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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

August 9, 1968

SUPPLEMENTAL NOTES

The Domestic Economy

Retail sales, according to the advance Commerce report, increased 3 per cent in July from a June level which had been revised up moderately. Expansive strength in July was widespread among the various store types, with durable goods stores up almost 5 per cent and nondurables up 2 per cent. The largest advances were at automotive outlets and at general merchandise stores. Sales at furniture and appliance outlets also expanded significantly.

The Domestic Financial Situation

The following tables present the latest estimates of total loans and investments at all commercial banks after adjustment by recently revised seasonal factors. The revisions reflect refinement of last-Wednesday adjustments as well as updating of seasonal factors. Also, greater attention has been focused in this review on achieving consistent adjustments among component and total series. Data have been revised from 1959 to date, although the principal revisions are reflected in data for the last three years. In general, the revised series for recent years shows somewhat lower levels of total bank credit in April and in the August-November period with offsetting increases mainly in March, June, and December.

Revised data on total bank credit and its major components will be released to the public in the F.R. Bulletin for August. Data for loan components will remain confidential.

For July, the most significant changes are downward revisions in the estimated increase in bank holdings of U.S. Government securities and in security loans. Consequently, the July increase in total bank credit was also revised downward, although, as in July 1967, it remains large primarily as a result of the recent Treasury financing.

NET CHANGE IN BANK CREDIT
All Commercial Banks--Revised Series
(Seasonally adjusted annual rates in per cent)

| | 1967 | 1968 | | | July ^{1/} |
|---|------|------|------|------|--------------------|
| | | H 1 | Q 1 | Q 2 | |
| Total loans and investments ^{2/} | 11.6 | 6.2 | 6.5 | 5.9 | 23.2 |
| U.S. Gov't. securities | 11.4 | 2.7 | 0.7 | 4.7 | 53.6 |
| Other securities | 26.1 | 6.5 | 14.3 | -1.3 | 9.5 |
| Total loans | 8.3 | 7.1 | 5.9 | 8.2 | 19.0 |
| Business loans | 9.8 | 9.5 | 7.4 | 11.4 | 10.6 |

^{1/} All July rates are preliminary estimates based on incomplete data and are subject to revision.

^{2/} Data are for last Wednesday of month except for June 30 and December 31; data are partly or wholly estimated except when June 30 and December 31 are call dates.

LOANS AT COMMERCIAL BANKS
(Revised series, seasonally adjusted, in billions of dollars)

| Period | Business | Real Estate | Security | Agricultural | Consumer | Nonbank |
|---------------|----------|-------------|----------|--------------|----------|---------|
| 1966--Jan. 26 | 70.4 | 49.8 | 7.3 | 8.4 | 36.1 | 12.1 |
| Feb. 23 | 71.3 | 50.3 | 7.3 | 8.5 | 36.4 | 12.3 |
| Mar. 30 | 72.2 | 50.7 | 7.0 | 8.5 | 36.9 | 12.5 |
| Apr. 27 | 72.9 | 51.2 | 7.4 | 8.6 | 37.1 | 12.6 |
| May 25 | 74.1 | 51.5 | 7.4 | 8.6 | 37.3 | 12.4 |
| June 30 | 75.7 | 51.9 | 7.5 | * 8.4 | 37.5 | 13.0 |
| July 27 | 76.9 | 52.2 | 7.5 | 8.5 | 37.7 | 12.7 |
| Aug. 31 | 77.7 | 52.6 | 7.4 | 8.7 | 38.1 | 12.1 |
| Sept. 28 | 78.1 | 52.9 | 7.3 | 8.7 | 38.2 | 12.1 |
| Oct. 26 | 78.6 | 53.3 | 7.3 | 8.7 | 38.4 | 12.3 |
| Nov. 30 | 78.8 | 53.5 | 7.3 | 8.7 | 38.6 | 12.2 |
| Dec. 31 | 78.6 | 53.8 | 7.9 | 8.7 | 38.8 | 12.1 |
| 1967--Jan. 25 | 79.6 | 54.1 | 8.3 | 8.7 | 39.0 | 12.1 |
| Feb. 22 | 80.1 | 54.3 | 8.3 | 8.7 | 39.1 | 11.9 |
| Mar. 29 | 80.9 | 54.5 | 8.3 | 8.8 | 39.2 | 11.7 |
| Apr. 26 | 81.6 | 54.8 | 8.1 | 9.0 | 39.4 | 11.6 |
| May 31 | 82.3 | 55.1 | 7.9 | 9.0 | 39.4 | 11.5 |
| June 30 | 82.8 | 55.3 | 7.4 | 9.2 | 39.6 | 11.4 |
| July 26 | 83.4 | 55.7 | 8.6 | 9.3 | 39.8 | 11.3 |
| Aug. 30 | 83.9 | 56.2 | 9.3 | 9.4 | 40.1 | 11.4 |
| Sept. 27 | 84.3 | 56.7 | 9.6 | 9.4 | 40.3 | 11.7 |
| Oct. 25 | 84.6 | 57.2 | 9.8 | 9.4 | 40.6 | 11.8 |
| Nov. 29 | 84.9 | 57.8 | 9.6 | 9.2 | 40.8 | 11.6 |
| Dec. 30 | 86.3 | 58.4 | 9.2 | 9.5 | 41.0 | 11.4 |
| 1968--Jan. 31 | 86.6 | 58.9 | 10.1 | 9.5 | 41.4 | 11.5 |
| Feb. 28 | 87.2 | 59.4 | 10.4 | 9.6 | 41.9 | 11.3 |
| Mar. 27 | 87.9 | 60.0 | 9.0 | 9.6 | 42.0 | 11.2 |
| Apr. 24 p | 89.0 | 60.5 | 8.7 | 9.8 | 42.5 | 11.6 |
| May 29 p | 89.6 | 61.0 | 8.7 | 9.9 | 42.7 | 11.7 |
| June 29 p | 90.4 | 61.3 | 8.6 | 10.2 | 42.9 | 11.4 |
| July 31 e | 91.2 | 61.6 | 10.8 | 10.3 | 43.1 | 11.3 |

