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FEDERAL RESERVE BANK OF ST. LOUIS

# Review

1963—

A Year

of

Moderate Expansion



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FEDERAL RESERVE BANK  
OF ST. LOUIS  
P. O. Box 442, St. Louis, Mo. 63166

# 1963—

## A Year of Moderate Expansion

### Introduction

**T**HE ECONOMY moved upward during the year 1963. Total spending on goods and services expanded an estimated 3.9 per cent from late 1962 to late 1963 (after adjusting for price changes), greater than the average annual rate of 3.1 per cent since 1951. Industrial output, construction, and expenditures on plant and equipment increased markedly. The number of jobs in the economy rose by 1.3 million, and average wages increased. Personal income went up about 5 per cent, and corporate profits increased 10 per cent.

At the outset of 1963, the nation faced several major economic problems, and the outlook was not optimistic. Output and employment had been on a plateau since the summer of 1962. Stability of activity combined with rising potential meant that the volume of unused resources expanded. Unemployment had risen from about 5½ per cent of the labor force in mid-1962 to 5.8 per cent in early 1963, and there was an increase in idle plant capacity. The country also had a deficit in its transactions with other nations.

Monetary and other Government stabilization policies were formulated in early 1963 within the framework of these problems, a lack of strength in the domestic economy coupled with an adverse international balance of payments. These two problems remained paramount throughout the year, but as the year progressed there was also some concern about possible price rises and deterioration in the quality of credit.

Because of the apparent contradiction of the means of solving the domestic and international problems, the selection of the mix of objectives and methods of action posed a dilemma requiring a blending of views and cautious probing. The traditional policy prescription for stimulus to the domestic economy calls for monetary ease. Such a policy would ordinarily involve rapid expansions of bank reserves, bank credit, and money, and would usually be accompanied by declining interest rates. The traditional policy prescription for an adverse balance of payments has

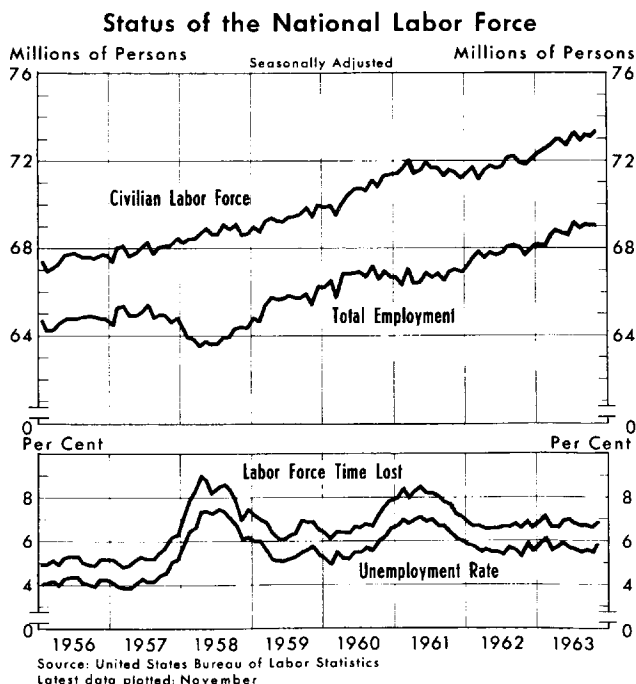
been one of monetary restraint. Such a policy would place upward pressure on interest rates.

The following review of economic developments and monetary actions during 1963 is organized as follows: there is first a discussion of the initial seven months of marked economic advance, next an analysis of financial developments during a transition, and finally an examination of the last five months of a slower rate of increase in economic activity.

### Pronounced Economic Expansion— January to July

#### Business Developments

In early 1963 business began to expand rapidly. This expansion was in marked contrast to the lethargy which had characterized the preceding seven months. Industrial output, after essentially no net change from May 1962 to January 1963, rose at a 12 per cent annual rate from January to July 1963. Employment, which had been virtually unchanged from May 1962 to January, rose by one million from January to July.



The proportion of unemployed in the civilian labor force, after increasing moderately from July 1962 to early 1963, declined after February and in late summer was near its year-earlier level. The rise in total expenditures on goods and services, after adjustment for price changes, was slightly greater in the first half of 1963 than in the last half of 1962.

Several developments contributed to the rise in activity during the first seven months of the year. A strong demand for steel was a significant factor in the sharp increase in industrial output. The demand was augmented during this period by a precautionary buildup in steel inventories by some firms as a hedge against a threatened steel strike.

Increases in Federal expenditures relative to tax receipts probably contributed to the upturn in economic activity in early 1963. By adding more to the spending stream with purchases of goods and services than was withdrawn by taxes and other receipts, the fiscal actions of the Treasury were a stimulative force. This was indicated by two commonly used budget measures. Federal cash spending rose \$4.8 billion (annual rate) from the April-September 1962 period to the October 1962-March 1963 period. Cash receipts increased only about one-fourth this amount. Hence, the cash deficit of the Treasury rose from a \$2.4 billion to a \$6.0 billion annual rate. A similar pattern is evident in the income and product account budget (which accrues tax receipts and expenditures).

