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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

December 13, 1968

SUPPLEMENTAL NOTES

The Domestic Economy

Book value of business inventories rose sharply in October, according to preliminary data, as an upward bulge in trade--mainly at retail--was superimposed on an increase in manufacturers' stocks about equal to the average rise for the third quarter. (Manufacturing inventory changes for October are discussed in the Greenbook.) The magnitude of the over-all rise in October--even after adjustment to a GNP basis because of the inventory valuation adjustment--raises the distinct possibility that the Greenbook projection of fourth quarter inventory accumulation may be low.

CHANGES IN INVENTORIES
(Book value in millions of dollars, seasonally adjusted)

| | QIII (monthly average) | September | October |
|-------------------------|------------------------------|-----------|---------|
| Manufacturing and trade | 734 | 800 | 1,401 |
| Durable | 494 | 404 | 860 |
| Nondurable | 239 | 396 | 541 |
| Trade, total | 225 | 404 | 896 |
| Wholesale | 31 | -10 | 100 |
| Retail | 194 | 414 | 796 |
| Durable | 61 | 121 | 543 |
| Nondurable | 133 | 293 | 253 |
| Manufacturing, total | 509 | 396 | 505 |

More than two-fifths (\$355 million) of the increase in retail inventories was in the automobile group, and reflected continued high production during a month when sales declined moderately. Dealer

stocks of autos on a unit base also rose sharply in October, and continued up in November, but much more slowly. While the stock-sales ratio for durable goods retailers rose significantly, the over-all ratio for durables in manufacturing and trade changed little, as strong sales resulted in lower ratios in a number of industries. For nondurables, the over-all stock-sales ratio rose slightly, mainly as manufacturers inventories increased.

The Domestic Financial Situation

Nonbank depository institutions. Preliminary indications are that the thrift institutions sustained their improved savings inflows during November. Mutual savings bank inflows accelerated further to a 7.4 per cent seasonally adjusted annual rate, which is the fourth monthly increase from the July low. Although only fragmentary information is now available for savings and loan associations, it suggests improvement over the modest year ago experience, but the extent of the increase is still not clear. It is hoped that S&L data will be available for the FOMC meeting.

GROWTH IN SAVINGS AT THRIFT INSTITUTIONS
(Seasonally adjusted annual rate in per cent)

| | Mutual Savings Banks | Savings and Loan Associations | Both |
|--------------------|-------------------------|----------------------------------|------|
| 1967 - I | 9.6 | 9.4 | 9.5 |
| II | 10.8 | 11.1 | 11.0 |
| III | 8.6 | 9.7 | 9.4 |
| IV | 7.0 | 6.2 | 6.4 |
| 1968 - I | 7.2 | 5.6 | 6.1 |
| II | 6.6 | 5.6 | 5.9 |
| III | 6.3 | 6.0 | 6.1 |
| IV | | | |
| July | 5.9 | 4.7 | 5.1 |
| August | 6.2 | 6.1 | 6.1 |
| September | 6.8 | 7.2 | 7.1 |
| October | 6.9 <u>r/</u> | 7.4 | 7.2 |
| November <u>p/</u> | 7.4 | n.a. | n.a. |

r/ Revised.

p/ Preliminary.

During the entire month of November, FHA data (confidential until Monday noon, December 16) confirm that returns on home mortgages edged higher in a period of generally upward rate pressures throughout the capital market. Average contract interest rates on conventional first mortgages in the primary market returned to their earlier postwar high of 7.30 per cent, according to the estimates shown in the table, which are rounded to the nearest 5 basis points. In the private secondary market for Government underwritten mortgages, the increase in yields as well as discounts accelerated, but to levels still below highs reached earlier this year. Since returns on new issues of high grade corporate bonds also rose modestly during November as a whole, average gross yield spreads favoring home-mortgage investment remained at or close to their reduced October margins, which were comparatively unattractive by standards prevailing before 1965.

