developments probably reflecting bank underwriting of Treasury financings during that period. Liquidation of other securities, however, accelerated sharply at both types of banks in July and August.

Total loans, as well as business loans, also declined sharply after mid-year, following sustained expansion earlier in the year. And while some of the reduction since mid-year probably was seasonal, it probably also reflects tightening of lending terms by

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banks as liquidity positions reached very low levels. The drop in business loans was somewhat more pronounced at nonEuro-dollar banks.

NonEuro-dollar banks also experienced the brunt of the deposit decline after mid-year, which was in sharp contrast to the situation earlier in the year. These banks lost more deposits in July and August than they did over the entire first half, in part reflecting stepped-up CD attrition.

Impact of Monetary Restraint on Banks of Different Size

The impact of a policy of monetary restraint implemented by the Federal Reserve since December of last year is also readily discernible when banks are examined by size. In Tables 10 and 11, net changes over the first eight months of this year in major balance sheet items at weekly reporting banks -- by size of bank -- are presented. Deposit developments, in particular, reflect the pressures that banks have been experiencing this year to ever increasing degrees. It will be observed that deposit developments at all three size groups of banks have been weaker this year than in the comparable period of 1968. This generalization is especially applicable to time deposit flows, but it also holds for demand deposits at all three size groups of banks.

Although monetary restraint has affected all three size groups, it is evident that this influence has been spread unevenly. The banks in the two larger classes have clearly had to adjust to

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much weaker deposit developments -- this holds with respect to both demand and time accounts, but particularly time accounts -- than have banks in the smaller size grouping.

Banks in all three size categories have attempted to obtain loanable funds from nondeposit sources (primarily Euro-dollars, Federal funds, and borrowing from the Federal Reserve System) to offset deposit outflows. Banks in the largest size grouping have obtained nearly $12 billion in this way, but total deposit and non-deposit liabilities at these banks at the end of August were still $5 billion below their level at the beginning of the year. This compares with a net increase of nearly $4 billion in these two types of liabilities in the similar period of a year ago. Banks in the middle size grouping have been somewhat more successful in offsetting deposit losses with these nondeposit sources of funds as the combined decline in these two liability categories was only slightly larger than the drop recorded in the same period of last year. Banks in the very smallest size category have been even more successful in relying on nondeposit fund sources to compensate for deposit declines. In fact, these banks have obtained more loanable funds from these two sources combined so far in 1969 than they did in the comparable period of a year ago.

The relative experience of different sized banks in obtaining loanable funds -- either from depositor or nondeposit sources -- is clearly

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reflected in their asset account developments. It will be noted that total earning assets at banks with $1 billion or more in deposits declined by nearly $9 billion during the first eight months of this year instead of increasing by this amount as they did in the same period of a year ago. In contrast to this experience, it will be observed that total earning asset developments were somewhat stronger this year than a year ago at both of the smaller size groups of banks.

Banks in all three size groups have clearly found it impossible to rely on liability sources of funds to service their loan accounts this year, as all three groups of banks have reduced their holdings of investments. The strain that the very largest banks have been under is dramatically indicated by the $7 billion decline in their investment holdings. This compares with a $3 billion increase in the same period of a year ago.

There is also some suggestion in the data of the extreme tightness experienced by the largest banks in their business loan developments since expansion in accounts this year fell short of the sharp run-up of a year ago. However, this may simply indicate that business borrowers, after making extensive use of the credit lines they have with these institutions during last year, are now looking elsewhere for funds. Likely candidates to supply these alternative sources of funds are other banks. Business loans have increased much more sharply this year than they did a year ago at both of the smaller groups of banks.

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The evidence presented in Tables 12 and 13 strongly suggests that the nation's large banks have felt the reins of monetary policy tighten still further since June of this year. Loanable funds from all liability sources declined at all three size groups of banks over this period instead of expanding as they did last year during this period. As a consequence, banks in the largest and medium-sized groupings were forced to reduce their holdings of earning assets sharply further. This recent period has, on the other hand, proven to be one in which earning asset developments were slightly stronger than a year ago at banks in the smallest size category. The impact of the decline in earning assets at the two largest size groups of banks was concentrated primarily in loan portfolios. Business loans reduction at these banks contributed to the overall decline in total loans.

