

(b) Federal purchases of goods and services rose by \$6.5 billion, of which \$5.3 billion was for national defense. (The rise in five quarters was \$7.1 billion of which \$5.6 billion was for national defense). *Other Federal expenditures* rose by \$2.8 billion.

(c) The income-and-product deficit declined from an annual rate of \$6.3 billion in the first quarter of 1961 to \$2.4 billion in the first quarter of 1962.

(d) State and local purchases increased \$4.6 billion (annual rate) from the first quarter of 1961 to the second quarter of 1962.

4. Money and credit:

(a) The money supply (excluding time deposits) rose by \$4.1 billion or 2.9 percent from February 1961 to June 1962. Including time deposits, the increase was \$20 billion or nearly 9.4 percent.

(b) Bank loans increased \$12.2 billion or 10.7 percent from February 1961 to June 1962.

(c) Long-term interest rates have been unusually stable for a period of economic expansion. However, in the past month, the average yield on Government bonds has risen somewhat, reaching a level of 4.02 in July compared to 3.81 in February 1961.

5. International:

(a) The overall balance-of-payments deficit, as measured by U.S. gold sales and increases in foreign dollar holdings, showed improvement in 1961 and further gains in the first half of 1962. The payments deficit was \$1.9 billion (annual rate) during the first quarter compared to \$2.5 billion for the entire year 1961 and \$3.9 billion for 1960. Latest indications are that the deficit has decreased further and is now running at an annual rate of \$1.0 to \$1.5 billion.

C. STRONG AND WEAK SPOTS IN THE CURRENT OUTLOOK

1. The economy expanded vigorously during 1961; the pace of advance in 1962 has been considerably slower. There are a number of weak spots in the economic data for May and June. Only a few preliminary figures are available so far for July.

(a) Personal income advanced only \$2.1 billion from April to June compared to \$6.4 billion from February to April.

(b) Retail sales declined in both May and June. (Judging by department store sales, sales rose in July.)

(c) Unemployment as a percentage of the labor force rose slightly in June over May levels and then declined to 5.3 percent in July; however, this is still considerably higher than at our full employment goal.

(d) Inventory accumulation has tapered off markedly. Accumulation of manufacturing and trade inventories in the second quarter of 1962 was less than half the amount in the first quarter (\$0.8 billion compared to \$1.6 billion). Due to the drop in sales, overall inventory sales ratios rose in June.

2. The prices of common stock have fallen 18 percent from March 15 to August 3, reducing the estimated price-earnings ratio from 19.7 to 16.6 (based on estimated second quarter earnings). Stock prices on August 3 were 58.12 (Standard & Poor's price index) compared to 55.11 on the day before the 1960 elections. The realization that inflation has been brought under control is an important factor in the decline of the stock market. The decline in stock prices is a source of concern in economic policy because of its possible adverse effects on consumer and business expectations. Margin requirements were reduced from 70 to 50 percent July 9.

3. Private long-term interest rates are still generally below those at the trough of the economic cycle in February 1961 and borrowing ease continues.

4. The outlook for continued price stability is favorable.

5. Federal purchases are headed upward, though at a slower rate. State and local spending is expected to continue its upward trend.

6. The Commerce-SEC survey taken in April and May shows investment plans for 1962 at a level 8 percent above 1961. This result was the same as the February survey, and it points to continued moderate increases in plant and equipment outlays for the rest of this year.

D. ADMINISTRATION'S PROGRAM FOR STRENGTHENING THE ECONOMY

1. An 8-percent tax credit, totaling \$1¼ billion, on new investment in machinery and equipment has been proposed to the Congress. The administration's