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CLASS II - FOMC

November 16, 1979

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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### Capacity Utilization

Manufacturers operated at 85.0 percent of capacity in October, and producers of industrial materials operated at 86.8 percent of capacity, both about the same as the rates for the preceding two months. The 1973 peak utilization rate for manufacturing was 88.0 percent and for industrial materials, 92.6 percent.

Within manufacturing, the utilization rate in primary processing industries eased further in October. In the advanced processing sector, strikes curtailed the output of nonelectrical machinery and were the main cause for a small decline in the overall operating rate. The manufacturing capacity utilization rate in October was down 1.7 percentage points from the first quarter average and 1.0 percentage point from the rate in October 1978.

Utilization rates for most materials producers were little changed in October, but operating rates for energy materials rose 0.5 percentage point. The capacity utilization rate for producers of industrial materials in October was only a little below the third quarter average, and 1.2 percentage points below the first quarter average and 2.0 percentage points below the rate in December 1978.

The Domestic Financial Economy

FNMA Auction Results

Bidding in FNMA's November 13 auction of 4-month commitments to purchase FHA/VA home mortgages declined sharply from the volume posted in the October auctions. The percentage of bids accepted by FNMA increased significantly from the October 29 auction, but the average yield on accepted bids fell by 36 basis points to 12.93 percent. The decline in bid volume and reduction in average yield largely reflected price increases in the market for GNMA-guaranteed securities--the other major marketing alternative for originators of FHA/VA mortgages.

Bidding in the November 13 auction of commitments to purchase conventional home loans was about one-third below the pace of the two previous auctions. However, the percentage of bids accepted by FNMA rose sharply and the average yield on accepted bids increased by 17 basis points to 13.97 percent--about 2 percentage points above the yield in the October 1 auction.

FNMA AUCTION RESULTS  
HOME MORTGAGE COMMITMENTS

	Government-Underwritten			Conventional		
	(millions of dollars)		Yield to	(millions of dollars)		Yield to
	Offered	Accepted	FNMA	Offered	Accepted	FNMA
1979 - High	1,035 (10/29)	448 (10/15)	13.29 (10/29)	454 (10/29)	172 (9/4)	13.97 (11/13)
Low	37 (7/9)	19 (7/9)	10.42 (3/19)	36 (7/9)	28 (7/9)	10.92 (3/19)
May 14	279	119	10.88	250	102	11.30
30	147	66	10.80	208	112	11.41
June 11	160	66	10.79	237	123	11.54
25	60	34	10.74	120	72	11.60
July 9	37	19	10.66	36	28	11.54
23	97	50	10.65	58	42	11.51
Aug. 6	56	28	10.64	107	89	11.50
20	107	55	10.69	139	95	11.53
Sept. 4	614	285	10.92	290	172	11.67
17	808	315	11.25	238	153	11.83
Oct. 1	891	361	11.66	195	127	11.99
15	1,017	448	12.60	401	166	12.75
29	1,035	321	13.29	454	139	13.80
Nov. 13	356	169	12.93	274	137	13.97

NOTE: Average secondary market yields are gross before deduction of the fee of 38 basis points paid for mortgage servicing. They reflect the average accepted bid yields for home mortgages assuming a repayment period of 12 years for 30-year loans, without special adjustment for FNMA commitment fees and related stock requirements on 4-month commitments. Mortgage amounts offered by bidders relate to total bids received.

