

had risen at an 11-percent rate from September 1965 to June 1966 and at a 7-percent rate from June to August, increased very slowly in the autumn. Achievement of essentially full employment, development of bottlenecks, and problems of substantial shifts from civilian to military production have necessitated some reduction in the rate of real growth. A softening of demand also may have developed. Steel was produced at a slightly slower pace in the July-October period than in the previous 4 months. Construction put in place, after reaching a peak during the first 4 months of the year, has since fallen significantly.

PRICES

The slowing in the pace of spending also may have been reflected in price developments, though inflationary pressures remain. Since August wholesale prices have declined, after rising at about a 4-percent rate earlier in the year. The industrial price component has risen only slightly since July, after rising at a 3.4-percent rate during the previous seven months. Prices of farm products and processed foods fell from August to November but remained about 3 percent higher than a year earlier. Consumer prices have continued to rise at the disturbing 4-percent pace which has prevailed since the fall of 1965.

OTHER DEVELOPMENTS

The amounts of credit demanded and possibly the fundamental demands have lessened since early fall. Extensions of loans and net purchases of securities by financial intermediaries have slowed. In part this has reflected the lack of success of deposit-type institutions in attracting savings and the inability of banks to expand credit, caused by the decline in reserves. Since early fall there are indications that direct financing also has been less.

Some interest rates, after rising to peak levels in early September, declined moderately during the fall despite a lack of monetary expansion in the period. Yields on highest grade corporate bonds declined from 5.49 percent in September to 5.37 percent in early December. Three-month Treasury bill rates decreased from 5.36 to 5.10 percent during the same period.

CAUSAL FACTORS

The pronounced shift in monetary trends beginning last spring may have exercised some restraint on the excessive demands for goods and services. Both bank reserves and money, which had been rising before April at the fastest rate in over a decade, have since been contracting. Usually such a marked and sustained change in the course of bank reserves and money has been followed after a brief lag by a significant slowing in spending.

Federal fiscal influence, on the other hand, has evidently continued to be expansive in late 1966. Total Government outlays have been expanding significantly, and both the national income accounts measure of total fiscal impact and the high-employment measure of current Government actions have continued to indicate stimulation.