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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).

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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

February 6, 1970

The Domestic Economy

Labor market. Employment and unemployment estimates for January show continued easing of demand for labor: total nonfarm payroll employment was unchanged for the third successive month; the factory workweek declined sharply; and the over-all unemployment rate rebounded to 3.9 per cent. This would be the highest rate since 1967.*

Much of the rise in the unemployment rate in December reflected higher unemployment among adult men. The weakening of industrial demand continued to be reflected in the unemployment rates of wage and salary workers in manufacturing and for the blue-collar occupation group. At the same time, the jobless rate for adult women was virtually unchanged--both over the month and from a year earlier--suggesting continued firmness in the occupations and industries normally heavily staffed by women.

Compared to the low levels of a year earlier, total unemployment was up by 530,000, with three-fifths of the increase among men aged 20 years and over.

* These data reflect new seasonal adjustments which reduced the rates for September and October to 3.8 per cent and raised the rates for November and December to 3.5 per cent.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1969*		1970
	January	December	January
Total	3.4	3.5	3.9
Men, aged 20 and over	2.0	2.2	2.5
Women, aged 20 and over	3.6	3.5	3.6
Teenagers, both sexes	12.0	11.8	13.8
White	3.0	3.2	3.6
Negro and other races	6.2	5.7	6.3
Blue-collar workers	3.8	4.3	4.6
Manufacturing workers	3.2	3.8	3.8
Insured unemployed	2.1	2.4	2.5

* The data for 1969 have been revised to reflect the introduction of new seasonal adjustment factors.

Preliminary payroll employment estimates (based however on a weaker-than-usual sample, which subjects these figures to a possible large revision) show substantial declines in construction (in part due to extreme cold weather) and State and local government employment in January. The declines were offset by increases in trade and service employment and, with the number of manufacturing jobs unchanged, total payroll employment averaged 70.65 million in January--about the same as in October, November, and December.

NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted)

	January 1970 level (in thousands)	Change from	
		December	Year earlier
Total	70,649	-7	1,434
Manufacturing	20,010	-3	7
Construction	3,268	-175	-63
All others	47,371	171	1,490

Within manufacturing, there was a decline of 52,000 in the durable goods group, with about half the drop in transportation equipment, mainly autos. There was an offsetting employment increase in the nondurables sector, with the bulk of the rise occuring in the food industry.

The average factory workweek fell 0.4 hours to 40.2 hours in January, with most of the decline resulting from cuts in overtime work. Reductions were widespread but largest in durable goods industries.

AVERAGE WEEKLY HOURS
(Seasonally adjusted)

	1970 January level	Change from December	Change from Year earlier
Manufacturing	40.2	-.4	-.4
Overtime	3.2	-.3	-.5
Durable goods	40.7	-.5	-.6
Overtime	3.2	-.4	-.6

Retail sales. Recent revisions in retail sales suggest that personal consumption expenditures in the fourth quarter may have been lower than previously estimated. The first estimate of December retail sales was revised downward by 1/2 a per cent, changing a slight increase from November to a very slight decrease. November sales also were revised downward, by 0.3 per cent.

As a result of the change in the December level and better sales in the final week of the month, the weekly January figures now indicate a slight increase from the previous month, possibly about 1/2 a per cent.

RETAIL SALES
Per cent change from previous period, seasonally adjusted

	1969		
	November	December	QIV
Total	-0.5	-0.2	0.9
Durable goods	-1.3	0.5	0.6
Automotive	-1.3	-1.8	1.0
Nondurable goods	-0.1	-0.5	1.1
Food	-0.3	-0.1	1.5
General Mdse.	-0.3	-0.5	0.4
Real*	-0.9	-0.7	-0.4

* Deflated by all commodities, CPI.

Seasonally adjusted outlays for new construction put in place, which were revised downward by about 2 per cent for December and other recent months,1/ moved up slightly in January to an annual rate of $89.3 billion. This was 4 per cent below the peak reached last April and below a year earlier in current dollar as well as real terms. For 1969 as a whole, the year-to-year rise had averaged 8 per cent, almost entirely a result of higher costs.

