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Content last modified 6/05/2009.

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

May 7, 1965.

SUPPLEMENTAL NOTES

The Domestic Economy

Seasonally adjusted total employment rose 300,000 to 71.7 million in April. All the increase was in farm jobs; nonfarm employment continued at the March level of 66.9 million. The civilian labor force rose 400,000, or slightly more than employment, to 73.4 million reflecting a more than usual increase among teenagers.

As a result of the rise in joblessness of youths, the unemployment rate increased to 4.9 per cent from 4.7 per cent in March, a level slightly above the first quarter average of 4.8 per cent. The unemployment rate was about unchanged for most major labor force groups. The rate for married men continued at 2.5 per cent and for adult women at 4.6 per cent. For young men 20 to 24 years and for teenagers, rates increased in April. The teenage rate was 15.2 per cent compared with 13.9 per cent in March and an average rate of 14.5 per cent in the first quarter this year. For all groups, the unemployment rate was lower than a year earlier, with the largest relative declines in rates for adult workers.

The rise in teenage unemployment of 140,000 was reflected in the rise in unemployment of short duration--one month or less. Long duration unemployed--for 15 weeks or more--was virtually unchanged at 810,000 and was 200,000 below the year-ago level. Persons looking for full-time jobs accounted for all of the nearly 400,000 decline in unemployment from a year earlier; part-time job seekers were unchanged over the year at 600,000.

The seasonally adjusted book value of business inventories increased $900 million in March. This was much larger than the February increase and was close to the $1 billion a month rate in December and January. For the first quarter, the book value increase totaled $2.2 billion, as compared with $1.7 billion in the fourth quarter. On a GNP basis, total inventory accumulation is tentatively estimated at an annual rate of about $7.5 billion in the first quarter, as compared with about $6 billion in the fourth quarter.

Two-thirds of the large March--and first quarter--increase was at distributors. Inventory accumulation by manufacturers, which totaled $700 million for the quarter, was down sharply from the extraordinarily high fourth quarter rate.

The high rate of accumulation of inventories by distributors in March and in the first quarter as a whole reflected: (1) a large build-up in auto dealer stocks, in recovery from the fourth quarter decline; (2) moderate further expansion in other retail stocks; and (3) an unusually large increase in inventories held by wholesalers.

New domestic automobile sales were at an annual rate of 8.2 million units in April; the rate in March was 8.8 million. April sales were 7 per cent larger than a year earlier. Dealer inventories of domestic automobiles rose 4 per cent in April and were slightly above a year earlier. Stocks represented 41 days' supply at the April sales rate. This was almost up to the average number of days' supply for April of the past six years.

The Domestic Financial Situation

The seasonally adjusted money supply increased $700 million in April, an annual rate of 5.3 per cent, the same as in March; on the basis of preliminary data, it had been estimated to have increased $1 billion. A small decline occurred in the second half of the month whereas previously a small increase had been estimated. Since November growth in the money supply has been at an annual rate of 2.1 per cent, with currency increasing 3.5 per cent and demand deposits, 1.7 per cent.

Business loan expansion was very strong at weekly reporting banks in New York and Chicago during the week ending May 5. Business loans increased almost $300 million in New York--including a $56 million expansion in bankers' acceptances and $65 million in Chicago. At New York City banks, where detailed data are available, expansion appeared to be spread over all classifications of business loans--but was especially strong in metal and metal products.

Underwriters eased back somewhat further in their bidding for new corporate bonds this week. As a result, the new corporate bond yield series advanced 7 basis points to 4.54 per cent. Three basis points of this gain, however, is attributable to an apparent artificial narrowing of the spread between yields on seasoned Aaa-rated corporate bonds and A-rated public utility bonds used in adjusting offering yields. This spread narrowing was due to a decline in yields on A-rated public utility bonds in a period when asked quotations--on which Moody's series are based--were not representative of the market. Meanwhile, yields on seasoned municipal bonds were unchanged.

Standard and Poor's composite index of 500 stocks closed at an all-time high of 89.92 on Thursday, May 6.

International Developments

In the United Kingdom, the measures taken a week ago to restrain bank lending by the reintroduction of Special Deposits for commercial banks have been reinforced by a request for quantitative restrictions on advances and other credits to the private sector. In a letter from the Bank of England on May 6, the banks were asked to hold growth in loans and advances in the year ending next March to 5 per cent. They were also asked not to decrease their holdings of securities.

These latest restrictive monetary measures have been taken at a time when final negotiations are under way on the terms and conditions of a new British drawing from the International Monetary Fund. The drawing, which is to take place this month, will total $1.4 billion and will exhaust Britain's drawing rights in the Fund. A large part of the Fund drawing will be employed to repay the maturing credits from other central banks that have been used to support British reserves in the last five months.