* - Beginning June 30, about \$0.2 million participation certificates previously included in agricultural loans are reclassified as "other securities."

NOTE: Revised seasonally adjusted data beginning 1959 will be made available in the L.4.3 "Banking and Monetary Developments" released in mid-September.

p - Preliminary.

e - Estimated.

LOANS AND INVESTMENTS AT COMMERCIAL BANKS
(Revised series, seasonally adjusted, in billions of dollars)

| Period | Loans and investments 1/ | Loans 1/2/ | Securities | |
|---------------------|-----------------------------|------------|---------------|----------|
| | | | U.S. Govt. | Other 2/ |
| 1966--Jan. 26 | 297.3 | 194.6 | 57.7 | 45.0 |
| Feb. 23 | 298.3 | 196.5 | 56.4 | 45.5 |
| Mar. 30 | 299.9 | 198.5 | 55.7 | 45.8 |
| Apr. 27 | 302.1 | 200.4 | 55.5 | 46.2 |
| May 25 | 303.6 | 202.2 | 54.2 | 47.2 |
| June 30 | 307.1 | 203.4 | 55.3 | 48.4 |
| July 27 | 308.2 | 204.6 | 55.1 | 48.5 |
| Aug. 31 | 308.9 | 205.2 | 55.6 | 48.0 |
| Sept. 28 | 309.2 | 206.0 | 54.8 | 48.4 |
| Oct. 26 | 308.5 | 207.0 | 53.1 | 48.4 |
| Nov. 30 | 303.8 | 207.5 | 52.9 | 48.4 |
| Dec. 31 | 310.5 | 208.2 | 53.6 | 48.7 |
| 1967--Jan. 25 | 314.3 | 210.2 | 54.1 | 49.9 |
| Feb. 22 | 317.7 | 210.8 | 55.8 | 51.1 |
| Mar. 29 | 321.5 | 211.9 | 57.3 | 52.4 |
| Apr. 26 | 322.9 | 212.9 | 56.3 | 53.7 |
| May 31 | 324.7 | 213.4 | 56.4 | 54.9 |
| June 30 | 326.2 | 214.1 | 55.9 | 56.2 |
| July 26 | 332.5 | 216.5 | 59.4 | 56.5 |
| Aug. 30 | 336.6 | 218.0 | 61.3 | 57.3 |
| Sept. 27 | 339.1 | 219.9 | 61.4 | 57.7 |
| Oct. 25 | 342.0 | 221.4 | 61.9 | 58.6 |
| Nov. 29 | 344.3 | 222.7 | 61.2 | 60.4 |
| Dec. 30 | 346.5 | 225.4 | 59.7 | 61.4 |
| 1968--Jan. 31 | 349.5 | 227.1 | 60.0 | 62.4 |
| Feb. 28 | 353.6 | 228.9 | 62.1 | 62.7 |
| Mar. 27 | 352.1 | 228.7 | 59.8 | 63.6 |
| Apr. 24 p | 354.4 | 230.9 | 60.0 | 63.4 |
| May 29 p | 356.4 | 232.1 | 60.7 | 63.5 |
| June 29 p <u>3/</u> | 357.3 | 233.4 | 60.5 | 63.4 |
| July 31 e | 364.2 | 237.1 | 63.2 | 63.9 |

1/ Adjusted to exclude interbank loans.