Monetary actions also probably contributed to the rapid rise in economic activity during early 1963. Generally, individuals and businesses are more inclined to buy goods and services or make investments after their cash balances have risen abnormally. In early 1963, cash holdings of the public were relatively large. The money supply of the country had increased at a 6.0 per cent annual rate from August 1962 to January 1963, a considerably more rapid increase than the 2.0 per cent average annual rate since 1951. This increase in money was more rapid than the rise in income in late 1962.

### **Interest Rate Developments**

Despite the pronounced increase in business activity, interest rates changed relatively little during the first half of 1963. The three-month Treasury bill rate remained near 2.90 per cent from January to May and increased only slightly from May to June. Rates on long- and intermediate-term Government issues edged upward in the first half of 1963. By contrast, mortgage rates, which had generally declined after 1960, con-

tinued to drift lower during most of this period. Yields on high-grade corporate bonds were about unchanged. Relative stability in interest rates at a time when the general economy was rising substantially seems to present a paradox. Since rising demands for credit normally accompany an expansion in business activity, it is unusual for the demand and supply of funds to remain so nearly in balance.

The stability in interest rates reflected several factors: (1) Even though overall activity expanded, several sectors of the economy which are typically large users of credit did not perform well. Construction lagged in early 1963. Business expenditures on plant and equipment declined from the fourth quarter of 1962 to the first quarter of 1963, and, despite increases in the second quarter, remained below levels which had been achieved in mid-1962.

(2) There has characteristically been a seasonal decline in credit demands and interest rates during the early part of the year. In part, this results from a slackening in the Federal Government's demands for funds (since tax receipts are high) and, in part, it reflects seasonal cutbacks in some lines of economic activity. Thus, while seasonally adjusted data showed that activity was expanding sharply in early 1963, unadjusted data on output, sales, and credit extensions showed smaller expansions.

(3) Liquid funds of the public grew rapidly during the first half of 1963. As a result, financial institutions were large suppliers of credit funds, chiefly through mortgages, municipal securities, and term loans to corporations.

(4) Treasury debt-management actions may have placed some downward pressure on short-term rates while providing moderate upward pressure on rates for long-term securities. The volume of securities held by the public maturing in one year or less declined from \$68 billion in December 1962 to \$62 billion in June 1963. During this same period, the public's holdings of securities maturing in more than one year rose. Reflecting these developments, the average maturity of the Government debt lengthened.

(5) Monetary actions contributed to interest rate stability in the first half of 1963.

### **Monetary Developments**

Monetary actions affect interest rates, money market conditions, bank reserves, bank credit, and the money supply. However, not all of these variables can be controlled simultaneously. The economic system is characterized by great interdependence. What happens in one sector of the economy affects in some

measure all other sectors. This interdependence is particularly evident in the financial area. If monetary management undertakes to establish particular interest rates or seeks to maintain a given money market condition, then total reserves and money will be what they have to be, consistent with these conditions and the underlying economic environment.

### *Open Market Purchases*

Open market operations of the Federal Reserve System were designed to foster domestic economic expansion without adding to the net outflow of funds from the United States. Whenever there were strong demands for credit or stringencies in the money market, the System bought securities, thereby moderating upward movements of interest rates. Large rises in rates might have had a dampening effect on domestic investment. Conversely, whenever demands for credit slackened and money market conditions eased unduly, the System sold securities, thereby moderating downward movements of interest rates. An abrupt decline in rates might have triggered an outflow of funds seeking higher yields in foreign markets.

On balance, System open market operations tended to moderate rises in interest rates during the first half of 1963. The Federal Reserve System's portfolio of Government securities rose from an average of \$30.5 billion in December 1962 to an average of \$31.5 billion in June 1963. Typically, the System is a net seller of securities during the first six months of the year. Hence, the System purchases during this period were about \$2.1 billion more than seasonal. Purchases tend to raise prices of securities and lower yields both directly and indirectly (since Federal Reserve purchases add to bank reserves and, thereby, increase the banking system's capacity to extend credit).

### *Expansion of Bank Reserves*

Member bank reserves declined less than usual during the first half of the year. Total member bank reserves adjusted for seasonal influences rose at an annual rate of 2.7 per cent during the six months. This rise was slightly greater than the 2.4 per cent average annual rate of growth in reserves since 1951 (adjusted to take account of reserve requirement changes). Bank reserves are important because commercial banks must keep a certain percentage of reserves behind their deposit liabilities.<sup>1</sup> Hence, the volume of bank reserves sets a maximum on bank credit expansion. Changes in bank credit, in turn,

result in changes in bank deposits, and demand deposits are the largest component of the money supply.

Actual total reserves of member banks declined from \$20.0 billion in December 1962 to \$19.7 billion in June 1963. The net System purchases of Government securities and an increase in reserves borrowed from Reserve Banks added to member bank reserves. These influences were more than offset by net gold sales to foreigners, a shift in Treasury cash balances from commercial banks to the Reserve Banks, and a contraction in Reserve Bank credit extended on checks and other items in the process of collection (float).

