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[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

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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

February 26, 1965

The Domestic Economy

The results of the latest Census quarterly survey of consumer buying intentions, taken in January, indicate continuing strength in auto demands but possibly some weakening in demands for major household durable goods.

Plans to buy a new car within 12 months were reported by 9.3 per cent of households. This figure is about 10 per cent above the year-earlier proportion, which in turn had been up by a similar amount from early 1963. This January's plans were down about 10 per cent from last October, but a decline in new car buying plans is usual between October and January. In the preceding four years, the October to January decline ranged from 4 per cent in 1961-62 to 14 per cent in 1962-63 and averaged 7 per cent. The proportion of households reporting intentions to purchase used cars in January was about unchanged from last October and from January 1964.

The proportion of households expecting to purchase any of 7 major household durable goods within 6 months dropped from the exceptionally high level of 18.3 per cent reached last October to 16.3 per cent in January. Moreover, the January figure was moderately below the year-earlier proportion (16.7 per cent) and was also below last April and July (17.1 per cent).

Intentions to buy new or previously occupied houses in the next 24 months were at approximately the level reported in the January 1964 survey but were down from last October.

Seasonally adjusted retail sales in the first three weeks of February appeared to be up from their slightly reduced January level. Expansion was centered primarily in nondurable goods with widespread gains among all categories. Sales were at a rate near their December high. Among durable goods stores, sales at automotive outlets were up but sales at furniture and appliance and lumber and hardware stores showed offsetting declines and the total remained virtually unchanged.

The Domestic Financial Situation

The seasonally adjusted money supply declined $300 million in the first half of February; on the basis of preliminary data, it previously had been estimated to have shown no change in this period. Between October and the first half of February, the money supply increased at an annual rate of only 1.2 per cent. Tentative estimates indicate that a further decline will occur in the second half of February.

Seasonally adjusted time and savings deposits at all commercial banks increased $1.1 billion in the first half of February, a little more than previously estimated. Continued substantial growth is expected in the second half of the month.

The markets for both corporate and municipal bonds weakened further this week. Although the only investment grade corporate issue was reoffered this week at an adjusted yield of 4.41 per cent--bringing the new corporate bond yield series down one basis point from its mid-February level--this offering met only lukewarm reception. The fact that this issue was rated A by one investment service and Aa by another may explain part of the decline. Moreover, following termination of price restrictions on a corporate issue which had been poorly received since its mid-month offering, the subsequent price decline raised the yield 4 basis points above that at which originally offered. Meanwhile in the municipal market, yields on seasoned Aaa-rated bonds rose 4 basis points further and dealers' advertised inventories climbed to a record $800 million.

Standard and Poor's composite index of prices of 500 stocks continued to rapidly erase its earlier losses this week in very active trading. Closing at 87.20 on February 25, it was only one-half per cent below its February 1 record high.

International Developments

Long-term bank loans to foreigners in January totaled $215 million. The size of this outflow confirms indications from commitments data and market reports of a marked step-up in such loans since the beginning of the year in anticipation of the extension of the Interest Equalization Tax. The January outflow was twice as large as the monthly average of these outflows in the second half of last year.

Short-term claims on foreigners reported by banks declined by $173 million in January following the record increase of nearly $500 million in December. A similar pattern of increases in December and decreases in January has appeared in some, but not all, earlier years. In part, the January decline in these claims represented the unwinding of short-term outflows to meet liquidity pressures abroad at year-end.