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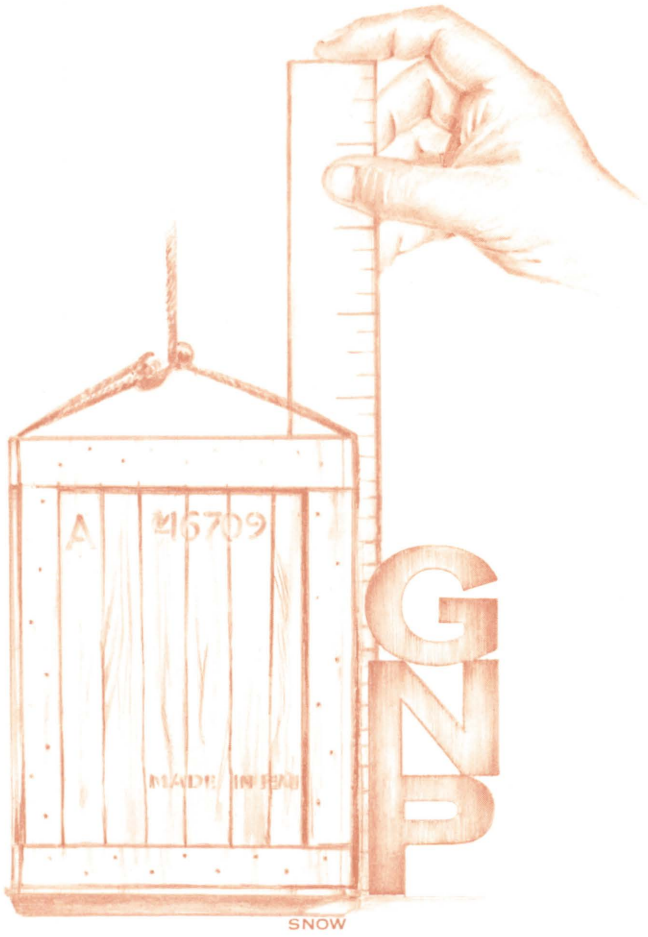


U. S. Imports and the Manufacturing Utilization Rate

Rising imports have recently been a subject of much concern. Evidence suggests, however, that they do not reflect a loss in our price competitiveness but instead arise from constraints in domestic supply as a result of high capacity use in manufacturing.

After the Pause, a Resurgence?

. . . New England Business Trends in the Second Quarter

Many sectors of New England business experienced a continuing pause in the second quarter. However, with demands for goods and services still strong, employment relatively high, income rising, and credit readily available, resurgence seems likely. Inflation rather than recession will be the major concern.

FEDERAL RESERVE BANK OF BOSTON

U. S. Imports and the Manufacturing Utilization Rate

by John J. Arena

THE deficit in the U. S. balance of payments has been a matter of concern for several years, and the recent narrowing in our trade surplus has added further ground for anxiety. Exports have risen rapidly, but ballooning imports have reduced the surplus from the record $6.7 billion in 1964 to only $3.7 billion in 1966, as Chart 1 shows. As a result, concern about the competitiveness of U. S. goods has grown.

Imports in the current economic expansion have actually grown far more rapidly than GNP. While total output has increased by about 50 percent, imports have grown roughly 80 percent since the start of 1961. The more rapid rise in imports has been particularly characteristic of the latter part of the expansion. For example, in 1966 GNP rose about 9 percent while imports jumped almost 19 percent.

This article attempts to answer the questions of (1) why imports have grown faster than output and (2) whether the United States is losing its competitiveness. These issues have long-run significance because high imports, associated with full employment and rapid GNP growth, result in a much more unfavorable balance of payments position.

The New England Business Review is produced in the Research Department. The authors will be glad to receive comments on their articles.

The evidence suggests that:

(1) Movements in imports are most sensitive to the supply capabilities of United States producers. This sensitivity is not a new phenomenon but has been typical of the entire postwar period. In times of rapid expansion and high capacity use, imports have risen quickly because of constraints in the domestic supply. In slack times of low capacity use, imports have grown slowly as producers at home are more easily able to satisfy domestic needs.

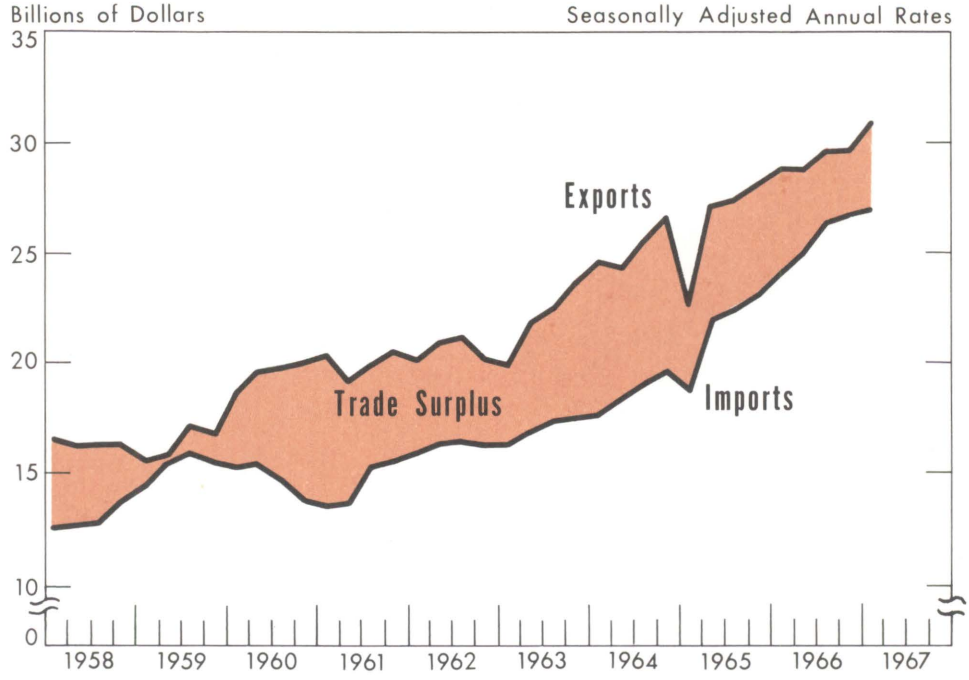
(2) As measured by relative prices, the United States competitive position has changed only modestly in the postwar period. In other words, while U. S. prices have moved up, they have been almost matched by similar movements abroad. This relative price stability has been particularly characteristic of the United States since 1959, and thus prices have not been a major factor in our recent import explosion.

