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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

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## SUPPLEMENTAL NOTES

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### The Domestic Nonfinancial Economy

Industrial production increased by an estimated 0.5 per cent in August, following revised increases of 0.7 per cent in both June and July. Output of equipment, construction supplies, and durable goods materials each rose by relatively large amounts again in August. August production of business equipment and construction supplies were both 9.4 per cent higher than a year earlier and production of durable goods materials was 10.1 per cent higher. Production of consumer goods was again about unchanged and still remains slightly below the April level and was 1.8 per cent above a year earlier. At 146.6 per cent of the 1967 average, the August 1973 total industrial production index is 6.2 per cent higher than the depressed August level of last year.

Production of business equipment continued strong in August, increasing 1.1 per cent. Output of intermediate products, especially construction supplies, also continued to rise appreciably. However, output of consumer goods--both durable and nondurable--changed little again in August. Auto assemblies were at a seasonally adjusted annual rate of 9.4 million units--the same rate as in July.

Output of materials increased 0.3 per cent in August. Widespread strength continued in the production of durable goods materials, with especially large gains in equipment parts and basic metals. However, production of nondurable goods materials remained at about the same

level as in July and was still 0.7 per cent below the June level, partly as a result of the paper strike. Energy materials output declined 0.1 per cent in August, as coal production declined.

INDUSTRIAL PRODUCTION: SUMMARY  
(Seasonally adjusted)

| Indexes, 1967=100     | 1978        |             | Per cent changes |      |      |      |      |      |            |
|-----------------------|-------------|-------------|------------------|------|------|------|------|------|------------|
|                       | July<br>(p) | Aug.<br>(e) | Mar.             | Apr. | May  | June | July | Aug. | Aug.<br>77 |
| Total                 | 145.9       | 146.6       | 1.2              | 1.6  | .5   | .7   | .7   | .5   | 6.2        |
| Products, total       | 144.9       | 145.6       | 1.4              | 1.0  | .1   | .6   | .7   | .5   | 5.2        |
| Final Products        | 141.9       | 142.5       | 1.8              | 1.2  | .0   | .3   | .7   | .4   | 4.5        |
| Consumer Goods        | 147.2       | 147.3       | 1.5              | 1.1  | -.3  | -.1  | .2   | .1   | 1.8        |
| Durable               | 160.9       | 160.8       | 4.2              | 2.7  | -1.0 | .2   | .2   | -.1  | 3.9        |
| Nondurable            | 141.7       | 141.9       | .4               | .4   | -.1  | -.1  | .1   | .1   | .9         |
| Business Equipment    | 163.5       | 165.3       | 2.1              | 1.2  | .6   | 1.0  | 1.1  | 1.1  | 9.4        |
| Intermediate Products | 155.8       | 156.8       | .0               | .5   | .3   | 1.2  | .8   | .6   | 7.3        |
| Construction Supplies | 153.8       | 155.0       | -.5              | .4   | 1.3  | 1.1  | 1.1  | .8   | 9.4        |
| Materials             | 147.6       | 148.1       | .9               | 2.7  | 1.0  | .9   | .8   | .3   | 7.6        |

p--preliminary

e--estimate

Capacity utilization in manufacturing edged up to 84.3 per cent from 84.6 per cent in June (which was revised up from the 84.1 per cent estimate of a month ago). The July increase in the over-all manufacturing utilization rate was concentrated in advanced processing industries, as the rate for primary processing industries and for materials producers was unchanged.

The book value of retail trade inventories rose at an \$11.1 billion annual rate in July, following a \$5.8 billion rate increase in June; the rise in the second quarter was at a \$9.8 billion rate. In July, durable goods retailers added to stocks at a \$3.9 billion annual rate, with most of build-up in stocks of building materials and other durable goods excluding automotive goods and furniture and appliances. Nondurable inventories rose at a \$7.2 billion rate, with most of the rise in stocks held by variety stores and apparel stores. The ratio of inventories to sales for all retail stores rose slightly to 1.44 in July from 1.42 in June.

The book value of total manufacturing and trade inventories increased at a \$19.6 billion annual rate in July--off sharply from both the \$32.3 billion rate rise in June and the increases in the first and second quarters of about a \$44-1/4 billion annual rate. The ratio of inventories to sales for all business rose a bit to 1.43 in July from 1.41 in June.

#### The Domestic Financial Economy

Money market certificates continued to attract a sizable volume of funds in August, albeit at a slower pace than in the previous two months (see Table). Commercial bank sales of the six-month certificate in August exceeded June sales by roughly \$200 million. August issuance of the money market certificate at thrift institutions, on the other hand, fell short of June issuance by almost \$2 billion.