Impact of Monetary Restraint on Borrowers of Different Size

In general, it appears that monetary restraint has not had a particularly adverse impact on small-sized firms. The data on Tables 14 and 15 present the results of a rough attempt to gain some impression of whether credit restraint has fallen differentially on business borrowers of different size. A comparison of the relative size of firms in various industry categories and the volume of borrowing this year by firms in these industries relative to their average volume of borrowing in three preceding years clearly gives the general impression that monetary restraint has not been concentrated on small businesses.

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For example, among the five industry categories which showed the greatest amount of relative loan expansion this year, one finds not only the industry with firms of the largest average size but also two industries with firms of the very smallest average size. Similarly, among the second group of five industries which showed the next to largest amount of relative loan expansion this year, there were two industry categories with firms of relatively large size and two industry categories with firms of relatively small size.

Several comments should be added to place these findings in perspective. First, there is a strong chance that differences in the relative degree of activity by industry may prohibit the data from showing an existing relationship between firm size and credit extension. It is also quite possible that measuring the size of borrowers by average assets per firm may not be a true indicator of the comparative size of firms in different industries. For example, two industry categories may have the same average size of firm, but one may be composed of a few large firms and many small firms while the other may consist of firms whose size, in all cases, closely approximates the average for the industry. Moreover, a considerable volume of the business loans made by banks this year has been sold to nonbank investors. Since it is quite likely that loans sold were those of large, well-known firms, it is also likely that the remaining data would be biased against a finding that large firms have received preferential treatment at banks.

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But, if these reservations are kept in mind, the evidence does suggest that monetary restraint has not had a differential effect on business borrowers of different size.

The Economic Outlook and the Task of Stabilization Policy

The above assessment of economic developments and the course of monetary policy in 1969 has persuaded me that we still have a difficult assignment ahead of us. While I obviously cannot attempt to make a detailed forecast of the course of the economy in the months ahead, the main contours do appear to be reasonably clear.

In the first place, it is quite evident that the rate of growth of the economy is beginning to slow, and the outlook is for further moderation in the final quarter of this year and early next year. This appears to be true whether GNP is measured in current dollars or in real terms. Because of the steady climb in disposable personal income, the rate of expansion in consumer expenditures during the fourth quarter may remain close to the average for the year. While the rate of growth of business outlays for fixed investment may moderate somewhat, the accumulation of business inventories may remain high. Purchases of goods and services by both Federal and State and local governments seem likely to expand less rapidly.

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The housing sector, where expenditures have decreased steadily since the first quarter, seems certain to experience further declines. The number of housing starts, which reached an annual rate of 1.7 million in the first quarter, may have been about at an annual rate of 1.3 million in the third quarter. In the final three months, the rate may decline somewhat further. The trend of expenditures on residential construction also suggests that the housing sector will be a major source of the reduced rate of growth of aggregate demand.

But on the whole, pressures on resource use may not moderate very much during the remaining months of 1969. For example, industrial output may still rise somewhat over the third quarter pace, and the capacity utilization rate in manufacturing may show little change in the fourth quarter. While nonfarm employment may register only modest gains over the same period, the unemployment rate may climb relatively little.

In this environment, the overall demand for credit may ease only moderately. In fact, with business fixed investment remaining at a high level -- and with the prospect of a continued rapid accumulation of business inventories -- the demand for business loans at commercial banks may even strengthen. Given the substantial volume of securities issues postponed or delayed by corporations as well as by State and local governments, the capital markets may also remain under considerable strain.

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At the same time, unfortunately, we may see very little lessening in inflationary pressures. For instance, the GNP deflator in the fourth quarter may still register an increase close to 4 per cent at a seasonally adjusted annual rate. This would be below the rate for any other quarter this year, but it would be the same as that experienced in 1968. For the full year 1969, this would mean an advance of well over 4-1/2 per cent. If measured by the behavior of the consumer price index, the strong pace of inflation would also be quite evident. Moreover, there appears to be a real prospect that inflationary pressures will persist on into the early months of next year.

Given this prospect, I personally see no reason to deviate from the present course of monetary restraint. I realize, of course, that the effects of monetary restraint on the economy are registered only after a significant time lag, and much of the impact of the measures already taken will come in the months ahead. Nevertheless, I think the task we face is so pressing that we should not run the risk of relaxing credit restraint until it is clear that we have a reasonable chance of making a noticeable dent in inflationary expectations.

That being the case, I think personally that the Federal Reserve Board should not take any steps (such as raising the maximum rates of interest that banks can pay on CD's) which might encourage the public to believe that we are unprepared to stick with a difficult assignment.

