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

October 24, 1969

The Domestic Economy

Durable goods new orders. New orders at durable goods manufacturers jumped 6 per cent in September, according to the advance report, as strong increases were reported in all industry groups except aircraft and electrical machinery. Of the $1.8 billion increase, $1.1 billion was in orders for machinery and equipment, with large increases at shipbuilders, manufacturers of large engines and turbines, and rail equipment makers. Orders for the industry groups which include structural metal products and clay, glass, and lumber products accounted for much of the rest of the total increase, suggesting that there may have been increased demand for construction materials. Iron and steel orders also rose substantially.

Orders at defense industries were down, but much of the decrease appeared to be in civilian orders for the products of those industries. Even after allowing for this partly offsetting decline, however, orders for producers' durables at the equipment industries were at a new high in September.

Shipments increased 2-1/2 per cent in September, a substantial increase but less than the rise in new orders, and the order backlog rose, but the ratio of unfilled orders to shipments continued to decline.

NEW ORDERS FOR DURABLE GOODS
Per Cent Changes in Monthly Averages, Seasonally Adjusted

	1969		
	Second quarter from first	Third quarter from second	September from August
Total durable goods	0.3	4.1	5.9
Primary metals	3.2	7.2	5.5
Iron and steel	8.8	8.8	9.1
Motor vehicles	-1.9	14.0	2.5
Consumer durables, exc. autos	-2.4	1.3	3.4
Machinery & equipment industries	4.8	-0.8	17.1
Defense products industries	-12.5	4.5	-11.0
All other durable goods	3.1	2.2	7.8

In the third quarter as a whole, the strength in orders arose mainly from autos and related demand for iron and steel. Motor vehicle shipments and orders for July and August were revised sharply upwards in an effort to adjust for the different seasonal pattern in auto production this year. This revision still may not handle the model changeover problem in an entirely satisfactory manner--it eliminates variations within the third quarter, but an early changeover such as we had this year would still tend to make the whole third quarter high. Because of this problem, as well as because of the slowdown in retail auto sales in October and the possibility that September's strikes will have their effect on the following month's shipments, motor vehicle shipments and orders are likely to be reported down next month, and the same may be true for suppliers of iron and steel and other materials and components for autos.

Machinery and equipment orders, which had been edging down, are now estimated to have been almost as high in the third quarter as in the second. The second-quarter orders level had been inflated as a result of a surge of equipment ordering in April in anticipation of the removal of the investment tax credit. Continuation of these levels in the third quarter suggests a continued high level of production and spending for producers' durables for a number of months.

The September machinery and equipment orders apparently include an unusual concentration of substantial orders for heavy equipment. Such orders are by nature volatile and "lumpy", and a falloff in this category in October would not be surprising.

Unit auto sales. In the first 20 days of October, dealer deliveries of new domestic autos were at a seasonally adjusted annual rate of 8.3 million units, 6 per cent above a month earlier and 7 per cent below a year ago.

Cyclical indicators. The Census composite leading indicator rose 1.3 per cent to a new high in September, strongly influenced by the sharp rise in durable goods orders--especially the machinery and equipment orders which are, in effect, included twice in the composite. Industrial materials prices rose more than two per cent in September, as they had in August. There were also slight increases in common stock prices and the manufacturing workweek. Declining indicators in September included a rise in initial unemployment insurance claims and declines in the ratio of price to unit labor cost and housing permits.

COMPOSITE CYCLICAL INDICATORS
1963 = 100

	12 Leading Indicators 1/	5 Coincident Indicators	6 Lagging Indicators
1969 - April	152.7	167.6	182.8
May	152.8	168.9	184.7
June	151.7	170.9	187.3
July	152.3	170.7	189.8
August	151.6	172.0	193.3
September p/	153.6	171.4	194.0

1/ Reverse trend adjusted series. p/ Preliminary.

The coincident composite decreased slightly with declines in industrial production and an increase in the unemployment rate. The lagging composite increased slightly.

Examination of the subgroup composite leading indicators and the individual series indicates that materials prices and capital investment commitments were the only two real elements of strength in September; other series apparently peaked in July or earlier.

The only indicator currently available for October is the preliminary common stock average, which rose.

