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CLASS II - FOMC

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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

SUPPLEMENTAL NOTES

The Domestic Nonfinancial Economy

Retail sales edged up 0.2 per cent in July, the third successive very modest monthly increase in nominal sales volume; April sales had been 3-1/4 per cent above those in December of last year. Sales of goods other than automotive, building materials, and related products rose 0.6 per cent in July, after being unchanged in the preceding month. Sales at furniture, home furnishings, and household equipment stores and at apparel stores rose appreciably after a sizeable decline in the previous month or two. Sales at automotive stores and at gasoline service stations declined further in July.

Total retail sales in the second quarter are now estimated to have been up 4.5 per cent from the first quarter of the year when they were little changed from the sharply higher fourth quarter of last year. Sales of durable goods in the second quarter were up 6.9 per cent from those in the preceding quarter, and sales of nondurable goods up 3.4 per cent.

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

	1978					
	QI	QII	July/QII	May	June	July
Total sales	- .1	4.5	.4	.2	.1	.2
(Real) ^{1/}	-2.0	1.9	n.a.	- .7	- .7	n.a.
Total, less auto and nonconsumption items	.3	3.8	.9	1.0	- .1	.6
GAF	-3.7	6.1	2.2	.9	- .2	2.0
Durable	-2.0	6.9	.3	-1.0	.2	.6
Auto	-1.7	6.5	-1.3	-2.2	- .1	- .6
Furniture & appliances	-4.2	6.7	4.4	1.5	-2.6	5.7
Nondurable	.9	3.4	.4	.9	.0	.1
Apparel	-4.5	6.5	1.8	-1.9	- .3	2.6
Food	3.1	3.4	.6	.9	- .3	.5
General merchandise	-3.2	5.8	1.5	1.7	.7	.4
Gasoline	1.9	-.1	-1.9	.3	- .5	-1.7

^{1/} Deflated by all commodities SA consumer price index.

Producer prices of finished goods, seasonally adjusted, rose 0.5 per cent on average in July and were 8.1 per cent above those a year earlier. The July increase was down from the 0.7 per cent rise in each of the two preceding months and a 10.4 per cent annual rate rise over the second quarter. The smaller July rise in prices of finished goods reflects a decline of 0.3 per cent in prices of consumer foods, after very large increases in most preceding months this year (up at a 17.9 per cent annual rate from last December through June). Prices of finished goods other than consumer foods rose 0.8 per cent in July, the same as the larger average monthly increase in the second quarter. A large rise in jewelry prices accounted for something more than a quarter of the 0.8 per cent rise in the nonfoods finished goods prices.

Prices of finished consumer goods increased 0.5 per cent, substantially less than the average monthly rise posted through June, as the 0.3 per cent decline in consumer foods partially offset increases for other consumer goods. Prices of consumer finished goods other than foods rose 1.0 per cent, reflecting an 1.8 per cent jump in prices of consumer durables, which, as in April and May, was boosted by higher jewelry prices. The latter, reflecting higher costs for gold, accounted for more than one-half of the increase in consumer goods excluding foods and 70 per cent of the rise on consumer durables. Prices of some household durables and passenger cars were also higher. Prices of consumer non-food nondurables rose 0.6 per cent, near the May-June rate but somewhat above the rate for the first half of the year.

Prices of capital equipment rose 0.5 per cent in July, a more moderate increase than those in May and June rates, although price increases--some quite large--were widespread among capital equipment items.

Prices of intermediate goods advanced 0.5 per cent. Prices of intermediate foods and feeds rose 1.5 per cent, following last month's marked decline, as a result of a sharp rise reported for manufactured animal feeds; intermediate materials for food manufacturing declined more than 2 per cent. The increase in prices for nonfood intermediate materials, 0.4 per cent, was not much different from those of the previous 4 months.

