

showed a 5- to 6-percent increase, and we are now in the process of resurveying these same corporations and the returns now suggest that the 7-percent figure is probably going to be in the ball park.

We expect the rate of residential expenditures to rise in the first quarter of this year to \$29 billion, and then to flatten out at about \$30 billion in the remaining quarters. The pattern we have is a little stronger first half in housing starts than in the second half.

We expect a big increase in business inventories. This is probably the most difficult part of the whole GNP accounts to forecast. We could be wrong on this. The rate in the fourth quarter was \$9 billion—this is total inventories—and our thought is it will rise to something like \$11 billion in the first quarter of this year, something like \$14 billion in the second quarter, and then go off to \$10 billion and \$9 billion in the second half of the year. That will be the pattern in the inventory field.

Now, if you will turn to the next table, what we had tried there is to put in for 1968 some of the figures on the financial flows that we think will be consistent with our GNP forecast.

I am not going to comment on all these figures. According to our estimates, the total uses of funds will rise to \$86½ billion this year, versus \$80.2 billion in 1967. And, you may want to ask some questions later on the table. I am not going to take the time to run through all of it. But I think there are parts of it that are of particular interest to you.

You notice under corporate bonds that the aggregate net increase in corporate bonds in 1967 was \$15 billion. We are estimating the figure for 1968 to be \$11 billion. This is a pretty significant figure.

Our feeling is that in 1968, for some of the reasons that were already mentioned by Mr. Olsen, there will be a lesser volume of net issues by corporations. For one thing, I think, last year they stockpiled some money. I also feel that expectations on the part of corporate borrowers are changing this year. Their general expectation is that perhaps in the second half of the year they will be able to get lower rates. I think there will be more corporate financing through the banking system this year. Corporations will tend to turn more to the commercial banks for financing, and wait for bond yields to come down. Last year the expectations were that rates were going through the roof, and they all rushed in to sell bond issues. I think there will be some lesser pressure in the corporate bond areas this year.

However, you will notice that we put one- to four-family mortgages up to \$13½ billion, and we have put multifamily and commercial mortgages up to \$10½ billion versus \$8.2 billion. I think that to the extent that corporate demand for funds is less, institutions will turn to the mortgage market to a greater extent.

Now, shifting to the lower part, to sources of funds, you will notice that in the case of the mutual savings banks, we have an estimate of \$4.7 billion in there for 1968 versus \$5.2 billion in 1967, and for the savings and loan associations, \$8½ billion versus \$11 billion. This is a reflection of our feeling that, as the year goes on, there will continue to be a slowing down in the flow of funds into these institutions, so that the net new money that they get this year will be less.

Now, you might say how does that tie in with the stepup in the net increase in home mortgages and other mortgages, and our reason-