

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

October 23, 1968

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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			
			III	IV	I	II	III	Proj. IV
Gross National Product	789.7	860.2	795.3	811.0	831.2	852.9	870.8	885.8
Final sales	783.6	853.0	789.9	802.7	829.1	842.1	863.1	877.7
Private	605.2	656.0	610.3	619.2	638.6	646.4	663.6	675.2
Personal consumption expenditures	492.2	534.6	495.5	502.2	519.4	527.9	541.3	549.6
Durable goods	72.6	82.7	73.1	74.2	79.0	81.0	85.3	85.5
Nondurable goods	215.8	231.0	216.4	218.4	226.5	228.2	232.7	236.4
Services	203.8	220.9	205.9	209.6	213.9	218.7	223.3	227.7
Gross private domestic investment	114.3	126.3	114.7	121.8	119.7	127.3	127.4	130.5
Residential construction	24.6	29.8	26.0	28.5	29.1	29.5	29.4	31.2
Business fixed investment	83.6	89.3	83.3	85.0	88.6	87.0	90.2	91.2
Change in business inventories	6.1	7.2	5.3	8.3	2.1	10.8	7.7	8.1
Nonfarm	5.6	6.8	4.8	7.1	1.6	10.4	7.6	7.6
Net Exports	4.8	2.3	5.4	3.4	1.5	2.0	2.6	3.2
Gov't. purchases of goods & services	178.4	197.1	179.6	183.5	190.5	195.7	199.5	202.5
Federal	90.6	100.1	91.3	93.5	97.1	100.0	101.1	101.9
Defense	72.4	78.9	72.9	74.6	76.8	79.0	79.7	80.0
Other	18.2	21.2	18.4	19.0	20.3	21.0	21.4	21.9
State & local	87.8	97.0	88.4	90.0	93.4	95.6	98.4	100.6
Gross national product in constant (1958) dollars	673.1	706.5	675.6	681.8	692.7	703.4	712.0	718.0
GNP implicit deflator (1958=100)	117.3	121.7	117.7	118.9	120.0	121.2	122.3	123.4
Personal income	628.8	685.5	633.7	645.2	662.7	678.1	694.0	707.0
Wages and salaries	423.4	463.2	426.3	436.4	448.3	457.6	468.6	478.3
Disposable income	546.3	589.1	550.0	559.6	574.4	586.3	592.6	602.9
Personal saving	40.2	40.1	40.5	43.4	40.8	44.0	36.8	38.6
Saving rate (per cent)	7.4	6.8	7.4	7.8	7.1	7.5	6.2	6.4
Corporate profits before tax	81.6	90.7	80.8	85.4	88.9	91.8	91.0*	91.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	151.2	176.1	152.2	156.4	166.6	171.8	181.4*	184.5
Expenditures	163.6	182.4	165.1	168.6	175.1	181.9	184.8	187.8
Surplus or deficit (-)	-12.4	-6.3	-12.9	-12.2	-8.6	-10.2	-3.4*	-3.3
Total labor force (millions)	80.8	82.4	81.1	81.6	81.9	82.2	82.4	82.9
Armed forces "	3.4	3.6	3.5	3.5	3.5	3.5	3.6	3.6
Civilian labor force "	77.3	78.8	77.6	78.2	78.4	78.7	78.8	79.3
Unemployment rate (per cent)	3.8	3.6	3.9	3.9	3.6	3.6	3.6	3.8
Nonfarm payroll employment (millions)	66.0	68.1	66.1	66.7	67.4	67.8	68.3	68.7
Manufacturing	19.4	19.7	19.3	19.5	19.6	19.7	19.8	19.7
Industrial production (1957-59=100)	158.0	164.0	157.2	159.5	162.1	164.0	164.3	165.5
Capacity utilization, manufacturing (per cent)	85.3	84.0	84.3	84.7	84.9	84.8	83.4	82.9
Housing starts, private (millions A.R.)	1.29	1.50	1.41	1.45	1.50	1.44	1.55	1.52
Sales new domestic autos (millions, A.R.)	7.57	8.59	7.57	7.44	8.19	8.44	8.98	8.75

