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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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The Domestic Economy

The consumer price index rose .1 per cent in December, reflecting mainly continuation of the rise in services and increases for gasoline and fuel oils that were partly seasonal. Over the 12 months of 1964, the index rose 1.1 per cent, compared with 1.7 per cent in 1963 and 1.2 per cent in 1962. As the release of the Department of Labor put it, "Prices rose slightly during 1964 on most items that consumers buy, except meats, eggs, sugar, household durables, new cars, and fuel oil. Increased charges for consumer services were again the major factor contributing to higher living costs, with the largest increases occurring in rates for hospital services, recreational services, and auto insurance premiums."

Rental vacancies in the fourth quarter of last year dipped to 7.5 per cent of the units available and fit for use. The average was the same as a year earlier and compared with a postwar peak of 8.1 per cent in the first half of 1961. Within metropolitan areas, the average edged up further to 7.7 per cent, but was still under the high in the third quarter of 1963. Outside such areas, the average dropped nearly to the recent low in the first quarter of 1964. All regions except the Northeast showed declines. The rate in the West, however, remained very high.

The Domestic Financial Situation

Common stock prices, as measured by the Standard and Poor's composite index, registered a further gain of nearly 1 per cent this week as the index reached a new record level of 87.48 on January 28.

This rise was accompanied by active trading averaging approximately 6 million shares daily. At this level, the Standard and Poor's composite index of 500 stocks is now 1.4 per cent above its previous high of November 20.

The other popular indicator of stock market prices, the Dow-Jones industrial average, broke through the 900 level January 28 (900.95 close) for the first time. Just eleven months ago it had breached the 800 mark.

Background influences contributing to the recent bullishness on stocks have included favorable investor reaction to recent dividend and earnings reports, and to evidence from current business indicators that favorable profits experience is likely to continue into early 1965. In addition, seasonal reinvestment of institutional funds has reportedly been quite large.

The Treasury bond market has weakened in recent days, reflecting some tapering off of investment demand and some expansion of offerings by dealers and other temporary holders of the advance refunding bond. The market has focused on recent unfavorable developments in the balance of payments and the attendant possibility of a somewhat less stimulative monetary policy. The market's reception of a Treasury cash offering of a new 21-month note priced to yield 4.9 per cent has been favorable, however. This offering will refinance about \$2.2 billion of February 15 maturities, including \$1.6 billion publicly held.