

of saving has been used in providing an additional flow of funds into credit markets and into extensions of trade credit as well. Meanwhile, business demand for bank loans has been less vigorous than in this stage of previous upswings. Banks, therefore, have sought other outlets for their funds and have increased other loans and investments, especially their holdings of State and local securities and real estate loans. Demand deposits have changed little so far this year, while time and savings deposits grew very rapidly in the first quarter and then continued to expand substantially, but at a lesser rate.

Over the first half of the year, short-term interest rates fluctuated within a narrow range around a $2\frac{3}{4}$ percent level. Since late June, the level has been a little higher, with the range on 3-month Treasury bills running between 2.80 and 3 percent. Yields on longer term U.S. Government, State and local government, and corporate issues meanwhile declined through midspring and subsequently moved moderately upward, but they remain below the earlier highs for the year. Throughout the year, mortgage yields have moved downward.

The decline that has taken place in long-term interest rates has reflected in large part the increased availability of funds in long-term sectors of the market, as the rapid increase in time and savings deposits at commercial banks was accompanied by continued large inflows of funds to mutual savings banks and savings and loan associations. Demand for long-term funds in recent months has been generally moderate.

My comments would be incomplete if I neglected to mention the persistent problem of restoring balance in our international accounts. The problem of domestic expansion is interrelated with our international problems and all of them must be thought about at the same time.

The United States has been making progress in reducing its overall deficit in international transactions. The deficit came down from nearly \$4 billion in 1960 to about \$2½ billion last year, and to an annual rate of just under \$1½ billion in the first half of 1962. Even so, we have no grounds for complacency. We must move further toward international balance next year, and we must also achieve and maintain equilibrium in the accounts in future years.

U.S. foreign trade has developed in an encouraging way this year. Total exports have been rising, with exports to Western European countries especially strong. While imports also have risen, they have not spurted ahead as they did in the preceding period of cyclical expansion and so have remained lower in relation to the gross national product. Both our export and our import performances would indicate that we have been competing effectively in international trade, and international price trends support this interpretation. The level of wholesale prices has been stable in this country for some time, while prices in industrial countries abroad have risen and are rising.

The merchandise trade surplus, at an annual rate of \$5 billion in the first half of 1962, is large but not large enough to match our large net payments for aid, for military expenditures, and for net private U.S. lending and investment abroad. And it would probably be unrealistic to expect the whole of the remaining adjustment to