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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

March 18, 1966

## SUPPLEMENTAL NOTES

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### The Domestic Economy

The industrial commodity price index from mid-January to mid-February increased .3 per cent -- after rising .2 per cent in the previous month -- to 103.3 per cent of the 1957-59 average. Contributing to much of the rise were sharp increases in metals and machinery, lumber, and hides and leather. The BLS weekly indexes indicate little change into mid-March, but other information continues to suggest a further rise.

Average prices of foodstuffs increased 2 per cent from mid-January to mid-February as livestock and meats, oils, eggs, and dairy products rose. Weekly estimates, however, indicate a slight decline in foodstuffs into mid-March. Thus, the total wholesale price index, after rising .7 per cent further from mid-January to mid-February to a point 4 per cent higher than in the first quarter of last year, apparently has changed little into mid-March.

New orders for durable goods declined slightly in February but remained well above shipments, and unfilled orders increased substantially further. The new order decline reflected mainly a large drop for defense products which had been at a sharply advanced level in January and which often show pronounced month-to-month fluctuations. February orders for defense products remained above shipments and the order backlog expanded further. New orders for steel increased sharply in February and unfilled orders, which had been edging up from the

November low, showed a large gain. New orders for machinery and equipment were up moderately and the order backlog continued its steady advance.

The over-all ratio of unfilled orders to shipments of durable goods, at 2.87 in February, was somewhat above the 2.84 average prevailing from last September to January and was up from 2.70 in February 1965 and from 2.50 in February 1964. The latter was about the low for this expansion period.

Seasonally adjusted private housing starts, which began to decline in January, dipped sharply further in February to an annual rate of 1.32 million. The decline in February amounted to 17 per cent, from the January rate which was revised upward by 3 per cent.

The continuing unsettled nature of underlying mortgage market conditions appears to have been a factor in this development. However, interpretation of this influence on the magnitude of the decline is difficult because of the inherent volatility of the housing series and the special effect of weather conditions. These were much more favorable than usual in December (when starts reached an annual rate of 1.77 million) and considerably less so in February.

On a three-month moving average, starts in the November-January period, were at an annual rate of 1.63 million compared with 1.50 million for all of 1965. In the December-February period, the average annual rate was 1.56 million.

Permits also declined further in February.

The Domestic Financial Situation

Despite recent relative stability in the corporate and municipal bond markets the high levels that rates had reached resulted in the cancellation of the \$440 million New Jersey Turnpike issue. This negotiated issue was rejected due to the 4.23 per cent interest cost, reducing the total volume of state and local offerings in March to approximately \$700 million. Thus with April's somewhat lighter schedule of offerings, plus a continued reduction in the advertised inventory of municipal dealers to less than \$400 million, pressure from the supply side for further increases in municipal yields have been reduced. Seasoned corporate bonds trading in the secondary market experienced a five basis point rise in the usual lagged response to earlier pressures in the corporate market. But, the new issue yield series dropped 9 basis points to 5.29 per cent during the most recent week, and even at this reduced yields level, the week's major new issue was virtually a sell-out on the first day.

Common stock prices -- as measured by Standard and Poor's composite index -- rose slightly after midweek and recovered about 1 per cent of their decline. This price recovery, however, was accompanied by diminished trading volume, averaging 6.4 million shares per day.

Despite the 3 per cent decline in common stock prices during the last 2-1/2 weeks of February, total customer credit in the stock market rose \$224 million during the month to nearly \$8 billion. Most

of this gain occurred in customers' net debit balances which increased \$202 million to a new high of \$5-3/4 billion; bank loans to others than brokers and dealers rose \$22 million.

Corrections:

Page IV--C - 1:

The words "corresponding to balances on" should be deleted from the lower label of the chart "U.S. Balance of Payments."

The top line in the chart "U.S. Balance of Payments -- cont." should be labeled: Balance on Goods, Services, Remittances and Pensions.

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SUPPLEMENTAL APPENDIX: RECENT SURVEY OF CD RATES\*

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To obtain a better impression of the current CD market, the Reserve Banks Wednesday the 16th collected rate information on the large denomination CDs issued by weekly reporting banks with deposits in excess of \$500 million. As the table indicates, CD rates have reached high levels at some banks -- as high as 5-1/2 per cent for longer-term CDs at 7 banks. However, many of the banks outside New York are not attempting to match the rates offered by prime banks. They are confining their efforts to attract funds primarily to local and regional markets. Several will not issue long CDs at all. But, as in past periods of intense competition for CD funds, many of these banks are continuing to attract money. Indeed, in the two weeks prior to the tax date, banks outside New York were able to increase outstanding CDs by \$300 million. New York banks -- faced with large maturities -- struggled to increase their outstandings by \$300 million in the same period. It is likely that much of the inflow outside New York was sought to position the banks for tax date pressures, but still the large size of the inflow is surprising -- especially since this rate survey indicates that several banks outside of New York have decided to let some of their CDs run-off.