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Table 1. Projections of 1969 GNP and Related Items[1]
(As of February and September, 1969)
(Billions of dollars)

Category	Projection: February, 1969 Annual Totals 1968	1969	Change 1968/69	Projections: September 1969 Annual Totals First Three Quarters 1969e (SAAR)	Year 1969e	Change Year 1968 (Actual)	Year 1968/69 (Est.)
GNP (current dollars)	865.7	924-926	58-60	925	931-933	72.2	65-67
Personal cons. exp.	536.6	570-572	33-35	572	577-579	44.3	40-42
Gross pvt. dom. invest.	126.3	133-135	7-9	137	136-138	10.3	10-12
Residential const.	30.2	31-32	1-2	32	30-32	5.2	0-2
Bus. fixed invest.	88.8	97-99	8-10	97	97-99	5.1	8-10
Inventories	7.3	4.3-6.3	(-)3-(-)1	7	7-9	-0.1	0-2
Net exports	2.5	3.5-4.5	1-2	1.8	1-3	-2.7	(-)1-0
Gov't purchases	200.3	213-215	13-15	214.0	215-217	20.2	15-17
Federal	99.5	103	3	102.0	101-103	8.8	1-3
State and local	100.7	111-113	10-12	112.0	113-115	11.4	12-14
Personal income	687.9	737-739	49-51	740.0	746-748	58.5	58-60
Disp. pers. income	590.0	623-625	33-35	623.0	627-629	43.5	37-39
Corporate profits (before tax)	91.0	88-91	(-) 3-0	94.0	93-94	10.8	2-3
Total Federal exp. (NIA basis)	181.5	192	10	191.0	191-193	17.7	9-11
Total Federal rec. (NIA basis)	176.3	193-194	17-18	200.0	200-202	25.2	24-26
Surplus (+)or deficit (-)	(-)5.2	2-3	7-8	10.0	9-10	7.5	14-15

1. Note: The GNP figures for 1968 were revised upward; the February projections for 1969 were adjusted accordingly.

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Table 2

Economic Growth, Resource Use, and Prices

	1968	February projection 1969	September projection 1969
Percentage growth of GNP in current dollars	9.1	6.7 - 7.0	7.5 - 7.8
Percentage growth of GNP in constant (1958) dollars	4.9	2 - 3	2.5 - 3.3
GNP implicit price deflator, annual percentage change	4.0	3.1-3.5*	4.5 - 5.0
Total labor force	82.3	83.5-84.0	83.8 - 84.4
Armed forces	3.5	3.5	3.5
Civilian labor force	78.7	80 - 80.5	80.4 - 80.9
Unemployment rate	3.6	3.8-4.0	3.5 - 3.8
Capacity utilization rates in manufacturing	84.5	81.5-82.5	84.0 - 84.5

* - Excluding effects of the Federal pay raise in the 3rd quarter.

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Table 3

FUNDS RAISED IN CREDIT MARKETS

(Billions of dollars)

	1968	February projection for change in 1969	1st Half 1969 S.A.	Required 2nd Half Change (if Projections are met)	Required 2nd Half Change (if Middle of Projections are met)
Total, All Nonfinancial Borrowers	97.8	75 to 80	43.7	31.3 to 36.3	33.8
Federal Government*	15.7	3 to 4	- .3	3.3 to 4.3	3.8
Foreign Borrowers	2.9	2 to 3	2.4	- .4 to .6	.1
Private Domestic Non-financial sectors	79.3	70 to 75	41.7	28.3 to 33.3	30.8
Loans	30.4	24 to 27	16.6	7.4 to 10.4	8.9
Consumer Credit	11.1	6 to 8	5.1	.9 to 2.9	1.9
Bank Loans	12.3	9 to 12	6.0	3 to 6	4.5
Other Loans	7.0	7 to 9	5.5	1.5 to 3.5	2.5
Securities	23.1	23 to 26	11.7	11.3 to 14.3	12.8
State & Local	11.1	8 to 10	4.7	3.3 to 5.3	4.3
Corporate	12.1	15 to 17	7.0	8 to 10	9.0
Mortgages	25.7	22 to 24	13.4	8.6 to 10.6	9.6
Consumer & Business Borrowing Included in Private Domestic Nonfinancial Sectors	67.9	62 to 65	37.0	25.0 to 28.0	26.5

* Includes agency issues and participation certificates. Home Loan Banks, Land banks, and FNMA are consolidated with other government agencies in this table, which departs in this respect from new budget concepts. Table includes net issues by these agencies but excludes interagency transactions.