Within the private sector, residential construction outlays continued to decline in line with the protracted downtrend in housing

1/ This reflected downward benchmark adjustments for the second half of the year. The adjustments were for the "additions and alterations" component of private residential construction expenditures and for State and local government outlays from levels reported earlier. While the revision for additions and alterations lowered the second half level by $1.6 billion--or by 5 per cent for residential construction as a whole--it had the effect of bringing series back into line with the currently available GNP series for residential structures. For State and local expenditures, the average downward adjustment over the second half year amounted to 3 per cent.

starts which apparently continued into the new year. Outlays for private nonresidential construction were projected to have risen in January, but this followed a three-month drop and left the rate still somewhat under the peak of last September. Within the public sector, outlays for State and local projects apparently changed little, at a level nearly a tenth below the record established last February and--as in the case of Federally owned projects--appreciably below the rising rate in January of 1969.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	January 1970 ($ billions) 1/	Per cent change from December 1969	Per cent change from January 1969
Total	89.3	+1	-3
Private	62.1	--	-1
Residential	28.3	-4	-9
Nonresidential	33.9	+4	+7
Public	27.1	--	-7
Federal	3.3	-2	-6
State and local	23.8	--	-7

1/ Seasonally adjusted annual rates; preliminary. Data for the most recent month (January) are confidential Census Bureau extrapolations. In no case should public reference be made to them.

The Domestic Financial Situation

Bank credit. Total bank credit is now estimated to have declined $3.1 billion in January rather than $2.6 billion as reported on page III-2 of the Greenbook. Data for large commercial banks which became available after the Greenbook was prepared indicate that holdings of U.S. Government securities and loans to businesses, security dealers, and nonbank financial institutions all declined slightly more than previously estimated.

Bank sales of loans to their own holding companies and affiliates increased further in the last week of January. These additional sales offset in large part the effect of the downward revisions in outstanding bank credit and as a result, data adjusted for loan sales are little different from those shown in the Greenbook.

NET CHANGE IN BANK CREDIT 1/
All commercial banks, seasonally adjusted
January 1970 2/

	Billions of dollars	Percentage change in annual rates
Total loans & investments	-3.1	- 9.3
U.S. Gov't. securities	-1.8	-41.7
Other securities	0.4	6.9
Total loans	-1.6	- 7.0
Business loans	-0.9	-10.3
Memoranda:		
Total loans & investments plus loan sales 3/	-1.2	- 3.6
Total loans plus loan sales 3/	0.3	1.3
Business loans plus business loan sales 4/	0.9	10.1

1/ Last Wednesday of month series.
2/ All January changes are preliminary estimates based on incomplete data and are subject to revision.
3/ Includes outright bank sales of loans to their own holding companies, affiliates, subsidiaries, and foreign branches.
4/ Includes outright bank sales of business loans to their own holding companies, affiliates, subsidiaries, and foreign branches.

Savings and loan associations experienced a $1.4 billion deposit outflow in January, a record for the month and nearly matching the $1.5 billion record outflow in July 1966 (data not adjusted for seasonal variation). According to the FHLBB's sample survey, the withdrawals were relatively well dispersed geographically and throughout the month. The FHLBB intends to monitor deposit experience in early February, and some indication for that period will be available in mid-February.

On a seasonally adjusted basis, the January experience was the worst on record. However, this may be somewhat overstated because of technical difficulties in making the adjustment.

DEPOSIT GROWTH* AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)

	Mutual Savings Banks	Savings & Loan Associations	Both
1969 - QI	6.1	6.0	6.0
QII	4.3	3.7	3.9
QIII	2.0	2.1	2.1
QIV p/	2.9	0.4	1.2
November	4.9	2.4	3.2
December	2.9	0.5	1.3
1970 - January p/	n.a.	-6.9	n.a.

* Because of seasonal adjustment difficulties, monthly patterns may not be significant.
p/ Preliminary. N.A. - Not available.

Government securities market. Yields on Government notes and bonds have declined some 10 to 25 basis points in the first week of February, while Treasury bill rates have fallen about 25 to 35 basis points, with the 3-month issue falling below 7.50 per cent. The market's rally was based on a more hopeful outlook for some relaxation in credit policy which was given further impetus by the weaker labor market indications reported for January.

The over-all improvement in market psychology contributed to a strong dealer and investor interest in the three new Treasury notes being offered in the current refunding. Most recently, the 18-month 8-1/4 per cent note was quoted 100.20--.23 (in 1/32's) on a when-issued basis, putting its yield at about 7.73 per cent, offered, while the 42-month 8-1/8 per cent and 7-year 8 per cent notes were quoted 100.23--.26 and 100.24--.27, respectively, yielding 7.86 and 7.84 per cent.