U. S. Imports in the Postwar Period

During the postwar era, a substantial change has taken place in the composition of our imports. They have shifted markedly away from raw materials to a greater quantity of finished and manufactured goods. Immediately after the war, raw materials comprised almost half of U. S. imports. At present that figure is close to 27 percent.

The shift in composition has accordingly

Chart 1
MERCHANDISE EXPORTS AND IMPORTS



been accompanied by a change in suppliers. Raw materials come primarily from the less developed countries; finished goods from industrial or developed nations. This shift accounts to a great extent for the decline in the share of U. S. imports from Latin America which dropped from about 36 percent in the late 1940's to about 16 percent in 1966. Conversely over the same period the share from Western Europe has increased from 14 to 30 percent. (It should be remembered, however, that as a result of World War II Europe's capacity to produce finished goods had been greatly reduced, and consequently its share of U. S. imports was unusually low in the immediate postwar period.)

Not only has the composition of our imports changed, but the amount imported has jumped greatly — almost a fivefold increase. Naturally the amount of imports is closely related to the growth in GNP. Some import items are needed for production and some are purchased by consumers as their incomes expand. As Chart 2 shows, however, the amount of imports in relation to GNP has ranged from less than 2.6 percent to more than 3.7 percent. Although only a small percentage, this variation represents a large shift in the absolute volume of imports. The highest ratio of imports to GNP occurred in the first quarter of 1951 during the Korean buildup. Recently — in late 1966 — the ratio has risen almost as high.

Rate of Capacity Use in Manufacturing

What causes the volatility in the share of imports? There are a variety of explanations. People use imports if they are lower priced than domestic goods; if they are of higher quality; or if they are more readily available within the time needs of the buyer. However, the opposite of these attributes — higher prices, lower quality, and longer delivery periods — tend to characterize the economy when it is operating at almost full capacity than when output potential has some reserve.

The capacity use of output for manufacturing since 1948 is shown in the upper panel of Chart 2. It bears a strong similarity to the movement in the import-GNP ratio in the lower panel.[1] (The simple correlation between the two series is +.63.) The table in the Technical Note presents some results of linking capacity use and the rate of imports statistically. These results confirm the strong relationship between the two series. The closer the economy is to capacity, the higher the propensity to import.

For example, if the ratio of imports to GNP were constant, then an increase in GNP of X percent will produce an equal percentage increase in imports. However, if part of the growth in GNP is obtained by using some factors more intensely so that capacity use increases, then imports will grow by more than X percent. The current economic expansion illustrates this phenomenon clearly. Even with relative stability in the price level, imports tend to rise more rapidly than output.

[1]While manufacturing does not constitute all output in the United States, all major sectors of output tend to move together with a boom in one sector normally implying a boom in others. Thus, the manufacturing capacity index was used as a proxy for supply pressures on the economy as a whole.

The use of the equations in the Technical Note shows that relatively small changes in GNP and capacity use result in large percentage swings in import growth.

Price Competitiveness

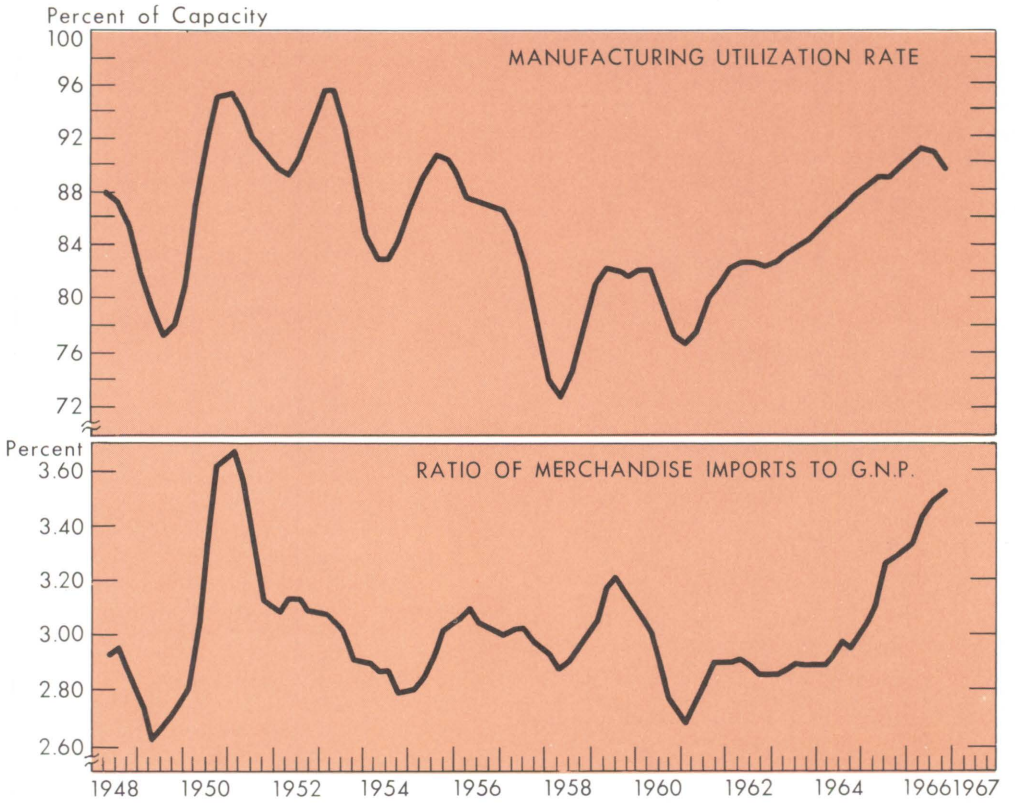
Relative prices also are statistically significant in affecting the import GNP ratio. During the current expansion, however, the relative price of U. S. output to the price of U. S. imports has changed only slightly from 99.1 in the first quarter of 1961 to 102.9 in mid-1966, and can account for only a small portion of the rise in the import share. The primary factor accounting for the rise in the present expansion has been the supply constraint.