Along with the rise in member bank reserves, banks utilized their reserve balances more intensively. In late 1962 excess reserves of member banks—that is, the reserves which banks hold in excess of their legal requirements—averaged about \$550 million. By early summer of 1963 excess reserves averaged about \$400 million. Also, during most of 1962 member bank borrowings of reserves from their Reserve Banks averaged about \$100 million; in May and June of 1963 these borrowings rose to over \$200 million. The decline in the level of excess reserves and the increase in the volume of borrowing may have reflected the rise in short-term market interest rates in the early summer of 1963. Higher interest rates increase the alternative cost of holding idle reserves and lower the relative cost of borrowing from Reserve Banks. The financial press frequently refers to “net free reserves;” this measure, derived by subtracting borrowings from excess reserves, is sometimes erroneously thought to provide an indication of the volume of funds available for lending. This measure declined from about \$450 million in late 1962 to around \$200 million in May and June 1963 .

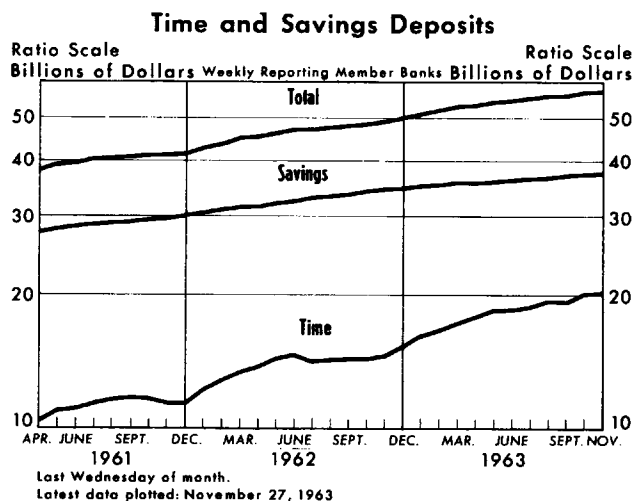
### *Expansion of the Commercial Banks*

Total loans and investments of commercial banks, seasonally adjusted, rose sharply in the first half of 1963. This increase in bank credit was made possible by the rise in bank reserves and by the reduction in excess reserves. In addition, the deposit expansion accompanying the credit increase occurred primarily in time deposits, which have the lowest reserve requirements. In the period from December 1962 to

<sup>1</sup>Reserve requirements for members banks as of the end of 1963 were as follows: 16½ per cent for net demand deposits of reserve city banks, 12 per cent for net demand deposits of other member banks, and 4 per cent for time deposits at all member banks.

June 1963, bank loans rose \$7.1 billion, or at an annual rate of 11 per cent, with increases most marked in business, real estate, and consumer loans. Bank investments increased \$5.1 billion, or at an annual rate also of 11 per cent. Holdings of municipal obligations rose especially sharply.

Along with the growth in bank credit, total bank deposits rose substantially during the first half of the year under review. Time deposits increased 8.7 per cent, with the increase greater in the first quarter (5.3 per cent) than in the second (3.2 per cent). According to data from weekly reporting banks, savings accounts rose 5 per cent and other time deposits, including negotiable certificates, increased 25 per cent. Total demand deposits in commercial banks rose at an annual rate of 2.1 per cent.



### Money Supply Growth

The money supply of the country rose moderately in the first six months of 1963. The money supply consists of a demand deposit component and a currency component. The demand deposit component consists of demand deposits, except those of the U. S. Government, adjusted to avoid double counting (domestic interbank deposits, cash items in the process of collection, and Federal Reserve float are removed). The currency component includes currency and coin outside the Treasury, the Reserve Banks, and the commercial banks. The money supply rose at an annual rate of 2.6 per cent from December 1962 to June 1963, with adjusted demand deposits increasing at a 1.5 per cent rate and currency at a 6.5 per cent rate.

### Balance-of-Payments Situation

The nation's balance-of-payments deficit increased during the first half of 1963, particularly in the second

quarter. During the first quarter the payments deficit was \$3.4 billion (seasonally adjusted annual rate), and in the second quarter it jumped to \$5.1 billion.<sup>2</sup> By comparison, during 1961 the net payments deficit amounted to \$2.4 billion, and in 1962 it totaled \$2.2 billion.

An increased net outflow of funds, particularly capital investment, was the chief factor causing an increase in the deficit in the first half of 1963. The movement of short-term funds out of the country amounted to \$1.0 billion (annual rate), about double the 1962 flow. Long-term U.S. capital investment abroad was at the rate of \$4.2 billion in the first half of 1963 as against \$2.8 billion in 1962. On the other hand, the trade balance of the country improved, rising from a surplus of \$4.8 billion in 1962 to a \$5.4 billion rate in the first half of 1963.

Despite the greater deficit in early 1963, the net gold outflow declined. Whereas the gold loss from December 1961 to June 1962 was \$420 million (41 per cent of the total deficit), for the same period in 1963 the figure was \$227 million (14 per cent of the deficit). Sales by the Treasury of foreign-currency denominated securities to foreign official holders of dollars, which were introduced in late 1962, helped to diminish the flow of gold from the United States. The Treasury issued \$377 million of these bonds in the first two quarters of 1963. Also, foreigners were more willing to increase their holdings of dollars during early 1963 than in the previous year. A buildup in foreign dollar holdings financed 75 per cent of the first two quarters deficit in 1963 compared with only 51 per cent in the corresponding period of 1962.

