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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

July 11, 1969

The Domestic Economy

Retail sales in June, according to the advance report, declined almost 1 per cent from May, which in turn had been down about the same amount from April. Losses occurred in most major categories, but the durable goods stores, which declined 1.1 per cent from May, were generally weaker than the nondurable goods stores, off 0.7 per cent.

Second quarter sales were less than 1/2 per cent above the first quarter, and only 3.9 per cent above a year ago. Since prices have probably risen more than 4 per cent, the second quarter level of real takings is below a year ago.

For the second quarter as a whole, as in June, sales of durable goods stores were slower than those of nondurable goods stores. Durable goods sales were up only 0.1 per cent as reasonably good sales of furniture and appliances and "all other durables" were offset by declines of 1 per cent in the automotive group and the 2.1 per cent in the lumber, building, hardware, and farm equipment group. Among nondurables, increases in the general merchandising, apparel, and restaurants categories more than offset lower sales of the food and gasoline groups and sales in the second quarter rose a little more than 1/2 per cent.

Department stores sales in the second quarter were up 3.4 per cent from the first quarter, but both May and June were off substantially from the high April level. On a year-over-year basis, the 7 per cent rise in June was the smallest since December 1967.

RETAIL SALES
(Percentage Change)

	From Previous Quarter 1969		From Previous Month 1969		
	IQ	IIQ	April	May	June
Total	1.6	0.4	1.8	-0.9	-0.8
Durable goods	1.9	0.1	2.1	-1.0	-1.1
Nondurable goods	1.4	0.6	1.7	-0.9	-0.7
Total, ex. auto	1.7	0.7	2.0	-0.9	-0.8
Department stores	0.8	3.4	6.4	-3.4	-1.5
Total real, deflated by all commodities CPI	0.8	n.a.	1.3	-1.2	n.a.

Inventories. Distributors' inventories declined slightly in May following a fairly substantial rise in April. For the two months, the increase in book value of inventories averaged only half the average monthly increase in the three preceding months. The ratio of distributors' inventories to sales declined further in April and May from the relatively high rate at the beginning of the year.

At retail, inventories were reduced by almost $100 million book value in May--almost as much as the April increase. Reductions occurred at all major groupings of durable goods stores, but mainly at the automotive group where dealers' stocks of new domestic-type autos were drawn down by about 100,000 units (seasonally adjusted). In contrast, book value increased at most types of nondurable goods stores and the total increase was quite large, raising the stocks-sales ratio to the high level which prevailed throughout 1967.

Merchant wholesalers increased their stocks modestly in May, following the large increase now shown for April. The average April-May increase was about the same as the average rise in the preceding six months. With the large accumulation at manufacturers (see Greenbook) total nonfarm business inventories increased $937 million in book value in May, a bit less than in April but somewhat more than the monthly average in the first three months of the year. Altogether, these April-May-June inventory figures are not inconsistent with the Greenbook second quarter estimate of accumulation on a GNP basis.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
(Millions of dollars, seasonally adjusted)

	1968 - IV Monthly Average	1969 - I Monthly Average	April	May	April-May Average
Manufacturing & Trade	1,045	877	1,075	937	1,006
Durable	731	621	652	310	481
Nondurable	314	256	421	627	524
Manufacturing	490	579	701	980	840
Durable	321	519	448	743	596
Nondurable	169	61	253	237	245
Retail	411	116	114	- 93	11
Durable	280	27	25	-523	-249
Nondurable	131	89	89	430	260
Wholesale	144	182	259	50	156
Durable	130	76	180	90	135
Nondurable	14	107	80	- 40	20

Bank time and savings deposits. Consumer-type time and savings deposits at weekly reporting banks fell contra-seasonally in the first reporting week of July, following quarterly interest crediting. This decline represented mainly a reduction in time certificates and open accounts at banks outside New York City. In the following week, however, New York City banks also experienced large outflows of these types of deposits. Outflows of regular savings deposits at large banks have been relatively small so far in July in comparison with the comparable periods of other recent years. In addition, inflows of time and savings deposits of country banks were much less than usual during the first week of July.

NET CHANGE IN SELECTED TIME AND SAVINGS DEPOSITS
(Millions of dollars, not seasonally adjusted)

	Change in week ending			
	July 6 1966	July 5 1967	July 3 1968	July 2 1969
Weekly Reporting Banks				
Consumer-type deposits	223	165	215	- 42
Savings deposits	-365	109	- 60	- 25
Time deposits, IPC (other than CD's, IPC)	588	56	275	- 17
Country Banks				
Total time and savings deposits	n.a.	238	294	77
Savings deposits	n.a.	130	162	28
Other time deposits	n.a.	109	131	51

	Change in week ending			
	July 13 1966	July 12 1967	July 10 1968	July 9 1969
New York and Chicago Banks				
Consumer-type deposits	27	82	- 25	-158
Savings deposits	- 75	- 21	- 61	- 40
Time deposits, IPC (other than CD's, IPC)	102	103	36	-118

Nonbank depositary intermediaries. Savings inflows to both savings and loan associations and mutual savings banks declined significantly in June, and for the second quarter as a whole their combined growth rate was sharply reduced from the 6 to 6.5 per cent range of the previous five quarters. The record yields available in the money and capital markets have no doubt taken their toll in savings receipts, as the reinvestment period also attests.