Import Sensitivity of Specific Industries

While imports as a whole appear very sensitive to the capacity rate, one would expect certain industries to be even more responsive to supply constraints than others. To explore this issue, manufactured imports, which comprise about half of all imports, were classified by major industrial groups. Each group was compared with the industry's own capacity use and domestic output. (Unfortunately, only annual data were available on this basis and only since the late 1950's.) The statistical results are shown in the table on page 7.

Of the 15 industry classifications examined, 8 — including machinery, paper, petroleum products, ferrous and nonferrous base metals, and transportation equipment — showed a close statistical link to capacity use. Although the others showed little or no relationship, this can be largely explained by legal restrictions on certain imports. For example, quota restrictions on textiles or on certain foodstuffs are important reasons why the imports of these goods showed little change in relation to

Chart 2
IMPORTS AND CAPACITY



domestic supply conditions.

The most sensitive industries appear to be machinery (both electrical and nonelectrical) and transport equipment. The output of machine tools, automobiles, and other items in these industries is especially sensitive to moves in the business cycle so that capacity would readily be expected to be quite important in explaining the wide swings in the imports of such goods. For example, in the plant and equipment boom of the current expansion, machine tool imports have jumped in a marked fashion, outpacing the rapid growth in domestic output.

Because only a relatively small number of observations could be made from the available data, and because some items such as quotas could not be quantified, the results of the statistical tests are not as firm for specific industries as they are for the total of all industries together. Nevertheless, more than half the industries appeared sensitive to capacity problems. Moreover, for the numbers as a whole, the results of the statistical analysis provide clear evidence of the influence of price and capacity use and show the relative importance of each on total imports. These relationships should be particularly helpful in making forecasts.

TECHNICAL NOTE

The table below presents the results of ordinary least squares regressions linking imports to capacity use for all merchandise imports and for 15 specific industries according to the SIC code. (The industries are named in the table.) The basic regression format used ratios (in part to avoid possible heteroskedastic problems and in part because of the structural equations) as measures of the key variables.

$$\frac{I_t}{O_t} = B_1\left(\frac{1}{C^* - C_t}\right) + B_2\left(\frac{P_t}{F_t}\right) + B_3T_t + B_4K$$

in which

I = imports of the commodity
O = domestic production of the commodity
C* = desired operating rate as a percent of the capacity of the industry
C = actual operating rate as a percent of the capacity of the industry
P = U. S. wholesale price of the commodity
F = foreign price
T = trend variable
K = constant 1
t = time period

The specific form of the capacity variable is constructed to allow for a nonlinear capacity constraint so that higher levels of capacity use would entail diminishing returns. An increase of capacity use of 5 percentage points from 70 to 75 would have a much smaller impact on imports than a similar rise from 90 to 95 when bottlenecks and production problems are apt to be more prevalent.

According to the first regression equation in the table, a rise in GNP of 6 percent, accompanied by a rise in capacity use of 2 percentage points (say from 89 to 91 as in 1965–1966) would increase the ratio of imports to GNP by roughly .16 percentage points.[1] This would mean that if the initial ratio were 3.15 percent, imports would have risen by about 11 percent[2] (or have an elasticity of about 2). Or concretely, if 1967 GNP were to rise to $783 billion as forecast by the Administration (a gain of 5.3 percent, compared to the 1966 gain of 8.7 percent), and if capacity use **declined** to 87 from the 1966 rate of 91, the import-GNP ratio would decline by approximately .21, so that imports would show very little change from the $25.5 billion figure for 1966 (as compared to the 19 percent rise from 1965 to 1966)[3]. Thus, with what appear to be minor shifts in GNP growth and capacity use, large absolute swings in imports are possible.

Relative prices also are statistically significant for the overall data in affecting the import-GNP ratio; however, during the current expansion the relative price of U. S. output to the price of U. S. imports has changed only slightly — as noted above — from 99.1 in the first quarter of 1961 to 102.9 in mid-1966. This would imply an increase in the ratio of about .09[4] out of a total rise in the import-GNP ratio of .71. This is a relatively small shift compared to the sharp rise in capacity utilization from 75 to 91 over the same time span which would account for .28[5] of the .71. Thus, the primary factor increasing the import share in the present expansion has been the supply constraint.

In some regressions (for all merchandise imports) quarterly and/or trend dummy variables were included. The trend was never significant; the quarterly was occasionally, suggesting some incompleteness perhaps in the seasonal adjustment of the numbers. But the inclusion of such variables in the equation had no discernible impact (in size or significance) on the other coefficients in the equation, and are consequently not presented in the table in order to conserve space.

In several specific industries there appears to be a significant "trend" variable which embodies many unknown factors. This difficulty is accounted for primarily because of the few (8) years covered and the relatively short-term horizon which included only one cyclical move. The problems of multi-collinearity and serial correlation (note the Durbin-Watson statistics) exist in some of the data.

Also of note was a relative lack of explanation due to price in most of the select industries (though again not in the overall data). This too could be attributed to the paucity of observations, and to the tendency of the few data available to move together, thereby weakening the discriminatory power of the statistical techniques used. As time passes and more data become available, this relationship should be explored again.

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[1] $.6231 \times \left(\frac{1}{93-91} - \frac{1}{93-89}\right) = .16$

[2] $\left[(1.06 \times 3.31)/3.15\right] - 1.00 = .11 = 11$ percent

[3] a) 1966 actual figures (in millions):
GNP = $743,300
I = $25,510
I/GNP = 3.432

b) $3.432 - .6231 \times \left[\frac{1}{93-91} - \frac{1}{93-87}\right] = 3.224$

c) 1967 GNP = $783,000 (projected)

d) 1967 I = $25,244 (projected)

[4] $2.337 \times .038 = .09$

[5] $.6231 \times \left[\frac{1}{93-91} - \frac{1}{93-75}\right] = .28$

REGRESSION RESULTS WITH RATIO OF IMPORTS AS THE DEPENDENT VARIABLE[a]