MONETARY AGGREGATES  
(Seasonally adjusted annual rates of growth) 1/

	1978		1979		Sept.	Oct. <sup>e</sup>	Oct. '78	
	QIII	QIV	QI	QII			QIII	to Oct. '79 <sup>e</sup>
<b>Major monetary aggregates</b>								
1. M-1	7.9	4.1	-2.1	7.6	9.7	11.2	2.5	4.8
2. Currency	9.6	10.6	9.1	8.1	11.1	15.1	4.6	9.9
3. Demand deposits	7.3	1.7	-6.2	7.5	9.2	10.2	0.9	3.0
4. M-2	9.8	7.6	1.8	8.6	12.0	12.2	8.6	7.9
5. M-3	10.3	9.3	4.7	7.9	10.5	10.9	7.5	8.1
<b>Bank time and savings deposits</b>								
6. Total	11.3	12.3	8.4	1.2	9.0	15.1	16.6	8.9
7. Other than large negotiable CDs at weekly reporting banks	11.0	10.2	4.5	9.3	13.6	12.9	12.8	10.0
8. Savings deposits	2.9	0.2	-9.6	-3.1	5.5	0.0	-16.9	-3.7
9. Individuals <u>2/</u>	4.1	0.0	-9.4	-2.9	6.3	1.2	-15.7	-3.0
10. Other <u>3/</u>	-10.1	0.0	-13.0	-8.1	-2.7	-8.3	-33.6	-12.0
11. Time deposits	17.9	18.2	15.6	18.5	19.2	21.2	32.0	20.9
12. Small time <u>4/</u>	12.7	15.8	16.5	36.3	26.7	17.4	29.4	27.3
13. Large time <u>4/</u>	26.9	22.4	13.6	-12.1	4.5	27.0	38.5	9.6
14. Time and savings deposits sub- ject to rate ceilings (8+12)	6.9	7.0	2.2	15.1	15.8	8.7	6.5	10.1
<b>Deposits at nonbank thrift institutions <u>5/</u></b>								
15. Total	11.1	11.6	8.8	6.8	8.4	8.9	6.0	8.3
16. Savings and loan associations	12.3	13.1	11.3	7.8	9.2	10.0	8.1	9.9
17. Mutual savings banks	6.8	7.8	4.6	3.1	2.2	4.2	1.7	3.4
18. Credit unions	13.7	10.1	0.8	8.3	19.3	12.7	4.2	9.5
<b>MEMORANDA: Monthly changes in billions of \$</b>								
19. Total U.S. govt. deposits <u>6/</u>	1.1	-0.4	-2.0	1.5	0.7	-0.1	-0.1	-0.4
20. Total large time deposits <u>7/</u>	2.9	4.7	1.3	-6.3	2.5	4.6	6.5	1.0
21. Nondeposit funds	1.6	2.2	5.3	5.0	7.6	8.3	1.5	4.6
22. Other <u>8/</u>	0.9	1.6	2.0	1.3	2.2	-1.6	2.5	1.6
23. Net due to related foreign institutions	0.7	0.6	3.3	3.7	5.4	9.8	-1.0	3.0

e--estimated. n.a.--not available.

1/ Quarterly growth rates are computed on a quarterly average basis.

2/ Savings deposits held by individuals and nonprofit organizations.

3/ Savings deposits of business, government, and others, not seasonally adjusted.

4/ Small time deposits are time deposits in denominations less than \$100,000. Large time deposits are time deposits in denominations of \$100,000 and above excluding negotiable CDs at weekly reporting banks.

5/ Growth rates computed from monthly levels are based on average of current and preceding end-of-month data.

6/ Includes Treasury demand deposits at commercial banks and Federal Reserve Banks and Treasury note balances.

7/ All large time certificates, negotiable and nonnegotiable, at all CBs.

8/ Other nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money (including borrowings from the Federal Reserve), and loans sold, less interbank borrowings.

MEMBER BANK RESERVES

	1979				
	QI	QII	QIII	Sept.	Oct. <sup>p/-</sup>
	<u>Seasonally adjusted annual rates of growth<sup>1/</sup></u>				
1. Required reserves	-2.9	-4.8	6.0	12.5	18.2
2. Total reserves	-3.0	-5.0	6.3	11.5	20.7
3. Nonborrowed reserves	-3.4	-8.8	8.2	4.2	1.1
4. Monetary base	5.6	4.0	9.8	13.9	10.6

	<u>Monthly average levels, millions of dollars<sup>2/</sup></u>				
5. Borrowed reserves	989	1,367 <sub>c/</sub>	1,199 <sub>c/</sub>	1,341	2,024
6. Excess reserves	194	179	208	190	279

<sup>1/</sup> Includes required reserves of Edge Act corporations. Reserve series have been adjusted to remove discontinuities associated with regulatory changes in reserve requirement ratios.

