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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 16, 1967

The Domestic Economy

Industrial production in May was 155.5 per cent as compared with 156.0 in April and 155.3 a year earlier. Output of final products and industrial materials declined.

Auto assemblies were unchanged from the April level and production of television sets and appliances increased. Output of some other consumer durable and nondurable goods declined. Production of industrial equipment declined further and output of commercial equipment leveled off at the record April rate. Production of iron and steel was about unchanged, while output of construction materials and some nondurable materials declined.

Revised data on unit labor costs in manufacturing (confidential until released) indicate that instead of rising, these costs edged off one-tenth in April to 104.8 from their March peak, and remained unchanged in May. Unit labor costs in both April and May were 4.5 per cent above a year earlier, as compared with an over-the-year increase of 5.1 per cent in March.

Personal income advanced $2.8 billion in May to a record $616.9 billion annual rate, compared with the exceptionally small $1.4 billion rise in April. The larger rise in May mainly reflected an $800 million increase in total transfer payments to an annual rate of $52.4 billion, following a $400 million decline in April. Medical care payments under the Social Security program were an important factor in the rise.

Wages and salaries rose by $700 million, the same amount as in April, to a $414.9 billion annual rate. Both construction and manufacturing payrolls declined again in May. Wages and salaries in manufacturing were at an annual rate of $130.8 billion, a decline of $400 million compared with $300 million in April. The strike in the rubber industry accounted for about half the May drop. Payrolls in service and at all levels of government grew steadily and rose again in distribution as the strike ended in the trucking industries. Farm income rose $300 million to a $19.9 billion annual rate. Income from business and professional proprietorships, rents, dividends and interest advanced moderately.

The Domestic Financial Situation

Yields on new corporate and municipal bonds edged higher this week, breaking the relative yield stability that prevailed over the preceding two weeks. In the corporate market, a sizable overhang of unsold issues in syndicate is indicative of the less than enthusiastic reception accorded many of the new issues even at slighter higher yields, although several large industrial offerings were well received as expected. Similarly, the small volume of new municipal offerings this week has not been well received at current yield levels.

Official data from FHA have confirmed the turnaround during May in yields on home mortgages. Fairly widespread though minor increases in contract interest rates on conventional new-home mortgages brought the national average up slightly, to a level that was 65 basis points above the plateau that prevailed from the spring of 1963 through the summer of 1965. Secondary-market yields on FHA home mortgages rose fairly sharply in all regions, as average discounts returned close to 4 per cent. The level in May for this secondary market series was 99 basis points above the 1963-65 plateau.

During May, returns on new issues of high-grade corporate bonds increased even more sharply than yields on home mortgages. As a result, yield spreads in favor of mortgages declined for the third consecutive month to reach an unusually narrow margin.

AVERAGE RATES AND YIELDS ON SELECTED NEW-HOME MORTGAGES

	PRIMARY MARKET: Conventional loans		SECONDARY MARKET: FHA-insured loans	
	Level (Per cent)	Change (Basis points)	Level (Per cent)	Change (Basis points)
1966				
November	6.70	0	6.81	n.a.
December	6.65	- 5	6.77	- 4
1967				
January	6.60	- 5	6.62	-15
February	6.50	-10	6.46	-16
March	6.45	- 5	6.35	-11
April	6.40	- 5	6.29	- 6
May	6.45	5	6.44	15

NOTE: FHA series; interest rates on conventional first mortgages (excluding additional fees and charges) are rounded to the nearest 5 basis points; secondary market yields are for certain 6 per cent FHA-insured Sec. 203 loans.

Corrections: To Greenbook of June 14, 1967.

Page III-5, second line of the table heading should read "Late April to Late May."

SUPPLEMENTAL APPENDIX A: SURVEY OF BANK LENDING PRACTICES, MAY 1967*

The May 15 survey of bank lending practices was the second conducted on the new reporting schedule. The panel of respondents which had been increased in February from 77 to about 133 banks was changed slightly in May due to dropouts, exclusion of branches and mergers. A summary of the most recent changes in bank lending practices follows.

Strength of Loan Demand

The proportion of respondent banks reporting that loan demands had increased in the previous three months rose to 30 per cent in the May Survey, up from about 6 per cent in February (see Table 1). Moreover, nearly half of all respondents anticipated that demands would strengthen in the ensuing 3 months. Strengthening was particularly evident at banks with total deposits under $1 billion.

