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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

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### The Domestic Nonfinancial Economy

The increase of 0.9 per cent in the wholesale price index in February was nearly double the average monthly rise over the preceding year. The sources of acceleration were farm and food prices, which rose 2.0 per cent in February, and fuels and power, which rose 3.3 per cent. In contrast, posted prices of industrial commodities other than fuels and power rose only 0.2 per cent in February.

Higher prices were widespread in the farm and food group with live poultry, fresh fruits and vegetables, grains, coffee, cocoa, soybeans, and manufactured animal feeds being especially important in the large rise. Increases for fresh fruits and vegetables were directly related to the effects of the severe weather, while several others, such as grains and cotton, were, in part, affected by current and prospective drought conditions. Prior to February, farm and food prices had helped damp price pressure, having risen only 0.1 per cent over the year ending in January.

A sharp increase in the price for natural gas (which enters the index with a two-month lag) reflected the termination of rebates which gas companies have been giving customers because of a misinterpretation of FPC rules. Crude petroleum, refined petroleum products, and electric power also posted substantial increases. Over the year ending in February, the index for fuels and power showed a 13 per cent increase, with natural gas and related products up nearly 50 per cent.

Among the other industrial commodity groups, price increases were generally more moderate than in recent months. Steel and machinery price indices which had each risen 0.9 per cent in January, rose 0.1 and 0.3 per cent, respectively, in February. The decline in lumber and wood product prices in February may have been partly due to less-than-seasonal demand as severe weather curtailed construction activity.

RECENT CHANGES IN WHOLESALE PRICES  
(Per cent changes at annual rates; based on seasonally adjusted data)<sup>1/</sup>

	Relative importance Dec. 76	Dec. 74 to Dec. 75	Dec. 75 to Dec. 76	Dec. 75 to June 76	June 76 to Dec. 76	Dec. 76 to Jan. 77	Jan. 77 to Feb. 77
All commodities	100.0	4.2	4.7	3.9	5.3	5.8	10.8
Farm and food products	21.6	-.3	-1.1	1.0	-3.3	3.9	24.1
Industrial commodities	78.4	6.0	6.4	4.8	8.0	5.7	7.6
Excluding fuels and related products and power	67.7	5.0	6.1	5.6	6.6	8.1	2.7
Materials, crude and intermediate <sup>2/</sup>	49.1	5.4	6.7	5.4	8.1	4.8	9.6
Finished goods							
Consumer nonfoods	18.7	6.7	4.8	3.1	6.7	11.6	3.6
Producer goods	12.1	8.2	6.5	5.8	7.1	4.7	6.0
Memo:							
Consumer foods	10.4	5.5	-2.5	-1.2	-3.2	-1.3	23.9

<sup>1/</sup> Not compounded for one-month changes.  
<sup>2/</sup> Estimated series.

Retail sales increased 1.8 per cent from the downward revised January level, according to the advance estimate. Spending at most major types of stores was higher but the largest gains were among durable goods. Sales of the automotive group advanced 3.2 per cent and outlays for furniture and appliances rose 2.2 per cent. Excluding autos and some nonconsumption items, sales in February were 1.1 per cent above January.

The final sample count increased the December level more than \$150 million on a seasonally adjusted basis. This is a large change for the third count, and it increases the gain in sales in the final month to 4.2 per cent from 3.9 per cent.

RETAIL SALES  
(Per cent change from previous period;  
based on seasonally adjusted data)

	1976					1977	
	II	III	IV	Nov.	Dec.	Jan.	Feb. 1/
Total sales	1.9	1.2	3.5	1.7	4.2	-2.3	1.8
(Real*)	1.0	.0	3.3	1.5	3.8	-3.1	n.a.
Total, less auto and nonconsumption items	1.3	1.7	3.2	.9	2.0	-1.7	1.1
GAF	-.2	2.9	4.3	.8	1.5	-3.2	1.0
<u>Durable</u>	3.4	.2	3.9	3.4	8.7	-4.0	3.2
Auto	4.5	-.7	4.3	4.0	14.4	-3.5	4.2
Furniture and appliances	2.7	-.2	4.1	3.0	.2	-5.8	2.2
<u>Nondurable</u>	1.2	1.7	3.3	.9	2.0	-1.4	1.1
Apparel	-3.4	5.7	1.8	-1.1	2.3	-2.9	-.1
Food	1.2	1.0	2.3	-.2	2.5	-3.1	1.5
General merchandise	-.1	3.1	5.1	.8	1.6	-2.6	1.0
Gasoline	.0	2.3	4.8	1.3	3.8	.0	.0

\* Deflated by all commodities SA consumer price index.  
1/ Advance estimate.

