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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

April 3, 1970.

The Domestic Economy

Construction. Seasonally adjusted outlays for new construction, which were revised upward by 2 per cent for January and as much as 4 per cent for February, changed little in March at an annual rate of $91.5 billion, only slightly below the peak reached last April. Within the private sector, residential outlays held at their reduced February rate and were 15 per cent below the high achieved last April. While nonresidential outlays apparently showed little month-to-month change in March, this followed a fairly sharp further rise now reported for February to a new peak for the series, reflecting, in part, a resurgence in outlays for commercial construction. Outlays for public construction edged down in March and, despite some upward revision for recent months, were running about 6 per cent below last April's high.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	March 1970 ($ billions) 1/	Per cent change from February 1970	Per cent change from March 1969
Total	91.5	--	--
Private	63.4	--	+ 1
Residential	28.2	--	-13
Nonresidential	35.2	--	+16
Public	28.1	-1	- 3
Federal	3.3	-1	- 6
State and local	24.8	-1	- 3

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

Consumer credit. The increase in consumer instalment credit outstanding during February was at a seasonally adjusted annual rate of $5.0 billion, up slightly from the $4.8 billion average rate of the 2 preceding months, but sharply below the $10 billion rate of the second half of 1968. Sizable increases in nonautomotive consumer goods credit and personal loans accounted for all of the February expansion; a small rise in home modernization loans--the first since last September--was more than offset by a slight contraction in auto credit outstanding.

Auto credit in recent months has reflected the slow pace of new and used car sales. The relative proportion of credit sales to total sales of new and used cars edged up a little during the winter, but the average instalment contract on new cars has decreased nearly $100 since last September. This reduction reflects a shift to purchases of less expensive models and also some price discounting, rather than higher downpayments.

Wholesale prices. Final data on wholesale prices for March (CONFIDENTIAL until released on Monday, April 6, 1970) show greater increases for most of the commodity groups than did the preliminary estimates appearing on the table on page II - 24 of the Greenbook for April 1. Average prices of industrial commodities rose at an annual rate of 3 per cent, rather than 2 per cent, and the rise in finished goods prices was considerably greater than originally estimated. Prices of farm products did not increase as fast as the preliminary data indicated, however, and the decline in processed foods and feeds was substantially smaller than originally reported.

WHOLESALE PRICES
(Percentage changes at annual rates)

	February 1970 to March 1970		December 1969 to March 1970	
	Preliminary	Final	Preliminary	Final
All commodities	1.0	2.1	4.9	5.2
Farm products, and processed foods and feeds	-2.0	1.0	7.2	8.2
Industrial commodities	2.1	3.1	3.8	4.2
Producers' equipment	1.9	3.9	3.3	3.9
Consumer finished goods	0	1.0	6.3	3.1

Wage agreement in the trucking industry. The trucking industry and teamsters union reached a tentative agreement on a 39-month contract covering monetary issues. The settlement provides for wage increases about in line with 1969 contract agreements in nonmanufacturing industries. The first-year wage increase is estimated at about 10 per cent, and wages will rise about 9 per cent per year over the life of the contract. A new escalator clause is also included (a maximum 8-cent increase in both the second and third year), and if it is assumed that the maximum is received, the annual rise in wages amounts to about 10 per cent. Full details on the fringe benefit package are not yet available, but there are reports of increased employer contributions to pensions and to health and welfare plans, as well as some increase in per diem allowances for long-haul drivers.

In 1967, a tentative national settlement was renegotiated with a larger wage increase after the Chicago locals (which bargain independently of the national conference) won considerably larger increases after a short strike.

Consumer attitudes and buying plans. The National Industrial Conference Board, like the Michigan Survey Research Center, found widespread consumer pessimism in February about the economy. According to this survey, only 22 per cent of the families believe that business is now good, compared with 35 per cent in the last two months of 1969 and 41 per cent a year earlier. Expectations about the future had also changed for the worse, with 17 per cent of the families expecting bad business conditions, up from 5 per cent in the previous survey.

Buying plans for major appliances were expressed by 39 per cent of the families; this represents an improvement of about three percentage points over the previous survey and the year earlier findings, but questions of this type are usually not very reliable lead indicators. Purchase plans for autos remained at the November-December level of 9.0 per cent of all families, off slightly from the 9.4 of a year earlier. However, an unusually high percentage (3.4 per cent) expect to buy used cars. The Michigan survey had reported a more definite improvement in car purchase plans--with purchase plans up both from the previous quarter and over the year--but Michigan found more change in interest for new rather than used cars. Home purchase plans in the latest NICB survey were still at a very low level.

The Domestic Financial Situation

Bank credit. Total bank credit adjusted to include loan sales is estimated--on the basis of new information--to have increased at a 3.9 per cent seasonally adjusted annual rate in March rather than the 1.8 per cent rate as reported on page III - 4 of the Greenbook. The more substantial growth over the month resulted from larger estimated increases in holdings of securities--both U.S. Government and other.

Total loans were unchanged as additional sales of loans by banks to their own holding companies and affiliates in the last week of the month offset a downward revision of loans on bank balance sheets. However, the drop in business loans was reduced somewhat as additional loan sales were made toward month-end.

