

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

September 5, 1968

CONFIDENTIAL - FR

September 4, 1968

**GROSS NATIONAL PRODUCT AND RELATED ITEMS**  
 (Quarterly figures are seasonally adjusted. Expenditures and income  
 figures are billions of dollars, with quarterly figures at annual rates)

	1967	1968 Proj.	1967		1968		Projected	
			III	IV	I	II*	III	IV
Gross National Product	789.7	854.9	795.3	811.0	831.2	851.6	863.8	872.8
Final sales	783.6	849.8	789.9	802.7	829.1	841.6	859.3	869.3
Private	605.2	652.9	610.3	619.2	638.6	646.0	659.8	667.3
Personal consumption expenditures	492.2	532.7	495.5	502.2	519.4	527.6	538.5	545.1
Durable goods	72.6	80.4	73.1	74.2	79.0	80.9	81.4	80.2
Nondurable goods	215.8	231.8	216.4	218.4	226.5	228.2	234.4	237.9
Services	203.8	220.5	205.9	209.6	213.9	218.4	222.7	227.0
Gross Private domestic investment	114.3	123.1	114.7	121.8	119.7	127.4	123.2	122.1
Residential construction	24.6	29.5	26.0	28.5	29.1	29.5	29.9	29.6
Business fixed investment	83.6	88.6	83.3	85.0	88.6	87.9	88.8	89.0
Change in business inventories	6.1	5.0	5.3	8.3	2.1	10.0	4.5	3.5
Nonfarm	5.6	4.7	4.8	7.1	1.6	9.7	4.5	3.0
Net Exports	4.8	2.2	5.4	3.4	1.5	0.9	2.6	3.6
Gov't. purchases of goods & services	178.4	196.9	179.6	183.5	190.5	195.6	199.5	202.0
Federal	90.6	100.3	91.3	93.5	97.1	100.0	101.8	102.3
Defense	72.4	79.2	72.9	74.6	76.8	79.0	80.5	80.5
Other	18.2	21.1	18.4	19.0	20.3	21.0	21.3	21.8
State & local	87.8	96.6	88.4	90.0	93.4	95.6	97.7	99.7
Gross national product in constant (1958) dollars	673.1	701.2	675.6	681.8	692.7	702.3	704.6	705.3
GNP implicit deflator (1958=100)	117.3	121.9	117.7	118.9	120.0	121.2	122.6	123.7
Personal income	628.8	683.2	633.7	645.2	662.7	678.1	691.8	700.0
Wages and salaries	423.4	461.7	426.3	436.4	448.3	457.6	467.3	473.6
Disposable income	546.3	587.8	550.0	559.6	574.4	586.3	592.2	598.2
Personal saving	40.2	40.7	40.5	43.4	40.8	44.4	39.2	38.5
Saving rate (per cent)	7.4	6.9	7.4	7.8	7.1	7.6	6.6	6.4
Corporate profits before tax	81.6	88.6	80.8	85.4	88.9	91.1p	88.5	86.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	151.2	174.3	152.2	156.4	166.6	171.5p	178.9	180.0
Expenditures	163.6	182.1	165.1	168.6	175.1	181.7	185.1	186.5
Surplus or deficit (-)	-12.4	-7.8	-12.9	-12.2	-8.6	-10.2p	-6.2	-6.5
Total labor force (millions)	80.8	82.5	81.1	81.6	81.9	82.2	82.7	83.0
Armed forces "	3.4	3.6	3.5	3.5	3.5	3.5	3.6	3.6
Civilian labor force "	77.3	78.9	77.6	78.2	78.4	78.7	79.1	79.4
Unemployment rate (per cent)	3.8	3.8	3.9	3.9	3.6	3.6	3.7	4.0
Nonfarm payroll employment (millions)	66.0	67.9	66.1	66.7	67.4	67.8	68.1	68.2
Manufacturing	19.4	19.6	19.3	19.5	19.6	19.7	19.7	19.5
Industrial production (1957-59=100)	158.0	162.9	157.2	159.5	162.1	163.8	163.2	162.5
Capacity utilization, manufacturing (per cent)	85.3	83.5	84.3	84.7	84.9	84.5	83.0	81.5
Housing starts, total private (millions A.R.)	1.29	1.44	1.41	1.45	1.50	1.44	1.40	1.40
Sales new U.S.-made autos (millions, A.R.)	7.57	8.37	7.57	7.44	8.19	8.44	8.60	8.25

\* Second quarter data subject to revision to lower plant and equipment expenditure levels from new Commerce-SEC survey. Third quarter projections for business fixed investment tied to first quarter estimates.