Industry	B_1 (Capacity)[b]	B_2 (Price)[c]	B_3 (Trend)	B_4 (Constant)	Corrected[d] R^2	Durbin-Watson Statistic
ALL MERCHANDISE IMPORTS	.6231 (.1578) 3.95	2.337 (.6032) 3.87		.5603 (.5969) .94	.39	.95
TEXTILES			.4494 (.1597) 2.81	12.08 (.8066) 14.98	.43	1.10
PAPER	15.09 (3.851) 3.92		−.4401 (.0684) −6.44	22.32 (.2813) 79.37	.56	3.10
CHEMICALS			.1011 (.0284) 3.56	4.021 (.1432) 28.08	.51	1.44
PETROLEUM PRODUCTS	21.69 (5.946) 3.65			13.70 (.8229) 16.65	.52	1.54
STONE, CLAY AND GLASS		.4643 (.1149) 4.04		−42.03 (11.65) −3.61	.55	2.92
IRON AND STEEL MILL PRODUCTS	7.433 (3.476) 2.14		.7766 (.1480) 5.25	2.058 (.8658) 2.38	.53	2.10
NONFERROUS BASE METALS	4.619 (.3647) 12.67		−.5816 (.0521) −11.17	25.19 (.1950) 129.19	.61	2.34
FABRICATED METAL PRODUCTS AND INSTRUMENTS		.2909 (.0482) 6.03		−26.23 (4.898) −5.36	.64	2.06
NONELECTRICAL MACHINERY	5.948 (.7821) 7.60	.1446 (.0101) 14.25		−11.82 (1.020) −11.59	.62	3.23
ELECTRICAL MACHINERY	5.433 (1.297) 4.19		.3475 (.0256) 13.57	1.745 (.1023) 17.06	.62	2.20
MOTOR VEHICLES AND EQUIPMENT	24.19 (5.136) 4.71		−1.467 (.2175) −6.75	10.20 (.6291) 16.22	.57	1.84
OTHER TRANSPORT EQUIPMENT	4.471 (1.365) 3.27			1.591 (.1733) 9.18	.48	1.61
MISCELLANEOUS MFG. PRODUCTS			1.049 (.1173) 8.95	10.46 (.5923) 17.67	.70	2.21

[a] For individual industries only annual data for 8 years were available, 1958–1965. For all merchandise, 50 quarterly observations were available covering 1954, QI to 1966, QII. Coefficients, standard errors (in parentheses), and t values in specific industries are shown only for those independent variables for which the t value is significant at least at the 90% confidence level. None of the independent variables was significant for the food industry and the rubber and plastics products industry, which have been omitted from the table.

[b] Capacity utilization is expressed as $1/C^*$-C, where C^* for each industry is the desired operating rate and C the actual operating rate, both as a percent of capacity, as estimated by the McGraw-Hill Department of Economics. For all merchandise imports C^* is the desired operating rate for all manufacturing industries, estimated by McGraw-Hill at 93 in April 1966; C is the actual operating rate estimated each quarter by the Federal Reserve Board.

[c] Price is the U. S. Wholesale Price Index, for each industry. Special indexes were constructed for fabricated metals and instruments, and nonelectrical machinery, using price indexes and weights from the Bureau of Labor Statistics. No foreign prices were available for industry groups. However, for all merchandise imports the price variable was the ratio of United States price (Wholesale Price Index for all manufactures) to foreign price (unit value index of imports of finished manufactures).

[d] Corrected for degrees of freedom.

After the Pause, a Resurgence?

. . . New England Business Trends in the Second Quarter

by Harold F. Price

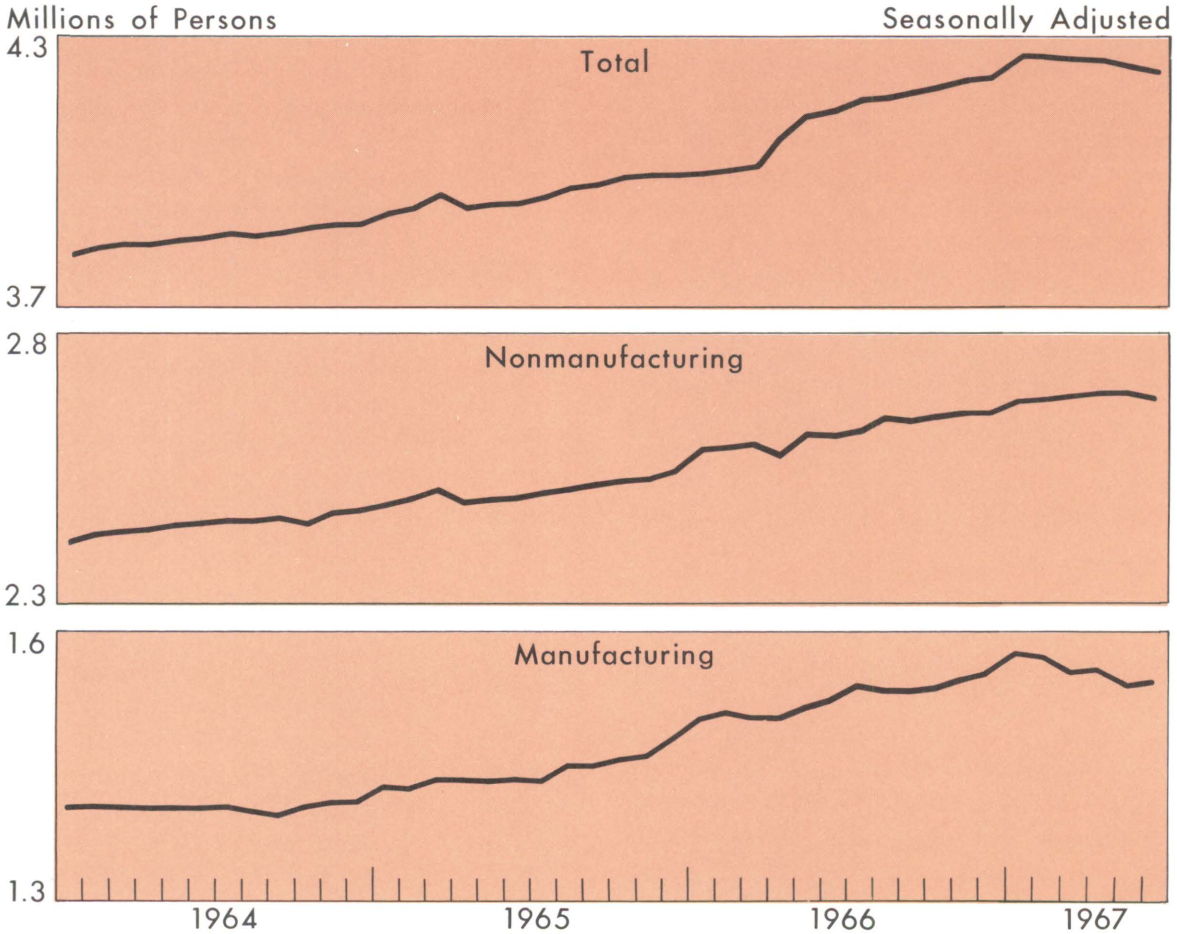
DURING the second quarter, no clear trend was apparent in the New England economy. It was beset by diverse forces with some sectors rising while others were declining. Changes in the region's economy are difficult to determine precisely because of the absence of a measure comparable with gross national product. Thus, one must resort to analogy from national trends, observations of opinions and sentiments, and attempts to synthesize the overall regional trend from the behavior of component sectors.

