

# FEDERAL RESERVE BANK OF NEW YORK



## MONTHLY REVIEW

JULY 1963

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Volume 45

No. 7

## The Business Situation

The domestic economy moved further ahead in May, and early returns for June suggest continued, though moderate, strength. In May, industrial production, non-farm employment, and housing starts each registered its fourth sizable gain in a row, while personal income advanced appreciably for the third consecutive month. Retail sales, on the other hand, continued to fluctuate within a narrow range, with weekly data for June also showing no improvement over the level reached in February. June production figures indicate a substantial rise in automobile assemblies, but a decline in steel ingot production. The recent agreement on a steel labor contract, while enhancing the prospects for sound long-run growth, is expected to lead to some further slackening in steel production over the near term, as steel users bring their inventories down into better balance with normal needs. Although manufacturers' inventory expectations point to some slowdown in their over-all rate of stock accumulation in the third quarter, this slackening may be offset by increases in outlays for plant and equipment. According to the latest Government survey, businessmen's plans for capital spending for the last half of 1963 are somewhat stronger than had been indicated earlier.

The recent economic gains have not helped to ease the serious unemployment problem. Although the over-all unemployment rate fell off somewhat in June, it remained at a higher level than a year earlier for the fifth consecutive month, in large part reflecting a marked over-the-year rise in unemployment among young people. There are nearly a million more 16-year-olds in the population this year than last, and on average roughly a third of them are expected to be looking for jobs during the year. Various measures have been suggested to deal directly with the problems created by this large influx of teen-agers. An increase in the skills and training of the labor force will in itself contribute to economic growth, but, in turn, an expanding economy is required if direct measures are to be effective.

### PRODUCTION ORDERS, AND RETAIL SALES

The Federal Reserve's index of industrial production advanced by another one percentage point in May to 124

per cent of the 1957-59 average. This was the fourth consecutive month in which the index has risen by one point or more. Gains in May were largest in the materials producing industries—notably iron and steel—but there were also widespread advances in other industries. It is noteworthy that output of business equipment rose by nearly 1½ per cent in May, the first increase in this sector since last December and the largest gain in over a year.

Production figures for June pointed to a substantial rise in the rate of automobile assemblies, as producers tried to end up the 1963 model run with enough cars in inventory to carry through the model change-over period. Steel ingot production, on the other hand, declined somewhat in June. The recently announced settlement of the steel labor negotiations is expected to bring about a reduced level of ingot production in the several months ahead. That the settlement was reached without any formal announcement of a strike deadline and that the contract falls well within the Administration's wage guidelines should, however, help to provide a sound basis for long-run growth in the industry as well as in the economy as a whole.

The prospect for continued near-term advances in production was reinforced in May by the fifth consecutive advance in the backlog of unfilled orders held by manufacturers of durable goods. The increase brought backlogs to the highest level in three years. Although the volume of incoming new orders for durables slipped a bit in May, it was still at its second highest level on record and was 4 per cent above the May rate of sales. Moreover, the decline in new orders was more than accounted for by a slackening in orders for steel. New orders for machinery, in contrast, increased in May after having shown virtually no change during the preceding seven months.

In contrast to the gains in production, consumer spending continued to mark time in May as retail sales remained on the high plateau reached last February. Sales of new cars declined slightly in May, but dealers still were selling at a seasonally adjusted annual rate of well over 7 million units, about 10 per cent higher than a year earlier. At the same time, retail sales of items other than automobiles and parts advanced to a new record. Weekly data for June suggest a continuation of the May pattern, with a further decline in auto sales being approximately

offset by gains in other categories. It is interesting that despite this edging-off in the rate of auto sales and despite the fact that recent surveys have reported some reduced buoyancy in consumers' attitudes about the over-all performance of the economy, these surveys indicate that consumers' intentions to purchase new cars have remained at the advanced levels shown earlier in the year.

### PROSPECTS FOR BUSINESS SPENDING

Recent information on manufacturers' inventory spending plans suggests some reduction in the planned rate of accumulation in the immediate months ahead. According to a survey taken by the Commerce Department in May, manufacturers expected their inventories to rise by \$600 million during the third quarter, compared with an expected advance of \$900 million in the second quarter. In a similar survey taken last February, manufacturers had expected only an \$800 million increase in inventories in the second quarter. In part, the slowdown anticipated for the third quarter reflects the expectation of a cutback in steel stocks. Achievement of a higher than anticipated rate of sales could, however, cause manufacturers to make

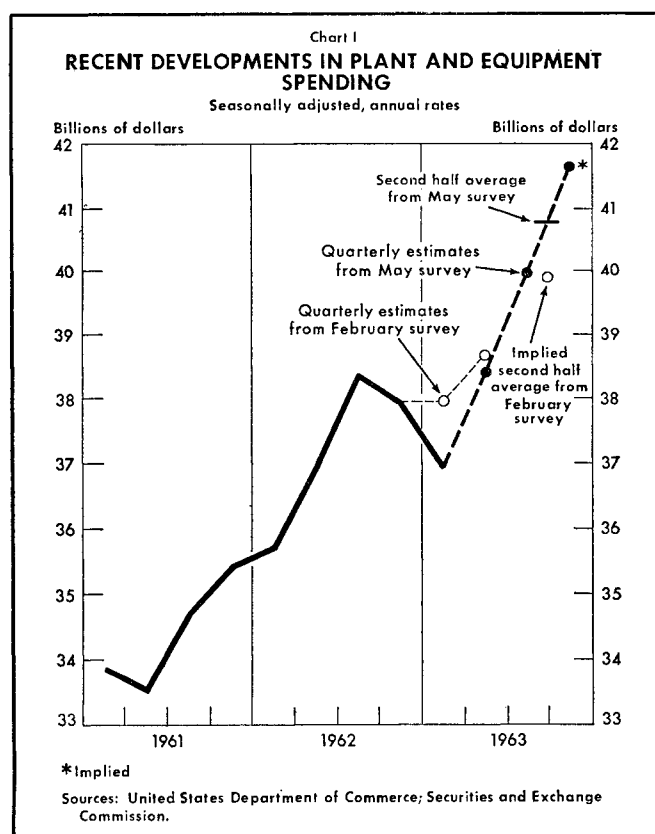
upward revisions in their over-all third-quarter inventory spending plans. Indeed, just such a factor may have been partly responsible for the upgrading in their second-quarter expectations. Last February, manufacturers had expected sales to decline in the second quarter. When surveyed in May, in contrast, they expected a 3 per cent increase in sales in the second quarter and another 1½ per cent rise in the third quarter.

