Prefatory Note

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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

December 9, 1966

The Domestic Economy

Inventory accumulation totaled $325 million (book value) at retail stores and $200 million at wholesalers in October. These increases were much larger than the average monthly gains during the third quarter, and, despite the reduced rate of accumulation at manufacturers, total business inventory accumulation of about $1,350 million in October considerably exceeded the third quarter rate and was not far below the exceptionally high May-June rates.

The bulk of the October increase at retail reflected a large further build-up in stocks at auto dealers. Auto stocks had begun to rise in September but because of the sharp liquidation in July and August they were down appreciably for the third quarter as a whole. The book value of auto dealer stocks at the end of October equalled the extraordinarily high level reached in late June after the sharp second quarter ("involuntary") bulge. With sales of new model autos lagging in October and November, the auto industry has instituted some output curtailments which have probably halted the rise in stocks after October. Thus the average monthly increase in retail stocks for the entire fourth quarter is likely to be well below the October rate.

The October rise in wholesale stocks followed a decline of almost equal amount in September. This series has behaved rather erratically in recent months and, moreover, insufficient detail is available on a preliminary basis to analyze the movement in the total. The October rise would seem to represent a considerable overstatement of the average increase to be expected for the quarter.

Manufacturers expect their inventory accumulation to amount to about $2.5 billion in the current quarter and $2 billion in the first quarter 1967, according to the latest Commerce quarterly survey of manufacturers' sales and inventory expectations conducted in November. While these figures represent a sizable decline from the peak third quarter build-up of $3 billion, the book value increase now anticipated in the first quarter remains above the rates of late 1965 and early 1966, before manufacturers' inventory accumulation accelerated so sharply in the second and third quarters of this year.

Over the past year and a half, these inventory expectations have exhibited a very large downward bias. However, the stock build-up now estimated for the current quarter is more than double the amount originally anticipated by manufacturers (in the Commerce August survey) and moreover actual accumulation in October (the latest monthly data available) was close to the monthly rate indicated for the entire quarter.

The anticipated decline in the rate of inventory accumulation is concentrated in durable goods industries, the locus of the earlier sharp acceleration. In the durable sector, the percentage of inventories classified as "high" (relative to current sales and unfilled orders) has risen sharply since spring, from 18 per cent in March to 21 per cent in June and 27 per cent in September.

According to the survey, sales gains were only fractional and well below earlier expectations in the third quarter--in both the durable and nondurable goods sectors. In the fourth and first quarters, durable goods producers--particularly in the machinery and transportation equipment industries--anticipate a pick-up in sales increases--with the rise in the fourth quarter (3 per cent) about as large as was anticipated last August. Whether this pick-up eventuates appears to be uncertain, particularly in view of the recent significant lowering by business of its planned expansion in outlays for plant and equipment. Nondurable goods producers meanwhile are more pessimistic than they were last summer, looking for little change in sales in the current quarter and only a slight gain in early 1967.

Dollar sales at retail stores, which showed little change in September and October, declined 1 per cent in November according to advance figures. The November decline reflected mainly a 5 per cent decrease at auto dealers. Sales of other durable goods and the total for nondurable goods stores were little changed from September-October levels.

The Domestic Financial Situation

On the basis of later data, commercial bank credit is now estimated to have increased by $700 million in November--$100 million above our earlier estimate--or at an annual rate of 2.7 per cent, rather than 2.3 per cent as stated in the Greenbook. The revised estimates are particularly large for bank holdings of U.S. Government securities. Banks outside of New York retained a larger share of the late November Treasury issue than previously thought, and it is now estimated that bank holdings of Treasury securities increased by $500 million rather than $200 million. These increased holdings accounted for almost three-fourths of the estimated increase in bank credit. The additional data also suggest that business loans expanded less than estimated in the Greenbook--4.6 per cent rather than 6 per cent.