## Midyear Transition

### Interest Rate Developments

Short-term rates moved up sharply from June to August. The yield on three-month Treasury bills, which averaged 2.99 per cent in June, reached 3.18 per cent in July and 3.32 per cent in August. Yields on 3-5 year Government securities increased 14 basis points in the two-month period. Yields on long-term Government securities, which were moving up slowly in the January-June 1963 period, were about unchanged from June to August.

<sup>2</sup>These figures include as part of the deficit receipts from sales of nonmarketable, medium-term, convertible securities to foreign monetary authorities. If not included, the deficit for the first quarter of 1963 would be \$2.0 billion and for the second quarter \$4.4 billion.

The increase in rates during the midsummer of 1963 resulted from several developments. (1) The rise reflected largely the underlying business environment. Private demands for credit continued to be cyclically strong. (2) In addition, whereas seasonal forces had served to depress interest rates earlier in the year, they were a factor in increasing rates during July and August.

(3) Treasury debt-management operations during the June to August period probably tended to increase yields on short-term issues while moderating rises in most other maturity ranges. Debt-management had had an opposite effect earlier in the year. While total Treasury debt held by the public declined \$460 million from June 30 to August 31, the public's holdings maturing within a year rose \$3.2 billion. In contrast to earlier increases, the average maturity of the public debt was about unchanged from June to August.

(4) The timing of increases in short-term rates from June to August reflected the sensitivity of the money market to statements by Government spokesmen. Early in July there were numerous predictions in the financial press that the Federal Reserve discount rate, the rate charged for borrowed reserves, would soon be raised. The three-month Treasury bill rate, which averaged 2.99 per cent during June, increased to 3.07 per cent by Friday, July 5. On Monday, July 8, Secretary of the Treasury Dillon in testimony before the Joint Economic Committee of Congress suggested that higher short-term interest rates would be desirable in view of the seriousness of the balance-of-payments situation.<sup>3</sup> On that day the bill rate jumped from 3.07 per cent to 3.22 per cent. The following day, Under Secretary of the Treasury Roosa re-emphasized this position. The bill rate rose still further to 3.24 per cent.

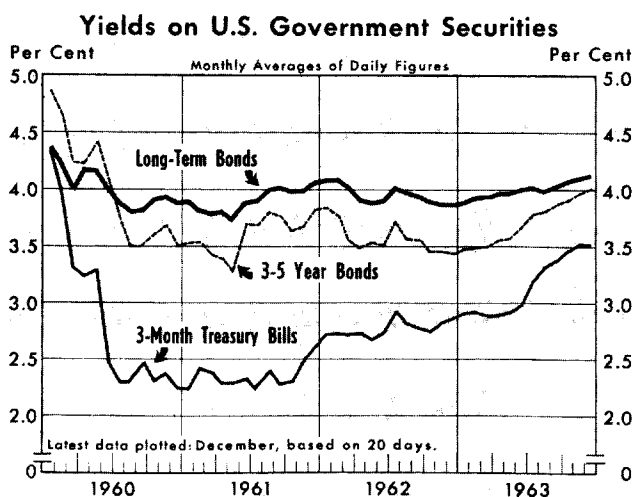
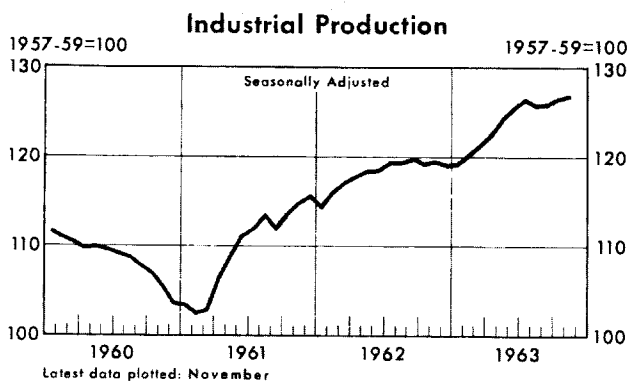
On July 11 some of the Federal Reserve Banks held their regular monthly Board of Directors meetings, but no announcement of discount rate change was made, and the bill rate began to edge down. On July 17 the discount rate was raised from 3.0 per cent to 3.5 per cent, and the bill rate rose 6 basis points to 3.25 per cent.

