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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 12, 1969

SUPPLEMENTAL NOTES

The Domestic Economy

Industrial production. Industrial production in November dropped to 171.1 per cent of the 1957-59 average from 173.1 in October. The G. E. strike accounted for about 1 point and declines in auto assemblies accounted for .4 of a point of the 2 point drop. Also in November, production of furniture, textiles, apparel and lumber was further reduced. On the other hand, output of consumer staples recovered from a dip in October and production of farm equipment rose again. Freight and passenger equipment was maintained in November at record levels.

The December production curtailments announced by General Motors and Chrysler further reduce auto assemblies to a 7.2 million unit annual rate compared to 7.9 in November. There have not been, as yet, any cutbacks announced by Ford, and AMC is working overtime to make up October and November strike losses.

The Domestic Financial Situation

The corporate bond market eased somewhat in the second week of December as new issue volume declined and purchases by both individuals and institutions remained strong. Several new issues were successfully marketed at yields 10 to 15 basis points below the record highs of the previous week. Municipal rates continued the unbroken advance to new highs but volume did not drop off significantly in spite of the higher interest costs.

The Federal Home Loan Bank Board effected some rate ceiling changes (published in the Federal Register on December 4). The changes pertain only to S&L's in Massachusetts, Nevada, and California; and provide the following relaxations:

Massachusetts In order to improve their competitiveness with Massachusetts cooperative banks and savings banks which are already paying 5-1/2 per cent for savings, S&L's in Massachusetts may now pay an additional 25 basis points-- a total of 5.50 per cent per annum--on certificate accounts in existence as of November 14, 1969, with a continuation of the proviso that these certificate accounts may pay the bonus rates only if regular accounts earn 4.75 per cent or less. These S&L's are prohibited from advertising publicly or actively promoting the new rate. Apparently, this new relaxation is effective only through July 31, 1970.

California and Nevada S&L's in California and Nevada were heretofore allowed to offer the 5.25 per cent certificate rate only on accounts with a minimum term of 3 years if they were at the same time offering the 5 per cent maximum pass-book rate allowable in those areas. Under the new provisions these associations may now offer the bonus rate on accounts with maturities as short as 6 months. This relaxation was effective as of December 1, 1969, and apparently expires on July 31, 1970. There is a proviso that there may be no out-of-state public promotion or advertisement of the new account

terms. Since these new changes offer only minor additional flexibility, they are not likely to produce much improvement in S&L performance in the areas affected.

Government securities market. Yields in the Treasury securities market rose sharply further over most of the past weeks; however, toward the end of the week, some of these increases were being erased, partly in an apparent technical reaction to the sharp price declines of the past few weeks. Through Thursday's close, most bill rates were up another 5 to 20 basis points since the start of the week, while note and bond yields generally had gained around 10 to 30 basis points.

The rate advances in the bill area earlier in the week reflected relatively light customer demand coupled with some fairly heavy investor selling. Later in the week, however, the bill market showed considerable improvement, prompted by a pick-up in investor demand, including purchases in the 6-month area by foreign accounts and sizable bank buying of tax bills. Reflecting this most recent improvement in bills, the 3-month issue was down 12 basis points by the opening on Friday from its peak level of 7.91 per cent reached at midweek.

The yield increases in the note and bond sector were attributed partly to the prospect of increased supply in the Federal Agency market. The Farmers Home Administration announced late Tuesday that it will sell some \$350 million of 5 to 10-year notes early next year.