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Table 4

BANKING AND MONETARY VARIABLES
ANNUAL PERCENTAGE RATES OF CHANGE
(Seasonally Adjusted)

	1968	Projected 1969	Change over first 6 months	Change over the 3rd qtr	Change over first 9 months	Change over 4th qtr. required to meet February projections
Total Reserves	7.2	3 - 5	0.7	-10.0	-2.9	21 - 29
Money Supply	6.5	3 - 6	4.3	0.6	3.1	3 - 15
Currency	7.4	5 - 6	6.5	4.5	5.8	3 - 7
Demand Deposits	6.2	3 - 6	3.7	-0.5	2.3	5 - 17
Time Deposits at Commercial Banks	11.3	1 - 5	-4.0	-13.0	-7.0	25 - 41
Total Bank Credit	11.0	4 - 7	3.0	0.3*	2.3**	9 - 21
Nonbank Savings Accounts	6.4	4.5 - 5.5	5.0	1.2*	4.1**	6 - 10

* - Average for July and August
** - First 8 months

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Table 5

SELECTED MONETARY AND FINANCIAL INDICATORS

Quantities	Annual percentage rates of change 1st Half 1969	July-Aug. 1969p	September Estimated
1. Total reserves	0.7	-14.1	- 1.8
2. Nonborrowed reserves	-3.7	-11.1	9.3
3. Money supply (currency and private demand deposits)	3.8	0.3	+ 1.2
4. Time and savings deposits at banks	-5.0	-18.8	- 1.8
5. Money supply plus time deposits (3+4)	-0.7	- 9.3	- 0.3
6. Total member bank deposits--credit proxy	-3.5	-15.0	3.8
7. Proxy including Euro-dollars	--	-10.4	4.4
8. Deposits at savings banks and S&Ls	5.0	1.2	n.a.

	Change last week in Dec. to last week in June (base points)	Change last week in June to last week in August (base points)	Average for week ending Sept. 19
3-Month Treasury bill rate (market)	+49	+84	7.13
Commercial paper (directly placed)	+39	+ 4	7.63
3-5 U.S. Treasury notes and bonds	+65	+86	7.63
Long-term U.S. Treasury bonds	+41	+27	6.31
Corporate bonds (Moody's, AAA)	+53	+13	7.16
Municipal bond (Bond buyer, High Grade)	+94	+57	6.25

1/ July 1969.
n.a. - Not available.

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Table 6

NET CHANGE IN MAJOR BALANCE SHEET ITEMS FOR WEEKLY REPORTING BANKS
December 25- August 27 1/

(In billions of dollars, not seasonally adjusted)

Items	Total		14 Major Banks with London Branches		Other	
	1969	1968	1969	1968	1969	1968
Total loans and investments 2/	- 7.7	7.8	- 4.3	3.9	- 3.4	3.9
U.S. Treasury securities	- 6.1	- .5	- 1.8	.5	- 4.3	- 1.0
Other securities	- 3.3	2.8	- 2.2	1.7	- 1.1	1.1
Total loans 2/	1.7	5.5	- .3	1.6	2.0	3.7
Business loans	3.2	2.1	1.3	1.1	2.0	1.1
Real Estate loans	1.2	1.9	.5	1	.6	1.8
Consumer loans	1.1	1.4	.3	.1	.7	1.3
Total deposits 3/	-22.4	- .5	- 9.8	- 3.1	-12.6	2.7
Demand deposits 3/	- 8.0	- 5.8	- 1.2	- 3.3	- 6.8	- 2.5
Time and savings deposits	-14.4	5.3	- 8.6	.1	- 5.8	5.2
Large CD's 4/	-11.1	2.0	- 6.5	- .5	- 4.5	2.5
Other	- 3.3	3.3	- 2.0	.6	- 1.3	2.8
Total borrowings 5/	7.3	2.6	1.7	2.1	5.6	.5
Other liabilities	8.6	3.8	6.7	3.4	1.9	.4
Euro-dollars 6/	8.5	2.8	7.8	2.7	.7	.1

1/ Dates are for 1969, comparable dates used for 1968.
2/ Exclusive of loans and federal funds transactions with domestic commercial banks and net of valuation reserves.
3/ Less cash items in the process of collection.
4/ Negotiable time certificates of deposit in denomination of $100,000 or more.
5/ Largely borrowing in the Federal funds market and from Federal Reserve banks.
6/ Bank liabilities to foreign branches, net of branch participation in head office domestic loans.
NOTE: Figures may not sum exactly due to rounding.