The outlook for capital spending appears to be somewhat stronger than earlier. Thus, according to the May survey by the Commerce Department and the Securities and Exchange Commission, businessmen's plans now point to a 5.2 per cent increase in outlays for plant and equipment in 1963. This is a slightly larger rise than the 4.8 per cent advance shown in the Commerce-SEC survey taken last February. (A 7.4 per cent gain had been indicated in the McGraw-Hill survey taken in April and May. The McGraw-Hill survey, however, concentrates more heavily on large firms than the Commerce-SEC survey and, in the past, has always indicated a somewhat higher level of spending than the Government survey.)

To be sure, there still are uncertainties in the capital spending area. For example, the latest survey by the National Industrial Conference Board indicates that net new capital appropriations by large manufacturing firms declined by 22½ per cent in the first quarter, following the sharp increases in the third and fourth quarters of last year. At the same time, the Commerce-SEC survey indicates that actual outlays for capital equipment in the first quarter and the expected volume of spending for the second quarter turned out to be lower than the levels previously expected (see Chart I). Indeed, expenditures in the first quarter now show a \$1 billion (seasonally adjusted annual rate) decline from the fourth quarter of 1962, marking the second quarter in a row in which outlays moved downward. On the other hand, the estimated rise from the first quarter to the second quarter of the year is now nearly twice as large as shown in the February survey, and an even larger rise is expected for the third quarter. From the first half of the year to the second half, businessmen now expect about double the increase that had been implied in the February survey.

### RECENT DEVELOPMENTS IN UNEMPLOYMENT

Although most broad measures of economic activity have scored new records during the first half of 1963, unemployment has continued to be about as high and widespread as last year. To be sure, the seasonally adjusted unemployment rate in June edged off to 5.7 per cent of the civilian labor force from the 5.9 per cent level



reached the month before. The June level, however, still was either the same or higher than the rate in ten of the months of 1962, a year which in turn was marked by substantially higher unemployment rates than the period following the 1954 recession.<sup>1</sup> Indeed, unemployment rates were higher in 1962 than in 1957—and in most cases appreciably higher—for every age group (except 14- and 15-year-old girls) and for every industrial group for which the Labor Department publishes separate data (see Table I). Unemployment rates for every occupational group save farmers and farm managers were also higher in 1962 than in 1957 (Table II shows these rates for 1962).

While such detailed statistics are not available on a seasonally adjusted basis for 1963, it appears that each of these unemployment rates has continued at a high level so far this year. The seasonally adjusted data that are available indicate that in June the jobless rates for married men and for men over 20 years of age were somewhat below their 1962 averages, while the rate for women over 20 years of age was about the same as its 1962 level. The average for each of these rates in the first six months of this year was about the same as the average in 1962.

In contrast, the unemployment rate for workers under 20 years of age has so far this year averaged significantly higher than in 1962. Indeed, in May the seasonally adjusted unemployment rate for teen-agers rose to 17.8 per cent, the highest rate since the Labor Department started keeping such data in 1949. The rate fell back somewhat in June, but at 16 per cent was still at a level which until this year had been exceeded only during the 1958 recession. Whereas in 1962 teen-agers accounted for 20½ per cent of the total number of unemployed persons, their share of seasonally adjusted total unemployment in the second quarter of this year had risen to nearly 25 per cent. Less than 9 per cent of the seasonally adjusted labor force in the second quarter was under 20 years of age.

This rise in teen-age unemployment in part reflects a large influx of young people into the labor market this year, which in turn is an echo of the baby boom after World War II. Birth rates increased markedly in 1946-47. Fourteen years later, in 1961, as the first wave of these young people reached labor force age, the number of 14- and 15-year-olds in the population jumped by 913,000.

<sup>1</sup> After the 1954 recession, the over-all unemployment rate fell to near 4 per cent by May 1955 and remained at about this level until late 1957. The period following the 1958 recession was marked by a steel strike in 1959 and then by another recession beginning in May 1960, and thus is generally not considered an appropriate standard of comparison.

**Table I**  
**UNEMPLOYMENT AS A PERCENTAGE OF THE CIVILIAN**  
**LABOR FORCE, BY AGE AND INDUSTRIAL CLASSIFICATION**  
**1957 AND 1962**

Classification	1957	1962
Over-all unemployment rate .....	4.3	5.6
Unemployment rates by age group:		
14-15 years of age .....	7.6	7.7
16-17 .....	12.5	16.2
18-19 .....	10.9	13.7
20-24 .....	7.1	9.0
25-34 .....	3.9	5.1
35-44 .....	3.1	4.1
45-54 .....	3.3	4.0
55-64 .....	3.4	4.2
65 and over .....	3.4	4.5
Unemployment rates by industrial group:		
Agriculture .....	6.7	7.3
Mining, forestry, and fisheries .....	6.3	8.6
Construction .....	9.8	12.0
Durables manufacturing .....	4.9	5.7
Nondurables manufacturing .....	5.3	5.9
Transportation and public utilities .....	3.1	3.9
Wholesale and retail trade .....	4.5	6.3
Finance, insurance, and real estate .....	1.8	3.1
Service industries .....	3.4	4.3
Public administration .....	2.0	2.2

Note: Figures represent the number of unemployed in each classification as a percentage of the civilian labor force in each classification.

Source: United States Department of Labor.