INTEREST RATES

	1969			
	Lows	Highs	Nov. 24	Dec. 11
<u>Short-Term Rates</u>				
Federal funds (weekly averages)	5.95 (1/1)	9.61 (9/24)	8.79 (11/19)	8.75 (12/10)
3-months				
Treasury bills (bid)	5.87 (4/30)	7.91 (12/10)	7.42	7.85
Bankers' acceptances	6.38 (2/17)	8.50 (12/11)	8.50	8.50
Euro-dollars	7.06 (1/22)	12.50 (6/10)	10.85	11.10
Federal agencies	6.03 (3/28)	8.39 (11/20)	8.39 (11/20)	8.19
Finance paper	6.13 (3/11)	8.25 (12/3)	8.13	8.00
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)	8.50 (11/19)	8.65
6-months				
Treasury bills (bid)	5.96 (4/30)	8.02 (12/10)	7.97	7.91
Bankers' acceptances	6.50 (2/17)	8.62 (12/11)	8.62	8.62
Commercial paper	6.25 (1/7)	8.88 (10/8)	8.63	8.63
Federal agencies	6.32 (1/16)	8.58 (11/20)	8.58 (11/20)	8.45
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)	8.75 (11/19)	8.75
1-year				
Treasury bills (bid)	5.86 (1/16)	7.86 (11/24)	7.86	7.60
Prime municipals	3.90 (1/2)	6.25 (12/11)	5.45	6.25
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	6.11 (1/20)	8.04 (10/1)	7.66	7.99
20-years	5.91 (6/5)	6.90 (12/11)	6.80	6.90
Corporate				
Seasoned Aaa	6.56 (1/2)	7.65 (12/11)	7.46	7.65
Baa	7.26 (2/3)	8.59 (12/11)	8.36	8.59
New Issue Aaa				
No call protection	7.03 (1/23)	7.80 (5/18)	--	--
Call protection	6.90 (2/20)	8.85 (12/5)	8.44 (11/21)	8.70
Municipal				
Bond Buyer Index	4.82 (1/23)	6.88 (12/11)	6.36 (11/19)	6.88
Moody's Aaa	4.57 (1/2)	6.43 (12/11)	5.95 (11/19)	6.48
Mortgage--implicit yield				
in FNMA weekly auction <u>1/</u>	7.66 (1/6)	8.64 (12/8)	8.54	8.64 (12/8)

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.

Corrections

Table on page II - 7, the change in GNP in constant (1958) dollars for 1970-II should read 0.4 per cent per year instead of 0.1 per cent.

Incorrect figures for industrial production and manufacturing capacity utilization rate were included in tables in GROSS NATIONAL PRODUCT AND RELATED ITEMS, pages II - 6 and -7. Correct figures are as follows:

	<u>Industrial Production</u>		<u>Capacity Utilization,</u>
	<u>1957-59 = 100</u>	<u>Per cent change</u>	<u>Manufacturing</u> <u>Per cent</u>
1968	165.4	4.6	84.5
1969	172.2	4.1	83.7
1970	171.9	-0.2	79.4
		<u>At annual rate</u>	
'69 - II	172.6	5.6	84.5
III	174.3	3.9	84.2
IV	171.6	-6.1	81.6
'70 - I	171.2	-1.0	80.4
II	171.2	0.0	79.6
III	172.0	1.9	79.0
IV	173.2	2.7	78.5

SUPPLEMENTAL APPENDIX A: SURVEY OF BANK LOAN COMMITMENTS,* OCTOBER 1969

According to the October 31 Survey of Bank Loan Commitments, the volume of new commitments extended by 43 major money market banks fell sharply in the preceding 3 months--down to about \$13 billion from the \$19-20 billion reported in the previous two surveys (Table 1). While this cutback was fairly widespread among loan categories, it was most dramatic with respect to commitments extended to commercial and industrial firms. New commitments to these borrowers amounted to about \$10 billion as compared to \$15-16 billion in the two prior surveys. Most of the reduction was in confirmed lines of credit--which fell to about \$4.5 billion, or less than half that reported in the two earlier surveys--although there were significant further declines in commitments made for term loans and revolving credits. Banks also cut back somewhat on their new commitments to nonbank financial institutions--largely to finance companies--and continued to make new commitments on real estate mortgages at the reduced pace of the preceding reporting period.

These reductions are consistent with the firmer commitment policies reported by respondents in the current and recent surveys (Table 2). And as in the past two surveys, banks indicated that reduced availability of funds was primarily responsible for this firming, although some stated that increased loan demand also played a part in the policy change (Table 3).

Takedowns, expirations, and cancellations of commitments (hereafter referred to simply as takedowns) also were down sharply in the current survey, possibly in response to pressure by banks to limit takedowns under existing and new commitments. Again the largest drop was in takedowns by commercial and industrial firms--particularly on confirmed lines of credit--although takedowns by nonbank financial institutions also fell markedly as finance companies made virtually no takedowns on their commitments.