CONFIDENTIAL - FR

September 4, 1968

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1967	1968 Proj.	1967				1968				<u>Projected</u> <u>III</u> <u>IV</u>
			III	IV	I	II	III	IV			
-----In billions of dollars-----											
Gross National Product	42.1	65.2	15.1	15.7	20.2	20.4	12.2	9.0			
Final sales	50.8	66.2	11.9	12.8	26.4	12.5	17.7	10.0			
Private	28.6	47.7	9.6	8.9	19.4	7.4	13.8	7.5			
GNP in constant (1958) dollars	16.0	28.1	6.4	6.2	10.9	9.6	2.3	0.7			
Final sales	24.0	29.3	3.5	3.4	16.9	2.2	7.5	1.7			
Private	9.8	21.1	3.1	2.8	12.4	-0.5	7.0	1.0			
-----In Per Cent Per Year-----											
Gross National Product	5.6	8.3	7.7	7.9	10.0	9.8	5.7	4.2			
Final sales	6.9	8.4	6.1	6.5	13.2	6.0	8.4	4.7			
Private	5.0	7.9	6.4	5.8	12.5	4.6	8.5	4.5			
Personal consumption expenditures	5.7	8.2	4.2	5.4	13.7	6.3	8.3	4.9			
Durable goods	3.0	10.7	-1.6	6.0	25.9	9.6	2.5	-5.9			
Nondurable goods	4.4	7.4	2.0	3.7	14.8	3.0	10.9	6.0			
Services	8.2	8.2	8.5	7.2	8.2	8.4	7.9	7.7			
Gross private domestic investment	-5.4	7.7	26.4	24.8	-6.9	25.7	-13.2	-3.6			
Residential construction	-0.8	19.9	58.1	38.5	8.4	5.5	5.4	-4.0			
Business fixed investment	2.8	6.0	2.9	8.2	16.9	-3.2	4.1	0.9			
Gov't purchases of goods & services	14.2	10.4	5.2	8.7	15.3	10.7	8.0	5.0			
Federal	17.1	10.7	5.8	9.6	15.4	11.9	7.2	2.0			
Defense	19.5	9.4	4.4	9.3	11.8	11.5	7.6	0.0			
Other	8.3	15.9	11.2	13.0	27.4	13.8	5.7	9.4			
State & local	11.4	10.0	5.5	7.2	15.1	9.4	8.8	8.2			
GNP in constant (1958) dollars	2.4	4.2	3.8	3.7	6.4	5.5	1.3	0.4			
Final sales	3.7	4.4	2.1	2.0	10.0	1.3	4.3	1.0			
Private	1.9	4.0	2.4	2.1	9.3	-0.4	5.1	0.7			
GNP implicit deflator	3.1	3.9	3.8	4.1	3.7	4.0	4.6*	3.6			
Personal income	7.2	8.7	7.8	7.3	10.8	9.3	8.1	4.7			
Wages and salaries	7.3	9.0	8.3	9.5	10.9	8.3	8.5	5.4			
Disposable income	6.8	7.6	6.3	7.0	10.6	8.3	4.0	4.1			
Corporate profits before tax	-4.7	8.6	2.5	22.8	16.4	9.9p	-11.4	-11.3			
Federal government receipts and expenditures (N.I.A. basis)											
Receipts	5.7	15.3	10.8	11.0	26.1	11.8p	17.3	2.5			
Expenditures	14.9	11.3	8.9	8.5	15.4	15.1	7.5	3.0			
Nonfarm payroll employment	3.1	2.9	2.4	3.6	4.2	2.4	1.8	0.6			
Manufacturing	1.0	1.0	-2.1	4.1	2.0	2.0	0.0	-4.1			
Industrial production	1.1	3.1	3.3	5.9	6.5	4.2	-1.5	-1.7			
Housing starts, total private	10.3	11.6	66.1	11.3	13.8	-16.0	-11.1	0.0			
Sales new U.S.-made autos	-9.7	10.6	-26.6	-6.9	40.3	12.2	7.6	-16.3			

\* Excluding the pay increase of Federal government military and civilian employees, the annual rate of increase is 4.0 per cent.

CORPORATE SECURITY OFFERINGS<sup>1/</sup>  
(Millions of dollars)

	Bonds				Total bonds and stocks	
	Public Offerings <sup>2/</sup>		Private Placements			
	1967	1968	1967	1968	1967	1968
QI monthly avg.	1,088	822	604	575	1,821	1,726
QII monthly avg.	1,339	1,035	489	548	2,069	1,901
QIII monthly avg.	1,534	895e	517	633e	2,277	1,878e
July	1,889	1,260e	486	600e	2,589	2,310e
August	1,813	675e	412	600e	2,481	1,575e
September	902	750e	647	700e	1,763	1,750e

e/ Estimated.

1/ Data are gross proceeds.

2/ Includes refundings.