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Table 7

Net Change in Major Balance Sheet Items for Weekly Reporting Banks
December 25-August 27
(In per cent, data not seasonally adjusted)

	Total		14 major banks with London branches		Other	
	1969	1968	1969	1968	1969	1968
Total loans and investments 2/	- 3.4	3.8	- 5.2	5.3	- 2.3	3.0
U.S. Treasury securities	-20.9	-1.8	-19.9	6.0	-21.4	5.1
Other securities	- 8.4	8.4	-16.6	15.6	- 4.2	-5.0
Total loans 2/	1.1	3.8	- .5	3.2	2.0	4.2
Business loans	4.4	3.3	3.5	3.5	5.3	3.0
Real Estate loans	3.6	6.7	6.9	1.8	2.6	8.3
Consumer loans	5.7	8.6	10.0	4.4	4.8	9.5
Total deposits 3/	-10.3	- .2	-13.6	-4.5	- 8.7	2.1
Demand deposits 3/	- 7.7	-5.9	- 3.4	-9.3	- 9.9	-3.9
Time and savings deposits	-12.8	5.2	-23.5	.4	- 7.7	7.7
Large CD's 4/	-47.1	9.7	-64.3	-4.7	-33.9	24.4
Other	- 3.8	4.1	- 7.6	2.5	- 2.1	4.8
Total borrowings 5/	64.1	33.4	32.0	63.2	93.3	10.7
Other liabilities	48.4	29.8	53.7	40.6	35.9	8.6
Euro-dollars 6/	142.0	66.7	130.0	66.7	--	--

1/ Dates are for 1969, comparable dates used for 1968.
2/ Exclusive of loans and Federal funds transactions with domestic commercial banks and net of valuation reserves.
3/ Less cash items in the process of collection.
4/ Negotiable time certificates of deposit in denomination of $100,000 or more.
5/ Largely borrowing in the Federal funds market and from Federal Reserve banks.
6/ Bank liabilities to foreign branches net of branch participation in head office domestic loans.
NOTE: Figures may not sum exactly due to rounding.

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Table 8

NET CHANGE IN MAJOR BALANCE SHEET ITEMS FOR WEEKLY REPORTING BANKS
December 25- June 25 1/

(In billions of dollars, not seasonally adjusted)

Items	Total		14 Major Banks with London Branches		Other	
	1969	1968	1969	1968	1969	1968
Total loans and investments 2/	- .9	2.9	- 1.3	.8	.4	2.1
U.S. Treasury securities	- 6.6	- 2.8	- 2.8	- 1.2	- 3.8	- 1.6
Other securities	- 1.2	1.2	- .9	.5	- .2	.7
Total loans 2/	6.9	4.6	2.4	1.6	4.5	3.0
Business loans	5.2	3.1	2.0	1.7	3.3	1.4
Real Estate loans	1.3	1.4	.5	.1	.8	1.3
Consumer loans	1.1	.9	.3	.1	.8	.8
Total deposits 3/	-14.5	- 2.8	- 8.6	- 2.8	- 5.9	7/
Demand deposits 3/	- 6.1	- 3.7	- 2.3	- 1.2	- 3.8	- 2.5
Time and savings deposits	- 8.4	.9	- 6.3	- 1.6	- 2.1	2.6
Large CD's 4/	- 8.2	- 1.1	- 5.6	- 1.8	- 2.6	.7
Other	- .2	2.0	- .7	.2	.5	1.8
Total borrowings 5/	4.8	2.5	.6	1.5	4.2	1.0
Other liabilities	9.3	2.4	8.0	2.2	1.3	.3
Euro-dollars 6/	7.2	2.0	6.7	2.0	.5	7/

1/ Dates are for 1969, comparable dates used for 1968.
2/ Exclusive of loans and federal funds transactions with domestic commercial banks and net of valuation reserves.
3/ Less cash items in the process of collection.
4/ Negotiable time certificates of deposit in denominations of $100,000 or more.
5/ Largely borrowing in the Federal funds market and from Federal Reserve banks.
6/ Bank liabilities to foreign branches net of branch participation in head office domestic loans.
7/ Less than 50 million.