A glance at the national picture showed that after several years of vigorous growth with rapidly accelerating defense and civilian demands, a climax was reached in the summer of 1966. At the same time, concern developed over inflationary pressures. The economy's growth slowed to a pause. In the first quarter of 1967, growth in gross national product (GNP) amounted to only $4.2 billion at an annual rate and even that was nullified after allowance for price increases. In the second quarter, growth in GNP rose to an annual rate of $8.8 billions, of which $4.8 billion was due to price increases. Here were incipient signs of a pickup which would be strengthened when the current correction of excess inventories had run its course. By analogy a similar pattern may be assumed for New England.

By and large the nonstatistical indicators of public opinion and sentiment also confirm belief that a resurgence in economic growth is under way. Such belief is sufficiently confident to disregard the trends shown by some New England statistical series during the second quarter. Those measuring employment, production, and orders might well merit the overused term "sluggish." Business failures were consistently more frequent than a year ago. Construction trends were less weak rather than strong. On the other hand, personal income continued an uninterrupted expansion, retail sales were in definitely better volume, and financial statistics generally denoted improved liquidity positions wherewith to support expanding credit demands. But it should be noted that these expanding series are all expressed in dollar terms, and reflect in part higher prices. The latter together with equally unmistakable evidence of higher interest rates offer warning that the hoped for resurgence in business activity may, if not adequately controlled, entail the penalty of reintensification of inflationary pressures.

NONAGRICULTURAL EMPLOYMENT

New England



New England nonagricultural *employment* is reported at an all-time record of 4,311,900 for June by the regional office of the U. S. Bureau of Labor Statistics. Yet the 132,200 net gain during the quarter is a slowdown from that of 178,800 during the second quarter of 1966. It also slips below normal expectations of seasonal change, so that on a seasonally adjusted basis employment has continued to decline since January. The 12-month net gain narrowed further to 1.6 percent as of June from 2.8 percent as of March and from 3.8 percent as of last December. Nationwide nonagricultural employment showed a 12-month net gain of 2.4 percent in June.

Both manufacturing and nonmanufacturing components of New England employment followed this pattern of actual growth during the second quarter but in insufficient amount to

avoid a setback on a seasonally adjusted basis. The manufacturing net gain of 4,600 was far below that of 37,700 which was achieved during the second quarter of 1966. In consequence, the 12-month net gain dropped sharply to 0.6 percent as of June, from 2.8 percent as of March and 4.1 percent as of last December. Employment in nondurable goods manufacturing in the aggregate was even 2.6 percent less in June than a year earlier. Nationwide strikes in the rubber industry accounted in part for this negative relationship, but employees numbered fewer than a year ago also in New England's textile, apparel, food, and leather products industries. It was in its durable goods producing industries, particularly those most closely associated with the military program, that regional growth was best sustained. Here June employment averaged a 3.3 percent gain over a year ago, and approached or exceeded a 5 percent gain in the electrical machinery, transportation equipment, instruments, and ordnance industries.

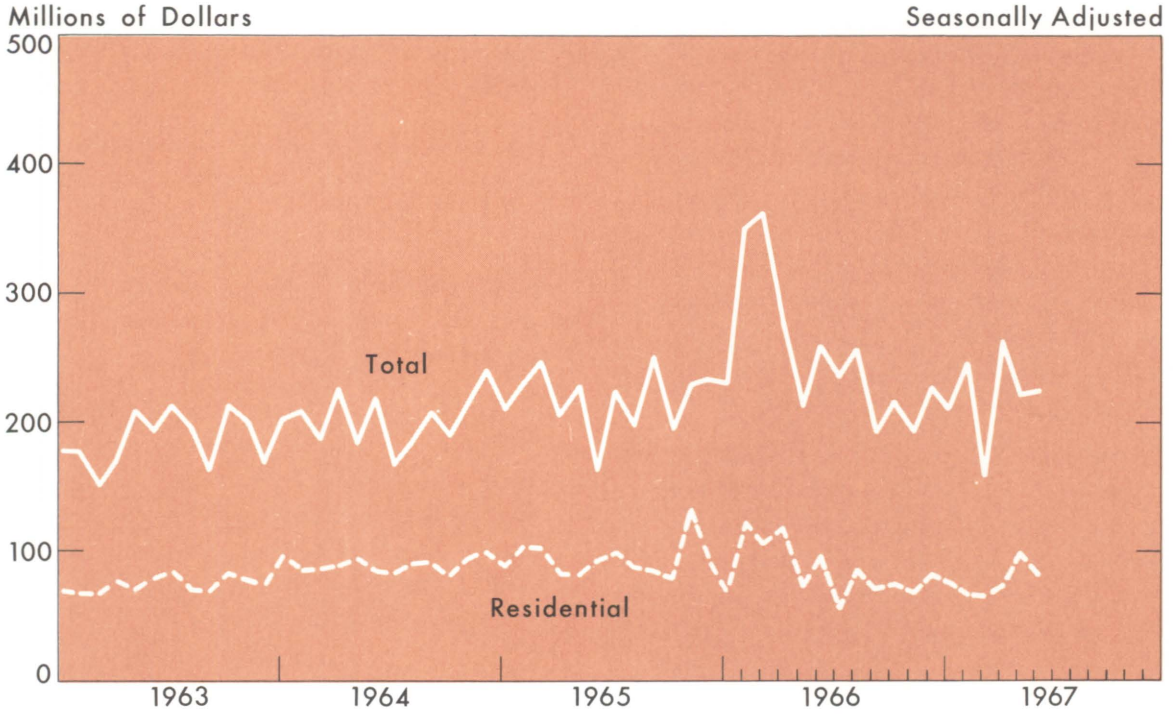
New England's nonmanufacturing employment has maintained a steadier growth, although its net gain of 127,600 in the latest quarter also failed to match the 141,100 gain in the second quarter of last year. June total employment in this category, which includes construction, utilities, trade, finance, services, and government, totaled 2.2 percent more than a year earlier. Only construction employment failed to share in this net gain.