Labor force participation rates in this age bracket have in recent years averaged only about 22 per cent for boys and 12 per cent for girls. This year, however, this same group is reaching the 16- to 17-year age bracket, at which point labor force participation becomes considerably higher—averaging about 45 per cent for boys and more than 25 per cent for girls. As a result, the number of 16- and 17-year-olds in the labor force in May (the latest month for which detailed data are available) was 265,000 (13.6 per cent) higher than last year. By 1965 the first crop of war babies will be 18 to 19 years old. If typical past experience is repeated, nearly three fourths of the boys in this age bracket and one half of the girls can be expected to participate in the labor market.

The net result of this increase in population, according to Labor Department projections, is that over the five-year period from 1960 to 1965 the number of 14- to 19-year-olds in the labor force may be expected to increase by about 320,000 persons per year (see Chart II). In contrast, the average annual increase of this group over the decade of the 1950's amounted to only about 75,000 persons. The projections indicate, moreover, that this initial group of young people will be followed by yet another wave during the last half of the present decade. Thus, from 1965 to 1970, the already large size of the 14- to 19-year-old bracket is expected to expand still further by about 140,000 persons per year. By 1970, therefore, the prospect is that there will be nearly 20 million persons

under 25 years of age in the labor force—an increase of 6 million persons, or 45 per cent, over the number in this age bracket in 1960. During the 1950's, the size of this age bracket grew by 360,000, or less than 3 per cent.

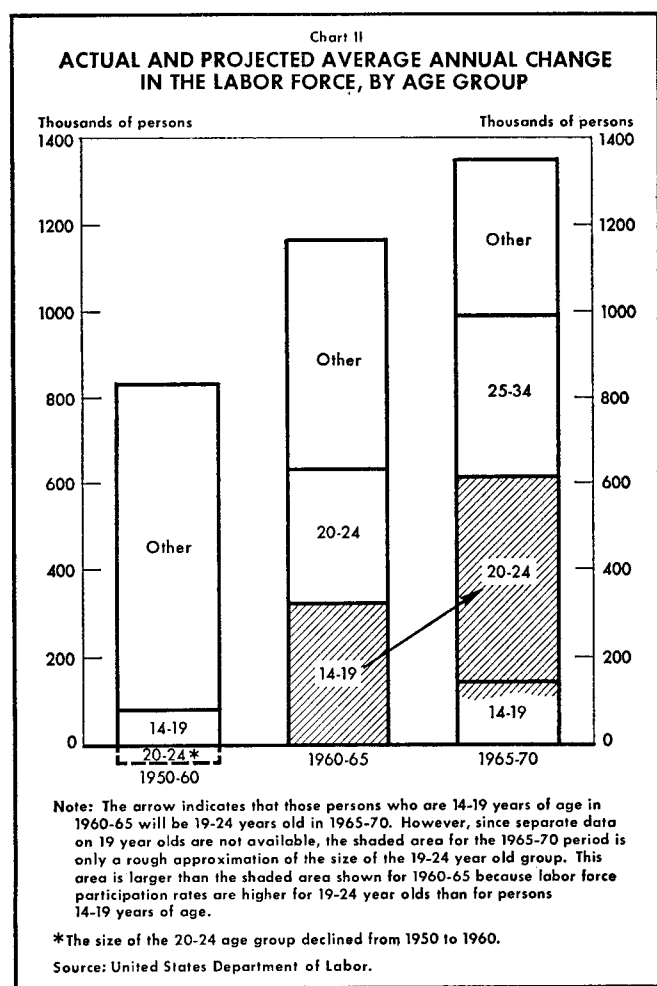
The sheer size of this group looking for jobs makes for at least a transitional unemployment problem of unusual magnitude. Most teen-agers are inexperienced and must compete for jobs with persons who in many cases have several years of experience behind them. In recent years, moreover, 30 to 40 per cent of all teen-agers have dropped out of school before completing high school. In view of the substantial upgrading of the general educational level of American workers over the past several decades, job opportunities for these dropouts are severely limited. According to a Labor Department study, of the 350,000 young people over 16 years of age who dropped out of school before graduation between January and October 1961, an estimated 27 per cent were unemployed

in the latter month. In contrast, only 18 per cent of 1961's high-school graduates, who probably were slightly older on average than the dropouts, were unemployed that October.

While most school dropouts have in the past eventually found at least some sort of job, the handicap of a limited education continues to affect their employment opportunities for the rest of their lives. Indeed, with rapid changes in technology that place higher and higher educational requirements on workers, it is open to question whether even graduation from high school will in the future prepare the worker for steady employment. In March 1962, nearly two thirds of the persons in the labor force who had completed less than four years of high-school education were in the blue-collar and service occupations (see Table II). These occupations had higher than average unemployment rates and, except for service workers, showed little or no growth in employment over the postwar period. In contrast, only 22 per cent of the persons who had not finished high school were able to find work in white-collar occupations, which have been growing more rapidly and had lower than average unemployment rates.

Some of the teen-agers—and a substantial portion of the school dropouts—are Negroes. In March 1962, only 31½ per cent of the nonwhite labor force 18 years of age and over had graduated from high school (90 per cent of the nonwhites are Negroes). In contrast, nearly 57 per cent of the whites had reached that level of educational achievement. The median number of school years completed by the nonwhites was only 9.6 years, compared with 12.2 years for the white labor force. This lack of education makes the nonwhite worker especially vulnerable to unemployment. Racial discrimination, of course, plays a role in this lack of training and, at the same time, adds to the burden faced by many nonwhites as they try to find jobs. Thus, the unemployment rate among nonwhites has in every year since 1954 been at least twice that for whites, and even in the immediate postwar period never fell below 1½ times the white unemployment rate. In 1962, nonwhites made up only 11 per cent of the civilian labor force, but accounted for 22 per cent of the unemployed.