NOTE: Figures may not sum exactly due to rounding.

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Table 9

NET CHANGE IN MAJOR BALANCE SHEET ITEMS FOR WEEKLY REPORTING BANKS
June 25- August 27 1/

(In billions of dollars, not seasonally adjusted)

Items	Total		14 Major Banks with London Branches		Other	
	1969	1968	1969	1968	1969	1968
Total loans and investments 2/	- 6.8	4.9	- 3.0	3.1	- 3.8	1.8
U.S. Treasury securities	.5	2.3	1.0	1.7	- .4	.6
Other securities	- 2.1	1.6	- 1.3	1.2	- .8	.5
Total loans 2/	- 5.2	.9	- 2.7	.2	- 2.6	.8
Business loans	- 2.0	- 1.0	- .7	- .6	- 1.3	- .4
Real Estate loans	- .1	.5	.1	7/	- .2	.5
Consumer loans	7/	.5	.1	.1	- .1	.4
Total deposits 3/	- 7.9	2.3	- 1.1	- .3	- 6.8	2.7
Demand deposits 3/	- 1.9	- 2.1	1.1	- 2.1	- 3.0	7/
Time and savings deposits	- 6.0	4.4	- 2.2	1.8	- 3.8	2.7
Large CD's 4/	- 2.9	3.0	- .9	1.3	- 1.9	1.8
Other	- 3.1	1.4	- 1.2	.4	- 1.9	.9
Total borrowings 5/	2.6	7/	1.2	.6	1.4	- .5
Other liabilities	- .7	1.3	- 1.3	1.3	.6	.1
Euro-dollars 6/	1.3	.8	1.1	.8	.2	7/

1/ Dates are for 1969, comparable dates used for 1968.
2/ Exclusive of loans and federal funds transactions with domestic commercial banks and net of valuation reserves.
3/ Less cash items in the process of collection.
4/ Negotiable time certificates of deposit in denomination of $100,000 or more.
5/ Largely borrowing in the Federal funds market and from Federal Reserve banks.
6/ Bank liabilities to foreign branches net of branch participation in head office domestic loans.
7/ Less than 50 million.

NOTE: Figures may not sum exactly due to rounding.

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Table 10

NET CHANGE IN MAJOR BALANCE SHEET ITEMS FOR WEEKLY REPORTING BANKS
December 25- August 27 1/

(In billions of dollars, not seasonally adjusted)

Items	Size of bank: total deposits of					
	$1 billion or more		$500 million to $1 billion		Less than $500 million	
	1969	1968	1969	1968	1969	1968
Total loans and investments 2/	- 8.6	8.9	- .8	- 1.6	1.7	.5
U.S. Treasury securities	- 3.7	.7	- 1.1	- .5	- 1.3	- .7
Other securities	- 3.3	2.3	- .5	.1	.5	.4
Total loans 2/	- 1.6	5.9	.8	- 1.2	2.5	.8
Business loans	1.4	2.1	.8	- .5	1.1	.5
Real Estate loans	.6	2.0	- .2	- .3	.7	.2
Consumer loans	.2	.9	.2	.1	.6	.4
Total deposits 3/	-17.0	1.4	- 4.6	- 2.1	- .9	.3
Demand deposits 3/	- 4.2	- 2.7	- 2.5	- 2.0	- 1.3	- 1.1
Time and savings deposits	-12.7	4.1	- 2.1	- .1	.4	1.4
Large CD's 4/	- 9.3	1.0	- 1.3	.5	- .5	.5
Other	- 3.5	3.1	- .8	- .6	.9	.8
Total borrowings 5/	3.9	2.5	1.8	.1	1.6	7/
Other liabilities 6/	7.8	3.8	.4	- .1	.4	.1

1/ Dates are for 1969, comparable dates used for 1968.
2/ Exclusive of loans and federal funds transactions with domestic commercial banks and net of valuation reserves.
3/ Less cash items in the process of collection.
4/ Negotiable time certificates of deposit in denomination of $100,000 or more.
5/ Largely borrowing in the Federal funds market and from Federal Reserve banks.
6/ Largely bank liabilities to foreign branches.
7/ Less than 50 million.
NOTE: Figures may not sum exactly due to rounding.