CHANGES IN COMMERCIAL BANK CREDIT[1/]
(Annual rate - per cent)

	1966			1965
	November[2/]	September-November[2/]	January-August	Year
Total loans & investments	2.7	- 2.6	8.4	10.2
U.S. Government securities	11.5	-22.9	-4.7	-5.6
Other securities	-2.5	1.7	6.7	15.8
Loans	1.7	1.9	12.7	14.7
Business loans	4.6	7.7	18.4	18.5

1/ Annual rates of change have been adjusted for definitional shifts of participation certificates and balances accumulated for payment of personal loans.
2/ Preliminary.

Preliminary data from the November 30 Survey of the maturity structure of outstanding large denomination negotiable CD's indicate that banks face a record $5.5 billion of maturities in December--$300 million higher than the former record level established this past September. In addition, January maturities at the end of November were already scheduled to be $3.5 billion, a very high level as compared with similar periods for other survey dates.

MATURITY DISTRIBUTION OF OUTSTANDING
NEGOTIABLE TIME CERTIFICATES OF DEPOSIT 1/
Weekly Reporting Banks
November 30, 1966

CD's maturing in:	Amount (millions of dollars)	Cumulative percentage	Sales since previous month (millions of dollars)
1966 - December	5,547	35.9	2,064
1967 - January	3,472	58.4	1,146
February	1,529	68.3	623
March	1,143	75.7	171
April	913	81.6	118
May or later	2,847	100.0	551

1/ Includes only certificates in denominations of $100,000 or more issued by weekly reporting banks.

November CD sales were almost $4.7 billion--the largest amount since the monthly survey began at midyear--almost $700 million more than in July and August. Sales were particularly large at banks outside of New York and Chicago; in fact, outstandings were unchanged at these banks, during November, while New York City banks--despite large sales--lost almost $400 million of CD's, and Chicago banks had about a $30 million runoff.

A little less than 70 per cent of the CD's sold in November mature within 2 months after the survey date--6 percentage points above September and October. These data suggest that the lower level of market yields on very short-term instruments--such as the 30-day Treasury bill--permitted banks to reduce their outflow by selling CD's in the under 90-day, and mainly under 60-day, market. Regulation Q ceilings and market yields on 90-day instruments continued to make it difficult for banks to sell longer-term CD's in any volume. Also, demand for December paper for tax and dividend purposes increased bank sales of short-term CD's.

New York banks continued to sell relatively more shorter-term CD's than other banks, but relatively no more than the previous 2 months. On a preliminary basis, the average maturity of outstanding CD's is expected to change little in November at all reporting banks. About 68 per cent of outstandings at all banks--and 73 per cent at New York banks--will mature in 3 months after the survey date (February), little different than the maturity structure indicated in the October survey for a similar period.

Corrections and notes:

1. Page I-4, line 6 under Bank credit and deposits, delete "than".

2. Page II-5, personal consumption services projected for the Q IV should read $196.0 billion, not $186.0.

3. Page III-7, add at the end of the last paragraph before the section on <u>Corporate and municipal bond markets</u>, "The net decline was followed in the first week of December by an inflow of $510 million, more than offsetting the outflow in the previous 3 weeks."

Proposed 1967 meeting dates for Federal Open Market Committee

Greenbook date	FOMC proposed meeting date	Number of weeks following preceding meeting
January 5	January 10	4
February 1	February 7	4
March 1	March 7*	4
March 29	April 4	4
April 26	May 2	4
May 17	May 23	3
June 14	June 20	4
July 12	July 18	4
August 9	August 15	4
September 6	September 12	4
September 27	October 3	3
October 18	October 24	3
November 8 or 15**	November 14 or 21**	3 or 4
December 6	December 12	4 or 3

* - Organization meeting.

**- November 14 has a disadvantage as an FOMC meeting date in that the preceding Friday is a holiday for Federal employees (since Veterans' Day, November 11, falls on a Saturday). However, under the by-laws of the Federal Advisory Council, the Council would normally meet with the Board on November 21. It is planned to ask the Council at its organization meeting in February whether they would be agreeable to shifting their November meeting date from the 21st to the 14th.