To be sure, the social problems created by the high rate of teen-age unemployment are rather different from those associated with unemployment among other age groups. Relatively few of the younger workers are married and trying to support a family—though in May the unemployed of this age group did include about 10,000 married males and 46,000 married females. Many teen-agers, moreover, are looking only for summer or part-time jobs. In cases where parents have sufficient income, failure to obtain such jobs may involve no particular hardship. In other



**Table II**  
**DISTRIBUTION OF EMPLOYED PERSONS EIGHTEEN YEARS OF AGE AND OVER, BY OCCUPATION AND**  
**EDUCATION, MARCH 1962, AND UNEMPLOYMENT RATES, BY OCCUPATION, 1962**

Occupation	Total employees	Years of school completed			Unemployment rates
		Less than four years of high school	Four years of high school	More than four years of high school	
Total:					
Thousands of persons .....	63,939	28,920	20,688	14,331	
Per cent .....	100.0	100.0	100.0	100.0	5.6*
White-collar workers .....	46.3	22.2	53.9	83.7	2.8
Professional and technical workers .....	12.8	1.9	6.7	43.3	1.7
Managers, officials, and proprietors, except farm .....	11.8	8.7	12.4	17.3	1.5
Clerical workers .....	15.6	7.3	27.3	15.3	3.9
Sales workers .....	6.1	4.2	7.5	7.8	4.1
Blue-collar workers .....	35.1	50.2	31.5	9.9	7.4
Craftsmen and foremen .....	12.9	16.1	13.7	5.0	5.1
Operatives .....	17.6	26.4	14.8	4.0	7.5
Laborers except farm and mine .....	4.6	7.6	3.0	0.9	12.4
Service workers, including private household .....	12.3	17.5	10.4	4.5	6.0
Farm occupations .....	6.4	10.2	4.2	1.9	2.2

Note: Because of rounding, figures do not necessarily add to totals.

\* Includes unemployed persons for whom no occupational category is listed.

Source: United States Department of Labor.

families, however, failure to obtain a summer job may mean the loss of much-needed additions to parental incomes or of resources required to meet college expenses. Moreover, a large number of teen-agers "out of school and out of work" can always create an atmosphere of frustration and unrest—adding significantly to delinquency and other equally serious social problems. These could develop, as Dr. James B. Conant has stated, into "social dynamite". Finally, it must be remembered that the problem of teen-age unemployment is not necessarily a temporary phenomenon that will no longer exist once the young people who are now entering the labor force in large numbers grow somewhat older. The fact that the teen-age unemployment rate has itself risen substantially in recent months means that a larger proportion of youths than in the past will be moving into the older age brackets without some of the training that they should have acquired in order to have a satisfactory labor market experience.

Special government programs already initiated, or to be enacted in the future, can be a significant factor in the solution of the teen-age unemployment problem. Provisions for effective vocational training are certainly needed for some of these youths, as are measures that will cut down the rate of school dropouts and raise the over-all level of skills through the expansion of the quality and availability of general education. At the same time, the success of such measures will depend importantly on a more general recognition among teen-agers (and the population

generally) that, to an increasing extent, the achievement of the rising income and consumption levels that they desire is dependent upon the extent of their training. And even special government programs will still leave some frictional unemployment associated with such factors as seasonal swings in business activity and the voluntary movement of workers from one job to another, as well as unemployment associated with situations where excessive wage demands in effect price the worker out of the market.

Better training and education, the elimination of job discrimination, and other steps designed to help overcome structural difficulties are not, of course, the only prerequisite to the solution of the current unemployment problem and of the potentially aggravated unemployment problem associated with a more rapidly increasing labor force over the next decade. A healthy rate of over-all economic growth, without inflation, is itself essential. Such growth can help to absorb into employment those unemployed who already have the needed skills and training. Moreover, adequate growth provides an environment in which the incentives to add to skills are high, since jobs are then available when training is completed. Indeed, without adequate growth, training can go to waste and even add to feelings of frustration. Job discrimination against members of minority groups is also minimized when their employment arises from additional job opportunities and thus does not jeopardize the positions of those presently employed.



## Foreign Exchange Markets, January-June 1963\*

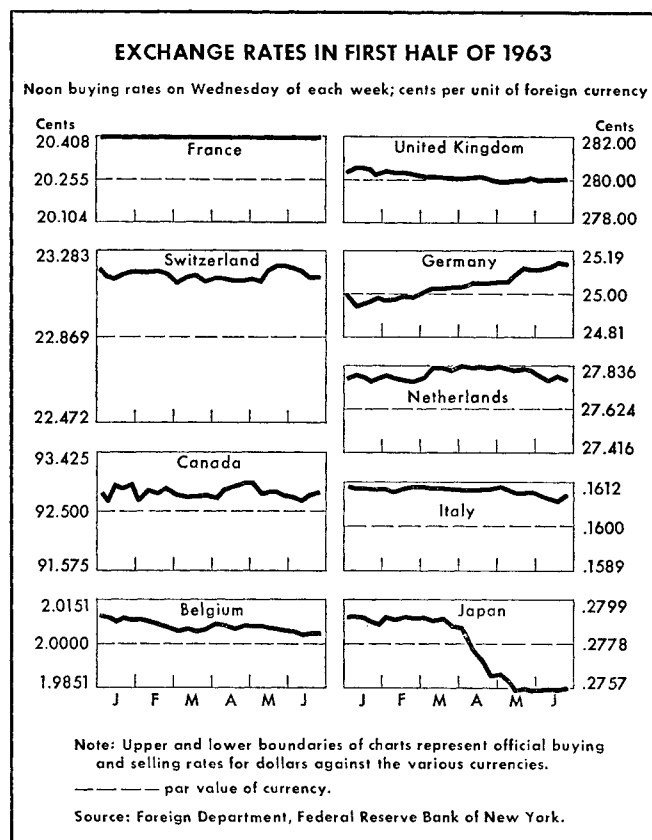
With the occasional exception of sterling and the German mark, the leading European currencies and the Canadian dollar all remained above their par values against the United States dollar during the first six months of 1963 (see chart). This strength of most major currencies vis-à-vis the United States dollar reflected the continuing deficit in the United States balance of payments. Preliminary estimates indicate that the United States payments deficit in the first quarter of 1963—the latest period for which comprehensive figures are available—was at a seasonally adjusted annual rate of \$3.2 billion, as against a deficit of \$2.2 billion for the year 1962. While it is not yet possible to sort out all of the factors underlying this deficit, it is clear that this country's traditional surplus on current account was again more than offset by outlays abroad to meet defense and aid commitments and by the outflow of United States capital. More specifically, there was a heavy concentration of foreign long-term securities issues in the New York market, especially of obligations issued by Canadian public and private borrowers, which continued into the second quarter of the year.