GROWTH IN SAVINGS AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rate in per cent)

	Mutual Savings Banks	Savings & Loan Associations	Both
1968 - I	7.1	5.6	6.1
II	6.7	5.7	6.0
III	6.5	5.9	6.1
IV	7.1	6.2	6.5
1969 - I	6.2	6.1	6.1
II p/	4.3	3.2	3.6
April	2.9	1.7	2.1
May	6.7	4.5	5.2
June p/	3.3	3.4	3.4
1968 - First half	7.0	5.7	6.2
Second half	6.9	6.1	6.4
1969 - First half p/	5.3	4.7	4.9

p/ Preliminary and partially estimated.

Outflows through early July have been very large from New York savings banks. Savings and loan associations, which also have lost a sizable amount during that portion of the reinvestment period for which we currently have data, appear, however, to be faring better in relation to 1966--allowing for lack of conformity in the available data.

REINVESTMENT PERIOD SAVINGS FLOW
($ millions, not seasonally adjusted)

SAVINGS AND LOAN ASSOCIATIONS

	All U.S.	San Francisco	U.S. Except San Francisco
1966 - Grace Period	n.a.	n.a.	n.a.
July - 6 days*	-1,221	-264	-957
1967 - Grace Period	-568	- 61	-507
July - 7 days*	- 25	45	- 70
1968 - Grace Period	-610	- 73	-537
July - 4 days	-660	-119	-541
1969 - Grace Period	-721	-116	-605
July - 3 days	-780	-199	-581

15 LARGEST NEW YORK CITY MSB's 1/

	First 5 Days - July	Entire Period 2/	As Per Cent of Deposits
1966	- 31	-153	- .99
1967	56	- 11	- .07
1968	- 18	-105	- .58
1969	-103	-269	-1.42

* This basically covers the entire July portion of the reinvestment period, and is thus not directly comparable to the 3- and 4-day periods shown for 1968 and 1969. The typical pattern is for outflows to taper off--or become inflows--as the reinvestment period wears on.

1/ Savings flow excluding interest and passbook loans.

2/ Includes the grace period of the last three days in June.

Government and Federal Agency securities markets. An average issuing rate of about 6.78 per cent was set in the auction of $1.75 billion of December tax anticipation bills on Wednesday. Most recently, this bill has been quoted at around 7.30--7.24 per cent on a when-issued basis in secondary market trading. Early ideas in the market this morning indicated that the average in today's sale of $1.75 billion of March tax bills might be around 7.10 to 7.25 per cent.

The Federal Home Loan Banks will raise $500 million of new money from the public on July 15, for settlement on July 25. The $900 million financing will consist of $500 million of 10-month notes and $400 million of 19-month bonds, and will replace a $400 million maturing issue.

KEY INTEREST RATES

	1969			
	Lows	Highs	June 23	July 10
Short-Term Rates				
Federal funds (weekly averages)	5.95 (1/1)	9.20 (6/4)	8.54 (6/18)	9.07
3-months				
Treasury bills (bid)	5.91 (3/24)	7.04 (7/9)	6.37	7.00
Bankers' acceptances	6.38 (2/17)	8.50 (7/10)	8.25	8.50
Euro-dollars	7.14 (1/2)	12.50 (6/10)	11.01	11.20
Federal agencies	6.08 (3/26)	7.47 (7/2)	7.36	7.44
Finance paper	6.25 (2/6)	7.50 (7/10)	7.50	7.50
CD's (prime NYC)				
Highest quoted new issue	6.00	6.00	6.00	6.00
Secondary market	6.45 (2/13)	8.70 (7/9)	8.25	8.70
6-months				
Treasury bills (bid)	6.04 (3/25)	7.28 (7/10)	6.87	7.28
Bankers' acceptances	6.50 (2/17)	8.62 (7/10)	8.38	8.62
Commercial paper	6.25 (1/7)	8.75 (7/9)	8.50	8.75
Federal agencies	6.32 (1/16)	8.02 (7/2)	7.78	7.98
CD's (prime NYC)				
Highest quoted new issue	6.25	6.25	6.25	6.25
Secondary market	6.50 (1/30)	9.00 (7/9)	8.25	9.00
1-year				
Treasury bills (bid)	5.86 (1/16)	7.47 (7/1)	6.94	7.06
Prime municipals	3.90 (1/2)	5.40 (6/11)	5.25	5.30
Intermediate and Long-Term				
Treasury coupon issues				
5-years	6.11 (1/20)	7.08 (7/9)	6.78	7.04
20-years	5.91 (4/14)	6.46 (5/28)	6.27	6.33
Corporate				
Seasoned Aaa	6.56 (1/2)	7.08 (7/10)	7.03	7.08
Baa	7.26 (2/3)	7.84 (7/10)	7.77	7.84
New Issue Aaa				
No call protection	7.05 (1/9)	7.80 (6/18)	7.80	--
Call protection	6.90 (2/20)	7.76 (6/23)	7.76	7.68
Municipal				
Bond Buyer Index	4.82 (1/23)	5.82 (6/11)	5.79	5.65
Moody's Aaa	4.57 (1/2)	5.60 (6/18)	5.60	5.52
Mortgage--implicit yield in FNMA weekly auction 1/	7.66 (1/9)	8.47 (7/7)	8.40	8.47

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

International Developments

The Bank of Sweden raised its discount rate from 6 to 7 per cent effective July 11--the second increase this year--because of continuing reserve losses caused by the disparity between Swedish interest rates and levels in major financial centers. The Bank of Sweden has also asked for authority to impose commercial bank cash reserve requirements and to prescribe limits on commercial bank borrowing from the central bank. These further restrictive measures are expected to be adopted shortly.