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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

June 25, 1971

## SUPPLEMENTAL NOTES

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### The Domestic Economy

Cyclical indicators. On the basis of more complete data, the increase in the Census leading indicator composite in April is now reported at 1.2 per cent, slightly lower than the figure given in the Greenbook. The May increase (preliminary) is still 0.6 per cent. The lagging composite index was adjusted upward somewhat but still reflects a 5.7 per cent decline from its September 1970 high to its February 1971 low.

Leading series increasing in May were the manufacturing workweek, new orders for durable goods, housing permits and the ratio of price to unit labor cost. Partly offsetting these were declines in contracts and orders for plant and equipment, common stock prices, and industrial materials prices, and an increase in initial claims for unemployment insurance.

### The Domestic Financial Situation

Bank credit. Additional data from the weekly reporting banks continue to suggest that loan growth in June at all banks will be modest, and that business loans may show virtually no growth after allowance for seasonal adjustment.

Mortgage market. Mortgage commitment activity increased further during April at mutual savings banks in New York State. Estimated new commitments were approved at a record seasonally adjusted pace, and outstanding commitments approached the previous peak attained in early 1969. Altogether, the seasonally adjusted backlog of mortgage commitments at both New York State savings banks and all S&L's reached another new high, nearly double the year-earlier level.

MORTGAGE COMMITMENTS OUTSTANDING AT THRIFT INSTITUTIONS<sup>1/</sup>  
(Billions of dollars, seasonally adjusted)

Date	S&L's	N.Y. State Savings Banks	Both Thrift Institutions
1970 - High	8.1 (Dec.)	2.6 (Jan.)	10.1 (Dec.)
Low	5.2 (Mar.)	1.8 (Oct., Nov.)	7.7 (Mar.)
May	5.8	2.2	8.0
<u>1971</u>			
January	8.3	2.1	10.4
February	8.9	2.3	11.2
March	10.1	2.5	12.6
April	11.1	2.8	13.8
May	12.3	3.1	15.4

<sup>1/</sup> Based on data, including loans in process, from Federal Home Loan Bank Board and Savings Banks Association of New York State.

CORRECTIONS:

Page III-2, Table 1, line 11, change in U.S. Govt. cash, the correct figure for the 1970 H2 should be \$3.7 billion.

Lines 4, 5, 6, and 7 should be indented under line 3.

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Table A-1  
 COMPARISON OF NEW "NET LIQUIDITY BALANCE"  
 WITH FORMER "LIQUIDITY BALANCE" FOR 1970  
 (in millions of dollars)

	1970 "Net Liquidity Balance"	1970 "Liquidity Balance" Revised data	As published March 1971
1. Balance on goods & services	+3,592	+3,592	+3,672
2. Remittances & pensions	-1,410	-1,410	-1,387
3. U.S. Gov't grants & capital	-3,332	-3,332	-3,235
4. (of which advance repayments)	(+244)	(+244)	(+243)
5. Long-term capital			
6. U.S. private	-5,781	-5,781	-5,233
7. Foreign except "special"	+3,716	+3,716	+3,253
8. Foreign "special" <u>1/</u>	+176	-99	-95
<b>9. BALANCE ON CURRENT ACCOUNT &amp; LONG-TERM CAPITAL</b>	<b>-3,038</b>	<b>-3,314</b>	<b>-3,025</b>
10. Short-term capital			
11. U.S. claims, "liquid" (excl. reserve assets)	... <u>2/</u>	+273	) -1,118
12. U.S. claims, "nonliquid"	-1,378	-1,378	)
13. U.S. liabilities, "nonliquid"	+830	+830	+704
14. Errors & omissions	-1,132	-1,132	-1,274
<b>15. BALANCE BEFORE SDR ALLOCATION</b>	<b>-4,719</b>	<b>-4,721</b>	<b>-4,715</b>
<b>16. SDR allocation</b>	<b>+867</b>	<b>+867</b>	<b>+867</b>
<b>17. BALANCE AFTER SDR ALLOCATION</b>	<b>-3,852</b>	<b>-3,854</b>	<b>-3,848</b>
<b>FINANCED BY</b>			
18. U.S. reserve assets, decrease(+)	+2,477	+2,477	+2,477
19. Other "liquid" claims, decrease(+)	+273	...	...
20. Liquid liabilities to reserve holders and others, increase(+)	+1,377	+1,377	+1,371
21. Other liabilities to reserve holders, decrease(-)	-275	...	...
<b>MEMORANDUM ITEMS:</b>			
22. Total Special Transactions <u>3/</u>	(+420)	+145	+148
23. Balance before SDR allocation & before special transactions	...	-4,866	-4,863

1/ The figure for special transactions in column 1 differs from that in column 2 because the decrease in "other liabilities to reserve holders" (line 21) is now treated as a negative financing item whereas before it was a special transaction enlarging the deficit.