AVERAGE RATES AND YIELDS ON SELECTED NEW-HOME MORTGAGES

| | Primary Market: Conventional loans | | Secondary Market: FHA-insured loans | | |
|-------------|---------------------------------------|--------------------------------------|--|--------------------------------------|----------------------|
| | Level (per cent) | Yield spread (basis points) | Level (per cent) | Yield spread (basis points) | Discount (points) |
| <u>1967</u> | | | | | |
| November | 6.65 | 12 | 6.77 | 24 | 6.5 |
| December | 6.70 | 19 | 6.81 | 30 | 6.8 |
| <u>1968</u> | | | | | |
| January | 6.75 | 51 | 6.81 | 57 | 6.8 |
| February | 6.75 | 45 <u>r/</u> | 6.78 | 49 | 6.6 |
| March | 6.80 | 24 | 6.83 | 27 | 7.0 |
| April | 6.90 | 38 | 6.94 | 42 | 7.9 |
| May | 7.15 | 49 | 7.50 ^e | 84 ^e | 6.1 ^e |
| June | 7.25 | 60 | 7.52 | 87 | 6.3 |
| July | 7.30 | 76 | 7.42 | 88 | 5.5 |
| August | 7.30 | 104 | 7.35 | 109 | 5.0 |
| September | 7.30 | 100 | 7.28 | 98 | 4.4 |
| October | 7.25 | 68 <u>r/</u> | 7.29 | 72 <u>r/</u> | 4.5 |
| November* | 7.30 | 66 | 7.36 | 72 | 5.1 |

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 and discounts are for certain 6 per cent, FHA-insured Sec. 203 loans through April 1968. Data for May 1968 estimated by Federal Reserve based on the new 6-3/4 per cent regulatory rate, on which a change of 1.0 points in discount is associated with a change of 12 to 13 basis points in yield. Gross yield spread is average mortgage return, before deducting servicing fees, minus average yield on new issues of high grade corporate bonds.

* - Data for November 1968 are confidential until Monday noon, December 16.

Corporate and municipal bond yields. Yields on corporate and municipal bonds continued to advance this week. Several new issues in both markets, however, were accorded an enthusiastic response from investors at new record yields. The corporate Aaa new issue series registered 6.92 per cent, a gain of 11 basis points from the week earlier. While the week-to-week advance in this series overstates the actual rise in yields, the level of yields now appears to be accurately reflected.

BOND YIELDS
(Weekly averages, per cent per annum)

| | Corporate Aaa | | State and local Government | |
|--------------|----------------------|--------------|----------------------------|--------------------------------|
| | New | Seasoned | S&P High Grade | Bond Buyer's (mixed qualities) |
| | With call protection | | | |
| <u>1968</u> | | | | |
| Low | 6.13 (8/30) | 5.95 (9/13) | 4.15 (8/9) | 4.07 (8/9) |
| High | 6.92 (12/13) | 6.44 (12/13) | 4.93 (12/13) | 4.82 (12/13) |
| Week ending: | | | | |
| Nov. 1 | -- | 6.15 | 4.63 | 4.56 |
| 8 | 6.43 | 6.16 | 4.64 | 4.56 |
| 15 | 6.55 | 6.15 | 4.68 | 4.58 |
| 22 | 6.64* | 6.17 | 4.70 | 4.62 |
| 29 | 6.68 | 6.28 | 4.70 | 4.64 |
| Dec. 6 | 6.81 | 6.31 | 4.83 | 4.76 |
| 13 | 6.92 | 6.44 | 4.93 | 4.82 |

* - Some issues included carry 10-year call protection.