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Table 11

NET CHANGE IN MAJOR BALANCE SHEET ITEMS FOR WEEKLY REPORTING BANKS
December 25- August 27 1/

(In per cent, data not seasonally adjusted)

Items	Size of bank: total deposits of $1 billion or more 1969	$1 billion or more 1968	$500 million to $1 billion 1969	$500 million to $1 billion 1968	Less than $500 million 1969	Less than $500 million 1968
Total loans and investments 2/	- 6.1	7.3	- 2.2	- 4.5	3.6	1.1
U.S. Treasury securities	-22.5	4.7	-23.7	-11.1	-15.9	- 7.8
Other securities	-14.0	12.1	- 7.3	1.7	5.5	5.0
Total loans 2/	- 1.6	6.7	3.2	- 4.8	7.8	2.5
Business loans	2.7	4.6	7.9	- 4.9	9.8	4.6
Real Estate loans	3.4	13.5	- 2.9	- 4.8	8.7	2.4
Consumer loans	2.6	11.9	5.7	3.0	9.9	7.7
Total deposits 3/	-13.1	1.2	-12.5	- 5.4	- 1.8	.6
Demand deposits	- 6.9	- 4.9	-13.6	-11.0	- 5.1	- 4.2
Time and savings deposits	-18.4	6.7	-11.4	- .4	1.5	5.5
Large CD's 4/	-56.0	6.6	-36.1	15.8	-15.5	19.4
Other	6.6	6.7	- 5.3	- 3.9	4.1	3.7
Total borrowings 5/	44.3	46.6	128.5	5.0	139.1	3.1
Other liabilities 6/	53.1	38.8	31.1	- 9.2	21.6	5.1

1/ Dates are for 1969, comparable dates used for 1968.
2/ Exclusive of loans and federal funds transactions with domestic commercial banks and net of valuation reserves.
3/ Less cash items in the process of collection.
4/ Negotiable time certificates of deposit in denomination of $100,000 or more.
5/ Largely borrowing in the Federal funds market and from Federal Reserve banks.
6/ Largely bank liabilities to foreign branches.
7/ Less than 50 million.
NOTE: Figures may not sum exactly due to rounding.

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Table 12

NET CHANGE IN MAJOR BALANCE SHEET ITEMS FOR WEEKLY REPORTING BANKS
December 25- June 25 1/

(In billions of dollars, not seasonally adjusted)

Items	Size of bank: total deposits of					
	$1 billion or more		$500 million to $1 billion		Less than $500 million	
	1969	1968	1969	1968	1969	1968
Total loans and investments 2/	- 3.5	4.5	1.2	- 2.4	1.5	.9
U.S. Treasury securities	- 4.7	- 1.6	- .8	- .7	- 1.1	- .6
Other securities	- 1.6	.9	.1	- .1	.5	.4
Total loans	2.8	5.2	1.9	- 1.7	2.2	1.1
Business loans	2.9	2.9	1.2	- .4	1.1	.7
Real Estate loans	.6	1.7	.3	- .5	.4	.2
Consumer loans	.3	.6	.2	7/	.5	.3
Total deposits 3/	-13.0	7/	- 1.0	- 3.0	- .6	.2
Demand deposits 3/	- 4.2	- 1.0	- .7	- 1.9	- 1.2	.8
Time and savings deposits	- 8.7	1.1	- .3	- 1.1	.7	1.0
Large CD's 4/	- 7.4	- 1.3	- .7	- .1	- .1	.3
Other	- 1.3	2.3	.4	- 1.0	.7	.6
Total borrowings 5/	2.1	1.8	1.4	.4	1.2	.3
Other liabilities 6/	8.8	2.5	.4	- .1	.1	.1

1/ Dates are for 1969, comparable dates used for 1968.
2/ Exclusive of loans and federal funds transactions with domestic commercial banks and net of valuation reserves.
3/ Less cash items in the process of collection.
4/ Negotiable time certificates of deposit in denomination of $100,000 or more.
5/ Largely borrowing in the Federal funds market and from Federal Reserve banks.
6/ Largely bank liabilities to foreign branches.
7/ Less than 50 million.

NOTE: Figures may not sum exactly due to rounding.