Data on the results of the Treasury financing were still unavailable at the time of the Supplement.

INTEREST RATES

	1969 Low	1969 Highs	1970 January 12	1970 February 5
Short-Term Rates				
Federal funds (weekly averages)	5.95 (1/1)	9.61 (9/24)	8.45 (1/7)	9.21 (2/4)
3-months				
Treasury bills (bid)	5.87 (4/30)	8.08 (12/29)	7.90	7.56
Bankers' acceptances	6.38 (2/17)	8.62 (12/15)	8.75	8.38
Euro-dollars	7.06 (1/22)	12.50 (6/10)	10.43	9.46
Federal agencies	6.03 (3/28)	8.39 (11/20)	8.30 (1/9)	8.17
Finance paper	6.13 (3/11)	8.25 (12/3)	8.25	8.25
CD's (prime NYC)				
Highest quoted new issues	6.00	6.00	6.00	6.75
Secondary market	6.40 (4/30)	9.05 (12/31)	9.00	8.75
6-months				
Treasury bills (bid)	5.96 (4/30)	8.09 (12/29)	7.62	7.57
Bankers' acceptances	6.50 (2/17)	8.75 ((12/15)	8.88	8.50
Commercial paper	6.25 (1/7)	8.88 (10/8)	8.75	8.50
Federal agencies	6.32 (1/16)	8.58 (11/20)	8.44 (1/9)	8.38
CD's (prime NYC)				
Highest quoted new issue	6.25	6.25	6.25	7.00
Secondary	6.50 (1/30)	9.15 (12/31)	9.15	8.95
1-year				
Treasury bills (bid)	5.86 (1/16)	7.86 (11/24)	7.50	7.34
Prime municipals	3.90 (1/2)	6.25 (12/11)	5.60 (1/7)	5.30
Intermediate and Long-Term				
Treasury coupon issues				
5-years	6.11 (1/20)	8.33 (12/29)	8.16	8.18
20-years	5.91 (6/5)	7.14 (12/29)	6.84	6.82
Corporate				
Seasoned Aaa	6.56 (1/2)	7.91 (12/31)	7.91	7.97
Baa	7.26 (2/3)	8.91 (12/31)	8.91	8.80
New Issue Aaa				
No call protection	7.03 (1/23)	7.80 (6/20)	--	--
Call protection	6.90 (2/20)	8.85 (12/5)	8.48 (1/9)	8.63
Municipal				
Bond Buyer Index	4.82 (1/23)	6.90 (12/19)	6.61 (1/9)	6.54
Moody's Aaa	4.57 (1/2)	6.57 (12/26)	6.41 (1/9)	6.28
Mortgage--implicit yield in FNMA biweekly auction 1/	7.66 (1/6)	8.87 (12/29)	9.36	9.29 (1/26)

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

Page I - 3, line 7. Substitute pressure for "business" near the end of the sentence.

Page I - 7. The second sentence under "Balance of Payments Outlook" should read: "The December dip in imports held down the fourth-quarter advance in imports to less than we had expected".

Page III - 20. The new 8-1/8 per cent note has a 42-month maturity rather than the 39-months stated in the Greenbook.

Page IV - 13. In the table on this page, the estimated rate of increase in Japanese real GNP from the second half of 1968 to the second half of 1969 should be 14 per cent. For Germany, in place of the OECD projection of a 3.3 per cent rise in real GNP from the second half of 1969 to the second half of 1970, the Board staff projects a 4-1/4 per cent increase.

Page IV - C - 1. In the U.S. merchandise trade chart (in the top left position on this page) the import moving average for October-December should be $37.7 billion, annual rate, instead of $35.9 billion (which was the one-month annual rate in December).

Page II - 17, line 7. 548,000 should be 654,000.

SUPPLEMENTAL APPENDIX A: NET INCREASE IN MORTGAGE DEBT OUTSTANDING*

For 1969 as a whole, the net increase in total mortgage debt outstanding rose $27.1 billion, based on preliminary data. This increase was only slightly less than the record 1968 expansion, and was a fourth larger than in 1966. Mortgage lending last year was supported heavily by an upsurge in the advances from the Federal Home Loan Banks to the S&L's, and by a record volume of net purchases by the Federal National Mortgage Association.