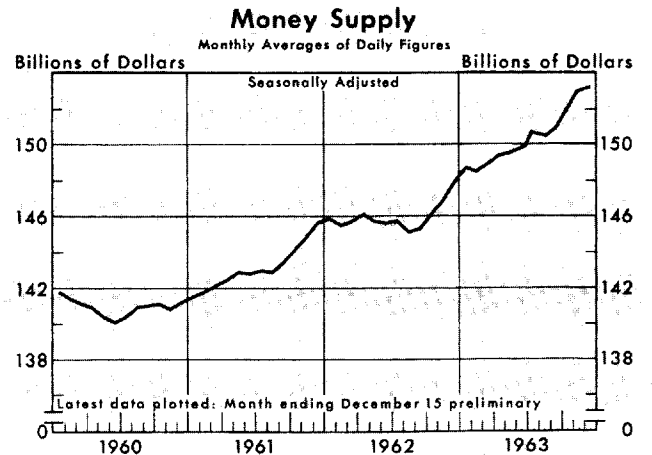
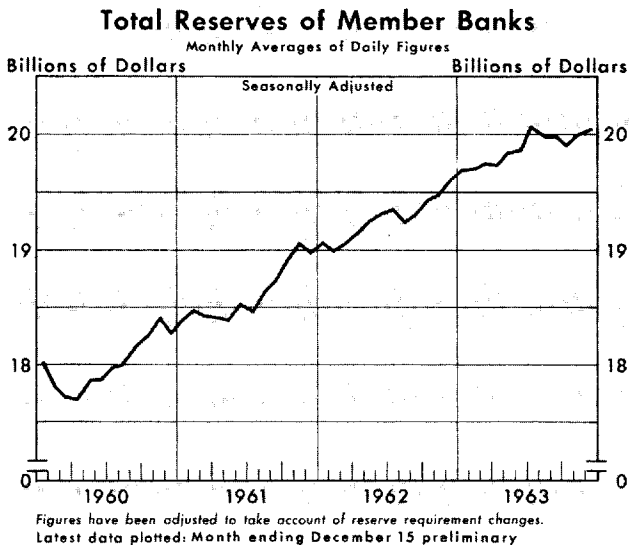
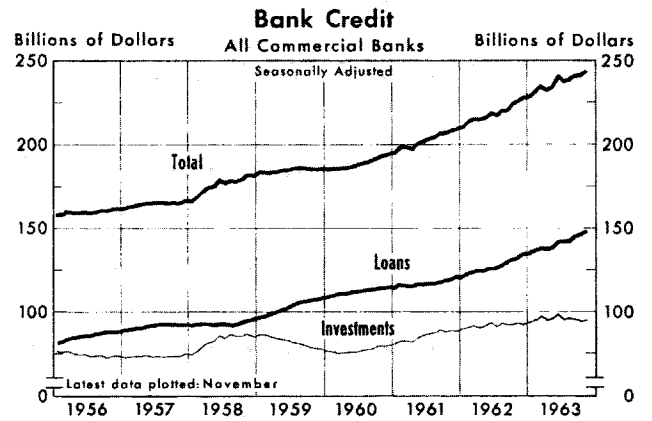
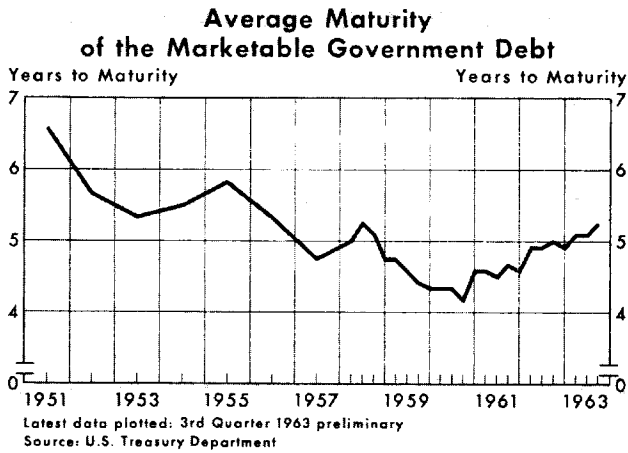
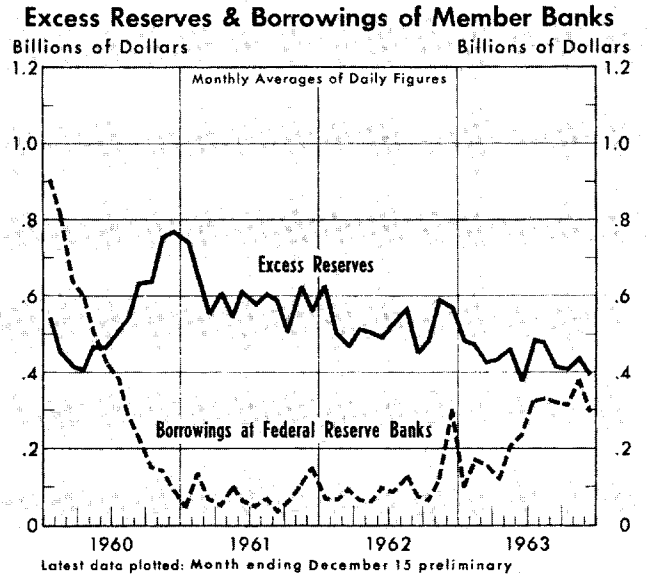
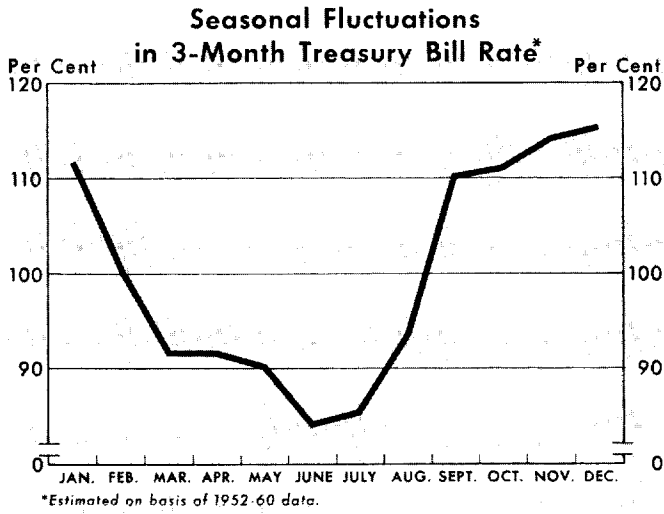
In an address to Congress on July 18, President Kennedy outlined a program to improve the nation's balance-of-payments position. Included was the explicit policy of raising short-term interest rates, while

<sup>3</sup>The Secretary also expressed an opinion that from the point of view of stimulating the domestic economy it would not be desirable to have higher long-term rates.