COMMERCIAL BANK CREDIT, ADJUSTED TO INCLUDE LOAN SALES 1/
(Seasonally adjusted percentage change, at annual rates)

	1970	
	March 2/	Quarter I
Total loans & investments 3/	3.9	2.5
U.S. Government securities	12.1	-14.7
Other securities	28.8	11.3
Total loans 3/	-4.2	3.6
Business loans 4/	-3.3	6.3

1/ Last Wednesday of month series.
2/ Preliminary estimates. Loan sales are through March 25.
3/ Includes outright sales of loans by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
4/ Includes outright sales of business loans by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

Savings flows. The only indication now available of deposit flows during the current reinvestment period--for the sensitive New York City savings banks--suggests that there is still a good deal of pressure on the thrift institutions. Large attrition in the early part of the reinvestment period occurred despite the fact that the 15 reporting savings banks had all moved to the new rate ceilings, particularly the 6 per cent time and 5 per cent daily interest accounts, and apparently those banks that had combined these new rates with promotional campaigns were faring better than average.

DEPOSIT FLOWS - 15 LARGEST NEW YORK CITY SAVINGS BANKS 1/
March-April Reinvestment Period through April 1

	Net adjusted deposit flow 2/	
	$ Millions	As a per cent of deposits
1966	-183	-1.18
1967	- 67	- .41
1968	-103	- .58
1969	-134	- .71
1970	-190	-1.02

1/ These savings banks account for nearly 30 per cent of industry deposits.
2/ Adjusted for repayment of passbook loans made earlier to save accrued interest.

Federal finance. A two step agreement was reached on April 2 by the negotiators in the postal dispute. The agreement, which must be approved by Congress, provides a 6 per cent wage increase retroactive to December 27, 1969, for all Federal employees including military personnel. The second step of the agreement provides postal workers with an additional 8 per cent raise as soon as a reorganization plan for the Post Office Department can be enacted into law. Furthermore, the agreement provides for a speed-up of in-grade raises for postal workers such that they can obtain the top step in 8 rather than 21 years of service. When effective, this speed-up will represent another 2 per cent per annum raise for the postal workers, and the entire package for them can be described as a 16 per cent wage boost.

In a special message to Congress, the President recommended enactment of the agreement. He indicated that additional revenues outside the area of income taxes will be proposed for fiscal year 1971. The only specific items mentioned so far are increases in postal rates and a speed up of estate and gift taxes which would provide a one-time revenue increase of $1.5 billion.

The cost of the pay raise is estimated to be $1 billion in fiscal year 1970 and close to $2 billion in fiscal year 1971. These estimates are in addition to the allowances that had already been incorporated in the budget for scheduled pay raises.

INTEREST RATES

	1969	1970		
	Nov.-Dec. Highs	Highs	March 9	April 2
Short-Term Rates				
Federal funds (weekly averages)	9.32 (12/11)	9.30 (1/21)	8.32 (3/4)	7.93 (4/1)
3-months				
Treasury bills (bid)	8.08 (12/29)	7.93 (1/6)	6.86	6.35
Bankers' acceptances	8.75 (12/31)	8.75 (1/13)	7.88	7.25
Euro-dollars	11.56 (12/18)	10.50 (1/9)	9.13	8.63
Federal agencies	8.39 (11/20)	8.30 (1/7)	7.27 (3/6)	6.84
Finance paper	8.25 (12/3)	8.19 (1/30)	7.94	7.25
CD's (prime NYC)				
Highest quoted new issue	6.00	6.75	6.75	6.75
Secondary market	9.05 (12/31)	9.10 (1/7)	8.25 (3/4)	7.50 (4/1)
6-months				
Treasury bills (bid)	8.09 (12/29)	7.99 (1/5)	6.72	6.40
Bankers' acceptances	8.88 (12/31)	8.88 (1/13)	8.00	7.38
Commercial paper	9.00 (12/31)	9.13 (1/8)	8.50	8.13
Federal agencies	8.58 (11/20)	8.50 (1/28)	7.39 (3/6)	7.05
CD's (prime NYC)				
Highest quoted new issue	6.25	7.00	7.00	7.00
Secondary market	9.15 (12/31)	9.15 (1/7)	8.50 (3/4)	7.50
1-year				
Treasury bills (bid)	7.86 (11/24)	7.62 (1/30)	6.52	6.31
Prime municipals	6.25 (12/11)	5.60 (1/7)	4.40 (3/6)	4.00
Intermediate and Long-Term				
Treasury coupon issues				
5-years	8.33 (12/29)	8.30 (1/7)	7.04	7.31
20-years	7.14 (12/29)	6.98 (1/7)	6.65	6.61
Corporate				
Seasoned Aaa	7.91 (12/31)	7.97 (2/12)	7.79	7.83
Baa	8.91 (12/31)	8.96 (1/7)	8.58	8.65
New Issue Aaa				
No call protection	--	--	--	--
Call protection	8.85 (12/5)	8.76 (3/20)	8.25	8.55
Municipal				
Bond Buyer Index	6.90 (12/19)	6.79 (1/2)	6.00 (3/6)	6.11
Moody's Aaa	6.57 (12/26)	6.52 (1/2)	5.85 (3/5)	5.90
Mortgage--implicit yield in FNMA Biweekly auction 1/	8.87 (12/29)	9.36 (1/12)	9.19	9.14 (3/23)

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:

Section III, page 14. February 1970 figures are not estimated.

Section III, page 15. Sentence beginning line 2 should read: "By the March 23 auction, yields on 6-month commitments were 22 basis points below the peak of 9.36 per cent reached in mid-January."