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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

June 12, 1964.

SUPPLEMENTAL NOTES

The Domestic Economy

Revisions in April data and later quantity data for May, suggest the index of industrial production (not yet calculated) may be above the 129 level mentioned in the staff report of June 10.

Seasonally adjusted retail sales in May were up 1.4 per cent from April, after some hesitation in March and April, and topped their February peak. Data for the first week in June indicate that this month has started at about the advanced May level.

The May rise was concentrated at nondurable goods stores, where sales were up about 2 per cent. Gains were particularly large at apparel, drug, and general merchandise stores. Sales at durable goods stores were up fractionally from April. Furniture and appliances, which have maintained a steady advance for the past several months, declined sharply in May.

Nonfarm payroll employment, seasonally adjusted, rose in May by only 40,000. At 58.5 million, it was 1.4 million higher than a year earlier. Employment increased during the month by 28,000 in nondurable goods industries, mostly in apparel; but was little changed in durable goods industries as small gains in most metals industries were offset by a decline in transportation equipment. Finance, service and State and local government employment continued to rise. Construction employment declined 40,000 reflecting in part the effects of scattered strikes. In trade, employment was down slightly from the peak April level.

The workweek in manufacturing again averaged 40.7 hours, continuing the relative stability at high levels which began in September last year. Average hourly earnings increased one cent to \$2.53, reflecting the 0.2 hour rise to 3 hours in overtime worked at premium pay. Average weekly earnings increased \$0.90 to nearly \$103.00 and were above the December 1963 peak for the first time this year. (Confidential until release at 2:30 p.m., Tuesday, June 16.)

The Domestic Financial Situation

Total credit at city banks increased over \$700 million in the week ending June 3, compared with declines or much smaller increases in the corresponding week of other recent years. This year's expansion, however, was apparently associated largely with the \$1 billion Treasury bill issue delivered in early June. Loans to Government security dealers rose almost \$300 million and bank holdings of U. S. Government securities increased \$270 million, almost entirely in bills. Business loans declined \$100 million, about in line with reductions for this period in past years.

Capital markets. The tone of the corporate bond market was buoyed by the quick sell-out of this week's key \$150 million offering of GMAC debentures. Reflecting this improvement, underwriters bid aggressively for smaller bond offerings, and the average yield on new issues (adjusted to an Aaa basis) declined 1 basis point to 4.44 per cent. The average yield on outstanding high-grade State and local government bonds, on the other hand, rose 2 basis points to 3.10 per cent. As yields increased, investor demand picked up. Interest rates on new home mortgages continued unchanged in May.

Stock market. At noon on Friday, the Dow-Jones average of industrial stock prices, had nearly recovered the declines that began with the sharp market break on June 4. The broader measure of stock prices provided by the Standard and Poor's composite index of 500 stocks at the close Thursday showed prices were still 1.8 per cent below their mid-May peak. Daily trading volume declined further this week, averaging only 4.1 million shares through Thursday.

International Developments

Preliminary data show a U. S. payments deficit on regular transactions of \$125 million for the month of May. The deficit for the first five months of 1964 now appears to be at a seasonally adjusted annual rate of about \$2 billion.