Comparison of the reported data for the February and May Surveys suggests, however, that bank forecasts of their loan demand in the recent period were quite unreliable. While the number of banks in the previous Survey predicting increased demand over the February-May period was about equal to the number reporting in May that demands had strengthened in this period, the composition of these two groups of banks differed considerably. As is shown in Table 3, of the 39 banks in the February Survey that predicted stronger demands ahead, only 13 reported in May that demands actually had strengthened. On the other hand, of the 92 banks that predicted unchanged to weaker demand in February, 28 reported stronger demands in May.

Lending Terms and Conditions

Despite the realized and anticipated increase in loan demand, some further easing in lending policies was reported. Relaxation of lending terms was widespread in the case of interest rates, with over 70 per cent of the respondents reporting that their policies were moderately easier. These presumably reflected adjustments to the second reduction in the prime rate on March 27. But, on the other hand, few respondents indicated that they had eased on their non-price loan terms and conditions, such as on compensating balances or standards of credit worthiness.

Availability of Loans

Despite little change in non-price lending terms and conditions, there were clear indications in the reported practices with respect to reviewing credit lines and loan applications that credit availability at

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* - Prepared by Rosalie Ruegg, Economist, Banking Section, Division of Research and Statistics.

banks had increased. Nearly one-third of all respondents, for example, reported that their policies with respect to lending to new customers had been eased. While easing of policies in this area was not as widespread as in February, the cumulative effect probably has been considerable, since some respondents reported easing in both the February and May Surveys. As might be expected, most of the relaxation has occurred at banks with unchanged or weaker loan demand, although nearly a third of the banks easing policy reported stronger loan demand.

While there has been little change from the firm position of last September in bank consideration of the loan applicant's value as a depositor, a number of banks have tended to place less emphasis on the intended use of loan proceeds.

The most definite indication of a more favorable loan climate was the increased willingness of banks to make the particular types of loans covered by the survey. Particularly noteworthy was the increased willingness by more than half the respondents to make single family mortgage loans, while the least change related to multi-family mortgages.

Other than weaker price terms, the only indication of ease in terms and conditions of lending to "noncaptive" finance companies pertains to the establishment of new or larger credit lines. Approximately a quarter of all respondents reported an easier policy, but nearly one-fifth noted some firming.

Bankers' Comments

A number of banks attributed their more relaxed loan policies to recent large deposit inflows and increases in bank capital. In addition, some banks listed stationary or reduced loan demand, the desire to attract new business, and more aggressive lending by their competitors. Loans to new customers and family-type loans were specified a number of times as areas of particular ease.

In the case where banks gave increased loan demand, actual or anticipated, as the reason for their failure to relax lending practices or for their further tightening, many indicated that they had made exceptions in the case of single-family mortgage loans, consumer loans, and interest rates.

June 16, 1967.

Not for quotation or publication

TABLE 1

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S. 1/
(STATUS OF POLICY ON MAY 15, 1967, COMPARED TO THREE MONTHS EARLIER)
(Number of banks in each column as per cent of total banks reporting)

	Total	Much Stronger	Moderately Stronger	Essentially Unchanged	Moderately Weaker	Much Weaker
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (after allowance for banks's usual seasonal variation) COMPARED TO THREE MONTHS AGO	100.0	4.0	29.4	45.2	21.4	0.0
ANTICIPATED DEMAND IN THE NEXT 3 MONTHS	100.0	0.8	49.2	44.4	5.6	0.0

LENDING TO NONFINANCIAL BUSINESSES	Number Answering Question	Much Firmer Policy	Moderately Firmer Policy	Essentially Unchanged Policy	Moderately Easier Policy	Much Easier Policy
Terms and Conditions						
Interest rates charged	100.0	0.0	1.6	27.0	71.4	0.0
Compensating or supporting balances	100.0	0.8	7.1	86.5	4.8	0.8
Standards of credit worthiness	100.0	0.0	10.3	88.9	0.8	0.0
Maturity of term loans	100.0	0.0	4.8	87.3	7.9	0.0
Reviewing Credit Lines or Loan Applications						
Established customers	100.0	0.0	2.4	81.0	15.8	0.8
New customers	100.0	2.4	6.3	59.5	31.0	0.8
Local service area customers	100.0	0.0	4.0	79.9	14.5	1.6
Nonlocal service area customers	100.0	3.2	8.1	73.4	15.3	0.0

(continued)

1/ Survey of Lending Practices at 126 large banks reporting in the Federal Reserve Quarterly Interest Rate Survey as of May 15, 1967.