# 1963 in Charts

THESE CHARTS, which show various business and financial developments during 1963, are grouped to facilitate comparisons.





maintaining relatively low long-term rates. By early August the three-month bill rate had climbed to 3.30 per cent.

(5) Monetary developments also tended to put upward pressure on interest rates.

### Monetary Developments

Total reserves of member banks declined slightly from June to August. This decline reflected primarily a movement of currency into circulation and net sales of gold to foreign Treasuries and other official agencies. On the other hand, the Federal Reserve System made net purchases of Government securities amounting to \$693 million, \$343 million after seasonal adjustment.

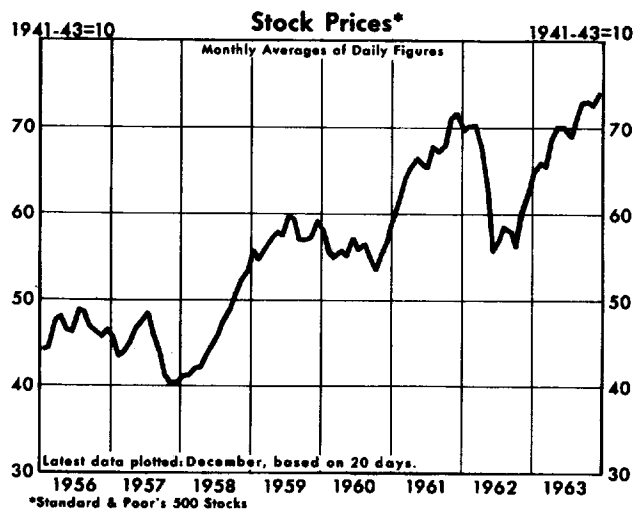
With a modest contraction in reserves, total bank credit, seasonally adjusted, changed only slightly from June to August. Loans continued to rise, but banks sold securities on balance. On the other side of the balance sheet, total deposits also were little changed, but there was a shift from Treasury to private accounts. The money supply of the nation rose at a 2.8 per cent annual rate, and time deposits in commercial banks increased at a 12.6 per cent rate.

## Pause in Economic Activity— August to December

### Business Developments

The pace of business activity moderated after the pronounced rise during the first seven months of the year. Industrial output, which reached 126.5 per cent of the 1957-59 average in July, stabilized and, in November, was 126.9 per cent. Construction activity, which had been rising sharply, showed little net change after August. Employment was virtually unchanged after July, remaining near the 69 million level. Despite strong automobile sales, total retail sales were about unchanged, on balance, from July to November. Reflecting these developments, prices continued to change only slightly.

Even though overall business activity hesitated after July, corporate profits and stock prices continued to rise. Corporate profits after taxes rose from \$26.1 billion (annual rate) in the first half of 1963 to a \$27.4 billion rate in the third quarter. In 1962, corporate profits after taxes had amounted to \$24.6 billion. Stock prices rose markedly (20 per cent annual rate) during the first ten months of the year. The rise in stock prices was accompanied by a 31 per cent expansion of credit extended on stocks. Effective November 6, the Board of Governors raised margin requirements



for stock credit (Regulations T and U) from 50 per cent to 70 per cent, the level that had prevailed from mid-1960 to mid-1962. From October to November stock prices drifted lower, but they rose from November to December.

Several factors may have contributed to the slackening in the rate of overall business expansion. The rise in steel inventories during the first half of the year came to an end as wage negotiations were completed and a midsummer strike was avoided. Steel inventories were worked down during the late summer and early fall, and there were sharp cutbacks in steel production.

Fiscal operations of the Treasury may have been less of a stimulative force during the summer and fall of 1963 than they were in the previous winter and spring. With incomes rising in early 1963, tax receipts of the Government rose substantially. The cash deficit declined from \$6 billion (annual rate) in the fourth quarter of 1962 and the first quarter of 1963 to about \$4 billion in the second and third quarters of 1963.