As expected, inflows in August were substantially weaker than in July, an important reinvestment period at these institutions.

No additional information is available concerning the proportion of money market certificate flows representing new money. However, judging from August deposit flow data, it seems clear that the new certificate did indeed have a significant positive impact on thrift institution deposit growth in August. MSB and S&L combined deposit growth continued at about the same pace as in July measured on an end-of-month basis. This 13.8 per cent seasonally adjusted annual rate of growth is the highest rate experienced since September of last year.

Judging from latest available survey data, roughly 68 per cent of commercial banks, 90 per cent of S&Ls and 70-75 per cent of MSBs are offering the six-month money market certificate.

ERRATUM:

Part II:

Page III-13: Table has been corrected to include omitted figures for U.S. Treasury and sponsored Federal agencies.

ESTIMATED MONEY MARKET CERTIFICATE INFLOWS

|                  | June Inflows <sup>1/</sup><br>(\$ billions) | July Inflows <sup>2/</sup><br>(\$ billions) | August Inflows <sup>3/</sup><br>(\$ billions) | Money Market Certificates<br>Outstanding as of the End<br>of August: |   |
|------------------|---|---|---|--|---|
|                  |   |   |   | \$ billions  | Per cent of total<br>deposits outstanding <sup>4/</sup> |
| Commercial Banks | 2.1   | 3.4   | 2.3   | 7.3  | 2.0   |
| S&Ls             | 4.9   | 6.0   | 3.1   | 14.0   | 3.4   |
| MSBs             | 1.6   | 1.9   | 1.5   | 5.0  | 3.6   |
| All Institutions | 8.6   | 11.4  | 6.9   | 26.3   | 2.8   |

<sup>1/</sup> Commercial bank and MSB certificate inflow through June 28. S&L certificate inflow through June 30.

<sup>2/</sup> Commercial bank and MSB certificate inflow through July 26. S&L certificate inflow through July 31.

<sup>3/</sup> Commercial bank and MSB certificate inflow through August 30. S&L certificate inflow through August 31.

<sup>4/</sup> Per cent of small-denomination time and savings deposits for commercial banks.



SECURITY OFFERINGS  
(Monthly totals or monthly averages, in millions of dollars)

|   | 1977  | 1978  |                   |                    |                    |                     |                    |
|---|-------|-------|-------------------|--------------------|--------------------|---------------------|--------------------|
|   | Year  | QI    | QII <sup>e/</sup> | July <sup>e/</sup> | Aug. <sup>e/</sup> | Sept. <sup>f/</sup> | Oct. <sup>f/</sup> |
| <u>Gross Offerings</u>                      |       |       |                   |                    |                    |                     |                    |
| Corporate securities--total                 | 4,518 | 3,370 | 3,998             | 3,400              | 2,900              | 3,400               | 3,700              |
| Publicly offered bonds                      | 2,016 | 1,582 | 1,819             | 2,100              | 1,500              | 1,500               | 1,800              |
| By quality <u>1/</u>                        |       |       |                   |                    |                    |                     |                    |
| Aaa and Aa                                  | 1,089 | 765   | 883               | 1,025              | 1,025              | --                  | --                 |
| Less than Aa <u>2/</u>                      | 927   | 817   | 936               | 1,075              | 475                | --                  | --                 |
| By type of borrower                         |       |       |                   |                    |                    |                     |                    |
| Utility                                     | 692   | 475   | 575               | 885                | 825                | --                  | --                 |
| Industrial <u>3/</u>                        | 700   | 546   | 619               | 390                | 450                | --                  | --                 |
| Financial                                   | 624   | 561   | 625               | 825                | 225                | --                  | --                 |
| Privately placed bonds                      | 1,501 | 1,128 | 1,387             | 800                | 800                | 1,200               | 1,000              |
| Stocks                                      | 1,001 | 660   | 791               | 500                | 600                | 700                 | 900                |
| Foreign securities--total                   | 621   | 537   | 743               | 334                | 125                | --                  | --                 |
| Publicly offered <u>4/</u>                  | 437   | 425   | 507               | 100                | 125                | 100                 | 100                |
| Privately placed                            | 184   | 112   | 236               | 234                | --                 | --                  | --                 |
| State and local gov't.<br>securities--total | 5,771 | 5,176 | 7,132             | 5,344              | 7,600              | 5,500               | 4,500              |
| Long-term                                   | 3,891 | 3,598 | 4,486             | 3,716              | 6,100              | 3,000               | 3,000              |
| Short-term                                  | 1,880 | 1,578 | 2,646             | 1,628              | 1,500              | 2,500               | 1,500              |
| <u>Net Offerings</u>                        |       |       |                   |                    |                    |                     |                    |
| U.S. Treasury                               | 3,433 | 7,180 | -2,417            | 1,596              | 6,100              | 900                 | 4,500              |
| Sponsored Federal agencies                  | 604   | 1,804 | 2,219             | 743                | 3,330              | 1,711               | 733                |

1/ Bonds categorized according to Moody's bond ratings.