Capital movements in general played an important role in influencing exchange rate movements during the first half of 1963, as was the case in most of 1962. Under conditions of convertibility among major currencies, the

commercial banking systems as well as the business communities of various countries have found it possible and convenient to adjust to changing liquidity conditions through operations in foreign or international money markets, in addition to using the established domestic adjustment processes. During early 1963, tight money market conditions prevailed from time to time in a number of European financial centers—Frankfurt, Amsterdam, Paris, and Rome—partly as a consequence of seasonal and other temporary factors. Therefore, Continental commercial banks and major business firms frequently resorted to bor-

\* Articles in this *Review* covering previous developments are "Foreign Exchange Markets, January-June 1961", July 1961, pp. 114-16; "Foreign Exchange Markets, July-December 1961", January 1962, pp. 2-5; and "Foreign Exchange Markets, January-June 1962", August 1962, pp. 106-9.

Official United States exchange operations, and exchange market developments during 1962 and early 1963 as they relate to such operations, are discussed in two reports by Charles A. Coombs, Vice President in charge of the Foreign Department of the New York Reserve Bank and Special Manager, System Open Market Account: "Treasury and Federal Reserve Foreign Exchange Operations", this *Review*, October 1962, pp. 131-40, and "Treasury and Federal Reserve Foreign Exchange Operations", this *Review*, March 1963, pp. 39-45. Further information on Treasury and Federal Reserve foreign exchange operations will be presented in this *Review* from time to time. The present article deals mainly with exchange market developments and not with official operations and policies.



rowing in the Euro-dollar market to satisfy their liquidity needs. The borrowed Euro-dollars were often converted in the exchanges for the required local currencies, thereby tending to strengthen these currencies against the dollar. The reverse of such movements—i.e., sales of temporary excess local currency funds for investment in short-term Euro-dollar deposits—also took place occasionally.

As in other recent periods, movements of funds through the exchange markets frequently occurred in response to political events. Following the rejection in January of the British application for membership in the European Economic Community, uneasiness over the future prospects for sterling led to two speculative attacks on the pound, which were readily repulsed by the Bank of England, backed by assistance from other central banks. In the case of Canada, the Cabinet crisis early in the year contributed to an easing of the rate from late January through early April; this influence ceased after the April 8 election.

Throughout the first half of 1963, however, the exchange markets remained orderly and, for most of the period, they were calm. The stability of the exchanges in the face of many potentially disturbing events could be traced in good part to the markets' awareness of the extensive and still expanding cooperation among central banks, which was thus proving a successful deterrent to sustained speculation against any of the major currencies. The Federal Reserve's own network of swap agreements—mutual credit facilities—had grown by mid-1963 to include ten foreign central banks and the Bank for International Settlements, with total credit lines amounting to \$1,550 million.

#### STERLING

During the first six months of 1963 the United Kingdom's balance of payments on current account appears to have improved, compared with the last half of 1962; the British trade deficit was generally smaller on a seasonally adjusted basis, markedly so in March. Fluctuations in the sterling rate, however, also reflected short-term capital flows in and out of Britain over the period. Thus, sterling firmed early in January despite a reduction to 4 per cent from 4½ per cent in the Bank of England's discount rate, partly because Continental commercial banks were reinvesting funds in sterling assets following their usual repatriation of funds to meet year-end liquidity needs. This advance was reversed later in the month, when the British bid to join the Common Market proved unsuccessful and substantial selling of sterling by Continental interests developed. The British authorities firmly resisted this selling wave, and the speculative pressure on sterling diminished.

Nevertheless, uncertainty over future political and economic relations between Britain and the Common Market led to a persistently soft undertone in the sterling market even during February and March, when sterling is normally seasonally strong. In particular, a brief but intensive speculative attack on sterling developed in mid-March; and during the remainder of the month the spot rate dipped below parity on several occasions, while the discounts on forward sterling widened. Once again, the Bank of England forcefully counteracted the speculative selling, reinforced by the cooperation of other central banks. As Chancellor of the Exchequer Maudling stated in his budget address to Parliament on April 3, the Bank of England obtained \$250 million in assistance from other central banks in February and March to backstop its defense of sterling at that time. The Chancellor also expressed the determination of the British Government to retain the present par value of the pound, and he added that if necessary the Government not only would rely on Britain's own reserves but also would have recourse to its arrangements with the International Monetary Fund and foreign central banks to counter any further attacks on sterling. Thereafter, much of the uneasiness in the market disappeared. Spot sterling fluctuated narrowly above parity in April, while the discounts on forward sterling narrowed gradually.

During May, with tight money market conditions in several Continental countries and a developing tightness in the Euro-dollar market, Continental commercial banks borrowed at short term in the Euro-sterling market. The sterling funds thus borrowed were swapped—sold spot and bought forward—against dollars and local currencies to meet the liquidity requirements of the Continental commercial banks. These operations weakened spot sterling somewhat while strengthening forward sterling significantly (through the forward covering of the spot sales).

Some market uneasiness again developed briefly in June over the political difficulties of the British Government. Nevertheless, the sterling rate remained at par or better as the exchange markets placed confidence in the ability of the Bank of England to defend the pound, possibly because of the large resources known to be available to that bank. (These resources were further enlarged when the swap arrangement between the Bank of England and the Federal Reserve System was raised from \$50 million to \$500 million on May 29.) During June, the Bank of England was able to pay off the \$250 million of assistance received from foreign central banks earlier in the year. At midyear, spot sterling was quoted at \$2.8009, and the discount on three-month forward sterling was equivalent to only 0.5 per cent per annum, after having been as



high as 1.4 per cent late in March. Thus, sterling closed the first half of 1963 on a steady note.