2/ Now treated as a financing item (line 19).

3/ Sum of lines 4 and 8.

June 25, 1971

Table A-2. U.S. BALANCE OF PAYMENTS  
(in millions dollars, seasonally adjusted)

	Source SCB June 1971 <sup>1/</sup>	Years		1 9 7 0				1971
		1969	1970	Qtr.1	Qtr.2	Qtr.3	Qtr.4	Qtr.1
1. Balance on goods & services	T.1 # 11	+2,011	+3,592	+881	+1,045	+995	+670	+1,051
2. Remittances & pension	T.3 # 31,32	-1,266	-1,410	-338	-362	-359	-351	-351
3. U.S. Gov't grants & capital	T.3 # 30,33	-3,837	-3,332	-841	-757	-838	-895	-1,031
4. Long-term capital								
5. U.S. private	T.3 # 39,40,41,44	-4,855	-5,781	-1,925	-1,128	-1,492	-1,237	-1,692
6. Foreign	T.3 # 48,49,50,52,55	+5,068	+3,892	+926	+632	+1,354	+981	+607
<b>7. BALANCE ON CURRENT ACCOUNT &amp; LONG-TERM CAPITAL</b>	<b>T.1 # 26</b>	<b>-2,879</b>	<b>-3,038</b>	<b>-1,297</b>	<b>-570</b>	<b>-340</b>	<b>-832</b>	<b>-1,4</b>
8. Short-term capital, nonliquid								
9. U.S. nonliquid claims	T.3 # 42,45	-693	-1,378	-270	-315	-245	-548	-100
10. U.S. nonliquid liabilities	T.3 # 51	+91	+830	+163	+151	+124	+392	0
11. Errors & omissions	T.3 # 64	-2,603	-1,132	-62	-430	-433	-207	-1,268
12. SDR allocation	T.3 # 63	--	+867	+217	+217	+217	+216	+180
<b>13. NET LIQUIDITY BALANCE</b>	<b>T.1 # 33</b>	<b>-6,084</b>	<b>-3,852</b>	<b>-1,250</b>	<b>-945</b>	<b>-679</b>	<b>-977</b>	<b>-2,604</b>
14. Short-term capital, liquid								
15. U.S. liquid claims	T.3 # 43,46	+124	+273	+257	-81	-15	+112	-232
16. U.S. liabilities to commercial banks	T.1 # 39	+9,166	-6,507	-1,863	-441	-1,315	-2,888	-3,025
17. U.S. liabilities to other private	T.1 # 40,41	-504	+265	-9	+65	-68	+277	+338
<b>18. OFFICIAL RESERVE TRANSACTIONS BALANCE</b>	<b>T.1 # 42</b>	<b>+2,702</b>	<b>-9,821</b>	<b>-2,865</b>	<b>-1,402</b>	<b>-2,077</b>	<b>-3,476</b>	<b>-5,52</b>
19. Financed by								
20. U.S. reserve assets, decrease (+)		-1,187	+2,477	+264	+805	+584	+824	+682
21. Liquid liabilities to foreign official agencies, increase (+)		-517	+7,619	+3,021	+97	+1,738	+2,763	+5,065
22. Nonliquid liabilities to foreign official reserve holders, decrease (-)		-998	-275	-420	+500	-245	-111	-224

<sup>1/</sup> Survey of Current Business, June 1971, U.S. Balance of Payments, Table 1 and Table 3.