With employment expanding less vigorously or even receding slightly, and with an apparently heavy influx of youths into the labor force in June in search of jobs, it is not surprising to find unemployment rolls swelling moderately. Expressed as a percentage of the labor force and seasonally adjusted, New England's unemployment rate rose steadily from 3.3 percent in January to 4.2 percent in June. Yet even the latter rate would have been regarded as enviably low in most of the recent years. Similarly, although the number of New Englanders receiving unemployment compensation at midyear was 21 percent above the corresponding figure for a year ago, it was still quite low by normal historical standards.

Perhaps a more convincing indication of diminishing vigor in New England employment conditions is found in the average factory workweek which shortened from 41.6 hours in January to 40.7 hours in June. Some employers preferred to retain trained employees on reduced work schedules than to risk finding them unavailable when the expected resurgence of business comes.

Manufacturing ***production*** is measured inferentially by this Bank from aggregates of man-hours worked by manufacturing production employees, adjusted for estimated changes in output per man-hour. The seasonally adjusted index of such man-hours, expressed as a percent of the 1957–59 average, continued an irregular decline from a peak value of 109.9 in January to 104.1 in May, with a suggestion of a pick-up in June to 104.7. The associated production index likewise declined from a seasonally adjusted peak value of 151 in January but apparently leveled at 146 in May and June. Polls of the New England Purchasing Agents Association showed more reports of decreasing than of increasing production in each month commencing with March, with the most adverse balance appearing in May. Another type of seasonally adjusted production index, that of New England electrical energy, was rather stable through the

CONSTRUCTION CONTRACT AWARDS



second quarter, somewhat below the immediately preceding peak but averaging about 6 percent higher than a year ago.

New England manufacturers' *orders* and *sales* are not covered by statistics suitable for the determination of overall current trends. Synthesis of an accurate overall picture from available scattered sources is attended by some risk. Surveys undertaken by this Bank but based upon relatively small reporting samples indicated earlier expectation of a 1 percent decline in sales from the first to the second quarter, but actual experience of a 3 percent decline. This is now hopefully expected to be followed by a 5 percent rise in the third quarter. Purchasing agents on balance reported declining order trends in April and May but an expanding trend in June. Reports from such key New England industries as those producing textiles, shoes, and copper and brass products indicated deferment but not abandonment of the expected second quarter upsurge in orders.

Attempts to correct excessive *inventories* had been largely responsible for the first quarter pause in the growth of gross national product. National data show that considerable progress was made in this correction during the second quarter. New England too had its inventory problems such as in synthetic textiles, color TV sets, and fabricators' copper and brass stocks, but no adequate overall measure of them. Purchasing agents' reports offered defi-

nite evidence of efforts to reduce raw material inventories in each month of the second quarter. Work in process inventories continued generally to mount, but in the case of finished goods inventories there was a steady and favorable narrowing in the margin between those reporting increases and those reporting decreases.

The incidence of ***business failures*** also gave testimony that business health was less assured than in some earlier periods. The number recorded during the second quarter in the six states was 30 percent greater than a year earlier, while the associated liabilities rose by 62 percent.

Not quite so adverse was the trend in new *incorporations*, as the total of 2,968 chartered in the six states during the second quarter was only 1.4 percent less than the comparable 1966 total. Between first quarters the relative decline amounted to over 7 percent.

New England ***construction*** activity during the second quarter was most prolific, judging from visual observation. Judging from statistics, however, it appeared discouraging. The $807 million total reported by F. W. Dodge Company for all types of construction contracts awarded during the quarter was 11 percent below that reported for the corresponding quarter of 1966. There was a relative drop in each of the 3 months of the quarter, and that of 20 percent for June was by far the greatest. Moreover, the national total of contracts declined by less than 1 percent between second quarters of the 2 years.

But this substantially unfavorable comparison should be viewed in the context that New England contracts for the second quarter of 1966 were unusually large, having surged 27 percent over those for the corresponding 1965 period. In that light the latest 11 percent decline is understandable, and it also represents a considerable improvement from the 32 percent drop which occurred between the first quarters of 1966 and 1967.