### CANADIAN DOLLAR

Canadian long-term borrowing in the United States provided much of the strength to the Canadian dollar during the first half of 1963. This flow of long-term capital, particularly heavy in January and May, affected both the spot and forward rates for the Canadian dollar, as some part of the loans was converted from United States to Canadian dollars in the spot market while the conversions of other parts were spread out over various delivery dates in the forward market. A moderate amount of United States short-term funds also continued to flow into Canada, as Canadian interest rates remained somewhat above comparable United States rates even after allowing for the cost of forward cover.

Although Canada's trade balance showed a significant first-quarter surplus for the first time since 1952, the Canadian dollar rate declined somewhat during the initial three months of this year, when uncertainty over the Canadian political situation was reflected in the exchange market. As the general election of April 8 approached, the exchange market turned very quiet, with traders on both sides of the border deferring all but essential transactions. After the election, the Canadian dollar strengthened; the spot rate advanced to \$0.92<sup>61</sup>/<sub>64</sub>—its high for the first half of the year—and discounts on forward Canadian dollars narrowed. Following the reduction of the Bank of Canada's discount rate to 3½ per cent from 4 per cent on May 6, the discounts on forward Canadian dollars became even smaller, partly in a technical adjustment to slightly lower Canadian money market rates. In late May and through June, forward Canadian dollars were traded at virtually the same rate as spot Canadian dollars. Meanwhile, the spot rate edged down through early June, but this decline was reversed before the end of the month, and the Canadian dollar closed the first half of the year firm at \$0.92<sup>25</sup>/<sub>32</sub>.

### CONTINENTAL CURRENCIES

Among the major Continental currencies, the French franc, in particular, continued strong against the dollar. Although French customs data indicate that the French trade deficit widened in early 1963, France's over-all balance of payments remained in substantial surplus as a result of continuing capital inflows. Consequently, the French franc remained at its upper limit virtually throughout the period and, through the end of May, official

French gold and foreign exchange reserves had increased by \$590 million.

The German mark eased below parity early in January, reflecting an outflow of liquid funds from Germany for investment in short-term foreign currency assets. The mark rate fluctuated narrowly through early March and then edged steadily upward in an active market during the rest of the period. Substantial demand for marks developed—particularly in May and June—as German businesses and banks borrowed abroad in view of tight money market conditions in Germany. Also, foreign interest in German stocks and bonds was especially strong in the first half of the year. The dollars acquired by the German Federal Bank in tempering the rise in the mark rate through intervention in the exchange market contributed to the official German reserve gain of \$395 million in March-May.

The Swiss franc remained well above its par value and fluctuated within a relatively narrow range. Early in the year, some types of short-term capital inflows were reversed while others began to taper off. Thus, by March and through April the Swiss franc moved to a lower level, reflecting a further enlargement of Switzerland's trade deficit as well as foreign capital issues in the Swiss market and foreign workers' remittances to their home countries. In mid-May, the rate advanced somewhat when Swiss commercial banks began their midyear repatriations early and a capital inflow from Italy developed. Neither in May nor at any other time during the first half of 1963, however, did the Swiss franc reach the Swiss National Bank's buying rate for dollars, as it had for prolonged periods of 1962. Toward midyear, in fact, the rate gradually eased once more as inflows into Switzerland again diminished.

The Dutch guilder moved within a narrow range just below its upper limit. Figures for the first quarter of the year show that the Netherlands continued to have a substantial surplus on current account; in addition, a sizable long-term capital inflow took place during most of the half-year period, and during most of the second quarter Dutch commercial banks were meeting domestic liquidity needs by repatriating short-term investments previously placed in foreign centers. The guilder was particularly strong between mid-March and the end of May because of tightness in the Amsterdam money market at that time. The Netherlands Bank acted to reduce the stringency in the money market, especially by lowering in two steps the cash reserve requirement for Dutch commercial banks, from 5 per cent in March to 3 per cent in June. The money market turned easier by early June, and Dutch commercial banks moved to reacquire liquid foreign

currency assets on a covered basis, with the result that the spot guilder declined slightly while the premium on the forward guilder widened.

The Italian lira also fluctuated narrowly below its upper limit. Italians were important borrowers in Euro-currency markets to satisfy domestic liquidity requirements, which partly arose from an enlarged trade deficit. Such borrowings also helped counter the influence of short-term capital outflows connected with the April election and its aftermath as well as the effects of new regulations in January and April governing portfolio investment by Italian residents. Nevertheless, the lira softened somewhat late in May and June.

The Belgian franc, although remaining above its par value, declined gradually during the first quarter of the year. Belgian exports and imports were both reduced in the early months because of the severe winter in Europe; exports were at a particularly low level in February, resulting in a relatively large trade deficit in that month. In March and April, the volume of Belgian trade increased and the trade balance improved, accompanied by some firming in the Belgian franc rate. Thereafter, the Belgian trade balance again became less favorable, and this factor—in combination with some moderate capital outflow—led to a renewed easing of the franc in May and June.

#### OTHER CURRENCIES

The Japanese yen remained strong during the first quarter of the year, with the rate approximately at its upper limit, 0.5 per cent above the par value of \$0.002778. During April, the Japanese authorities took measures to bring Japan's international practices more closely in line with those of other major currency centers. On April 1, regulations regarding the repatriation of foreign capital invested in Japanese securities were liberalized; and, on April 22, the official support limits of the yen were widened to 0.75 per cent on either side of parity. An outflow of capital from Japan developed that month and, with a partly seasonal increase in the trade deficit, the yen rate declined in the second quarter of the year, reaching its newly established lower limit.

Indonesia moved to simplify its multiple exchange rate structure late in May, with the net effect of a further devaluation of the rupiah. The Brazilian cruzeiro was devalued by about 30 per cent late in April, when the Bank of Brazil raised its official buying and selling rates from 460-475 cruzeiros to the dollar to 600-620 cruzeiros. In May, the Uruguayan peso was also devalued, and the market rate moved from 10.98 to the dollar to 16.50 to the dollar.