Moderation of corporate bond offerings is likely to continue in September, as the calendar now totals about \$550 million and the ultimate volume may be no more than \$750 million. While there are no sizable industrial issues currently scheduled, some such offerings may be placed on the market by corporations which deferred financing earlier in the hope of catching lower rates. But the total volume of corporate security offerings, nonetheless, will likely show at most a seasonal rise in September.

In contrast to the corporate market, the estimated volume of new municipal issues in August--at \$1.7 billion--was a record for any month. This sharply enlarged volume included more than \$200 million industrial aid bonds and a \$286 million utility revenue issue--the largest single municipal offering in more than four years. Even though offering yields advanced throughout much of the month, a sizable volume

of these issues was not fully absorbed. As a consequence, the market is in a poor technical position with about \$800 million of dealers' advertised inventories, a high for the year. Moreover, this overhang of unsold bonds is coincident with no respite from the unusually large volume of new offerings. The September volume is estimated at \$1.5 billion--a record for the month--with more than \$300 million industrial revenue bonds included.

**STATE AND LOCAL GOVERNMENT BOND OFFERINGS**  
(Millions of dollars) 1/

	1967	1968
QI monthly average	1,391	1,240
QII monthly average	1,294	1,259
QIII monthly average	1,050	1,533e
July	950	1,400e
August	860	1,700e
September	1,340	1,500e

e/ Estimated.

1/ Data are for principal amounts of new issues.

Stock market. During August, common stock prices fluctuated within a narrow range somewhat below their all-time highs reached in mid-July. Trading volume remained moderate throughout the month. Apparently stemming the earlier decline and contributing to the market stability throughout August were somewhat improved investor expectations regarding monetary policy, profit prospects, and the economic outlook in general.

and 1969 as made by the companies in June this year -- some decline is suggested. In any case, expenditures in 1968 and in 1969 will be maintained at far higher levels than a few years ago, but will be financed to a much lesser extent by outflows from the United States.

**PLANT AND EQUIPMENT EXPENDITURES BY  
FOREIGN AFFILIATES OF U. S. COMPANIES  
(millions of dollars)**

	1965 Final	1966 Final	1967 June <sup>1/</sup> Final		1968 June <sup>2/</sup> Final	1969 June <sup>1/</sup> Final	1969 June <sup>2/</sup>
Total	7,440	8,640	10,045	9,245	9,785	10,520	10,168
By industry							
Mining	629	789	931	902	761	1,101	969
Petroleum	2,277	2,526	3,295	3,018	3,432	3,595	3,385
Manufacturing	3,884	4,583	5,035	4,513	4,853	4,963	4,894
Other industries	650	741	783	812	739	861	921
By area							
Canada	1,847	2,357	2,360	2,208	2,053	2,244	2,206
Latin America	1,073	1,092	1,441	1,258	1,601	1,715	1,791
Europe	2,639	3,253	3,970	3,637	3,814	3,803	3,858
Other areas	1,880	1,938	2,274	2,142	2,317	2,759	2,313

1/ Estimated in June of current year.

2/ Estimated in June of previous year.

Other capital accounts. As mentioned earlier, bank-reported claims on foreigners were reduced by about \$180 million in July, of which about \$130 million was in banking claims covered by the restraint program. The inflow came mainly from Europe (\$140 million) and Japan (\$68 million), and was partly offset by outflows to Canada. In the seven months through July the net capital inflow from bank-reported claims totalled \$800 million, accounted for mainly by a reduction of nearly \$400 million in Europe and \$200 million in Japan.

CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

September 9, 1968

activities of the Bundesbank appear to have returned as much, or more, money to the Euro-dollar market as had been withdrawn by parties moving funds to marks. The foreign branches of U.S. banks apparently experienced no large scale net change in the demand for their deposit liabilities. They did reduce their credits to U.S. head offices by about \$100 million between August 28 and September 4, but this represents a relatively small decline from the record outstanding level of about \$7.1 billion on August 28. The New York banks, in fact, increased their Euro-dollar use by about \$50 million during the week ended September 4, while banks outside New York reduced these takings by about \$150 million.

Corrections

Page II - 4, lines 6-8 should read: "Housing starts, according to revised Census reports, have been at a somewhat faster rate in the second quarter than the preliminary figures had shown. This plus a sharp . . . ."

Page III - 16, line 9 should read "2 to 4 basis points".

Page IV - 16. Short-term interest rates

1968 Low

United Kingdom:	
Treasury bill	6.88 (August 23)
Canada:	
91-day Treasury bill	5.31 (August 30)

Page IV - 17. Long-term interest rates

1968 Low

Euro-bonds:	
Foreign governments	7.38 (February 23)
Canada:	
4-1/2% 1972	6.24 (August 28)
4-1/2% 1983	6.45 (August 28)