<sup>2/</sup> Monthly averages are prorated averages of weekly data.

<sup>p/</sup> Preliminary.

<sup>c/</sup> - Corrected.



COMMERCIAL BANK CREDIT  
(Per cent changes at annual rates, based on seasonally adjusted data) 1/

	1978		1979				12 months ending	
	QIII	QIV	QIP	QIIP	QIII <sup>e</sup>	Sept. <sup>P</sup>	Oct. <sup>e</sup>	Oct. <sup>e</sup>
1. Total loans and investments <u>2/</u>	13.3	12.7	13.3	11.9	15.8	21.7	7.6	13.5
2. Investments	6.4	-1.9	7.6	5.4	8.5	14.2	5.9	5.3
3. Treasury securities	1.2	-21.1	2.1	3.8	1.7	14.0	1.3	-2.9
4. Other securities	9.4	9.2	10.5	6.2	12.1	14.2	8.3	10.0
5. Total loans <u>2/</u>	15.9	18.2	15.2	14.2	18.2	24.2	8.1	16.5
6. Business loans	12.7	14.2	20.5	16.6	22.7	25.9	12.5	19.3
7. Security loans	-16.7	-23.3	33.0	38.1	8.7	26.1	-137.9	6.1
8. Real estate loans	20.4	17.7	14.6	13.0	14.7	14.5	15.4	15.7
Consumer loans	17.9	15.9	16.3	12.4	7.5	9.4	n.a.	n.a.

MEMORANDA:

10. Business loans net of bankers acceptances	12.6	14.4	20.4	16.6	21.7	24.0	16.3	19.4
11. Commercial paper issued by nonfinancial firms <u>3/</u>	23.1	17.5	33.5	65.7	69.7	48.5	12.7	51.3
12. Sum of items 6 & 11	13.3	14.2	21.4	20.2	26.5	27.9	12.5	21.6
13. Finance company loans to business <u>4/</u>	5.5	25.0	16.6	17.7	9.4	-15.3	n.a.	n.a.
14. Sum of items 12 and 13	11.8	16.3	20.6	19.7	23.3	19.9	n.a.	n.a.

e--estimated. p--preliminary. n.a.--not available.

1/ Average of Wednesdays for domestic chartered banks and average of current and preceding ends of months for foreign-related institutions.

2/ Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.

3/ Average of Wednesdays.

4/ Based on average of current and preceding ends of months.

SELECTED FINANCIAL MARKET QUOTATIONS  
(percent)

