

CURRENT ECONOMIC AND FINANCIAL DEVELOPMENTS

I. DOMESTIC.

A. Where we stand.

1. G.N.P. - \$548 billion.

- (a) Highest rate ever.
- (b) 9-10% above a year ago.

2. Personal income.

- (a) February \$433 billion -- record.
- (b) Up  $7\frac{1}{2}\%$  in year.  
Since consumer prices are up only 1%, most  
of gain is real.

3. Industrial production.

- (a) In February rose to 115% (1957). Equals all-time high.

B. Yet no one is happy -- why? (Especially bankers)

1. 10% increase from recession low.

(a) Increases by quarters:

Quarter 2.....	plus \$15 billion
Quarter 3.....	" 10 "
Quarter 4.....	" 16 "
Quarter 1 ('62)..	" 6 "

2. Industrial production:

Quarter 2.....	+ 5.6%
Quarter 3.....	+ 3.7"
Quarter 4.....	+ 1.7"
Quarter 1 ('62)..	+ 0.7"

3. Mainly stubbornness of unemployment.

- (a) high..... 7.0% in May 1961
- February 1962 still..... 5.6% of civilian labor force.

(b) Civilian labor force 71.8 million. Has not grown in year.

- (1) Decline in older men. S.S. changes.
- (2) Part-time students.
- (3) Lack of vigorous demand.

4. In short -- Rate of expansion has slowed down.

(a) Early in the recovery.

(b) While there is still unused capacity.

- (1) Manpower.
- (2) Plant + Equipment (83%).

C. Where has weakness come from?

1. Where it has not come --

(a) Government purchases.

(1) State + Local --

- (A) Now 54.5 billion.
- (B) Increases @ 3-4 billion -- up 4.2.

(2) Federal --

- (A) Now 61.1 billion -- up 5.5

(b) Consumers.

(1) Services.

- (A) Now 147.3 -- up 10.
- (B) Increases 8-9 billion.

(2) Non-durables.

- (A) Now 160.2 -- up 6.5.
- (B) Increases 4-5 billion.

(c) Business.

(1) Inventories.

- (A) From - 4.0 to + 7.2 -- Not yet!

(2) Durable equipment.

- (A) From 24.2 to 28.5 but only + 0.5 last quarter.

2. Weak spots.

(a) Consumer durables.

(1) Now..... 44.5

(2) Above year ago (39.4) but - \$1 billion last quarter.

(b) Residential construction.

(1) Above year ago.

(2) But down \$2 billion in last quarter.

(c) Net exports -- G + S.

(1) Now \$3.3 billion.

(2) Down from year ago (5.3) and last quarter (4.0).

D. Domestic prospects.

1. No one ever knows.
2. Over-all, only 1% below optimistic forecasts.
3. Settlement of steel contract.
4. Optimism on autos.
5. My own view upward forces still predominate.
6. But no boom.
7. Unemployment will remain a problem.

DOW-JONES MORNING SUMMARY (4/4/62)

HOUSING:- Home building this year will probably not go as high as the 10 per cent gain over 1961 which some economists were predicting late last year. But despite recent gloomy federal statistics, there are still solid reasons for expecting the number of houses and apartment units built this year to exceed the 1,276,000 units of 1961. That is the consensus that emerged from Dow-Jones interviews with builders, bankers and housing economists around the country.

CONSUMER CREDIT:- Instalment buying picked up in February sparked by rising demand for motor cars. Consumers added 236,000,000 dollars to their instalment debt during the month after seasonal adjustments, the Federal Reserve Board reported. The February increase followed a 215,000,000 dollar rise in January and an increase of \$264 million in December.

## II. FOREIGN.

### A. Post-war reconstruction.

1. Bretton-Woods, 1944.
2. Marshall Plan.

### B. Success has brought new problems, both BASIC and TECHNICAL.

#### 1. A competitive world.

- (a) We have a large surplus on trade account -- both on goods and on services.

e.g.

\$3 billion last year, excluding exports financed by Government grants and capital. (Low imports because of recession.)

- (b) Surplus not large enough to pay for --

- (1) Foreign Defense Expenditures.
- (2) Foreign Aid Programs.
- (3) Private Investment.

- (c) Our over-all deficit averaged \$3.7 billion from 1958-1960 and was \$2.5 billion in 1961.

- (d) Restoration of equilibrium.

- (1) Will not come overnight. 1962 will probably again show a deficit -- and some further gold losses.

- (2) Governmental activities.

#### (A) Defense.

Foreign purchase of U.S. equipment.  
(Dillon estimates \$ $\frac{1}{2}$  billion more.)

More U.S. equipment supplies for our armed forces overseas.

#### (B) Economic assistance.

More "in kind" less in dollars.

- (C) Persuade allies to shoulder larger burden.

Our deficit is their surplus.

- (D) Bargain for lower tariffs.

- (E) Incentives for domestic investment.

(3) Private activities.

(A) Remain competitive. Keep costs down.

(B) Seize export opportunities.

(C) Export-Import Bank.

Credit insurance.

Commercial + political risks.

2. Convertible currencies.

(a) Gold exchange standard. Dollar is pivot.

Foreign dollar holdings -  $\$22\frac{1}{2}$  billion.

(b) Massive movement of funds.

(1) Interest differentials.

(2) Speculative.

e.g.

German + Dutch revaluation of ~~5%~~  
\$100's millions.

London to Zurich. Frankfurt.

(c) Financial defenses.

(1) \$6 billion -- 10 nation.  
Standby credit of I.M.F.

(2) Cooperation among central banks.  
(Basle statement in 1961.)

(3) Treasury Stabilization Fund.

(4) Federal Reserve foreign currencies.

(5) Financial defenses give time to work out  
fundamental adjustment.

They do not solve basic problem.

III. FEDERAL RESERVE OPERATIONS.

A. Basic principle: Lean against the breezes of  
inflation or recession.

B. Which way is the wind blowing?

1. Domestic recession and unemployment. Relatively easy credit.

2. Balance of payments.  
Deficit and short-term money flows --  
Relatively tight credit.

C. Resolution of conflict.      The tradition to adapt.

1. Supply reserves for expansion without undue downward pressure on short rates.
  - (a) Supply reserves by dealing in longer Governments.
  - (b) Treasury supplies more bills to market.

IV. CONCLUSION.

- A. The dollar gap of a few years ago removed with considerable help from U.S. -- and appropriate domestic policies abroad.
- B. The dollar surplus can be removed by appropriate domestic policies on our part -- coupled with warranted help in our mutual obligations.

Moderately optimistic -- not just to be fashionable,  
BUT after examining the evidence!