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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

The Domestic Economy

The Michigan Survey Research Center, in their August report on consumer attitudes and inclinations to buy, found a further large deterioration in consumer "sentiment." Owing mainly to awareness of and concern over high and rising prices and interest rates, consumers showed a pronounced increase in pessimism about the outlook for general business conditions, and, although the proportion reporting higher incomes remained large, there was some deterioration in consumers' evaluation of their recent and prospective personal financial progress. Reflecting these developments, the Index of Consumer Sentiment was down considerably from May (the preceding reading) and sharply below last November. The decline in this index from late 1965 to August was about as large as in the corresponding number of months preceding the 1957-58 recession.

Consumers' growing pessimism has also been reflected in deteriorations -- particularly over the past few months -- in their evaluation of market conditions for houses, cars, and large household goods (i.e., fewer feel that it is a "good time to buy" and more that it is a "bad time to buy"). Surprisingly, however, consumers' 12-month buying plans for new and used cars, large household durable goods, and even houses remain at high levels -- i.e., at or above year earlier levels. The Survey attributes this apparent contradiction in

part to a moderate increase in the proportion of consumers who report that the prospect of higher prices is a reason for buying now and, in part as recognition of the fact that "when people feel that they need new things, have the ability to buy them, and do not think that a later time would present better opportunities," they will buy.

Nonfarm real estate foreclosures rose less than seasonally from the first to the second quarter of this year and the year-to-year increase (2 per cent) was the smallest since the second quarter of 1956. Reflecting this development, the foreclosure rate, which tends to reach a seasonal peak in the second quarter, was slightly below the rate reached in the like period of 1965 and the same as in the second quarter of 1964.

NONFARM MORTGAGE FORECLOSURES

Second quarter	Number		Rate per thousand mortgaged structures
	(In thousands at annual rate)	Per cent increase over year earlier	
1966	123.2	2	5.1
1965	120.3	6	5.2
1964	113.5	11	5.1
1963	102.5	18	4.7
1962	86.7	16	4.2
1961	74.4	50	3.8
1960	49.7	7	2.6

The book value of manufacturers' inventories increased over \$1.1 billion in August, following a rise of \$1 billion in July. The increase in these two months was at an annual rate of \$12.9 billion -- considerably greater than in any quarter in the current expansion period and forty per cent higher than in the second quarter when stocks rose at an annual rate of \$9.2 billion. At the end of August manufacturers' inventories were only \$200 million short of the level manufacturers had expected to be reached at the end of September (according to the Commerce August anticipations survey).

Most of the large August accumulation was in the durable goods sector where the machinery and equipment, defense, and auto industries accounted for the bulk of the rise. The relatively large increases in inventories -- mainly materials and supplies and work-in-process -- in the machinery and transportation equipment industries resulted in further increases in the ratios of inventories to shipments for these groupings. For all manufacturing industries combined, sales have shown little change in recent months, and the stock-sales ratio, which averaged 1.61 from January 1965 to May 1966, rose to 1.68 in August.

New orders received by durable goods manufacturers in August, according to the new preliminary figures, were higher than shown by the advance estimates and down 4 per cent (instead of 5 per cent) from July (which has also been revised up slightly). As a result of the

higher level of new orders unfilled orders showed larger increases in both July and August than had been indicated earlier; however, the August rise remains well below increases in most other recent months. Upward revisions were mainly in machinery and equipment and defense products.

The Domestic Financial Situation

For the month to date, including all weekly reporting banks for the three weeks ending September 21 and New York City banks for the week of the 28th, business loans this year rose roughly the same as last year, after adjusting for the special term loans to Consolidated Coal. At New York City banks in the week ending September 28, business loans increased only \$42 million, an amount which was essentially the same as in the comparable week last year. Total corporate tax payments in the first three weeks of September, on the other hand, are now estimated at about \$2.0 billion higher this year than last, rather than \$1.0 billion less as previously reported. The level of corporate withholding taxes for September apparently is running much higher than previously estimated and borrowing for payment of the second instalment of September's withholding taxes, formerly thought to be excluded from weekly reporting bank data for the week ending September 21, probably was largely reflected in data for that week. Therefore, business borrowing at banks relative to tax payments was less this year than last, rather than greater, as previously stated in the Greenbook on the top of page III - 2.

Yields on Treasury notes and bonds have declined sharply in recent trading sessions and bill rates have declined further. The 3-month bill is currently bid at 5.33 per cent, down from a peak of 5.59 per cent on September 21.

All new corporate bond issues were accorded an enthusiastic response by investors, and yields on new and recently offered issues continued to decline. The week's largest offering, Southern Bell Telephone's \$100 million debenture issue carrying an initial yield to investors of 5.95 per cent, was quickly sold out and was subsequently quoted in the secondary market at 5.84 per cent.

Common stock prices declined significantly on Wednesday and Thursday in moderate trading. Standard and Poor's index of 500 stocks dropped a total of 1.79 points or 2.3 per cent for these two days. At this lower level, however, stock prices were still above the 1966 low registered on August 29 -- by approximately 2.4 per cent.

SUPPLEMENTARY PAGE

Table on time and savings deposits referred to
on page III - 4 of September 28, 1966 Greenbook.

Changes in Time and Savings Deposits
Weekly Reporting Banks
(in millions of dollars, not seasonally adjusted)

	<u>January-August</u> ^{1/}		<u>Mid-September</u> ^{1/}	
	1966	1965	1966	1965
Total time and savings	5,681	8,822	-367	397
Savings deposits	-3,443	3,081	- 86	153
Time deposits	9,124	5,741	-281	244
CD's	1,547	3,594	-499	100
Time deposits other than CD's	7,577	2,147	218	144
Consumer savings	4,134	5,228	132	297

1/ For all reporting banks January to August includes 35 weeks ending August 31 in 1966 and 34 weeks ending August 25 in 1965; and mid-September means the two weeks ending September 14 and 8.