MORTGAGE DEBT OUTSTANDING BY TYPE OF HOLDER
(Billions of dollars)

	Net increase:					Outstanding
	1965	1966	1967	1968	1969p	End of 1969p
All holders	25.6	21.3	23.0	27.4	27.1	424.6
Financial institutions, total	23.6	15.8	18.2	21.3	19.1	339.0
Commercial banks	5.7	4.7	4.6	6.7	5.1	70.9
Mutual savings banks	4.1	2.7	3.2	2.8	2.4	55.8
Savings and loan assns.	9.0	3.8	7.5	9.4	9.5	140.2
Life insurance companies	4.9	4.6	2.9	2.5	2.1	72.1
Federal & related agencies 1/	1.0	3.4	2.7	3.3	5.1	26.8
FNMA	0.5	1.9	1.1	1.6	3.8	10.9
Individuals and others	1.1	2.1	2.1	2.9	2.9	58.8
			Per cent			
Memo: Per cent of total increase financed directly or indirectly by Federal and related agencies, including FHLB advances	6.6	20.2	0.9	15.3	33.6	

p/ Preliminary.
1/ Federal and related agencies includes - FNMA, GNMA, VA, the Federal Housing Administration, the Federal Land Banks, and the Farmers Home Administration.

* Prepared by Fred Taylor, Economist, Capital Markets Section, Division of Research and Statistics.

Financial institutions, which had led the recovery in mortgage debt following the 1966 slump, reduced their net mortgage acquisitions last year by almost 10 per cent. Reduced savings inflows, particularly during the second-half of the year, to commercial banks and the thrift institutions, and a record demand for policy loans from the life insurance companies limited the funds available for mortgage investment by these institutions. Commercial banks, which had sharply expanded their mortgage portfolios in 1968 and even through the first half of 1969, when the high level of commitments apparently built up earlier were taken down, cut back appreciably during the second half. Mutual savings banks limited the growth of their mortgage holdings throughout the year as mortgages became a relatively less attractive form of investment. The net mortgage debt acquisitions of life insurance companies also declined, with the reduction concentrated in the holdings of 1- to 4-family properties, which have been declining for the last three years. Mortgage investment in income-property by life insurance companies, on the other hand, was largely sustained in response to the appeal of generally higher yields and increased possibilities for equity participation in such projects. Savings and loan associations last year, slightly exceeded their 1968 level of net mortgage acquisitions. However, these associations were able to do so only through a massive injection of FHLB funds, which financed almost half the net increase in S&L mortgage holdings.

In addition to the support provided by the FHLB's, the Federal National Mortgage Association became an important factor in 1969. Operating through a restructured secondary market auction system, FNMA's net purchases of Government-assisted home mortgages were double the 1966 total. While they were unable to offset fully the short-falls of the financial institutions during the year, FNMA and the FHLB Banks, along with the other government agencies, financed, either directly or indirectly, over a third of the total increase in mortgage debt.

Reflecting in part the strong Government agency support, the 1- to 4-family property average remained relatively advanced throughout the first half year, though, like housing starts and other real estate activity, on a seasonally adjusted basis, it tended downward as the year progressed and at a faster rate than debt on income properties.

INCREASES IN MORTGAGE DEBT OUTSTANDING
(Seasonally adjusted annual rates in billions of dollars)

	Total	1-4 family	Multifamily & Commercial	Farm
1966	21.3	10.3	8.8	2.1
1967	23.0	12.5	8.3	2.1
1968	27.4	15.3	10.1	2.1
1969	27.1	15.5	9.5	2.1
1969 - I	30.4	17.9	10.3	2.2
II	28.5	16.5	9.6	2.3
III	26.4	15.1	9.1	2.0
IV	23.9	13.0	9.0	1.9

Though still comparatively high, net mortgage debt formation for multifamily and commercial properties accounted for all of the year-to-year decline. However, the modest decline reflected in large part a shift to other non-mortgage types of financing, particularly in the case of commercial properties, which along with multifamily structures reached record outlay levels last year.

Despite the fact that the net increase in total mortgage debt outstanding last year was little changed from 1968, the seasonally adjusted annual rate of increase for the fourth quarter of 1969 was sharply (a fifth) lower than in the fourth quarter of 1968, with both 1- to 4-family and income properties sharing equally in the decline.