Crude goods prices were down 0.6 per cent as the first decline in these prices since late last summer reflected reduced prices for crude foodstuffs and feedstuffs, which fell 2.5 per cent. Prices for hogs, cattle, green coffee, and grains were all lower. Crude nonfoods prices registered the largest increase since last November, however, with the 2.3 per cent rise owing largely to higher prices for leaf tobacco, crude natural rubber, natural gas, iron and steel scrap, and crude petroleum.

On a commodity basis, prices of all commodities increased by 0.3 per cent, the smallest increase in nearly a year; prices for industrial commodities prices rose 0.6 per cent and prices of farm and food products declined by 0.9 per cent.

RECENT CHANGES IN PRODUCER PRICES
 (Per cent change at compound annual rates; based
 on seasonally adjusted data)1/

	Relative Importance Dec. 1977	1977				1978			
		QI	QII	QIII	QIV	QI	QII	June	July
Finished goods	41.2	10.0	6.4	2.9	7.2	9.6	11.2	8.7	6.2
Consumer foods	10.3	17.9	4.3	-2.3	7.4	21.2	14.6	13.3	-4.0
Consumer nonfoods	18.7	9.0	7.8	4.0	4.7	5.1	10.7	5.3	12.5
Capital equipment	12.2	5.0	6.8	6.0	10.9	7.1	9.1	9.7	6.0
Materials:									
Intermediate ^{2/}	45.5	8.9	5.5	7.1	4.2	9.0	6.2	5.6	5.0
Crude nonfood	4.6	25.6	-8.1	-5.3	20.1	15.7	12.4	20.2	27.8
Crude food	6.3	24.0	-16.6	-19.6	27.6	43.6	25.2	23.2	-30.9
.mo: Energy ^{3/}	11.3	22.8	15.2	7.6	2.7	4.3	9.9	11.6	5.9

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

2/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.

3/ Fuels and related products and power.

Sales of money market certificates continued strong in July, exceeding sales in June by almost \$3 billion (see Table). The step-up in issuance was observed at both commercial banks and thrift institutions. As expected, inflows into the new certificates apparently surged in early July--an important reinvestment period--and continued to be sizable throughout the rest of the month.

No additional information is available concerning the proportion of money market certificate flows representing new money. However, judging from July deposit flow data, it seems clear that the new certificate did indeed have a significant positive impact on thrift institution deposit growth in July. Deposit growth at S&Ls is estimated to have accelerated from 10.3 per cent (SAAR) in June to 16 per cent in July, measured on an end-of-month basis. MSB deposit growth continued at about the same pace as in June--almost double the April-May rate.

Estimated Money Market Certificate Inflows

	June Inflows <u>1/</u> (\$ billions)	July Inflows <u>2/</u> (\$ billions)	Money Market Certificates Outstanding as of the End of July:	
			\$ billions	Per cent of total deposits outstanding ^{3/}
Commercial Banks	2.1	3.4	5.5	1.4
S&Ls	4.9	6.1	11.0	2.7
MSBs	1.6	1.9	3.5	2.6
All Institutions	8.6	11.4	20.0	2.1

1/ Commercial bank and MSB certificate inflow through June 28. S&L certificate inflow through June 30.

2/ Commercial bank and MSB certificate inflow through July 26. S&L certificate inflow through July 31.

3/ Per cent of small-denomination time and savings deposits for commercial banks.