On balance, unused commitments rose slightly as new commitments were generally larger than takedowns. On October 31, total unused commitments at the respondent banks were about \$55 billion, about \$3 billion more than was reported in the survey last April.

* Prepared by Marilyn Connors, Research Assistant, Banking Section, Division of Research and Statistics.

QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS 1/

Table 1: UNUSED AND NEW COMMITMENTS
(Billions of dollars)

	New commitments made during 3-months ending			Takedowns, expirations, and cancellations during 3-months ending			Unused Commitments			
							Change during 3-months ending			Outstanding on Oct. 31, 1969
	Apr. 30	July 31	Oct. 31	Apr. 30	July 31	Oct. 31	Apr. 30	July 31	Oct. 31	
Grand total commitments	20.7	19.1	13.0	19.6	19.4	9.7	1.1	- .3	3.2	55.3
Total-Comm. & Indust.	16.5	15.4	9.8	15.3	15.7	8.2	1.2	- .3	1.6	42.1
Total-Nonbank Finan. Institutions	2.6	2.7	2.1	2.8	2.6	.6	- .1	.1	1.5	9.8
Total-Real Estate Mortgages	1.5	1.0	1.0	1.5	1.2	1.0	<u>3/</u>	- .1	<u>3/</u>	3.3
Memo: Constr. Loans (Included above)	1.0	.9	.7	.8	.8	1.1	.3	<u>3/</u>	- .4	2.7
Total-Comm. & Indust. Term Loans	1.6	1.1	.7	1.5	1.3	1.0	.2	- .2	- .3	1.7
Revolving Credits	4.2	3.2	2.5	2.9	3.2	2.4	1.3	<u>3/</u>	.1	11.6
Total Term & Revolving <u>2/</u> Confirmed Lines of Credit	9.7	10.2	6.1	10.1	10.6	4.4	- .4	- .3	1.7	26.0
Other Commitments	.7	.7	.4	.5	.5	.4	.2	.2	.1	2.1
Total-Nonbank Finan. Institutions										
Finance Companies For Mortgage Warehousing	1.8	1.7	1.1	2.0	1.6	<u>3/</u>	- .2	.2	1.1	6.4
All Other	.4	.5	.4	.4	.5	.4	<u>3/</u>	- .1	<u>3/</u>	1.4
	.5	.5	.5	.4	.4	.1	<u>3/</u>	.1	.4	2.0
Total-Real Estate Mortgages										
Residential	.5	.4	.4	.4	.5	.4	.1	- .1	<u>3/</u>	1.1
Other	1.0	.6	.6	1.1	.7	.6	- .1	<u>3/</u>	<u>3/</u>	2.3

1/ Participants in Quarterly Interest Rate Survey with total deposits of more than \$1 billion (43 banks).

2/ This item may exceed sum of previous two items because some banks report combined total only.

3/ Less than \$50 million.

Table 2: VIEWS ON COMMITMENT POLICY

Number of Banks

	Oct. 31 <u>1968</u> (1)	Jan. 31 <u>1969</u> (2)	Apr. 30 <u>1969</u> (3)	July 31 <u>1969</u> (4)	Oct. 31 <u>1969</u> (5)
Total number of banks responding:	47	48	48	48	48
Unused commitments in the past three months have:					
Risen rapidly	1	3	4	0	0
Risen moderately	25	19	19	16	5
Remained unchanged	18	17	11	21	20
Declined moderately	3	9	14	11	23
Declined rapidly	0	0	0	0	0
Takedowns in the past three months have:					
Rise rapidly	1	4	2	1	0
Rise moderately	27	28	26	14	13
Remain unchanged	19	15	17	28	31
Decline moderately	0	1	3	5	4
Decline rapidly	0	0	0	0	0
Commitment policy in the past three months have:					
Much more restrictive	1	8	26	26	12
Somewhat more restrictive	9	28	15	16	20
Unchanged	33	12	7	6	15
Less restrictive	4	0	0	0	1
Much less restrictive	0	0	0	0	0

Table 3: EXPLANATION OF RECENT CHANGE IN NEW COMMITMENT POLICY AS INDICATED IN THE CURRENT SURVEY

Indicated <u>Change</u>	Number of Banks Indicating <u>Change</u>	Reasons for Change (Number of Banks)		
		<u>Increased Loan Demand</u>	<u>Reduced Availability Of Funds</u>	<u>Both Demand And Funds</u>
More restrictive	32	0	24	8
Less restrictive	1	1	0	0