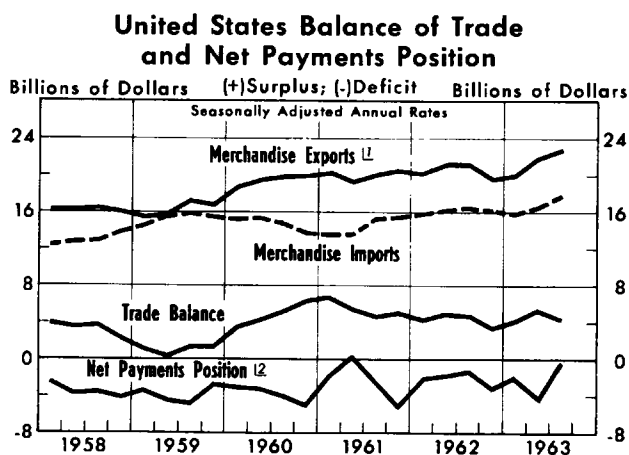
Monetary developments had been less expansive in the period immediately preceding the reduced rate of business expansion than they had been earlier. From January 1963 to the month ending September 15, the money supply of the country had risen at an annual rate of 2.0 per cent. Although this was about the same as the average rate since 1951, it was down substantially from the 6.0 per cent annual rate from August 1962 to January 1963. Thus, by late summer, the stock of money may have been about in line with that which the public demanded. Hence, spending was no longer reflecting widespread adjustments by a public whose money balances were comparatively large. Time deposits in commercial banks had risen at an annual rate



of 11.2 per cent from March to September compared with a 17.2 per cent average rate over the three previous years.

### Balance-of-Payments Situation

The balance-of-payments deficit on regular transactions declined from an annual rate of \$5.1 billion in the second quarter to a \$1.4 billion rate in the third quarter, and preliminary indications suggest that it remained near this lower level in the fourth quarter. Most of this improvement resulted from a contraction in private capital outflows. This improvement was, to a large extent, a reflection of uncertainty arising from a proposed interest equalization tax on foreign securities. New issues of foreign securities on the New York market fell markedly. As short-term capital movements are sensitive to changes in interest rates, the rise in domestic short-term rates also helped to improve the balance-of-payments situation.



<sup>1</sup> Excluding military transfers under grants.  
<sup>2</sup> Deficit measured by net decline in U.S. gold and net increases in foreign-held liquid dollar assets, (excluding the sales of nonmarketable convertible medium-term Government securities to foreign monetary authorities). Since 1961 gold sales are net of change in convertible currencies held by U.S. monetary authorities.

Source: U.S. Department of Commerce  
 Latest data plotted: 3rd Qtr. preliminary

During the last half of 1963, the country's trade with other nations remained favorable. Both exports and imports rose, and the net surplus in the balance on goods and services was \$5.4 billion (annual rate) in the third quarter, the same as in the first half of the year. Preliminary data indicate that net exports continued large in the fourth quarter.

### Interest Rate Developments

Interest rates continued to rise after August. Yields on three-month Treasury bills rose from an average of 3.32 per cent in August to 3.52 per cent in the first 20 days of December. During this same period, inter-

est rates on long-term Government bonds increased from 3.99 per cent to 4.13 per cent. Yields on municipal bonds rose similarly to those on long-term Governments, while yields on highest grade corporate securities went up somewhat less. Interest rates on medium-grade corporate bonds and on mortgages were virtually unchanged from August to early December.

The rise in interest rates resulted in large part from an expansion in credit demands. Although the cyclical rise in business moderated, demands for credit expanded seasonally. Some lines of business activity, such as those processing and marketing agricultural products and building inventories for Christmas buying, rise seasonally during the fall. These concerns usually demand more credit in the fall to finance enlarged inventories. Also, the U.S. Treasury was a large net borrower of funds in order to finance continuing expenditures during this period of relatively small receipts.

### Monetary Actions

The Federal Reserve's holdings of Government securities rose by \$1.2 billion from August to the month ending December 15. Member bank reserves rose at a 4.2 per cent annual rate over the period.

Total credit at commercial banks, after remaining about unchanged during the summer, rose \$5 billion, seasonally adjusted, or at an 8.4 per cent annual rate from August to November. Loans increased about \$6 billion. The sharpest increase was in real estate credit, but net advances to businesses and consumers were also large. In order to help meet the loan demands, banks purchased fewer securities than usual.

Reflecting the increases in bank reserves and bank credit coupled with a shift in deposits from Treasury to private accounts, the money supply of the nation rose \$2.7 billion from August to the month ending December 15 (6.2 per cent annual rate). Time deposits at commercial banks increased at a 15 per cent rate during the period.

Moderate expansion in economic activity at a time when the money stock was rising rapidly indicates that the velocity of money declined somewhat during the latter part of 1963. Since the mid-1940's, the income velocity of money (gross national product divided by the money supply) has increased almost steadily from a level of 2.10 in 1947 to 2.96 in 1955 and 3.80 in 1962. In the third quarter of 1963 it reached 3.91, and, according to preliminary data, was 3.90 in the fourth quarter.