	Number. Answering Question	Much Firmer Policy	Moderately Firmer Policy	Essentially Unchanged Policy	Moderately Easier Policy	Much Easier Policy
Factors Relating to Applicant 2/						
Value as depositor or source of collateral business	100.0	1.6	10.3	82.5	5.6	0.0
Intended use of the loan	100.0	1.6	4.0	75.4	19.0	0.0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES						
Terms and Conditions						
Interest rate charged	100.0	0.0	2.4	52.8	44.8	0.0
Compensating or supporting balances	100.0	0.0	4.8	92.8	2.4	0.0
Enforcement of balance requirements	100.0	0.0	5.6	93.6	0.0	0.8
Establishing new or larger credit lines	100.0	5.6	12.0	59.2	23.2	0.0

WILLINGNESS TO MAKE OTHER TYPES OF LOANS	Number Answering Question	Considerably less willing	Moderately less willing	Essentially Unchanged	Moderately more willing	Consid-erably more willing
Term loans to businesses	100.0	0.0	6.3	65.9	27.8	0.0
Consumer instalment loans	100.0	0.0	3.2	62.4	32.0	2.4
Single family mortgage loans	100.0	0.0	0.8	45.2	47.6	6.4
Multi-family mortgage loans	100.0	0.8	3.3	74.8	21.1	0.0
All other mortgage loans	100.0	0.0	4.8	62.1	33.1	0.0
Participation loans with correspondent banks	100.0	0.8	4.0	66.2	28.2	0.8
Loans to brokers	100.0	1.6	4.0	75.0	17.8	1.6

2/ For these factors, firmer means the factors were considered more important in making decisions for approving credit requests, and easier means they were less important.

TABLE 2
NET NUMBER OF BANKS REPORTING EASIER LENDING PRACTICES 1/

	May 15, 1967	Feb. 15, 1967
LENDING TO NONFINANCIAL BUSINESSES		
Terms and Conditions		
Interest rates charged	88	100
Compensating or supporting balances	-3	- 3
Standards of credit worthiness	-12	-12
Maturity of term loans	4	4
Reviewing Credit Lines or Loan Applications		
Established customers	18	19
New customers	29	51
Local service area customers	15	23
Nonlocal service area customers	5	14
Factors Relating to Applicant 2/		
Value as depositor or source of collateral business	-8	- 7
Intended use of the loan	17	17
LENDING TO "NONCAPTIVE" FINANCE COMPANIES		
Terms and Conditions		
Interest rate charged	53	66
Compensating or supporting balances	-3	- 6
Enforcement of balance requirements	-6	-13
Establishing new or larger credit lines	7	1
WILLINGNESS TO MAKE OTHER TYPES OF LOANS		
Term loans to businesses	27	34
Consumer instalment loans	39	31
Single family mortgage loans	66	55
Multi-family mortgage loans	21	6
All other mortgage loans	25	19
Participation loans with correspondent banks	30	29
Loans to brokers	17	23

1/ Survey of Lending Practices at large banks reporting in the Federal Reserve Quarterly Interest Rate Survey. 133 banks reported in the February Survey and 126 in the May Survey.

2/ For these factors, firmer means the factors were considered more important in making decisions for approving credit requests, and easier means they were less important.

TABLE 3
COMPARISON OF SELECTED RESPONSES IN THE MAY AND FEBRUARY SURVEYS

	May 15, 1967 Survey	February 15, 1967 Survey		
	Total number of banks	Number of banks		
		Stronger	Unchanged	Weaker
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS				
Compared to three months ago				
stronger	42	2	21	18
unchanged	57	4	35	18
weaker	27	2	16	9
Compared to three months ago		Anticipated demand three months hence		
stronger	42	13	21	7
unchanged	57	16	34	7
weaker	27	10	15	2
LENDING TO NONFINANCIAL BUSINESSES		Firmer	Unchanged	Easier
Interest rates charged				
firmer	2	0	1	1
unchanged	34	0	10	24
easier	90	0	18	71
New customer				
firmer	11	3	6	2
unchanged	75	4	35	35
easier	40	3	14	23
Nonlocal service area customer				
firmer	14	3	7	3
unchanged	91	6	69	14
easier	19	0	12	7
LENDING TO "NONCAPTIVE" FINANCE COMPANIES		Firmer	Unchanged	Easier
Interest rates changed				
firmer	3	1	1	1
unchanged	66	2	39	24
easier	56	0	14	42
Establishing new or larger credit lines				
firmer	22	7	13	2
unchanged	74	8	56	9
easier	29	2	17	10
WILLINGNESS TO MAKE OTHER TYPES OF LOANS		Less	Unchanged	More
Term loans to businesses				
less	8	0	6	2
unchanged	83	2	64	17
more	35	0	18	16
Single family mortgage loans				
less	1	1	0	0
unchanged	56	4	33	19
more	67	2	24	40