2/ Beginning June 9, 1966, about \$1.1 billion of balances accumulated for payment of personal loans were deducted as a result of a change in Federal Reserve regulations.

Beginning June 30, 1966, CCC certificates of interest and Export-Import Bank portfolio fund participation certificates totaling an estimated \$1 billion are included in "Other securities" rather than "Other loans."

3/ June 29, 1968 estimated.

NOTE: Data are for last Wednesday of month except for June 30 and December 31; data are partly or wholly estimated except when June 30 and December 31 are call dates. For back data, see August 1968 Bulletin.

p - Preliminary.

e - Estimated.

Preliminary data now available suggest that seasonally adjusted July inflows moderated at both savings and loan associations and mutual savings banks. (The July datum for savings banks is confidential until August 15.) At New York City mutual savings banks, about three-fourths of net inflows were accounted for by the newly-offered types of accounts.^{1/}

NONBANK DEPOSITARY INTERMEDIARIES
GROWTH IN SAVINGS
(Seasonally adjusted annual rates, in per cent)

| | Mutual Savings Banks | Savings & Loan Associations | Both |
|--------------------|-------------------------|--------------------------------|----------------------|
| 1967 - Q1 | 9.8 | 9.4 | 9.5 |
| Q2 | 11.0 | 11.4 | 11.3 |
| Q3 | 8.6 | 9.8 | 9.4 |
| Q4 | 6.7 | 5.8 | 6.1 |
| 1968 - Q1 | 7.5 | 5.7 | 6.2 |
| Q2 ^{p/} | 6.6 | 5.8 ^{r/} | 6.1 ^{r/} |
| 1968 - May | 8.9 | 5.9 | 6.9 |
| June ^{p/} | 6.1 | 7.6 ^{r/} | 7.1 ^{r/} |
| July ^{p/} | 5.0 ^{c/} | 4.8 ^{e/} | 4.9 ^{c/ e/} |

^{p/} Preliminary
^{r/} Revised - although still preliminary.
^{c/} Confidential until August 15.
^{e/} Estimate based on FHLBB sample.

A detailed report on the recent FRB-FHLBB survey of mortgage lenders is being distributed with this Supplement.

^{1/} Day-of-deposit to day-of-withdrawal accounts and time deposits, discussed on pages III - 7-8 of the current Greenbook.

The Treasury announced late Wednesday an 18 per cent allotment ratio on subscriptions of over \$250,000 to the new issue just offered in the Treasury financing. Total awards exceeded the size of the issue originally announced by some \$350 million, providing the Treasury with nearly \$1.9 billion of new money rather than the \$1.5 billion initially planned.

The 18 per cent allotment ratio was higher than a number of market participants had anticipated immediately prior to the announcement. There has been a moderate net decline of U.S. note and bond prices since then, possible in part in response to announcement of this week's deeper net borrowed reserve figure. At the same time, bill rates have edged a bit higher. However, the underlying tone of the markets still appears to remain strong.

Dealers have reported a brisk amount of when-issued trading in the new 5-5/8 per cent note, at premiums generally 6-8/32 above the issue price. On Thursday, dealers' net holdings of the new issue totaled \$807 million.

