Prefatory Note

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Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

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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).

[2] A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

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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

October 28, 1966

SUPPLEMENTAL NOTES

The Domestic Economy

Rental vacancy rates in the third quarter continued at the reduced average of 6.8 per cent reached in the second quarter of the year. This compared with 7.2 per cent in the third quarter of 1965 and 7.5 per cent in each of the previous three years. While such rates increased in the third quarter outside standard metropolitan areas, they declined appreciably further inside such areas -- to an average of 6.1 per cent, the lowest since early 1960. Within individual regions, rental vacancy rates moved downward further in the South and North Central states to their lowest levels in 8 years or more. Those in the West and Northeast edged upward but remained significantly below earlier highs.

Vacancy rates for homes for sale dipped slightly in the third quarter -- to 1.3 per cent, just below the average which has prevailed in recent years.

The Domestic Financial Situation

On October 27 the Treasury announced a cash offering to refund \$4.1 billion of securities maturing November 15, 1966. The new issues include \$2.5 billion of 5-5/8 per cent 15-month notes and \$1.6 billion of 5-3/8 per cent 5-year notes, both priced at par. While no new money is involved in this cash refunding, the Treasury indicated the possibility of an overallotment -- perhaps around 10 per cent -- if market interest in the new issues proves strong. Early market reaction has been generally favorable, especially in the case of the new 5-year notes.

The Treasury also announced that it expects to borrow around $2.5 billion of new money before the end of the calendar year and will probably raise some of this cash around the end of November. The total amount of new money to be raised in the second half of 1966 will be nearly $11 billion, compared with about $6.5 billion in the comparable periods of 1964 and 1965.

Investor reception of this week's new corporate and municipal bond offerings was good. Bonds placed on the market during the first half of the week were virtually all sold by late Thursday, including New York City's $123 million issue which was completely sold on the first day. An unusual number of $5,000-$25,000 orders were placed for this issue, and it quickly moved to a premium of about 1/4 point. Aggressive bidding by dealers on corporate bonds with 5-year call protection reduced the average new issue yield on such issues to 5.60 per cent, the lowest level since early August.

Common stock prices, as measured by Standard and Poor's composite index, rose nearly 3 per cent this week on fairly active trading averaging 6.4 million shares daily. At the close Thursday, the index registered 80.23, up nearly 10 per cent from the early October low.

International Developments

The U.S. payments deficit on the liquidity basis in the third quarter was $210 million, seasonally adjusted, unchanged from earlier estimates. The third quarter surplus on official settlements was $980 million seasonally adjusted, somewhat lower than had been estimated using weekly figures for September. This makes the total surplus on this basis for the first nine months $550 million. As revised, liquid liabilities to foreign central banks and Governments, not seasonally adjusted, declined by a total of $1.4 billion in the first nine months.

Corrections

Page II - 10: Last paragraph, second line; "residential construction" should read "nonresidential construction."