Book value of wholesale trade inventories rose at a \$7.6 billion annual rate in January, following a drop at a \$0.4 billion annual rate in December, and a \$1.6 billion fourth quarter average annual rate of rise. Durable stocks increased at a \$5.4 billion annual rate in January following a \$3.5 billion December rate of fall. In contrast, nondurable stocks rose slightly slower in January than in December. While these figures show a large turnaround of durable wholesale inventory investment in January, distribution of inventory investment between wholesale and retail trade is volatile, and thus this turnaround may not be a good predictor for all trade inventories.

#### The Domestic Financial Economy

New York City. Since November 19 when New York State's highest court declared the Debt Moratorium Act unconstitutional, the City has been negotiating with the Clearinghouse banks and the municipal unions on ways to repay the \$1 billion of notes formerly covered by the Act. Until very recently the discussions centered around the extension of maturities on MAC debt held by the banks and the pension funds (\$200 million), the sale of City-owned mortgages (\$200-\$250 million), and the public sale of City and/or MAC securities (\$500 million or more). The banks made their participation in such a plan conditional on the City adopting certain budgetary and financial procedures as well as accepting some sort of oversight body with powers to enforce a balanced City budget.

Negotiations between the banks and the City broke down on Friday, March 4, following the submission of the latest bank proposal for an oversight body. The Mayor immediately rejected the plan and began exploring other ways of raising the needed \$1 billion. Over the weekend, City officials developed an alternative plan that would not require the participation of the banks. The basic elements are:

- (1) an expanded sale of City-owned mortgages (\$410 million),
- (2) an extension of maturities on MAC and certain City debt held by the City pension funds (\$130 million), and
- (3) a sale of MAC securities to institutional holders of City notes and to the public, if necessary (\$267 million), and
- (4) cash from a variety of sources (\$176 million).

This plan was accepted by the Emergency Financial Control Board and it is expected that the Treasury also will approve it. Treasury's approval is necessary if the City is to draw \$255 million on its seasonal financing line with the Federal government. These funds are necessary to meet debt service payments scheduled for March 14 and 15.

ERRATA - Part - II

Table IV - T - 1 U.S. International Transactions

column 1 should read 1976

column 6 should read 1977

Page III-15, line 6: change "month", to "two months",



INTEREST RATES  
(One day quotes--in per cent)

	1976		1977	
	Highs	Lows	Feb. 14	Mar. 10
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	5.58(6/30)	4.63(12/22)	4.70(2/16)	4.63(3/9)
3-month				
Treasury bills (bid)	5.57(6/2)	4.24(12/20)	4.63	4.62
Comm. paper (90-119 days)	6.00(6/15)	4.63(12/31)	4.75	4.75
Bankers' acceptances	5.95(6/2)	4.58(12/20)	4.79	4.85
Euro-dollars	6.81(6/1)	4.81(12/8)	5.06	5.13
CD's (NYC) 90 days				
Most often quoted new	5.75(6/16)	4.50(12/29)	4.75(2/9)	4.77(3/9)
6-month				
Treasury bills (bid)	5.96(5/27)	4.47(12/23)	4.86	4.91
Comm. paper (4-6 mos.)	6.00(6/22)	4.63(12/31)	4.88	4.88
Federal agencies	6.42(5/27)	4.72(12/22)	n.a.	n.a.
CD's (NYC) 180 days				
Most often quoted new	6.50(6/2)	4.60(12/29)	5.00(2/9)	5.00(3/9)
1-year				
Treasury bills (bid)	6.39(5/27)	4.59(12/27)	5.11	5.22
Federal agencies	6.86(5/28)	5.00(12/27)	n.a.	n.a.
CD's (NYC)				
Most often quoted new	6.75(6/16)	4.80(12/15)	5.25(2/9)	5.25(3/9)
Prime municipals	3.70(5/28)	2.50(12/31)	2.85(2/11)	2.90(3/11)
<u>Intermediate- and Long-Term</u>				
Treasury (constant maturity)				
3-year	7.59(5/27)	5.59(12/10)	6.38	6.49
7-year	7.93(5/21)	6.27(12/10)	7.16	7.22
20-year	8.20(5/21)	7.17(12/31)	7.64	7.76
Corporate				
Seasoned Aaa	8.66(1/2)	7.97(12/20)	8.04	8.12(3/9)
Baa	10.34(1/2)	9.08(12/17)	9.09	9.16(3/9)
Aaa Utility New Issue	8.95(5/28)	7.93(12/10)	8.15(2/4)	8.30
Recently Offered	8.94(1/7)	7.84(12/31)	8.12(2/11)	8.28
Municipal				
Bond Buyer Index	7.13(1/8)	5.83(12/30)	5.86(2/10)	5.92
Mortgage--average yield in				
FNMMA auction	9.20(6/1)	8.39(12/27)	8.52(2/7)	8.66(3/7)