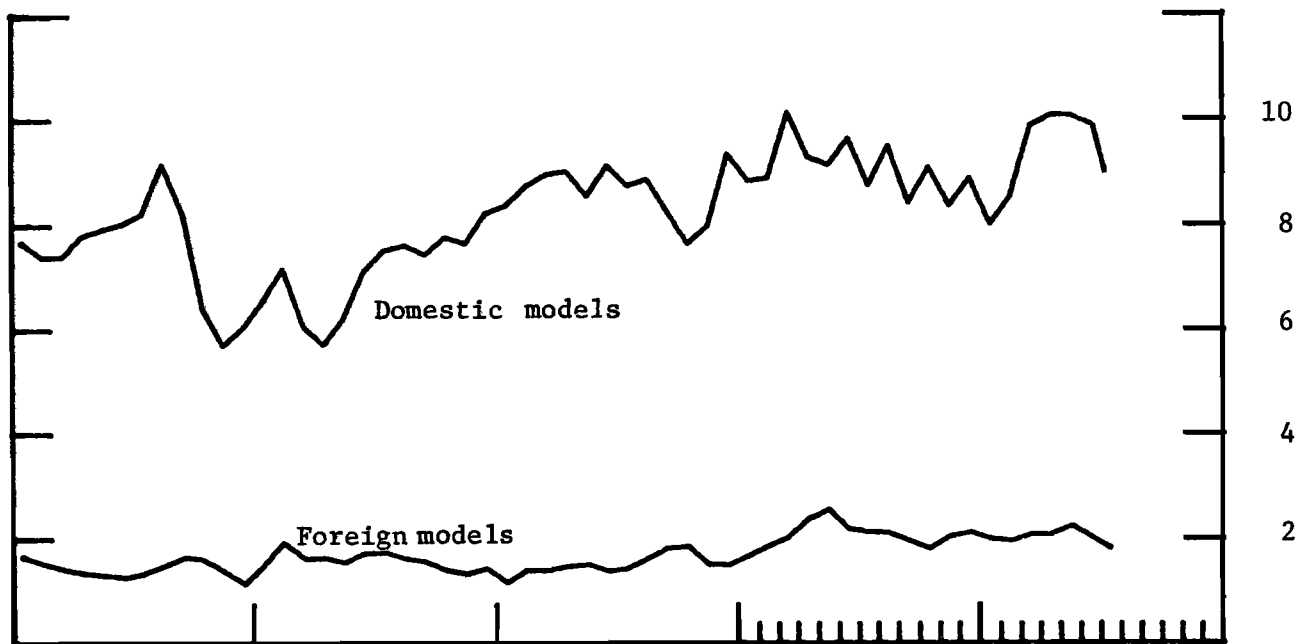
ERRATUM:

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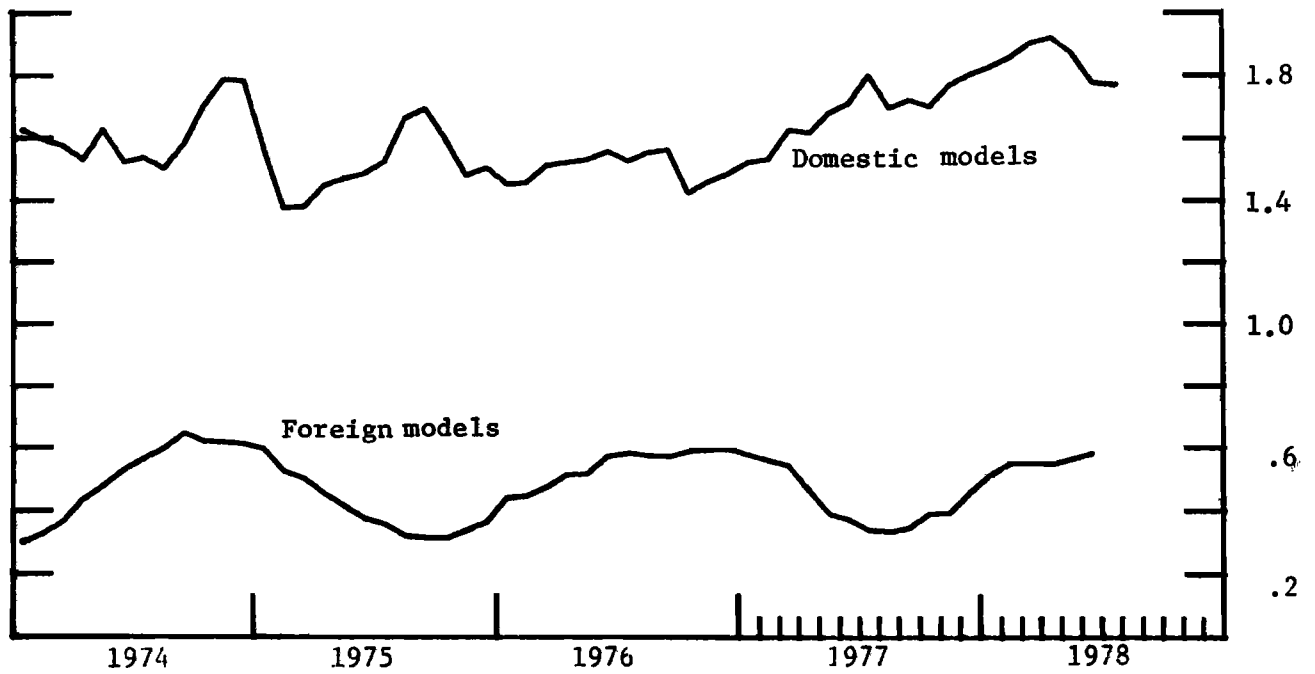
Page II-6: The revised chart with corrected scale on bottom panel should be substituted for chart shown.

