Senator TALMADGE. What is your conclusion on the inflationary factor for the fiscal year that will end June 30? How much did we have? Was it on the order of 2 to 2½ percent?

Mr. ACKLEY. In the fiscal year ending July 1, 1967, I believe the wholesale price index will show a very small rise. In May it was only two-tenths of 1 percent higher than in May of 1966. The consumer price index must be around 2.7 percent higher than a year earlier. The GNP deflator will, I think, have risen by about the same amount as the consumer price index.

Senator TALMADGE. So a good conclusion would be something in the order of 2½ percent?

Mr. ACKLEY. Yes, sir.

Senator TALMADGE. What do you anticipate that it will be in the next fiscal year?

Mr. ACKLEY. Our anticipation, as we spelled it out in our testimony, is that the rate of price increase should be slowing down, that we should do better in the year ahead than we did in 1966. One has to recognize that in the past 6 months or so we have had a decline in farm prices and in some raw materials that we don't expect to continue, that we wouldn't want to continue.

Indeed, farm prices have already turned around. They play an important part in the wholesale price index. But in terms of the movement of the basic structure of costs—which is the most important thing for our international position—we would expect a slowing down of the rate of increase in our cost structure.

Senator TALMADGE. What do you estimate the balance-of-payments deficit will be for the fiscal year 1967?

Mr. ACKLEY. May I ask Mr. Okun to come in on that?

Senator TALMADGE. Yes.

Mr. OKUN. Our balance-of-payments deficit on a liquidity basis last year was $1,400 million.

Chairman PROXMIRE. How much?

Mr. OKUN. $1.4 billion. We think we can hold our own or come close to that this year, despite the increased costs of our defense efforts in Vietnam. Certainly the war has held up and retarded the progress toward equilibrium in our balance of payments, but we have managed to accommodate to it without having a deterioration in our international performance. I think it is highly significant that our exports and imports are looking very encouraging. Our foreign trade performance has been improving in recent months.

Senator TALMADGE. In other words, our exports have been going up?

Mr. OKUN. Yes, sir.

Senator TALMADGE. Imports have likewise gone up, have they not?

Mr. OKUN. Yes, generally, but at a slower pace and with occasional interruptions as in recent months.

Senator TALMADGE. The balance between exports and imports in 1967 was less, was it not?

Mr. OKUN. That is true, and much of this reflected an unusual surge in imports which in turn came in, because——

Senator TALMADGE. A high level of prosperity?

Mr. OKUN. A high level of prosperity and perhaps an excessive level of capacity utilization in some manufacturing industries.

Senator TALMADGE. If you anticipate we will have considerable economic surge the latter half of this year, wouldn't that also mean