Two New York City banks are offering 5-1/2 per cent for CDs maturing in 1967. These banks, on our maturity survey last month, had unusually short maturities and now are probably attempting to lengthen their structure and pull in funds in anticipation of future run-offs. Evidently, these high rates have acted as successful magnets. On our maturity survey last month, New York City banks had scheduled maturities on the March tax and dividend dates -- both of which fall in the week ended Wednesday -- of over \$500 million. This does not count CDs that matured on other days last week, yet outstanding CDs at New York only declined \$150 million in the 7 days ended March 16 -- implying sales of at least \$350 million, and probably more. It is likely that a good portion of that inflow went to the two large banks offering such attractive rates.

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**OFFERING RATES ON LARGE DENOMINATION  
Negotiable Certificates of Deposit  
By Maturity  
Large Weekly Reporting Member Banks  
March 16, 1966  
(Per cent)**

Classification	Number of Banks	30 - 59 days		60 - 89 days		90 - 179 days		180 days - 1 year		Over 1 year	
		Range	Most Often Quoted	Range	Most Often Quoted	Range	Most Often Quoted	Range	Most Often Quoted	Range	Most Often Quoted
(By Size)											
\$500 million - \$ 1 billion	38	4.00- 5.05	5.00	4.00 - 5.25	5.00	4.00 - 5.38	5.00	4.50 - 5.375	5.25	4.75- 5.50	5.25
\$1 billion & over nonprime	10	4.00- 5.00	--	4.00 - 5.125	--	4.25 - 5.25	--	4.50 - 5.375	--	4.00- 5.50	5.25
\$1 billion & over prime New York City	7	4.85- 5.00	5.00	4.875- 5.25	5.00	5.00 - 5.25	5.125	5.125- 5.50	5.25	5.25- 5.50	5.25
\$1 billion & over prime outside New York City	12	4.30- 5.00	4.75	4.40 - 5.25	4.75	4.60 - 5.25	4.875	4.75 - 5.375	5.00	4.75- 5.375	5.00
(By District) <sup>1/</sup>											
Boston	13	4.75- 4.90	--	4.80 - 5.00	4.80	5.00 - 5.125	5.125	5.00 - 5.25	5.25	5.25- 5.375	--
New York	15	4.75- 5.05	5.00	4.85 - 5.25	5.00	4.90 - 5.38	5.125	5.00- 5.50	5.25	5.00 - 5.50	5.25
Philadelphia	5	4.625- 5.00	5.00	4.75 - 5.125	5.00	5.00 - 5.25	5.125	5.15 - 5.25	5.25	5.125- 5.25	5.25
Cleveland	7	4.30- 5.00	4.90	4.40 - 5.125	5.00	4.60 - 5.25	5.25	4.75 - 5.375	5.25	4.75 - 5.50	5.25
Richmond	4	4.00- 4.90	4.00	4.00 - 4.90	--	4.00 - 5.10	4.75	4.625- 5.10	--	4.875- 5.00	--
Atlanta	2	--	--	--	--	5.25	5.25	5.25 - 5.375	--	5.50	5.50
Chicago	11	4.00- 5.00	5.00	4.00 - 5.125	5.00	4.50 - 5.25	--	4.50 - 5.375	--	4.50 - 5.375	--
St. Louis	2	4.75- 5.00	--	5.00	5.00	4.90 - 5.25	--	4.90 - 5.375	--	4.90 - 5.50	--
Minneapolis	2	4.90- 5.00	4.90	5.00 - 5.125	5.00	5.05 - 5.25	--	5.20 - 5.25	--	5.25	5.25
Dallas	3	4.50- 4.875	--	4.50 - 4.875	--	4.75 - 5.00	--	4.90 - 5.125	--	5.00	5.00
San Francisco	13	4.00- 5.00	4.75	4.00 - 5.00	4.75	4.25 - 5.15	4.875	4.50 - 5.125	5.00	4.50 - 5.25	5.00

<sup>1/</sup> Kansas City has no weekly reporting bank in this survey.