Page III-11, lines 4-5: "the past three years" should read the past two years". Also, see revised chart for page III-10.

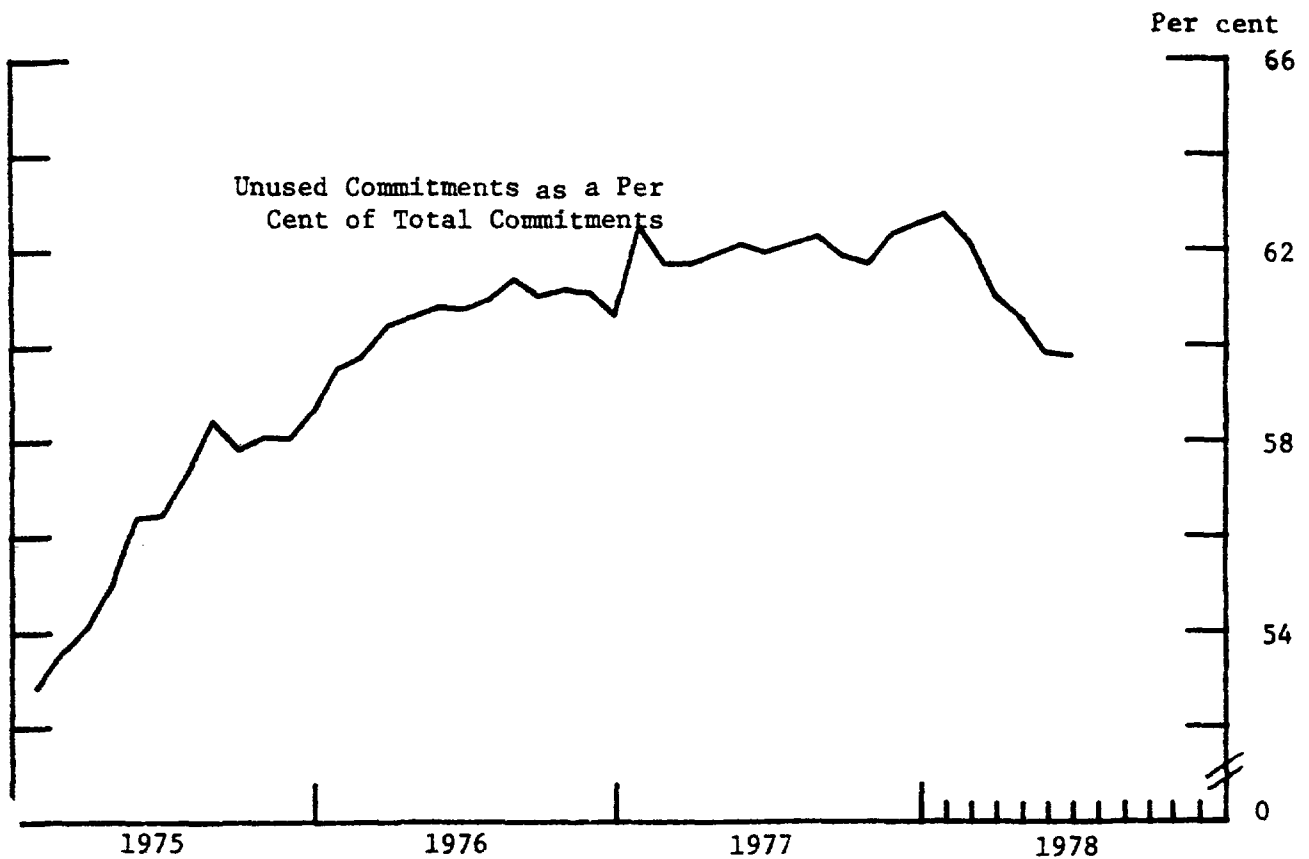
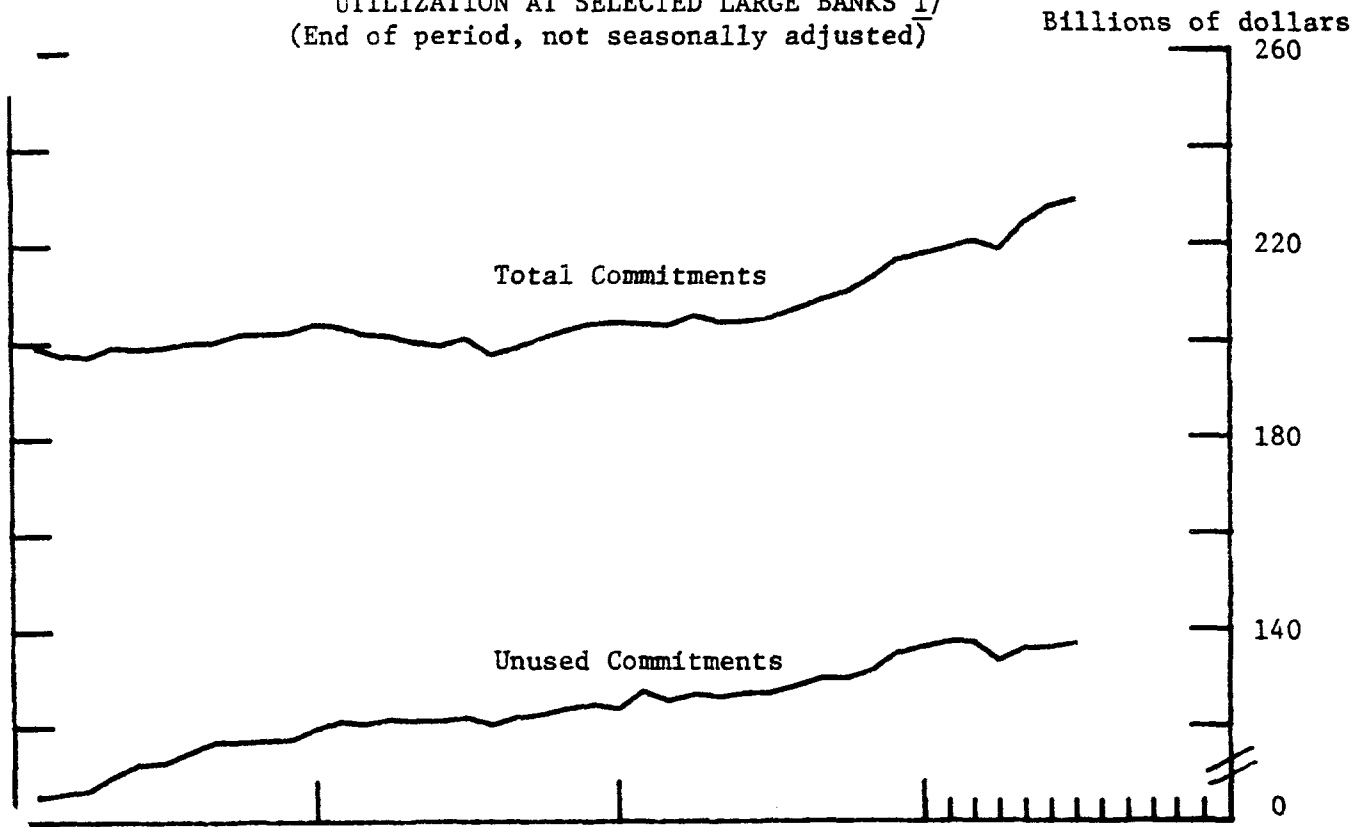
AUTO SALES
(Millions of units, S.A.A.R.)