SUPPLEMENTAL APPENDIX B: INFLUENCE OF PASSENGER CAR PRICES ON THE
CONSUMER PRICE INDEX AND A MODIFIED DURABLE GOODS SERIES*

New and used car prices each exert a significant influence on monthly and quarterly changes in the CPI, partly because each exhibits a strong seasonal pattern and the CPI is not seasonally adjusted. A BLS seasonal adjustment factor is available for new cars but not for used cars.^{1/} Used cars have almost as large a weight as new cars in the CPI and the series for used car prices has behaved erratically, thus contributing to substantial fluctuations in the durable goods component of the CPI. It will probably continue to do so despite a change in estimating procedures which will be introduced in December.

New cars. After trending downward for a number of years, new car prices, adjusted for quality change, have risen in each of the last 3 years. The increase of 4.7 per cent registered between September and October of this year was somewhat larger than in 1968 and smaller than in 1967. Most of the increase in October was seasonal with the increase only .4 per cent after adjustment.

Used cars. Used car prices rose 3.6 per cent in October. Used car prices have shown large swings over the year, rising sharply between December and March, and then declining moderately between March and June and substantially from June to September. The durable commodity sector of the CPI would have risen only about 1 per cent (instead of 2.2 per cent) over the first quarter this year, if used car prices had been excluded from the total. In the third quarter there would have been an increase of .6 per cent instead of a decline of .1 per cent.

PRICE CHANGES IN PER CENT FOR SELECTED PERIODS

	December '68 to March '69	March '69 to June '69	June '69 to September '69
Prices of:			
Durable commodities	2.2	.5	-.1
Used cars	9.9	1.8	-5.3
Durables less used cars*	1.0	.7	.6

* Used cars - 12.11 per cent of durable goods component.

^{1/} A new series for used cars was introduced in December 1968 based on wholesale auction prices. The new series has too few observations at this time for meaningful seasonal adjustment.

* Prepared by Mary Smelker and Anne Hammill, economists, Business Conditions Section, Division of Research and Statistics.

Beginning in December 1969 a 3-months' moving average centered on the middle month will be substituted in the CPI for a single month's used car prices. Monthly changes have been erratic since introduction of the new series in December 1968. Smoothing (which in effect lags the retail price incorporated in the CPI by about 1-1/2 months behind the wholesale auction price) will remove some of this, but will still leave a pronounced seasonal pattern as can be seen in the table below.

PER CENT CHANGES IN USED CAR PRICES IN 1969

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.
Monthly	-2.7	6.1	6.4	.5	-3.4	1.1	-.9	-1.3	-3.2	3.6
Moving average	.2	3.4	4.2	1.1	-.6	-1.1	-.3	-1.8	-.3	

Modified series for durable goods

Used car prices are not included in the GNP deflator because used cars (except for the dealer margin) are not current output. In view of the unsatisfactory state of used car prices, analysis of price trends would be aided if a special series were compiled in which used cars are excluded from both the durable goods component and the total CPI. Relative weights for new and used cars are shown below.

WEIGHTS OF SELECTED ITEMS IN THE CONSUMER PRICE INDEX

	As a per cent of total CPI	As a per cent of durable goods
Durable goods	17.26	100
New cars	2.33	13.50
Used cars	2.09	12.11
Home purchase ^{1/}	6.00	34.76

^{1/} Prices of new and used houses.

Home purchase prices might also be excluded from durable goods and the total CPI, because homes are not customarily regarded as consumer durables. The BLS furnishes us with a special seasonally adjusted series called "consumer products" which is comprised of consumer durables excluding home purchase and used cars. Quarterly changes in "consumer products" show a much smoother pattern than seasonally adjusted consumer durables as shown in the table below.

Seasonally adjusted	Sept. '68	Dec. '68	Mar. '69	June '69
	to Dec. '68	to Mar. '69	to June '69	to Sept. '69
Consumer products	.9	.9	1.1	.4
Consumer durables ^{1/}	.6	2.6	.4	.3

^{1/} Seasonally adjusted as a group with factors derived before December 1968.