KEY INTEREST RATES

| | 1967 | | 1968 | | |
|-----------------------------------|--------------|-------------|-------------|-------------|------------|
| | High | High | July 16 | Aug. 8 | |
| Short-Term Rates | | | | | |
| Federal funds (weekly average) | 5.25 (1/11) | 6.38 (5/15) | 6.03 (7/10) | 6.08 (8/7) | |
| 3-months | | | | | |
| Treasury bills (bid) | 5.07 (12/5) | 5.92 (5/21) | 5.47 | 4.96 | |
| Bankers' acceptances | 5.63 (12/29) | 6.13 (5/24) | 5.88 | 5.75 | |
| Euro-dollars | 6.88 (11/28) | 7.19 (6/4) | 6.18 | 5.94 | |
| Federal agencies | 5.30 (12/29) | 6.11 (5/17) | 5.65 | 5.45 | |
| Finance paper | 5.88 (1/6) | 6.13 (6/25) | 6.00 | 5.75 | |
| CD's (prime NYC) | | | | | |
| Highest quoted new issue | 5.50 (12/29) | 6.00 (7/18) | 6.00 | 5.75 | |
| Secondary market | 5.70 (12/29) | 6.20 (5/31) | 6.15 | 5.85 | |
| 6-months | | | | | |
| Treasury bills (bid) | 5.60 (12/1) | 6.08 (5/21) | 5.55 | 5.17 | |
| Bankers' acceptances | 5.88 (12/29) | 6.25 (5/24) | 6.00 | 5.88 | |
| Commercial paper | 6.00 (1/16) | 6.25 (7/25) | 6.25 | 5.88 | |
| Federal agencies | 5.55 (12/29) | 6.25 (5/24) | 5.80 | 5.49 | |
| CD's (prime NYC) | | | | | |
| Highest quoted new issue | 5.50 (12/29) | 6.25 (7/11) | 6.13 | 5.75 | |
| Secondary market | 6.00 (12/29) | 6.40 (5/31) | 6.20 | 5.90 | |
| 1-year | | | | | |
| Treasury bills (bid) | 5.71 (12/29) | 6.03 (5/21) | 5.51 | 5.11 | |
| Federal agencies | 5.95 (12/29) | 6.01 (5/31) | 5.88 | 5.55 | |
| Prime municipals | 4.00 (12/29) | 3.90 (5/31) | 3.30 | 2.75 | |
| Intermediate and Long-Term | | | | | |
| Treasury coupon issues | | | | | |
| 5-years | 5.91 (11/13) | 6.21 (5/21) | 5.68 | 5.46 | |
| 20-years | 5.81 (11/20) | 5.77 (3/14) | 5.34 | 5.18 | |
| Corporate | | | | | |
| Seasoned Aaa | 6.25 (12/28) | 6.29 (6/6) | 6.26 | 6.06 | |
| Baa | 6.98 (12/28) | 7.10 (6/3) | 6.97 | 6.82 | |
| New Issue Aaa | | | | | |
| With call protection | 6.55 (12/7) | 6.83 (5/24) | 6.56 | 6.49 | |
| Without call protection | 6.70 (12/1) | 6.99 (6/3) | -- | -- | |
| Municipal | | | | | |
| Bond Buyer Index | 4.45 (12/7) | 4.71 (5/24) | 4.36 | 4.07 | |
| Moody's Aaa | 4.15 (12/28) | 4.42 (5/31) | 4.18 | 3.80 | |
| Mortgage--Implicit Yield | | | | | |
| In FNMA Weekly Auction <u>1/</u> | -- | -- | 7.72 (6/10) | 7.35 (7/15) | 7.32 (8/5) |

1/ Yield on 6-month forward commitment after allowance for commitment fee and required FNMA stock purchase. Assumes discount on 30-year loan amortized over 15 years.

International Developments

The figures included in the table on the U.S. Balance of Payments (I - T - 3) for the liquidity balance have been revised as follows:

| | 1968 | | |
|-------------------------|-----------|------------|-------------|
| | <u>II</u> | <u>May</u> | <u>June</u> |
| Liquidity balance, S.A. | -195 | | |
| Seasonal component | 300 | | |
| Balance, N.S.A. | 105 | 408 | 280 |

The corresponding changes should be made in Appendix C, making the liquidity deficit before reduction by "special" transactions \$1,076 million.

Corrections

Pages II - 6 and II - 7. Correct figures for private housing starts and for change in starts are:

| | 1967 | 1968 | 1967 | | 1968 | | <u>Projected</u> | |
|---------------------------|------|------|------|------|------|-------|------------------|------|
| | | | III | IV | I | II | III | IV |
| Number, millions, A.R. | 1.29 | 1.40 | 1.41 | 1.45 | 1.50 | 1.42 | 1.32 | 1.35 |
| Change, per cent per year | 10.3 | 8.5 | 66.1 | 11.3 | 13.8 | -21.3 | -28.2 | 9.1 |

Page III - 11. The figure in fifth line from top should be 27,000.

In Appendix C, line 2.C.2, delete the word "Private."