KEY INTEREST RATES

	1969			
	Lows	Highs	October 6	October 23
Short-Term Rates				
Federal funds (weekly averages)	5.95 (1/1)	9.61 (9/24)	9.11 (10/1)	8.75 (10/22)
3-months				
Treasury bills (bid)	5.87 (4/30)	7.17 (10/1)	6.94	6.98
Bankers' acceptances	6.38 (2/17)	8.50 (7/9)	8.25	8.13
Euro-dollars	7.06 (1/22)	12.50 (6/10)	10.91	9.43
Federal agencies	6.03 (3/28)	7.86 (10/2)	7.86 (10/2)	7.52
Finance paper	6.13 (3/11)	8.25 (7/30)	7.88	8.13
CD's (prime NYC)				
Highest quoted new issue	6.00	6.00	6.00	6.00
Secondary market	6.40 (4/30)	8.70 (7/23)	8.60 (10/1)	8.50
6-months				
Treasury bills (bid)	5.96 (4/30)	7.42 (10/9)	7.27	7.27
Bankers' acceptances	6.50 (2/17)	8.62 (7/9)	8.38	8.25
Commercial paper	6.25 (1/7)	8.88 (10/8)	8.88	8.50
Federal agencies	6.32 (1/16)	8.14 (7/30)	7.87 (10/2)	7.80
CD's (prime NYC)				
Highest quoted new issue	6.25	6.25	6.25	6.25
Secondary	6.50 (1/30)	9.00 (7/23)	8.85 (10/1)	8.75
1-year				
Treasury bills (bid)	5.86 (1/16)	7.47 (7/1)	7.37	7.08
Prime municipals	3.90 (1/2)	5.85 (9/17)	5.75	5.45
Intermediate and Long-Term				
Treasury coupon issues				
5-years	6.11 (1/20)	8.04 (10/1)	7.82	7.25
20-years	5.91 (6/5)	6.81 (10/3)	6.62	6.38
Corporate				
Seasoned Aaa	6.56 (1/2)	7.41 (10/14)	7.32	7.29
Baa	7.26 (2/3)	8.28 (10/14)	8.26	8.19
New Issue Aaa				
No call protection	7.03 (1/23)	7.80 (6/18)	--	--
Call protection	6.90 (2/20)	8.22 (10/3)	8.22 (10/1)	7.82
Municipal				
Bond Buyer Index	4.82 (1/23)	6.37 (9/4)	6.19 (10/1)	6.07
Moody's Aaa	4.57 (1/2)	5.85 (9/18)	5.83 (10/1)	5.80
Mortgage--implicit yield in FNMA weekly auction 1/	7.66 (1/6)	8.63 (10/20)	8.52	8.63 (10/20)

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

September payments balances. Preliminary data on the monthly basis indicate that the liquidity deficit in September was about $370 million--somewhat lower than expected. For the third quarter the liquidity deficit was therefore about $2-1/2 billion seasonally adjusted, and for the first three quarters, the deficit totaled about $8 billion.

On the official settlements basis, the September deficit was about $700 million, also somewhat less than previously estimated. This balance in the third quarter was a deficit of about $1 billion (seasonally adjusted) compared with surpluses of $1.1 and $1.2 billion in the first and second quarters, respectively.

September trade. Data released by the Bureau of Cenus today (October 24) show a sharp increase in the export surplus. Exports on the balance of payments basis held close to the high August value while imports dropped by 4 per cent. In the third quarter the export surplus was about $1 billion at an annual rate (balance of payments basis) compared with a small deficit in the first half of the year and a $1/2 billion rate of surplus in the second half of 1968.

U. S. FOREIGN TRADE, 1969
(In billions of dollars, annual rates)

		Census basis [1]	Balance of payments basis
Exports:	1st Half average	34.9	34.1
	July	38.1	37.2
	August	40.6	39.0
	September	39.9	38.6
Imports:	1st Half average	34.6	34.3
	July	36.8	36.9
	August	38.2	38.1
	September	36.7	36.6
Trade balance:			
	1st Half average	0.3	-0.2
	July	1.3	0.2
	August	2.5	0.9
	September	3.3	2.0

1/ As published by Bureau of Census.

Among import categories, the decrease from August to September was most pronounced in foodstuffs. A number of other categories--fuels, semifabricated industrial materials and consumer goods--also declined.

A consequence of the strong trade surplus in the third quarter is that the net balance on goods and services improved more in the third quarter of 1969 than is shown in the GNP tables on pages II - 4A and 4B of the Greenbook.

NET EXPORTS OF GOODS AND SERVICES
(Billions of dollars, annual rates)

	Estimate published in GNP accounts	Balance of payments data
1969 - QI	1.5	1.5
QII	1.6	1.1
QIII	2.0	2.0[e]
QIV proj.	2.4	

e/ Estimated.

Euro-dollar market. In the past two days Euro-dollar deposit rates have fallen further, to 9 per cent for three-month deposits and a shade less for longer deposits. U. S. banks' borrowings from their branches declined about $600 million in the week ending October 22, making the net increase since the end of September only about $250 million.

A factor tending to depress the level of U. S. banks' Euro-dollar takings has been an increase in the four weeks ending October in time deposit (including CD) liabilities to foreign official holders by over $450 million caused almost entirely by shifts by the BIS.

German mark exchange rate. The German Government has set a new parity for the mark, apparently with an upward revaluation of 9.3 per cent, a little more than had been mentioned in earlier discussion. From DM 4 to the dollar, the par goes to DM 3.66 according to press reports; in terms of cents per mark this change is from 25 cents to 27.3224.

Corrections:

Page I - 1, last sentence. Delete "for" at end of third line from the bottom; second sentence from the bottom, change years to year.

Page I - 3, last paragraph, line 3. Change weaker to under; line 7, change consistent to insistent.

Page I - 9, second full paragraph. The difference in cost to large U. S. banks between Euro-dollars and domestic commercial paper is smaller than suggested. Reserve-free funds are being obtained through the commercial paper market at a rate (discount basis) of around 8-5/8 or 8-3/4 per cent, equivalent very roughly to about 9 per cent interest. Now that Euro-dollars have fallen to about the same level the cost difference is confined to the effect of the 10 per cent marginal reserve requirement on liabilities to branches exceeding last May's.

Page III - 3. The chart is in billions of dollars and refers only to the year 1969.

Pages III - 13 and 14 were assembled in the wrong order in many copies.