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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

January 7, 1966

## SUPPLEMENTAL NOTES

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### The Domestic Economy

Employment and the labor force rose substantially further in December. Nonfarm employment increased by 400,000 and was 2.4 million higher than a year earlier. Unemployment was reduced to 3.1 million and the rate edged down further to 4.1 per cent from 4.2 per cent.

The 90,000 reduction in unemployment in December was primarily among adult men and women. The rate of unemployment of men declined from 2.8 to 2.6 per cent; for married men the rate declined from 2.0 to 1.8 per cent. After several months of relative stability at 4.2 per cent, the unemployment rate for adult women declined to 3.9 per cent. This was the lowest rate since the spring of 1957. Teenage unemployment was up slightly in December and the unemployment rate was 13.1 per cent compared with 15.7 per cent a year ago.

Nonwhites also participated in the unemployment decline and their rate of unemployment fell to 7.3 per cent from 8.2 per cent in November and from 8.9 per cent a year earlier, but remained about double the rate for whites.

The reduction in unemployment over the month was among those seeking work for less than 15 weeks. Long duration unemployment continued at the November level, which was 200,000 less than a year earlier.

The civilian labor force rose by 480,000 in December to 76.5 million and was 1.8 million higher than a year earlier. Teenagers accounted for 1 million of the increase and women for the rest. The 400,000 increase in employment of adult men from a year ago was equal

to the drop in their unemployment. The armed forces rose to 2,840,000 and was 100,000 above a year earlier levels.

Seasonally adjusted new construction expenditures, which were revised upward in November, held at that advanced level in December. Private construction edged higher in December as residential construction held at its moderately reduced earlier rate while nonresidential construction expanded further. Public construction expenditures dipped somewhat, but this followed a sharp recovery in November.

For the year as a whole, construction expenditures totaled a record \$68.1 billion. This level as well as some of the year-to-year advances indicated in the table may be understated, however, on the basis of revisions which the Census Bureau expects to release within a month. These revisions, which will affect certain components of private nonresidential construction (back to mid-1962) and public construction (back to early 1963) will reflect improved techniques of measuring month-to-month movements in work put in place, but they may also have an effect on the annual estimates as well.

NEW CONSTRUCTION PUT IN PLACE

	December (billions) <sup>1/</sup>	Per cent change from year ago	
		December	Year 1965
Total	\$69.3	+ 5	+ 3
Private	48.4	+ 6	+ 4
Residential	26.2	--	+ 1
Nonresidential	22.2	+12	+10
Business	16.2	+12	+13
Public	20.9	+ 2	+ 2

<sup>1/</sup> Seasonally adjusted annual rate; preliminary.

Dealer deliveries of new domestic autos were at an annual rate of 8.5 million in December, a decline from November but somewhat higher than in October. Including imports, the total was at a rate of over 9.0 million. A cut of auto excise taxes by one percentage point at the beginning of January probably caused some postponement of December sales to January.

#### The Domestic Financial Situation

The Treasury announced on January 5 a \$1.5 billion cash offering of new 10-month certificates of indebtedness. The new issue carries a 4-3/4 per cent coupon and has been priced to yield 4.85 per cent. Banks will be allowed to pay for the new issue through 100 per cent tax and loan credit. Subscriptions will be received on January 10 and settlement date is January 19. Early market reports indicated a favorable reception of the new issue.

Underwriters were quite aggressive in bidding for this week's large supply of new corporate bonds. As a result, the new corporate yield series, adjusted to a Aaa basis, fell four basis points to 4.82 per cent from the postdiscount rate high but was still 2 basis points above the level prior to that action. Reception of these issues, however, was generally weak. Municipal bond yields were relatively stable.

Notes

The Department of Commerce on Wednesday, January 5, released its revised estimates of gross national product, major expenditures components, and related incomes for the first three quarters of 1965. Thus, the figures for those three quarters shown in the Green Book for January 5, are no longer confidential.

Corrections

Page I - 4: The total labor force is expected to increase by "over" (instead of "only") 2 million.

Substitute "emphasizing" for "employing" in the last sentence of paragraph 1.

SUPPLEMENTAL APPENDIX A: SURVEY OF BANK LENDING PRACTICES, DECEMBER 1965\*

The results of the sixth quarterly survey of changes in bank lending practices are summarized in the following paragraphs and accompanying tables. Reports were received from the 81 banks included in the quarterly interest rate survey.

More than two-thirds of the respondents (55 out of 81 banks) reported that demand for commercial industrial loans had strengthened in the fourth quarter and most of these had indicated increased loan demand in previous quarters as well. So widespread and sustained was loan demand in 1965 that half of the banks indicated increased loan demand in at least three of the four quarters and only 5 banks reported no increase during the year.

The survey revealed that firming in lending standards both to business borrowers and finance companies was more widespread than in any previous survey. Reflecting the increase in the discount rate and the prime rate in early December, all but four of the banks firmed interest rates to business borrowers in the fourth quarter and about two-thirds of these also tightened requirements with respect to compensating balances. Higher standards of credit-worthiness were applied to such borrowers by about one-third of the respondents while about one-fourth firmed policies with respect to the maturity of the loan and nearly one-fifth with respect to collateral requirements.