SUPPLEMENTAL APPENDIX A: THE U.S. BALANCE OF PAYMENTS:  
REVISED PRESENTATION\*

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Beginning in the June 1971 Survey of Current Business the presentation of the U.S. Balance of Payments accounts will be revised. Some of the disaggregated components of the accounts have been redefined and two new summary balances have been derived. The new balances are the "Balance on Current Account and Long-term Capital" and the "Net Liquidity Balance." The definition for the "Official Reserve Transactions Balance" remains unchanged. The old "Liquidity Balance" has been dropped.

Unlike other macro-measures, such as the Gross National Product, the "balance" of a set of international transactions involves a selection of relevant items rather than a simple summary or averaging of all available data. No one "balance" can in itself measure an absolute degree of deviation from some "equilibrium" position. The summary balances are presented merely to provide a not-too-misleading starting point for discussions of whether the underlying balance of payments position is changing in a desirable direction or not.

Presentation of the basic data has been reorganized so that the various summary balances can be derived directly from the disaggregated listing of transactions in the main balance of payments tables, with and without seasonal adjustment (Tables 2 and 3 in the June 1971 Survey of Current Business). A new summary table has been introduced (Table 1 in the Survey) which shows the relationship of each balance to the others. See Table A-2 at the end of this Appendix.

The newly presented "Balance on Current Account and Long-term Capital" is intended to give a rough indication of trends in the U.S. balance of payments apart from movements of short-term capital. This balance is the sum of net export of goods and services, remittances and pensions, U.S. Government grants and capital, and the net flow of U.S. and foreign long-term capital (except to and from foreign official reserve holders.) See Table A-1, below, lines 1 through 9.

Equally new is the presentation of a "Net Liquidity Balance" which is intended to be a broad indicator of trends apart from movements of the more liquid types of short-term capital. This balance includes not only those items that went into the balance on current account and long-term capital but also changes in the nonliquid short-term claims and liabilities reported by private U.S. concerns, net

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\* Prepared by Kathryn A. Morisse, Economist, Balance of Payments Section, Division of International Finance.

errors and omissions, and the allocation of special drawing rights (SDRs). See Table A-1, line 1-17. Unfortunately, insofar as changes in errors and omissions reflect variations in liquid capital outflows, their inclusion detracts from the usefulness of this balance as a measure of what it is intended to measure.

The new "Net Liquidity Balance" differs from the old "Liquidity Balance" in two ways. First, changes in short-term liquid U.S. claims are now treated symmetrically with changes in U.S. liquid liabilities -- both are "below the line" for the "Net Liquidity Balance," being considered to be part of the financing of that balance. See Table A-1, lines 11 and 19. Since the changes in private liquid claims were above the line for the old "Liquidity Balance," a simultaneous increase in such claims and in U.S. liquid liabilities increased the old "Liquidity" deficits but such a simultaneous change does not affect the new "Net Liquidity Balance." The second difference relates to the treatment of certain U.S. liabilities to foreign official reserve holders<sup>1/</sup> that were put into the nonliquid category in former years in order to have a favorable impact on the old "Liquidity Balance." The nonliquid liabilities involved in this type of special financial transaction have now been moved below the line and a change in such liabilities therefore has no impact on new "Net Liquidity Balance." See Table A-1, lines 3 and 21.

The "Official Reserve Transactions Balance" is reached by adding to the "Net Liquidity Balance" changes in short-term liquid private U.S. claims and liabilities. See Table A-2, lines 13 through 18. The definition of this last balance is unchanged. It is the balance financed by changes (decreases) in U.S. official reserve assets plus changes (increases) in U.S. liquid and nonliquid liabilities to foreign official reserve holders. This balance is a rough proxy for exchange market pressures on the dollar.

The revised presentation of the balance of payments accounts reflects the results of a study begun in the fall of 1970 by the Interagency Committee on Balance of Payments Statistics that was set up by the Office of Management and Budget in recognition of the growing dissatisfaction with the balances as previously presented -- particularly the old "Liquidity Balance."

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<sup>1/</sup> The Survey of Current Business does not use the term "reserve holders" but we find it useful to distinguish such holders from other foreign government agencies which hold claims in the United States such as military export prepayment accounts.



