Prefatory Note

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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).

[2] A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

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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

June 24, 1966

The Domestic Financial Situation

Nonfarm real estate foreclosures, which have been rising for some time but generally at a slackening pace, declined contra-seasonally in the first quarter, according to the FHLBB series. The foreclosure rate, at 4.8 per thousand mortgaged structures, was no higher than a year earlier, largely as a result of the smallest year-over-year increase in foreclosures since 1960.

NONFARM MORTGAGE FORECLOSURES

First quarter	Number		Rate per thousand mortgaged structures
	(in thousands)	Per cent increase over year earlier	
1966	28,765	3.2	4.8
1965	27,859	9.9	4.8
1964	25,338	7.8	4.6
1963	23,505	12.3	4.4
1962	20,926	23.9	4.1
1961	16,891	50.2	3.4
1960	11,245	1.8	2.4

The majority of this week's huge volume of new corporate debt issues was well received by investors as the new corporate bond yield series, adjusted to Aaa basis, declined 12 basis points. Of the four major issues, three were single day sell-outs. But the largest offering, apparently priced in anticipation of a further decline in yields, is reportedly less than 25 per cent sold at the end of the first day.

International Developments

VFCR reports for May show an $85 million net increase in the participating banks' claims on foreigners that are covered by the program. The regular statistical reports on B-2 and B-3 forms from all banks also show a roughly equivalent net outflow. Outstanding term loans and other over-one-year claims rose a little in May, by $15 million, while short-term bank-reported claims increased $79 million. Since March, monthly alternations between net inflows and net outflows have occurred. For the four months February through May, cumulated inflows were only about $60 million on the VFCR reports and less than $20 million on the B-2 and B-3 reports.

These very moderate net reflows, during a period in which the net borrowed reserve position of the banking system has deepened, contrast sharply with cumulated net reflows during the 10 months April 1965 through January 1966 of $450 million under the VFCR program and of $790 million in total bank-reported claims on foreigners. As there was a large net reflow in the month of January (as well as a smaller reflow in February before the outflow in March) the total first-quarter bank-reported reflow, which is entered in the balance-of-payments accounts, still exceeded $250 million (or $1 billion annual rate). It is of course possible that another large reflow is occurring this month (June), but the experience of the last few months does suggest that the period of maximum effectiveness of the VFCR program may be over. This would not be surprising in view of the fact that banks were below their current VFCR ceilings by $790 million at the end of May.

Weekly indicators of the payments deficit, often a poor guide to the complete monthly figures, have shown a surplus in the period June 2-15. (Data for the week ended June 22 are not yet available.) If the month of June were to show a surplus or a very small deficit on the liquidity basis, the seasonally adjusted deficit for the second quarter to be published at mid-August would be much smaller than the first-quarter deficit ($2-1/4 billion annual rate). As noted in the Green Book, the second-quarter deficit is being held down by large shifts of foreign official and international institution funds during April and May into technically nonliquid types of assets.

The following data for May may be added to Table I - T-3:

Trade Balance	260
Exports	2,330
Imports	-2,070
Liquidity Balance, N.S.A. (revised)	- 70
Official Settlements Bal., N.S.A. (revised)	-268
Memo items	
Monetary reserves decrease (-)	- 11
Gold purchases or sales (-)	- 86

Corrections

Page III - 5: Line 16, "outlook for banks" should read "outlook for bonds."

Page III - 7: Table, middle column, "Highest quoted new issue:" should read:

3-months	5.40
6-months	5.50

Page A - 2: The "June" 1966 net flow of $455 million for all associations should have been the "May" 1966 net flow.