DEALERS' INVENTORIES OF AUTOS
(Millions of units, end of month, seasonally adjusted)



BUSINESS LOAN COMMITMENTS AND COMMITMENT
UTILIZATION AT SELECTED LARGE BANKS ^{1/}
(End of period, not seasonally adjusted)



^{1/} Sample consists of 134 large weekly reporting banks which account for about 85 per cent of commercial and industrial loans.

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

	1978			
	Highs	Lows	July 17	August 10
<u>Short-Term Rates</u>				
Federal funds (wkly avg.)	7.94(7/19)	6.58(1/11)	7.94(7/19)	7.83(8/9)
3-month				
Treasury bills (bid)	7.20(7/11)	6.09(4/24)	6.99	6.85
Comm. paper (90-119 days)	7.90(7/24)	6.63(1/6)	7.88	7.76
Bankers' acceptances	8.10(7/14)	6.70(1/6)	8.05	7.85
Euro-dollars	8.75(6/27)	7.00(2/8)	8.63	8.25
CDs (NYC) 90 days				
Most often quoted new	8.00(7/26)	6.65(1/4)	8.00(7/12)	7.85(8/9)
6-month				
Treasury bills (bid)	7.54(7/13)	6.43(1/4)	7.49	7.23
Comm. paper (4-6 mos.)	7.95(7/24)	6.66(1/5)	7.94	7.85
CDs (NYC) 180 days				
Most often quoted new	8.34(7/5)	6.85(1/4)	8.25(7/12)	8.20(8/9)
1-year				
Treasury bills (bid)	7.89(7/20)	6.53(1/4)	7.80	7.64
CDs (NYC)				
Most often quoted new	8.32(8/9)	7.05(1/4)	8.25(7/12)	8.32(8/9)
Prime municipal note	4.55(7/28)	3.55(3/3)	4.50(7/14)	4.30(8/4)
<u>Intermediate- and Long-Term</u>				
Treasury (constant maturity)				
3-year	8.60(7/25)	7.38(1/4)	8.54	8.26
7-year	8.60(7/25)	7.71(1/5)	8.55	8.37
20-year	8.73(7/13)	8.00(1/5)	8.69	8.45
Corporate				
Seasoned Aaa	8.92(7/12)	8.28(1/3)	8.89	8.64(8/9)
Baa	9.64(6/5)	9.09(1/3)	9.59	9.47(8/9)
Aaa Utility New Issue	9.18(7/7)	8.61(3/24)	9.17(7/14)	8.80(8/11)
Recently Offered	9.22(7/14)	8.48(1/6)	9.22(7/14)	8.89(8/11)
Municipal				
Bond Buyer index	6.32(7/13)	5.58(3/16)	6.32(7/13)	6.03
Mortgage--average yields in				
FNMA auction	10.02(7/10)	9.13(1/9)	10.02(7/10)	9.82(8/7)