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² A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

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 8, 1968

SUPPLEMENTAL NOTES

The Domestic Economy

New construction put in place advanced further in December to a seasonally adjusted annual rate of \$77.9 billion based on confidential preliminary data released by the Census Bureau. The over-all rate which was associated with a substantial downward revision in the level of public construction expenditures back through June, was just below the peak in March of 1966. Within the private sector, the rate of residential expenditures, which, as anticipated, was revised upward by 2 per cent for November, rose further in December and exceeded the earlier peak in January 1966. Nonresidential construction changed little in December, at a level a tenth below its early 1967 high. Public expenditures--now estimated for November at about 7 per cent under last February's peak--also showed little change in December.

For the year as a whole, total construction outlays were only slightly higher than in 1966, though costs over-all are estimated to have risen 5 per cent. While the private residential and nonresidential sectors exhibited quite different expenditure-patterns over the course of the year, both fell somewhat short of their 1966 levels; but public construction expenditures last year were up by 5 per cent.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	December 1967 (\$ billions) <u>1/</u>	Per cent change from	
		November 1967	December 1966
Total	77.9	+ 1	+ 8
Private	52.7	+ 1	+14
Residential	27.1	+ 2	+37
Nonresidential	25.6	--	- 4
Public	25.2	--	- 2

1/ Seasonally adjusted annual rates; preliminary. Data for the most recent month (December) are available under a confidential arrangement with the Census Bureau. Under no circumstances should public reference be made to them.

Dealer deliveries of new domestic autos in the final ten days of December were slightly below a year earlier. Sales of Ford Motor Company cars, which had been recovering steadily through most of December, dropped off 17 per cent in the final period from a year earlier. For all of December, total new car sales were 6 per cent below last year. The seasonally adjusted annual rate for December was 7.5 million units.

For the calendar year 1967, sales of new domestic cars totaled about 7.5 million units, down one-tenth from 1966.

The Domestic Financial Situation

Yields on Treasury securities declined considerably last week, as shown in the accompanying table. This rally was initiated by the announced balance of payments program and gained further strength later in the week as reports of peace feelers by North Vietnam were circulated

in the press. Corporate and municipal markets were also firm and on Friday bankers' acceptance rates were lowered by $1/8$ to $1/4$ of a percentage point.

KEY INTEREST RATES

	1966	1967		
	High	Nov. 17 1/	Dec. 29	Jan. 5
<u>Short-Term Rates</u>				
3-months				
Treasury bills (bid)	5.59 (9/21)	4.67	5.04	4.96
Bankers' acceptances	5.75 (10/25)	4.88	5.63	5.50
Euro-dollars	7.06 (10/4)	5.75	6.25	6.19
Federal agencies	5.76 (9/21)	5.05	5.30	5.35
Finance paper	5.88 (12/31)	5.13	5.50	5.50
CD's (prime NYC)				
Highest quoted new issue	5.50 (12/31)	5.25	5.50	5.50
Secondary market	5.90 (9/21)	5.30	5.70	5.60
6-months				
Treasury bills (bid)	5.98 (9/19)	5.13	5.54	5.26
Bankers' acceptances	6.00 (9/23)	5.13	5.88	5.63
Commercial paper	6.00 (12/31)	5.13	5.63	5.63
Federal agencies	6.04 (9/21)	5.40	5.55	5.65
CD's (prime NYC)				
Highest quoted new issue	5.50 (12/31)	5.38	5.50	5.50
Secondary market	6.30 (9/28)	5.60	6.00	5.87
1-year				
Treasury bills (bid)	5.94 (9/21)	5.27	5.71	5.38
Federal agencies	6.13 (9/23)	5.75	5.95	5.95
Prime municipals	4.25 (9/21)	3.40	4.00	3.85
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	5.89 (8/29)	5.72	5.78	5.60
20-years	5.12 (8/29)	5.70	5.56	5.42
Corporate				
Seasoned Aaa	5.53 (9/8)	6.13	6.24	6.24
Baa	6.20 (12/23)	6.76	6.95	6.93
New Issue Aaa				
With call protection	5.98 (9/2)	6.53	--	6.32
Without call protection	6.10 (12/2)	6.68	--	--
Municipal				
Bond Buyer Index	4.24 (9/2)	4.33	4.44	4.38
Moody's Aaa	4.04 (8/26)	3.98	4.15	4.15
FHA home mortgages				
30-years	6.81 (Nov.)	6.63(Sept.)	6.77(Nov.)	--

1/ Pre-devaluation yield levels.

N.B. Lows and highs for 1967 may be found in various tables of the latest Greenbook.

International Developments

There has been very little demand for gold in London since the President's statement on the new balance of payments program on January 1, and the fixing price has been set continuously lower. Today, January 8, the price is \$35.1373, nearly six cents below the price at year-end. The presence of some newly produced gold, as well as scattered selling on one or two days, has permitted some increase in the Pool's gold holdings.

Exchange rates of Continental currencies against the dollar have declined significantly more than usual in the first week of the new year. A dominant factor around the year-end in these markets is the repatriation of commercial bank funds before year-end and the subsequent outflow for reinvestment abroad. Such outflows have tended often to produce declines in Continental exchange rates in the first week or so of the new year of from 20 to 40 thousandths of a cent. This year the movement has been significantly larger.

EXCHANGE RATES VIS A VIS THE U.S. DOLLAR
(weekly averages in U.S. cents)

	D-Mark	Sw.frc.	Gldr.	Fr.frc.
Dec. 4-8	25.112	23.176	27.813	20.383
11-15	25.125	23.177	27.799	20.391
18-22	25.096	23.152	27.811	20.387
26-29	25.060	23.149	27.812	20.373
Jan. 2-5	24.982	23.075	27.778	20.335

The Bank of Japan discount rate was increased on January 6 from 5.84 per cent to 6.21 per cent. This action, accompanying the credit policy measures described on page IV-24, is intended to restrain domestic demand and improve the balance of payments, which has worsened with the rise in Japanese imports in recent months.

Corrections:

Section III - page 10 - para. 2 - line 7 -

Change \$13.5 to \$9.0 billion.