KEY INTEREST RATES

| | 1968 | | | |
|-----------------------------------|-------------|--------------|--------------|--------------|
| | Low | High | Nov. 25 | Dec. 12 |
| <u>Short-Term Rates</u> | | | | |
| Federal funds (weekly average) | 4.56 (1/3) | 6.38 (5/15) | 5.45 (11/20) | 5.82 (12/11) |
| 3-months | | | | |
| Treasury bills (bid) | 4.82 (1/29) | 5.92 (5/21) | 5.42 | 5.89 |
| Bankers' acceptances | 5.25 (3/7) | 6.13 (12/12) | 6.00 | 6.13 |
| Euro-dollars | 5.43 (2/2) | 7.19 (6/4) | 6.91 (11/21) | 7.06 |
| Federal agencies | 5.00 (2/9) | 6.11 (5/17) | 5.77 (11/21) | 6.02 |
| Finance paper | 5.13 (3/7) | 6.13 (6/25) | 5.88 | 5.88 |
| CD's (prime NYC) | | | | |
| Highest quoted new issue | 5.25 (2/8) | 6.00 (12/12) | 6.00 (11/21) | 6.00 |
| Secondary market | 5.20 (1/31) | 6.20 (12/12) | 6.05 (11/21) | 6.20 |
| 6-months | | | | |
| Treasury bills (bid) | 4.98 (1/29) | 6.08 (5/21) | 5.56 | 5.96 |
| Bankers' acceptances | 5.38 (3/7) | 6.25 (12/12) | 6.13 | 6.25 |
| Commercial paper | 5.50 (3/7) | 6.25 (7/25) | 6.00 | 6.00 |
| Federal agencies | 5.25 (2/9) | 6.25 (5/24) | 5.91 (11/21) | 6.16 |
| CD's (prime NYC) | | | | |
| Highest quoted new issue | 5.50 (3/7) | 6.25 (12/12) | 5.75 (11/21) | 6.25 |
| Secondary market | 5.45 (1/31) | 6.40 (5/31) | 6.20 (11/21) | 6.30 |
| 1-year | | | | |
| Treasury bills (bid) | 5.05 (8/1) | 6.03 (5/21) | 5.58 | 5.83 |
| Prime municipals | 2.75 (8/8) | 3.90 (5/31) | 3.20 (11/21) | 3.65 |
| <u>Intermediate and Long-Term</u> | | | | |
| Treasury coupon issues | | | | |
| 5-years | 5.42 (1/12) | 6.21 (5/21) | 5.70 | 6.05 |
| 20-years | 5.16 (8/1) | 5.81 (12/12) | 5.62 | 5.81 |
| Corporate | | | | |
| Seasoned Aaa | 5.95 (9/5) | 6.47 (12/12) | 6.26 | 6.47 |
| Baa | 6.77 (10/3) | 7.18 (12/12) | 7.05 | 7.18 |
| New Issue Aaa | | | | |
| With call protection | 6.13 (8/29) | 6.92 (12/12) | 6.64 (11/21) | 6.92 |
| Without call protection | 6.29 (2/2) | 7.14 (12/5) | 6.78 (11/21) | 7.07 |
| Municipal | | | | |
| Bond Buyer Index | 4.07 (8/8) | 4.82 (12/12) | 4.62 (11/21) | 4.82 |
| Moody's Aaa | 3.80 (8/8) | 4.45 (12/12) | 4.35 (11/21) | 4.45 |
| Mortgage--implicit yield | | | | |
| in FNMA weekly auction <u>1/</u> | 7.12 (5/6) | 7.72 (6/10) | 7.40 | 7.51 (12/9) |

1/ Yield on 6-month forward commitment after allowance for commitment fee and required purchase and holding of FNMA stock. Assumes discount on 30-year loan amortized over 15 years.

International Developments

The U. K. trade figures for November, announced on Thursday, show a further strong rise in exports while imports dropped back to the September level. For the last three months together, the trade deficit was at a rate substantially lower than in the spring and summer. However, in comparison with 1966 the import rise still exceeds that of exports.

UNITED KINGDOM MERCHANDISE TRADE
(In billions of dollars, annual rates)

| | Year | April-Sept. | | Sept. | Oct. | Nov. |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 1966 | 1967 | 1968 | 1968 | | |
| Exports <u>1/</u> | 14.7 | 14.8 | 15.2 | 16.2 | 15.7 | 16.7 |
| Imports <u>2/</u> | <u>16.7</u> | <u>17.5</u> | <u>18.6</u> | <u>18.8</u> | <u>19.2</u> | <u>18.7</u> |
| Balance | -2.0 | -2.7 | -3.4 | -2.6 | -3.5 | -2.0 |
| Balance (B/P basis) | -0.3 | -1.1 | -1.7 | -1.0 | -2.0 | -0.5 |

1/ F.o.b.; including re-exports

2/ C.i.f.; excluding U. S. military aircraft.

The exchange market at first reacted favorably with a wave of buying of sterling. Later on Thursday and also today the Bank of England has again had to support the rate. Forward sterling continues at substantial discounts: for the three-month contract, a little over 5 per cent per annum today.

PROPOSED 1969 FOMC GREENBOOKS AND MEETINGS

Greenbook

January 8

January 29

February 26

March 26

April 23

May 21

June 11

July 9

August 6

September 3

October 1

October 22

November 19

December 10

Meeting

January 14

February 4

March 4

April 1

April 29

May 27

June 17

July 15

August 12

September 9

October 7

October 28

November 25

December 16