Firming of lending standards applicable to finance companies also was quite general. All but six of the banks firmed interest rates on loans to such companies in the fourth quarter and about one-third indicated a firmer policy on compensating balances, probably affecting mainly the smaller independent companies.

Among those banks that submitted explanatory comments on their recent firming of lending standards, the most often mentioned reasons were the heavy demand for loans, heavily loaned positions, and the tightness of money. Reflecting these and other factors, two-thirds of the banks reported that the applicant's value to the bank as a depositor or source of collateral business was more important than formerly and about the same number had firmed policies on loans to new business borrowers. Nearly one-third of the banks stated that they were less aggressive in seeking new loans and about the same number were less willing than formerly to make term loans. In all of these areas, the proportion of banks with firmer policies was higher than in any previous survey, as shown in Table 2.

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\*Prepared by Banking Section, Division of Research and Statistics.

Table 1

Survey of Changes in Bank Lending Practices  
September-December 1965  
(Number of banks)

Lending to Nonfinancial Businesses

	<u>Stronger</u>	<u>Weaker</u>	<u>Unchanged</u>
1. Strength of loan demand	55	1	25
	<u>Greater</u>	<u>Less</u>	<u>Unchanged</u>
2. Aggressiveness of bank in seeking new loans	1	25	55
3. Factors considered in deciding whether to approve credit requests:			
	<u>More important</u>	<u>Less important</u>	<u>Unchanged</u>
Applicant's value to the bank as a depositor or source of collateral business	53	-	28
Applicant's intended use of loan proceeds	29	-	51
4. Practices with respect to reviewing lines of credit or loan applications of:			
	<u>Firmer</u>	<u>Easier</u>	<u>Unchanged</u>
Established customers	18	-	63
New customers	51	-	30
Local service area customers	15	-	66
Nonlocal service area customers	36	1	43
5. Terms and conditions of loans:			
	<u>Firmer</u>	<u>Easier</u>	<u>Unchanged</u>
Interest rates	77	-	4
Compensating or supporting balances	51	-	30
Standards of credit-worthiness	29	-	51
Type and amount of collateral	15	-	65
Maturity	23	-	57

6. Term loans

	<u>More willing</u>	<u>Less willing</u>	<u>Unchanged</u>
Willingness to make	1	24	56
	<u>Longer</u>	<u>Shorter</u>	<u>Unchanged</u>
Maximum maturity bank will approve	-	8	72
	<u>Years</u>	<u>Number of banks</u>	
	2	1	
	3	6	
	5	41	
	6	1	
	7	12	
	8	6	
	10	2	
	n.a.	12	

Lending to Finance Companies

	<u>Firmer</u>	<u>Easier</u>	<u>Unchanged</u>
Interest rates	75	-	6
Size of compensating or supporting balances re- quired	26	-	55
Enforcement of balance requirements	38	-	43
Establishing new or larger credit lines	47	-	34

Source: Survey of Lending Practices at Large Banks in the Federal Reserve  
Quarterly Interest Rate Survey conducted as of December 15, 1965.

Table 2

Net Number of Banks Reporting Firmer Lending Policies in Lending Practices Survey  
(Number of banks reporting firmer policies less number reporting easier policies)

Item	Date of survey					
	Dec. 1965 <sup>p</sup>	Sept. 1965	June 1965	Mar. 1965	Dec. 1964	Sept. 1964
<u>Lending to nonfinancial businesses</u>						
Aggressiveness of bank in seeking new loans	24	13	11	-6	-2	-2
Factors considered in deciding whether to approve credit requests:						
Applicant's value to the bank as a depositor or source of collateral business	53	36	33	24	34	44
Applicant's intended use of loan proceeds	29	16	16	20	14	25
Practices with respect to reviewing lines of credit or loan applications of						
Established customers	18	6	4	4	6	2
New customers	51	32	35	19	21	26
Local service area customers	15	8	8	3	7	4
Nonlocal service area customers	35	35	27	15	22	27
Terms and conditions of loans						
Interest rates	77	44	40	46	35	13
Compensating or supporting balances	51	39	28	29	33	22
Standards of credit-worthiness	29	22	22	15	22	30
Type and amount of collateral	15	10	12	10	14	15
Maturity	23	11	14	5	4	3
Term loans						
Willingness to make	23	14	13	6	7	7
Maximum maturity bank will approve	8	-	3	-2	-2	-4
<u>Lending to finance companies</u>						
Type of requirement:						
Interest rate	75	10	10	13	12	3
Size of compensating or supporting balances required	26	5	11	7	8	-
Enforcement of balance requirements	38	18	19	17	22	13
Establishing new or larger credit lines	47	38	23	13	16	18
Strength of loan demand (net number reporting stronger demand)	54	41	45	37	27	48

p - Preliminary.