2/ Includes issues not rated by Moody's.

3/ Includes equipment trust certificates.

4/ Classified by original offering date.

e/ Estimated.

f/ Forecast.

MONETARY AGGREGATES  
(Seasonally adjusted)<sup>1/</sup>

|  | 1977 |      | 1978 |      |       | Aug. '77<br>to<br>Aug. '78 <sup>P</sup> |                       |
|--|------|------|------|------|-------|---|-----------------------|
|  | QIV  | QI   | QII  | June | July  | Aug. <sup>P</sup>                       | Aug. '78 <sup>P</sup> |
| <u>Major monetary aggregates</u>   |      |      |      |      |       |   |                       |
| 1. M-1 (currency plus demand deposits)   | 7.5  | 5.6  | 9.5  | 5.9  | 5.5   | 7.8                                     | 7.6                   |
| 2. M-2 (M-1 plus time & savings deposits at CBs other than large CDs)                            | 8.2  | 6.9  | 8.3  | 7.8  | 8.6   | 10.5                                    | 8.4                   |
| 3. M-3 (M-2 plus all deposits at thrift institutions)  | 10.7 | 7.7  | 8.0  | 8.4  | 9.7   | 11.7                                    | 9.4                   |
| <u>Bank time and savings deposits</u>  |      |      |      |      |       |   |                       |
| 4. Total   | 13.1 | 13.4 | 11.0 | 6.7  | 10.8  | 8.5                                     | 12.3                  |
| 5. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2) | 8.6  | 7.9  | 7.4  | 8.9  | 11.0  | 12.6                                    | 9.0                   |
| 6. Savings deposits  | 5.4  | 2.6  | 1.6  | -1.6 | -4.3  | 8.7                                     | 2.5                   |
| 7. Individuals <sup>2/</sup>   | 6.6  | 2.4  | 2.1  | -2.3 | -0.6  | 9.9                                     | 3.3                   |
| 8. Other <sup>3/</sup>   | -7.6 | 2.6  | -5.2 | 15.8 | -54.5 | -16.3                                   | -8.2                  |
| Time deposits  | 11.6 | 12.7 | 12.3 | 17.7 | 24.1  | 15.3                                    | 14.7                  |
| Small time <sup>4/</sup>   | 3.4  | 6.1  | 10.3 | 14.0 | 11.1  | 6.2                                     | 7.8                   |
| Large time <sup>4/</sup>   | 28.3 | 25.5 | 15.5 | 24.4 | 47.8  | 31.5                                    | 29.1                  |
| 11. Time and savings deposits subject to rate ceilings (6+10)                                    | 4.5  | 4.0  | 5.5  | 5.2  | 2.4   | 7.6                                     | 4.8                   |
| <u>Deposits at nonbank thrift institutions <sup>5/</sup></u>                                     |      |      |      |      |       |   |                       |
| 13. Total  | 14.4 | 8.9  | 7.6  | 9.2  | 11.2  | 13.5                                    | 10.9                  |
| 14. Savings and loan associations  | 15.4 | 9.0  | 7.9  | 9.9  | 12.8  | 15.6                                    | 11.6                  |
| 15. Mutual savings banks   | 9.9  | 5.8  | 3.9  | 4.4  | 6.2   | 7.9                                     | 6.5                   |
| 16. Credit unions  | 20.0 | 18.2 | 15.8 | 16.8 | 11.8  | 11.7                                    | 18.0                  |
| <u>Average monthly changes, billions of dollars</u>  |      |      |      |      |       |   |                       |
| <b>MEMORANDA:</b>  |      |      |      |      |       |   |                       |
| 17. Total U.S. govt. deposits  | 0.2  | -1.2 | 1.1  | 4.0  | 2.9   | 0.7                                     | 0.4                   |
| 18. Total large time deposits <sup>6/</sup>  | 5.7  | 4.4  | 2.8  | 1.5  | 4.5   | 1.5                                     | 3.8                   |
| 19. Nondeposit sources of funds <sup>7/</sup>  | 1.5  | 1.7  | 0.7  | 1.0  | 0.0   | 2.3                                     | 1.3                   |

p—preliminary.