INTEREST RATES

	1971			
	Highs	Lows	June 7	June 24
<u>Short-Term Rates</u>				
Federal funds (weekly averages)	4.96 (6/23)	3.29 (3/10)	4.82 (6/2)	4.96 (6/23)
3-month				
Treasury bills (bid)	5.02 (6/15)	3.22 (3/11)	4.44	4.80
Bankers' acceptances	5.50 (6/24)	3.88 (3/10)	5.00	5.50
Euro-dollars	8.00 (6/1)	4.94 (3/17)	7.57	6.92
Federal agencies	5.10 (6/24)	3.27 (2/24)	4.36 (6/4)	5.10
Finance paper	5.50 (1/5)	3.62 (3/15)	5.00	5.38
CD's (prime NYC)				
Most often quoted new issue	5.50 (6/24)	3.62 (3/24)	5.12 (6/2)	5.50
Secondary market	5.62 (1/6)	3.80 (3/17)	5.26 (6/2)	5.29
6-month				
Treasury bills	5.22 (6/16)	3.35 (3/11)	4.70	5.03
Bankers' acceptances	5.62 (6/24)	4.00 (3/10)	5.12 (e)	5.62 (e)
Commercial paper (4-6 months)	5.75 (1/7)	4.00 (3/29)	5.38	5.50
Federal agencies	5.59 (6/24)	3.53 (3/10)	4.82 (6/4)	5.59
CD's (prime NYC)				
Most often quoted new issue	5.75 (6/24)	4.00 (3/24)	5.38 (6/2)	5.75
Secondary market	5.80 (6/24)	3.70 (3/3)	5.50 (6/2)	5.80
1-year				
Treasury bills (bid)	5.61 (6/24)	3.45 (3/11)	5.08	5.61
CD's (prime NYC)				
Most often quoted new issue	5.75 (6/24)	4.38 (3/3)	5.50 (6/2)	5.75
Prime municipals	3.45 (6/7)	2.15 (3/24)	3.20 (6/4)	3.40
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	6.76 (6/15)	4.74 (3/22)	6.36	6.61
20-years	6.56 (6/15)	5.69 (3/23)	6.26	6.46
Corporate				
Seasoned Aaa	7.69 (6/2)	7.05 (2/16)	7.68	7.62
Baa	8.93 (1/5)	8.28 (2/16)	8.72	8.79
New Issue Aaa	8.23 (5/20)	6.76 (1/29)	7.79 (6/3)	7.84
Municipal				
Bond Buyer Index	6.23 (6/24)	5.00 (3/18)	5.70 (6/3)	6.23
Moody's Aaa	5.80 (6/24)	4.75 (2/11)	5.50 (6/4)	5.80
Mortgage--implicit yield				
in FNMA auction <u>1/</u>	8.18 (6/1)	7.43 (3/1)	8.18 (6/1)	8.15 (6/14)

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. e--estimated.

### International Developments

U.S. foreign trade. The U.S. trade data for May, to be released June 28, will show another large import balance, about equal to the \$300 million deficit (balance of payments basis -- not at an annual rate) in April. Imports in May increased by 6 per cent above the record April level. Exports in May also advanced by about the same amount but from a relatively low April value. For January-May the trade balance was an import balance of about \$300 million (not at an annual rate). This compares with an export surplus of \$650 million in the first five months of 1970 and a \$2 billion surplus in calendar 1970.

The rise in imports from April to May was largely in mineral fuels and other industrial materials -- particularly steel, but also in imports of lumber, textiles and iron ore. Imports of transportation equipment also rose, probably automobiles from Canada.

The principal increase in May exports was in transportation equipment, reflecting greater shipments of commercial aircraft, and automobiles to Canada. Exports of machinery picked up from the relatively low April value. Shipments of agricultural commodities, mainly wheat, also rose moderately in May.

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U.S. MERCHANDISE TRADE, BALANCE OF PAYMENTS BASIS  
(billions of dollars, seasonally adjusted annual rates)

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
<u>Quarterly</u>			
1970 - 1	41.0	38.9	2.1
2	42.3	39.3	3.0
3	42.8	40.0	2.8
4	41.8	41.3	0.6
1971 - 1	44.1	43.0	1.1
<u>Monthly</u>			
1971 - January	43.9	44.1	-0.2
February	43.6	42.4	1.1
March	45.1	42.5	2.6
April	41.4	44.9	-3.5
May	44.2	47.6	-3.4

Note: Details may not add to totals because of rounding.