* Projected.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967	1968	1967		1968			Proj.
		Proj.	III	IV	I	II	III	IV
-----In billions of dollars-----								
Gross National Product	42.1	70.5	15.1	15.7	20.2	21.7	17.9	15.0
Final sales	50.8	69.4	11.9	12.8	26.4	13.0	21.0	14.6
Private	28.6	50.8	9.6	8.9	19.4	7.8	17.2	11.6
GNP in constant (1958) dollars	16.0	33.4	6.4	6.2	10.9	10.7	8.6	6.0
Final sales	24.0	32.8	3.5	3.4	16.9	2.8	11.5	5.6
Private	9.8	24.4	3.1	2.8	12.4	0.1	10.7	5.0
-----In Per Cent Per Year-----								
Gross National Product	5.6	8.9	7.7	7.9	10.0	10.4	8.4	6.9
Final sales	6.9	8.9	6.1	6.5	13.2	6.3	10.0	6.8
Private	5.0	8.4	6.4	5.8	12.5	4.9	10.6	7.0
Personal consumption expenditures	5.7	8.6	4.2	5.4	13.7	6.5	10.2	6.1
Durable goods	3.0	13.9	-1.6	6.0	25.9	10.1	21.2	0.9
Nondurable goods	4.4	7.0	2.0	3.7	14.8	3.0	7.9	6.4
Services	8.2	8.4	8.5	7.2	8.2	9.0	8.4	7.9
Gross private domestic investment	-5.4	10.5	26.4	24.8	-6.9	25.4	0.3	9.7
Residential construction	-0.8	21.1	58.1	38.5	8.4	5.5	-1.4	24.5
Business fixed investment	2.8	6.8	2.9	8.2	16.9	-7.2	14.7	4.4
Gov't purchases of goods & services	14.2	10.5	5.2	8.7	15.3	10.9	7.8	6.0
Federal	17.1	10.5	5.8	9.6	15.4	11.9	4.4	3.2
Defense	19.5	9.0	4.4	9.3	11.8	11.5	3.5	1.5
Other	8.3	16.5	11.2	13.0	27.4	13.8	7.6	9.3
State & local	11.4	10.5	5.5	7.2	15.1	9.4	11.7	8.9
GNP in constant (1958) dollars	2.4	5.0	3.8	3.7	6.4	6.2	4.9	3.4
Final sales	3.7	4.9	2.1	2.0	10.0	1.6	6.6	3.2
Private	1.9	4.6	2.4	2.1	9.3	0.1	7.9 ^{1/}	3.6
GNP implicit deflator	3.1	3.8	3.8	4.1	3.7	4.0	3.5 ^{1/}	3.5
Personal income	7.2	9.0	7.8	7.3	10.8	9.3	9.4	7.5
Wages and salaries	7.3	9.4	8.3	9.5	10.9	8.3	9.6	8.3
Disposable income	6.8	7.8	6.3	7.0	10.6	8.3	4.3	7.0
Corporate profits before tax	-4.7	11.2	2.5	22.8	16.4	13.0	-3.5 ^{2/}	0.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	5.7	16.5	10.8	11.0	26.1	12.5	22.3 ^{2/}	6.8
Expenditures	14.9	11.5	8.9	8.5	15.4	15.5	6.4	6.5
Nonfarm payroll employment	3.1	3.2	2.4	3.6	4.2	2.4	2.9	2.3
Manufacturing	1.0	1.5	-2.1	4.1	2.0	2.0	2.0	-2.0
Industrial production	1.1	3.8	3.3	5.9	6.5	4.7	0.7	2.9
Housing starts, private	10.9	16.3	65.9	10.8	15.5	-16.3	30.0	-7.2
Sales new domestic autos	-9.7	13.5	-26.6	-6.9	40.6	12.0	25.6	-10.2

^{1/} Excluding Federal pay increase, 2.9 per cent. ^{2/} Projected.

CHANGES IN CONSUMER PRICES
(per cent changes in seasonally adjusted data at annual rates)

	1968		
	QI	QII	QIII ^{pe}
Regularly published CPI	4.1	4.7	5.0
A. Based on CPI components:			
1) "CPI" adjusted <u>1/</u>	4.8	4.3	3.3
a) Durable goods <u>2/</u>	3.3	2.0	1.8
b) Nondurable goods <u>3/</u>	4.5	4.5	3.0
c) Services <u>4/</u>	5.6	5.0	4.2
B. Implicit deflators, personal consumption expenditures:			
1) Aggregate PCE	3.8	4.1	2.4 ^{5/}
a) Durable goods	2.0	2.0	0.8 ^{5/}
b) Nondurable goods	4.2	4.2	2.8 ^{5/}
c) Services	4.5	5.1	3.8 ^{5/}

- 1/ "CPI" is calculated by combining the 3 sub-series below with weights based on durable-nondurable service breakdown of personal consumption expenditures in QIV 1967.
- 2/ BLS series for new cars and for other durables (excluding used cars and home purchase) combined with QIV 1967 PCE weights.
- 3/ Regularly published BLS series, including food away from home and newspapers, magazines, and books.
- 4/ Excluding mortgage interest charges. Not seasonally adjusted because series is assumed to show no seasonal variation.
- 5/ Confidential.

The rise in consumer prices slackens much more abruptly in the third quarter when measured by the implicit deflator for PCE than by the CPI. This difference is concentrated to a large degree in the durable goods sector, and it may relate partly to the spurt in auto sales in the third quarter which was apparently accompanied by no change in new car prices (as indicated by the BLS seasonally adjusted

225 industrial product classes price increases were effected for 106-4 or 47 per cent. The latter figure compares with this year's low of 39 per cent in July, when the BLS industrial average was unchanged, and with the year's high of 58 per cent in February, when the industrial index increased 0.5 per cent.

The bulk of the industrial price increases were for materials. The special FR index for industrial products increased only 0.1 per cent; average prices of producers' equipment (particularly machinery) rose 0.3 per cent--the largest rise since April--while prices of consumer products remained unchanged for the third month. Price increases for 1969 model autos (averaging 1.2 per cent, as compared with 2 per cent a year ago on 1968 models) will appear in the October index and will act to raise both the producer and consumer product indexes.