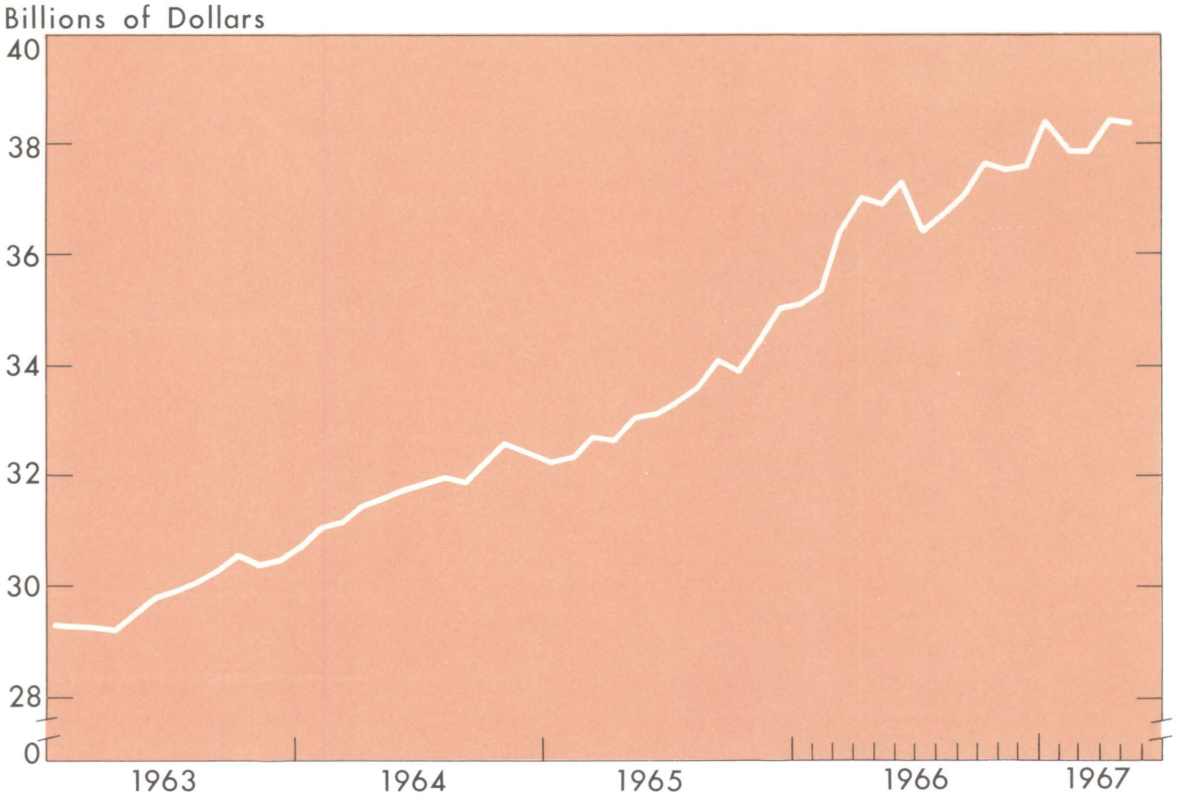
Second quarter nonresidential building contracts were 10 percent less than those of a year earlier. Almost all of this shortfall can be accounted for by a 49 percent drop in contracts for manufacturing buildings which a year ago constituted the focus for surging capital expenditure programs.

The value of second quarter residential contracts was running 14 percent below that for the second quarter of 1966, hardly convincing evidence of strong recovery in housing activity. Finally there was a 9 percent decline in contracts for public works and utilities between second quarters of the 2 years.

Even though the analysis up to this point seems to be profusely spotted with level and negative comparisons, one should not conclude that it is all to the bad. The economy had reached a very high level plateau of activity after years of vigorous growth; it had been badly strained by excessive demands; it had been shocked by last summer's credit stringency. A pause was needed. Other statistics of the New England economy will show continuing or resurging growth. This, in turn, is not necessarily all to the good, for it may include symptoms and sources of higher prices, higher interest rates and other evidences of inflationary pressures.

Personal income continued to flow to New Englanders in steadily increasing volume. For April and May, *Business Week* estimated its total $6,404 million or 6.4 percent of the na-

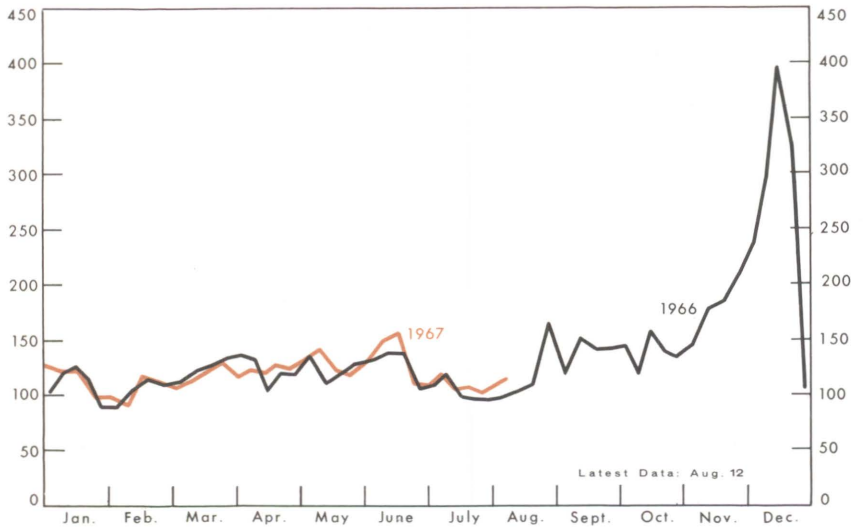
PERSONAL INCOME



tional total. Measured against income for the same months of 1966 it achieved an expansion of 6.6 percent, slightly greater than the national expansion of 6.5 percent. Among the six New England states only Massachusetts with its 6.1 percent expansion failed to match the U. S. average. The region's best showing of 10.3 percent was made in Vermont, aided in part by the rapid growth of its electronics industry with better than average paying jobs.

Consumer spending in New England has not shown full response to the growth in income, although a definite pick-up became discernible in the spring. U. S. Bureau of the Census data indicate that the region's total retail sales for the first quarter had just about matched the 1966 pace. Then they fell 2 percent behind for April, largely because the 1967 Easter shopping season had been completed in March while the 1966 season had extended for 2 weeks into April. But May sales shot 6 percent above those of a year ago. In consequence, cumulative sales through May had forged 1 percent ahead of the comparable 1966 total, as a 3 percent gain at nondurable goods stores offset a 5 percent lag at durable goods stores.

NEW ENGLAND DEPARTMENT STORE SALES



Data provided by a regularly reporting sample of New England department store sales extend this accelerating trend through the quarter, with sales for the 4 weeks ending July 1 moving up to an 8 percent gain over those in the comparable 1966 period. Comparison of their cumulative 1967 and 1966 sales showed a 3 percent lag as of April 1 converted to a 1 percent net gain by July 1. Expressed in terms of a seasonally adjusted index, their sales measured 137 for March, 127 for April, 131 for May, and 143 for June.

Automobile sales had accounted for a considerable portion of the drag in early 1967 retail sales. First quarter registrations of new automobiles in the six New England states had been 34 percent less than those of a year earlier. The sharp reversal to a 19 percent relative gain in registrations for April was largely artificial because April, 1966, registrations had been severely depressed by the initiation of an applicable 3 percent sales tax in Massachusetts. Even so, some measure of natural recovery was in progress for May registrations, exclusive of those in Connecticut, moved up to a 30 percent gain over a year ago.