	1974 High <u>1/</u>	1978 Jan. 4 <u>1/</u>	1979 Jan. 3 <u>1/</u>	1979 <u>2/</u>			Change from:	
				FOMC Oct. 5	Oct. 23	Nov. 15	Oct. FOMC	Oct. 23
<b>Short-term rates</b>								
Federal funds <u>1/</u>	13.55	6.69	10.59	11.91	15.14	13.43	1.52	-1.71
Treasury bills								
1-month	9.88	5.81	8.93	10.40	12.60	11.62	1.22	-.98
3-month	9.63	6.16	9.30	10.70	13.01	11.70	1.00	-1.31
6-month	9.75	6.45	9.49	10.63	12.76	11.80	1.17	-.96
1-year	9.54	6.55	9.68	10.28	12.19	11.00	.72	-1.19
Commercial paper								
1-month	12.25	6.62	10.32	11.73	13.91	13.39	1.66	-.52
3-month	12.25	6.68	10.57	11.86	14.13	13.62	1.76	-.51
6-month	12.00	6.70	10.62	11.84	14.14	13.25	1.41	-.89
Large negotiable CDs <u>3/</u>								
1-month	12.58	6.62	10.37	12.09	14.51	13.83	1.74	-.68
3-month	12.64	6.76	10.93	12.50	14.89	14.13	1.63	-.76
6-month	12.30	7.01	11.51	12.80	15.07	14.14	1.34	-.93
Eurodollar deposit <u>1/</u>								
1-month	13.78	6.89	11.14	12.45	14.74	14.58	2.13	-.16
3-month	14.01	7.25	11.81	12.79	15.14	15.43	2.64	.29
Bank prime rate								
<u>mediate- and long-</u> <u>m rates</u>	12.00	7.75	11.75	13.50	15.00	15.50	2.00	.50
U.S. Treasury (constant maturity)								
3-year	8.84	7.38	9.61	10.01	11.98	11.04	1.03	-.94
7-year	8.52	7.72	9.23	9.67	11.19	10.77	1.10	-.42
20-year	8.69	8.00	9.00	9.44	10.44	10.36	.92	-.08
Municipal (Bond Buyer) <u>4/</u>								
Corporate Aaa	7.15	5.64	6.58	6.64	7.18	7.31	.67	.13
New issue <u>5/</u>								
Recently offered <u>6/</u>	10.61	--	--	10.22	11.05	11.51p	1.29	.46
Primary conventional mortgages <u>6/</u>	10.52	8.48	9.51	10.25	11.00	11.45p	1.20	.45
10.03	9.00	10.38	11.35	11.75	12.85	1.50	1.10	
	1974 Low <u>7- /</u>	1978 Jan. 6 <u>7/</u>	1979 Jan. 5 <u>7/</u>	FOMC Oct. 5	Oct. 23	Nov. 15	Oct. FOMC	Oct. 23
<b>Stock prices</b>								
Dow-Jones Industrial	577.60	807.43	821.42	897.61	806.83	821.33	-76.28	14.50
NYSE Composite	32.89	51.34	54.74	63.39	56.70	59.27	-4.12	2.57
AMEX Composite	58.26	125.20	154.98	235.15	195.76	218.14	-17.01	22.38
NASDAQ (OTC)	54.87	103.13	119.92	152.29	132.61	138.92	-13.37	6.31

1/ Daily averages for statement week except where noted.

2/ One-day quotes except as noted.

secondary market.

One-day quotes for preceding Thursday.

5/ Averages for preceding week.

6/ One-day quotes for preceding Friday.

7/ Calendar week averages.

### International Developments

Foreign exchange markets. Since the November 14 U.S. decision to freeze all Iranian dollar assets, exchange markets have been somewhat unsettled by the political and legal uncertainties of the current situation but an atmosphere of chaos has not developed. Exchange rates have moved in a fairly broad range as each new announcement by Iranian spokesmen or by officials in other countries is evaluated. As of the morning of November 16, the weighted-average value of the dollar was about 1 percent below its high reached early in the week as the dollar weakened following the Iranian statement that it would not accept payment for oil in dollars but only in Swiss franc, German marks, and French francs and in some cases yen. The dollar remained about 3 percent higher than it had been in early October.

### U.K. Monetary Policy

The Bank of England raised its Minimum Lending Rate from 14 to a record 17 percent, effective November 16. Restrictions on the growth of the banking system's interest-bearing eligible liabilities (the "corset"), which were scheduled to expire in mid-December, will be retained for an additional six months until mid-June, 1980.

These actions, announced on November 15, were taken to reduce the growth in sterling M3. During the four weeks ended October 17, the sterling M3 money supply rose by 2 percent compared

with a rise of only 0.6 percent in the month to mid-September. During the four months since mid-June, sterling M3 rose by 4-1/2 percent, which corresponds to an annual rate of growth of 14-1/4 percent (all the above are seasonally adjusted figures). This compares with the government's target range for sterling M3 growth of between 7 and 11 percent for the ten months from mid-June. It was also announced that the 7-to-11 percent growth rate range will be continued through next October, but that the base would remain the mid-June 1979 level; keeping the base unchanged avoids building the excessive monetary growth since June into the level of sterling M3 over the next 12 months.

**ERRATA:**

Part 2 of the Greenbook dated November 14, 1979, contains a paging error. Page II-21 is out of place; it contains the remainder of the discussion of the government sector that begins on page II-15.