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Table 13

NET CHANGE IN MAJOR BALANCE SHEET ITEMS FOR WEEKLY REPORTING BANKS
June 25- August 27 1/

(In billions of dollars, not seasonally adjusted)

Items	Size of bank: total deposits of					
	$1 billion or more		$500 million to $1 billion		Less than $500 million	
	1969	1968	1969	1968	1969	1968
Total loans and investments 2/	- 5.1	4.4	- 2.0	.8	.3	- .3
U.S. Treasury securities	1.0	2.3	- .3	.1	- .1	- .1
Other securities	- 1.7	1.4	- .6	.2	.2	7/
Total loans 2/	- 4.4	.7	- 1.1	.5	.3	- .3
Business loans	- 1.5	- .8	- .5	7/	7/	- .2
Real Estate loans	7/	.3	- .4	.2	.3	7/
Consumer loans	- .1	.2	7/	.2	.1	.1
Total deposits 3/	- 4.0	1.3	- 3.6	.9	- .3	.1
Demand deposits	7/	- 1.7	- 1.8	- .1	- .1	- .3
Time and savings deposits	- 4.0	3.0	- 1.7	1.0	- .2	.4
Large CD's 4/	- 1.8	2.2	- .6	.6	- .4	.2
Other	- 2.2	.8	- 1.1	.4	.2	.2
Total borrowings 5/	1.7	.7	.4	- .3	.4	- .4
Other liabilities 6/	- 1.0	1.4	7/	7/	.3	7/

1/ Dates are for 1969, comparable dates used for 1968.
2/ Exclusive of loans and federal funds transactions with domestic commercial banks and net of valuation reserves.
3/ Less cash items in the process of collection.
4/ Negotiable time certificates of deposit in denomination of $100,000 or more.
5/ Largely borrowing in the Federal funds market and from Federal Reserve banks.
6/ Largely bank liabilities to foreign branches.
7/ Less than 50 million.
NOTE: Figures may not sum exactly due to rounding.

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Table 14

Business of Borrowers	Relative Size of 1969 Loan Expansion 1/	Relative Size of Firm 2/
"Other" Type of Business 3/	1	7
Service	2	19
Construction	3	18
Petroleum	4	1
Machinery Manufacturers	5	9
Other Public Utilities	6	2
Textile and Apparel	7	14
Chemical	8	6
Transportation	9	3
Other Fabricated Metals	10	13
Retail Trade	11	17
Wholesale Trade	12	16
Other Durable Manufacturing	13	15
Food Processor	14	8
Other Nondurable Manufacturing	15	13
Public Utilities (Communciation)	16	4
Public Utilities (Transportation)	17	10
Mining	18	11
Primary Metals Manufacturers	19	5

1/ Data in this column are derived from column 4 of table 15A. They reflect the relative size of the difference between loan expansion in 1969 and average of loan expansion in preceding three years. Rank of 1 is accorded to largest difference between current and average past changes.

2/ Data in this column are derived from column 1 of table 15A. Relative size is measured by average volume of assets per firm. Rank of 1 accorded to industry with largest average size firm.

3/ This category includes all firms that cannot be placed appropriately in other listed categories.

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Table 15

Business of Borrowers	Assets Per Firm in Thous. (1)	Business Loans: First 8 Months Change 1969 (2)	Ave. Change Thru 1st 8 Months Preceding 3 Years (3)	(2)-(3)
Petroleum	55.0	+ 237	+ 33	204
Other Public Utilities (Other than Transportation or Communication)	13.3	+ 156	- 46	110
Transportation Equipment Manuf.	11.0	+ 154	+113	41
Public Utilities - Communication	7.2	+ 3	+ 83	- 80
Primary Metals Manufacturers	7.1	+ 69	+397	-328
Chemical Manufacturers	3.0	+ 153	+ 97	+ 56
"Other" Type of Business	2.3	+1,302	+417	+885
Food Processors	2.1	- 539	-487	- 52
Machinery Manufacturers	2.1	+ 613	+497	+116
Public Utilities - Transportation	1.4	+ 234	+385	-151
Mining	1.2	- 28	+252	-280
Other Nondurable Goods Manufacturers	1.1	+ 173	+241	- 68
Other Fabricated Metals	.9	+ 254	+234	+ 20
Textile and Apparel	.9	+ 615	+559	+ 56
Other Durable Goods Manufacturers	.8	+ 252	+270	- 18
Wholesale Trade Concerns	.4	+ 73	+ 74	- 1
Retail Trade Concerns	.3	+ 21	+ 18	+ 3
Construction	.3	+ 360	+147	+213
Services	.2	+ 698	+184	+514
Total	1.3	3,619	2,969	+650

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