### The Money Market in June

The money market remained generally firm in June, continuing the firmer tone that developed in the latter half of May. Reserve distribution tended to favor banks outside the money centers during much of the month, while reserve positions of banks in the money centers were under some pressure—particularly in the latter half of the month, after the midmonth corporate tax payment date and the enlargement of Government securities dealers' financing needs. As in the preceding month, Federal funds traded almost entirely at the 3 per cent "ceiling", with the supply of funds available at this rate often falling short of a substantial demand. Member bank borrowing from the Federal Reserve Banks continued at about the levels reached in the latter part of May. Rates posted by the major New York City banks on call loans to Government securities dealers were generally

quoted within a  $3\frac{1}{4}$  to  $3\frac{1}{2}$  per cent range throughout the period. The tone of the money market became quite firm early in July, reflecting both the lingering effects of the end-of-June commercial bank quarterly statement date and the reserve pressures developing in advance of the July 4 holiday.

On June 6, the Treasury announced that it would offer for cash approximately \$1 $\frac{1}{4}$  billion of new bonds to be dated June 20, 1963 and to mature August 15, 1970. Subscriptions for the bonds—carrying a 4 per cent coupon and offered at par—were to be received on June 11, with payment, which could be made through credit to Treasury Tax and Loan Accounts, due on June 20. It was also announced on June 6 that subscriptions in amounts up to and including \$100,000 would be allotted in full while amounts subscribed over \$100,000 would be

allotted on a percentage basis. At the same time, the Treasury indicated that it was prepared to enlarge the issue by 10 to 15 per cent if investor interest proved sufficiently extensive.

The results of the bond offering were announced after the close of business on June 14. The issue was very heavily oversubscribed, with the response far exceeding the Treasury's expectations. Subscriptions numbered almost 24,000 and amounted to approximately \$16¼ billion—a figure that was much inflated as subscribers expected a low allotment and consequently padded their subscriptions. Even so, it soon became clear that allotting in full the first \$100,000 of each subscription would absorb about \$1.4 billion—leaving virtually no percentage allotment on larger subscriptions unless the Treasury over-allotted by a wider margin than had been indicated earlier. In these unusual circumstances the Treasury accepted \$1.9 billion of subscriptions, subjecting that portion of subscriptions in excess of \$100,000 to a 5 per cent allotment. Because the total amount allotted substantially exceeded the \$1¼ billion originally sought by the Treasury, no allotments were made to Government Investment Accounts.

In the market for Treasury notes and bonds, interest focused during most of the month on the Treasury's sale of 4 per cent bonds of 1970. Price changes for outstanding issues were generally quite narrow and mixed, with moderate declines centered in the intermediate-term area, where the supply of securities was expanded by the new bonds. Treasury bill rates continued to rise into early June, then receded from June 4 through June 10 in the face of expanding demand. In the latter part of the month, bill rates held generally steady. Prices of corporate bonds drifted slightly lower early in the month, but moved moderately higher over the remainder of the period as the calendar of new offerings grew lighter and investor demand expanded. In the tax-exempt sector, prices moved down sharply at the beginning of June, then receded gradually over the balance of the month.

#### BANK RESERVES

Market factors absorbed reserves on balance from the last statement period in May through the final statement week in June. Reserve drains—stemming mainly from an expansion in Treasury deposits with the Federal Reserve Banks, an outflow of currency into circulation, and a large increase in required reserves—more than offset a midmonth rise in float. The expansion in required reserves primarily reflected an increase in loans to brokers and dealers, as they took on securities from corporations

#### CHANGES IN FACTORS TENDING TO INCREASE OR DECREASE MEMBER BANK RESERVES, JUNE 1963

in millions of dollars; (+) denotes increase,  
(-) decrease in excess reserves

Factor	Daily averages—week ended				Net changes
	June 5	June 12	June 19	June 26	
<b>Operating transactions</b>					
Treasury operations*	+ 37	- 118	- 8	- 109	- 198
Federal Reserve float	- 128	+ 64	+ 471	+ 1	+ 408
Currency in circulation	- 188	- 199	- 53	+ 52	- 388
Gold and foreign account	- 22	- 50	+ 17	- 2	- 87
Other deposits, etc.	- 10	- 22	+ 13	+ 32	+ 13
Total	- 312	- 324	+ 460	- 27	- 203
<b>Direct Federal Reserve credit transactions</b>					
Government securities:					
Direct market purchases or sales	+ 281	+ 322	- 269	+ 186	+ 520
Held under repurchase agreements	+ 102	- 28	- 1	+ 80	+ 153
Loans, discounts, and advances:					
Member bank borrowings	- 50	+ 32	+ 36	- 50	- 32
Other	-	+ 1	- 1	-	-
Bankers' acceptances:					
Bought outright	- 3	+ 1	-	+ 2	+ 4
Under repurchase agreements	-	-	+ 1	+ 1	+ 2
Total	+ 329	+ 329	- 234	+ 216	+ 689
<b>Member bank reserves</b>					
With Federal Reserve Banks	+ 17	+ 5	+ 226	+ 188	+ 436
Cash allowed as reserve†	- 177	- 15	+ 142	+ 70	+ 20
Total reserves†	- 160	- 10	+ 368	+ 258	+ 456
Effect of change in required reserves†	+ 25	+ 89	- 289	- 377	- 552
Excess reserves†	- 135	+ 79	+ 79	- 119	- 96
<b>Daily average level of member bank:</b>					
Borrowings from Reserve Banks	216	248	264	284	246‡
Excess reserves†	340	419	498	379	409‡
Free reserves†	124	171	214	145	163‡

Note: Because of rounding, figures do not necessarily add to totals.

\* Includes changes in Treasury currency and cash.

† These figures are estimated.

‡ Average for four weeks ended June 26.

raising cash to make quarterly payments; reserves were also required to cover the increase in loans to corporations which occurred over the quarterly tax and dividend dates. Additional required reserves were generated when commercial banks paid for the new Treasury bonds on June 20 by directly crediting Treasury Tax and Loan Accounts.