WHOLESALE PRICES OF INDUSTRIAL COMMODITIES
(Special FR groupings based on BLS data; 1957-59=100)

	1968			
	June	July	August	September ^{1/}
All industrial commodities	107.9	108.0	108.1	108.4
Materials	106.4	106.5	106.6	107.0
Sensitive	105.9	106.3	106.6	107.4
Other	106.8	106.8	106.8	107.2
Products	109.9	110.0	110.0	110.1
Consumer nonfoods	107.5	107.5	107.5	107.5
Producers' equipment	115.1	115.2	115.4	115.7

^{1/} Confidential until release of wholesale price index by BLS probably on October 29.

first half of the year. While inflows at mutual savings banks also have increased since July, deposit expansion for the third quarter as a whole has been slower than in the past three quarters. However, as indicated in the next section, both institutions have continued to increase their outstanding mortgage commitments despite only modest improvement in inflows.

SAVINGS FLOWS TO THRIFT INSTITUTIONS
(Seasonally adjusted; annual rates in per cent)

	Mutual Savings Banks	Savings and Loan Associations	Both
1967 - I	9.8	9.4	9.5
II	11.0	11.4	11.3
III	8.6	9.8	9.4
IV	6.7	5.8	6.1
1968 - I	7.5	5.7	6.2
II	6.7	5.9	6.1
III ^{p/}	6.1	6.0	6.1
July	5.7	4.4	4.8
August	6.1	6.5	6.4
September ^{p/}	6.5	7.1	6.9

p/ Preliminary.

The most recent data suggest no further improvement for the nonbank depository institutions. Savings flows during the recently-concluded reinvestment period showed less strength than a year earlier, continuing a pattern set at the beginning of 1968.

APPENDIX A
MEASURES OF THE U.S. BALANCE OF PAYMENTS AND SELECTED "SPECIAL" TRANSACTIONS
(millions of dollars) 1/

	1 9 6 7				1 9 6 8		
	QI	QII	QIII	QIV	QI	QII	QIII ^p
1. Liquidity balance, NSA (deficit -)	-238	-215	-1,228	-1,897	-252	+136	-568
Seasonal adjustment	-267	-302	+410	+159	-411	-303	+450
Liquidity balance, SA	-505	-517	-818	-1,738	-663	-167	-118
2. SELECTED "SPECIAL" TRANSACTIONS							
A. Investments in long-term deposits:							
* By foreign governments 2/	+304	+442	-7	+190	+135	+160	+17
By int'l. and regional institutions	+70	+24	+54	+35	-55	+22	-27
B. Investments in U.S. Govt. Agency Securities:							
By foreign governments 2/	--	--	--	+28	+10	+4	--
By int'l. and regional institutions	-6	+72	+67	-12	-39	-42	+67
C. U.K. official transactions:							
Long-term deposits	-1	-50	-1	-20	-16	--	--
* Liquidation of U.S. securities							
other than Treasury issues	+9	+52	+52	-552	--	--	--
D. Canadian Govt. transactions							
Long-term deposits	--	+200	-200	--	--	--	--
Net purchases of nonmktble.,							
nonconvert. U.S. Govt. Securities	--	--	+200	-30	+100	+500	+250
* Other	--	+30	--	--	-35	-72	--
* E. Nonscheduled debt repayment	--	*	+6	*	+42	+3	+65
F. Transactions in nonmktble., nonconvertible							
U.S. Govt. Securities 2/	-1	-3	+123	+124	+115	+252	+159
(of which are German transactions)			(+125)	(+125)	(+125)	(+250) ^{3/}	(+125)
TOTAL SELECTED "SPECIAL" TRANSACTIONS	+375	+767	+294	-237	+257	+827	+531
3. LIQUIDITY DEFICIT BEFORE REDUCTION BY							
<u>"SPECIAL" TRANSACTIONS</u>	<u>-880</u>	<u>-1,283</u>	<u>-1,112</u>	<u>-1,501</u>	<u>-920</u>	<u>-994</u>	<u>-649</u>
4. Official settlements balance, NSA (deficit -)	-1,279	-710	-20	-1,403	+94	+1,558	n.a.
Seasonal adjustment	-485	-101	+272	+314	-629	-102	
Official settlements balance, SA	-1,764	-811	+252	-1,089	-535	+1,456	
5. "SPECIAL" TRANSACTIONS AFFECTING OFFICIAL							
SETTLEMENTS BALANCE (Items marked * above)	+9	+82	+58	-524	+17	+60	+65
6. OFFICIAL SETTLEMENTS BALANCE BEFORE							
REDUCTION BY "SPECIAL" TRANSACTIONS	<u>-1,773</u>	<u>-893</u>	<u>+194</u>	<u>-565</u>	<u>-552</u>	<u>+1,396</u>	<u>n.a.</u>

1/ Figures may not add because of rounding.

2/ Excluding the U.K. and Canada

3/ \$125 million of which was sold to German commercial banks, thus affecting both measures of the U.S. balance of payments