<sup>1/</sup> Quarterly growth rates are computed on a quarterly average basis.

<sup>2/</sup> Savings deposits held by individuals and nonprofit organizations.

<sup>3/</sup> Savings deposits of business, government, and others, not seasonally adjusted.

<sup>4/</sup> Small time deposits in denominations less than \$100,000.

Large time deposits are time deposits in denominations of \$100,000 and above excluding negotiable CDs at weekly reporting banks.

<sup>5/</sup> Growth rates computed from monthly levels based on average of current and preceding end-of-month data.

<sup>6/</sup> All large time certificates, negotiable and nonnegotiable, at all CBs.

<sup>7/</sup> Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money (including borrowings from the Federal Reserve), Eurodollar borrowings, and loans sold, less interbank borrowings.

INTEREST RATES  
(One day quotes--in per cent)

|                                    | 1978        |            |            |            |
|------------------------------------|-------------|------------|------------|------------|
|                                    | Highs       | Lows       | Aug. 14    | Sept. 14   |
| <b>Short-Term Rates</b>            |             |            |            |            |
| Federal funds (wkly. avg.)         | 8.33(9/13)  | 6.58(1/11) | 7.87(8/16) | 8.33(9/13) |
| 3-month                            |             |            |            |            |
| Treasury bills (bid)               | 7.77(9/14)  | 6.09(4/24) | 6.88       | 7.77       |
| Comm. paper (90-119 days)          | 8.43(9/14)  | 6.63(1/6)  | 7.76       | 8.43       |
| Bankers' acceptances               | 8.45(9/14)  | 6.70(1/6)  | 7.85       | 8.45       |
| Euro-dollars                       | 9.06(9/14)  | 7.00(2/8)  | 8.31       | 9.06       |
| CDs (NYC) 90 days                  |             |            |            |            |
| Most often quoted new              | 8.34(9/13)  | 6.65(1/4)  | 7.85(8/9)  | 8.34(9/13) |
| 6-month                            |             |            |            |            |
| Treasury bills (bid)               | 7.87(9/14)  | 6.43(1/4)  | 7.24       | 7.87       |
| Comm. paper (4-6 mos.)             | 8.46(9/14)  | 6.66(1/5)  | 7.81       | 8.46       |
| CDs (NYC) 180 days                 |             |            |            |            |
| Most often quoted new              | 8.63(9/13)  | 6.85(1/4)  | 8.20(8/9)  | 8.63(9/13) |
| 1-year                             |             |            |            |            |
| Treasury bills (bid)               | 7.95(9/14)  | 6.53(1/4)  | 7.64       | 7.95       |
| CDs (NYC)                          |             |            |            |            |
| Most often quoted new              | 8.63(9/13)  | 7.05(1/4)  | 8.32(8/9)  | 8.63(9/13) |
| Prime municipal note               | 4.55(7/28)  | 3.55(3/3)  | 4.40(8/11) | 4.45(9/8)  |
| <b>Intermediate- and Long-Term</b> |             |            |            |            |
| Treasury (constant maturity)       |             |            |            |            |
| 3-year                             | 8.60(7/25)  | 7.38(1/4)  | 8.26       | 8.34       |
| 7-year                             | 8.60(7/25)  | 7.71(1/5)  | 8.37       | 8.33       |
| 20-year                            | 8.73(7/13)  | 8.00(1/5)  | 8.50       | 8.37       |
| Corporate                          |             |            |            |            |
| Seasoned Aaa                       | 8.92(7/12)  | 8.28(1/3)  | 8.69       | 8.62(9/13) |
| Baa                                | 9.64(6/5)   | 9.09(1/3)  | 9.43       | 9.39(9/13) |
| Aaa Utility New Issue              | 9.18(7/7)   | 8.61(3/24) | 8.81(8/11) | 8.74       |
| Recently offered                   | 9.22(7/14)  | 8.48(1/6)  | 8.89(8/11) | 8.72       |
| Municipal                          |             |            |            |            |
| Bond Buyer index                   | 6.32(7/13)  | 5.58(3/16) | 6.03(8/10) | 6.02       |
| Mortgage--average yields in        |             |            |            |            |
| FNMA auction                       | 10.02(7/10) | 9.13(1/9)  | 9.82(8/7)  | 9.78(9/5)  |