Upward ***price*** trends, always a potentially upsetting factor in the balanced growth of the economy, had eased their pressure in the first quarter, but gave signs of reasserting themselves in the second quarter. The national consumer price index, which had risen moderately from 114.7 in December to 115.0 in March, spurted to 116.0 in June when it was 2.7 percent above the year ago figure. The national wholesale commodity price index, largely because of fluctuations in prices of farm products and processed foods, had eased from last summer's peak value of 106.8 to 105.3 in April, but had recovered to 106.3 by June. Rising price indexes raise concern about their influence on collective bargaining and wage rates, on unit labor costs in manufacturing and on construction costs, and quite possibly on our competitive position in world trade.

The ***interest rate*** spectrum also gave signs of response in the second quarter to a resurgence in business activity and the attendant demands for funds. Many types of bond yields had never fully responded to the goals of the late 1966 move towards greater monetary ease, and by mid-year of 1967 were close to or above their earlier peak rates. They halted and gave

initial signs of reversing a temporary and mild decline in mortgage rates. Short-term rates in the early part of the second quarter, however, were still in sharp downward response to that policy of ease, a move which was confirmed by reduction by the Federal Reserve Bank of Boston in its discount rate from 4½ to 4 percent on April 7. Yields on 3-month Treasury bills, for example, had dropped from a 1966 peak of over 5½ percent to a June 1967 low of less than 3½ percent before rising sharply in early July. Trading in Federal funds in late June was mostly at the 4 percent discount rate.

Credit expansion in its various markets proceeded during the second quarter after some hesitation in late 1966 and early 1967. Net loans and discounts outstanding at weekly reporting member banks in the First Federal Reserve District, although not currently growing at the hectic pace of a year ago, nevertheless marked a 12-month expansion of 3.4 percent as of June 28. Over the same period loans to business borrowers expanded by 4.1 percent. These rates of expansion might have been much larger had it not been that some potential borrowers, mindful of last summer's credit stringency, had assured themselves of funds by record financing in capital markets. Real estate loans outstanding at a reporting sample of New England mutual savings banks on June 30 were in 5.2 percent greater volume than a year earlier, and a comparable expansion is estimated to have occurred at the region's savings and loan associations.

Increased ***credit availability*** at lending institutions has made the foregoing expansion possible, even though some lenders were anxious first to rebuild their weakened liquidity positions. Federal Reserve policy has provided for its member banks an ample supply of net free reserves in place of their substantial net borrowed position of last year. Demand deposits at First District weekly reporting member banks on June 28 totaled 3.8 percent above a year ago, while their time and savings deposits had scored a 24 percent gain. The latter gain reflects recapture of funds through certificates of deposit which had earlier been lured away by higher yields in other investment markets. For similar reasons the second quarter has witnessed a markedly improved inflow of funds to mutual savings banks and savings and loan associations. June 30 deposit balances at the reporting sample of New England mutual savings banks, for example, had widened their 12-month net gain to 5.3 percent.

In short, the second quarter witnessed continuing pause in many sectors of New England business activity. But basic demands for goods and services were still strong, employment and incomes were plentiful, and credit availability had been rebuilt. The major concern was whether reintensified competitive conditions would again make upward pressures on prices and interest rates difficult to control.

Here's New England –

MANUFACTURING INDEXES (seasonally adjusted) 1957–59 = 100	NEW ENGLAND pJune '67	May '67	June '66	UNITED STATES June '67	May '67	June '66
All Manufacturing	146	146	145	157	157	159
Nonelectrical Machinery	171	166	164	181	182	180
Electrical Machinery	175	178	168	173	179	186
Transportation Equipment	168	164	152	170	169	167
Textiles, Apparel, Leather	100	101	111	133	134	143
Textiles	97	98	106	134	135	144
Apparel	109	111	121	141	142	152
Leather and Shoes	99	98	108	102	105	114
Paper	139	136	139	150	150	148

BANKING AND CREDIT	June '67	Percent Change From: May '67	June '66	June '67	Percent Change From: May '67	June '66
Commercial and Industrial Loans ($ millions) (Weekly Reporting Member Banks)	2,693	+ 2	+ 9	62,879	+ 1	+10
Deposits ($ millions) (Weekly Reporting Member Banks)	7,536	+ 2	+10	187,395	+ 1	+ 5
Check Payments ($ billions) (Selected Metropolitan Areas)*	266.4	+ 5	+18	3,733.1	+ 3	+ 9
Consumer Installment Credit Outstanding (index, seas. adj. 1957–59 = 100)	178.9	0	+ 4	221.8	0	+ 5
DEPARTMENT STORE SALES (index, seas. adj. 1957–59 = 100)	143	+ 9	+ 7	n.a.	n.a.	n.a.
EMPLOYMENT, PRICES, MAN-HOURS & EARNINGS						
Nonagricultural Employment (thousands)	4,312	+ 2	+ 2	66,263	+ 1	+ 3
Insured Unemployment (thousands) (excl. R.R. and temporary programs)	76	– 5	+25	1,057	–10	+30
Consumer Prices (index, 1957–59 = 100)	115.7 (Mass.)	0	+ 1	116.0	0	+ 3
Production-Worker Man-Hours (index, 1957–59 = 100)	106.1	+ 2	– 2	115.0	+ 2	– 4
Weekly Earnings in Manufacturing ($)	107.47 (Mass.)	0	+ 3	113.81	0	+ 1
OTHER INDICATORS						
*Total Construction Contract Awards*** *($ thous.)*	274,402	+15	–10	4,965,988	+ 7	– 1
Residential	104,153	+12	–13	1,876,710	+ 8	– 4
Nonresidential	118,805	+11	– 7	1,902,531	+ 7	+ 2
Public Works and Utilities	51,444	+30	–10	1,186,747	+ 7	– 1
Electrical Energy Production (4 weeks ending June 17) (index, seas. adj. 1957–59 = 100)	177	0	+ 7	188	+ 1	+ 7
Business Failures (number)	70	– 1	+25	1,047	– 5	– 3
New Business Incorporations (number)	1,014	– 3	– 3	18,591	– 1	+ 6

*Seasonally adjusted annual rate.
**3-mos. moving averages — Apr., May, June

p = preliminary n.a. = n.a. = not available