## FEDERAL RESERVE SYSTEM ACTIONS DURING 1963

### Discount Rate

In effect January 1, 1963.....	3 %
July 17, 1963.....	3½%
In effect January 1, 1964.....	3½%

### Reserve Requirements

	Percentage Required			
	Demand Deposits		Time Deposits	
	Reserve City Banks	All Other Member Banks	Reserve City Banks	All Other Member Banks
In effect January 1, 1963	16½	12	4	4
In effect January 1, 1964	16½	12	4	4

### Margin Requirements on Stocks

In effect January 1, 1963.....	50%
November 6, 1963.....	70%
In effect January 1, 1964.....	70%

### Open Market Operations

	Net Purchases (+) or Net Sales (—) Changes in Daily Average Figures (Millions of Dollars)	
	Unadjusted	Seasonally Adjusted
	January .....	\$— 348
February .....	+ 343	+ 621
March .....	+ 72	+ 136
April .....	+ 284	+ 130
May .....	+ 241	+ 179
June .....	+ 402	+ 468
July .....	+ 618	+ 655
August .....	+ 75	— 312
September .....	+ 108	+ 268
October .....	+ 307	— 80
November .....	+ 478	+ 311
December .....	+ 706*	+ 339*
<b>Total .....</b>	<b>+3,286*</b>	

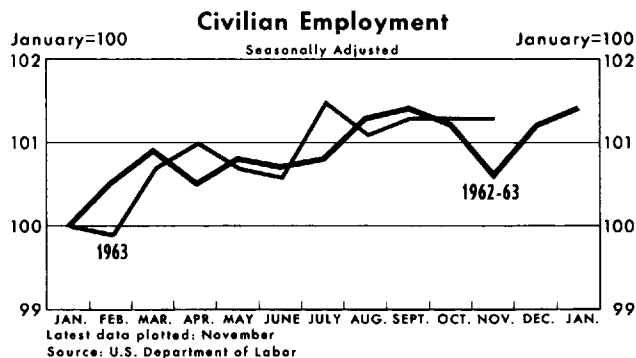
\* December based on 18 days.

## Summary of Activity in 1963

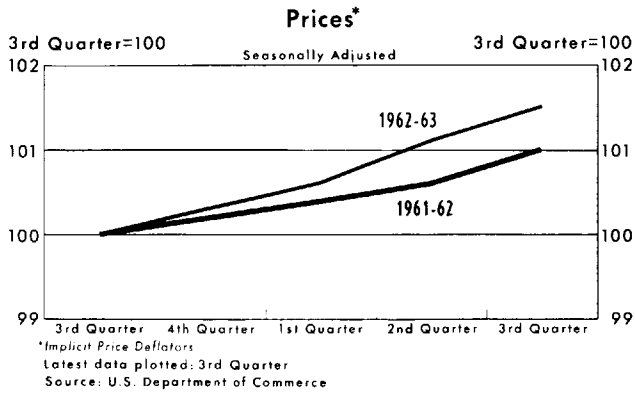
The year 1963 was one of balanced growth in economic activity, expansion occurring in most lines of endeavor. Total expenditures on goods and services rose substantially, an estimated increase of \$19.0 billion or 3.9 per cent (after adjusting for price changes). This increase may be compared with an average yearly rise of 3.1 per cent since 1951. Total expenditures per capita, in constant dollars, rose 2.6 per cent in 1963 compared with an increase of 2.4 per cent in 1962 and an average yearly increase of 1.4 per cent since 1951.

Total civilian employment rose at an annual rate of 1.6 per cent from January 1963 to November 1963. This was greater than the 1.4 per cent rise during the previous year and the 1.0 per cent average annual increase since 1951. The rise in employment centered in nonmanufacturing, especially trade and services. Agricultural employment drifted downward during 1963 but at a slower rate than in the two previous years.

The rise in economic activity during the year was of sustainable proportions, since the capacity of the economy to produce rose similarly. Thus, the ratio of actual production to estimated potential production remained about unchanged. Although employment rose in 1963, unemployment as a portion of the estimated labor force averaged slightly above 1962. Most striking was a 16 per cent rise in "teenage" unemployment (i.e., unemployment of persons between the ages of 14 and 19) from November 1962 to November 1963. The unemployment rates among married men (so-called "breadwinners"), experienced wage and salary workers, and men and women 20 years of age and over, were little changed from levels prevailing in 1962.



Average prices increased moderately. During the year ending with the third quarter of 1963, prices rose 1.5 per cent (measured by the GNP price deflators). This rate of increase is somewhat greater than the 1.0 per cent rate in the corresponding year-earlier period but slightly less than the 1.8 per cent average



annual rate of increase since 1951. Price increases in 1963 centered largely in services and in goods purchased by Government. Prices of consumer durables were about unchanged on balance, while prices of nondurables worked up slightly. Notwithstanding these increases, since prices in most other industrialized nations rose more rapidly, the competitive position of U.S. goods in world markets probably improved.

Credit markets became somewhat less easy during 1963. Demands for funds which accompanied the expansion in business activity were probably the chief cause of the slightly greater restrictiveness. In-

terest rates rose during the year. For example, yields on three-month Treasury bills increased from 2.87 per cent in December 1962 to 3.52 per cent in the first twenty days of December 1963. Along with the rise in other money market rates, the discount rate was marked up from 3.0 per cent to 3.5 per cent. Reflecting in part the demands for credit and the rise in market rates, excess reserves of member banks declined during the year, and borrowings from Reserve Banks rose.

Monetary actions during 1963 contributed to the expansion in business activity. Member bank reserves, commercial bank credit, and time deposits in commercial banks rose substantially. The money supply of the country expanded about 4 per cent in the year, roughly double the average rate since 1951. The expansion in money was slowest during the spring and early summer; this was a period when economic activity was rising the fastest and when there was deterioration in the balance of payments. The money supply rose most rapidly during the fall, a period when domestic economic activity hesitated and when the international payments situation improved.



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