System open market operations during the month approximately counterbalanced the net reserve drains due to market factors. System outright holdings of Government securities expanded on average by \$520 million from the last statement period in May through the final statement week in June, while holdings under repurchase agreements rose by \$153 million. Net System outright holdings of bankers' acceptances declined by \$4 million, while holdings under repurchase agreements rose by \$2 million. From Wednesday, May 29, through Wednesday, June 26, System holdings of Government securities maturing in less than one year rose by \$444 million, while holdings maturing in more than one year expanded by \$64 million.

**THE GOVERNMENT SECURITIES MARKET**

Prices of Treasury notes and bonds moved irregularly lower in early June, as the market continued to weigh the outlook for interest rates with caution, particularly in view of further improvements in business statistics and news of a renewed outflow of gold. Additional uncertainty was generated by expectations that a Treasury cash financing was imminent. In this atmosphere, expanded offerings encountered only limited investment demand. Price declines centered in the 1968-72 maturity area, where the market anticipated that Treasury financing might be executed. Response to the Treasury's announcement, after the close of business on June 6, that it would sell approximately \$1¼ billion of new 4 per cent bonds of 1970 was favorable, and became increasingly enthusiastic as the subscription date approached. The Tax and Loan Account feature of the financing made the new bonds particularly attractive to commercial banks, while news that subscriptions up to \$100,000 would be allotted in full drew considerable interest from small investors. Response from other market sources was also substantial, based in part on the expectation that only small percentage allotments might accrue to large subscribers and that a sizable premium would develop on the new issue once trading began.

The market for outstanding notes and bonds was buoyed both by the enthusiastic reaction to the financing terms for the new issue and by a widely held belief that recent advances in interest rates had already reflected any shift that might have taken place in monetary policy. Prices of outstanding issues generally rose from  $\frac{1}{32}$  to  $1\frac{1}{32}$  from June 7 through the close of subscription books on June 11. Offerings of five- to ten-year maturities being sold to make room in portfolios for the 4's of 1970 were limited and were readily absorbed by professional demand. The new bonds were quoted at premium bids of from  $\frac{7}{32}$  to  $\frac{9}{32}$  in "when-issued" trading. From June 12 through the June 20 payment date for the 4's, price changes for outstanding issues were narrowly mixed, with the bulk of activity consisting of outright sales and switches out of 1968-80 maturities into the new bonds. Activity in the new issue tapered off prior to the Treasury's allotment announcement, as considerable market uncertainty developed over the possibility of unusually small percentage allotments. The Treasury's June 14 announcement that the total amount of the issue would be increased to \$1.9 billion brought forth a sizable volume of offerings of the new bonds, but these were readily absorbed by a broadly based demand.

Prices were little changed from June 20 through the end of the month. Over the month as a whole, prices

of intermediate and longer term issues ranged from  $\frac{6}{32}$  higher to  $1\frac{6}{32}$  lower, while the new 4's of 1970, which continued in good demand throughout the period, closed the month at  $100\frac{10}{32}$  (bid).

In the Treasury bill market, rates moved higher at the beginning of June in a cautious atmosphere reflecting market concern over reduced reserve availability, a further decline in the gold stock, and the possibility of still higher short-term interest rates. After the June 3 auction—at which rates were up 5 basis points from the preceding week on the three-month bill and 4 basis points on the six-month issue—demand, particularly from banks and public funds, revived at the higher rate levels. Thus, dealers were easily able to absorb bills returned to them under maturing repurchase agreements as corporations prepared for June 10 dividend payments. Against this background, rates edged generally lower from June 4 through June 10. Subsequently, a note of hesitancy developed in the wake of the June 10 auction, in which dealer awards were heavy. Offerings expanded moderately prior to the June 15 corporate tax payment date and encountered only limited retail demand. Over the remainder of the month, rates fluctuated within a narrow range in moderate trading, with persisting demand from nonbank sources balancing some net supply from banks in the continuing firm money market. At the final auction of the month, held on June 24, average issuing rates were 2.979 per cent for the new three-month issue and 3.070 per cent for the new six-month issue—about 1 and 2 basis points, respectively, above the rates established in the final auction in May. The newest three-month bill closed the month at 2.99 per cent (bid) as against 3.00 per cent at the end of May.

**OTHER SECURITIES MARKETS**

In the market for corporate and tax-exempt bonds, prices moved lower in early June as market participants became increasingly convinced that somewhat higher interest rates were in prospect. The price decline was more pronounced in the tax-exempt sector, where underwriters attempting to reduce their large inventories in the face of a substantial volume of new offerings made sizable price concessions. Yields on some recent tax-exempt issues rose by 5 to 15 basis points, and demand subsequently expanded at the lower price levels; dealers, however, continued to reduce prices throughout the month in order to trim swollen inventories. In the corporate sector, where the calendar of forthcoming issues contracted seasonally, resurgent investor demand permitted dealers to reduce their unsold balances; several new, fully priced corporate

issues encountered some investor resistance, however. Over the month as a whole, prices of corporate bonds moved generally higher, while prices of tax-exempt bonds declined. The average yield on Moody's seasoned Aaa-rated corporate bonds was unchanged at 4.23 per cent, while the average yield on similarly rated tax-exempt bonds rose by 10 basis points to 3.10 per cent.

The total volume of new corporate bonds reaching the market in June amounted to approximately \$455 million, compared with \$535 million in the preceding month and \$470 million in June 1962. The largest new corporate bond issue publicly marketed during the month consisted of \$75 million (Aa-rated)  $4\frac{1}{4}$  per cent industrial debentures maturing in 1988 and not refundable for five years.

Reoffered to yield 4.30 per cent, the debentures were very well received and the issue was quickly sold. New tax-exempt flotations during the month totaled approximately \$990 million, as against \$830 million in May 1963 and \$730 million in June 1962. The Blue List of tax-exempt securities fell by \$53 million during the month to \$643 million on June 28. The largest new tax-exempt offering during the period consisted of \$109 million of 3.60 per cent revenue bonds issued by a state housing finance agency and due to mature from 1966 through 2005. The bonds, which were AA-rated by Standard and Poor's, were reoffered to yield from 2.20 per cent on the 1966 maturity to 3.62 per cent on the 2005 maturity and were very well received.

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