Prefatory Note

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[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[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.

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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

March 29, 1968

The Domestic Financial Situation

Preliminary estimates indicate that total loans and investments at all commercial banks remained almost unchanged on a seasonally adjusted basis in March as compared to an approximate 14 per cent annual rate of increase for January-February combined. As reported in the Greenbook, this decline was the result of both heavy bank liquidation of Government securities and reduced loan demand, reflecting primarily an estimated $1 billion decline in security loans. The more rapid rate of expansion in business loans in March reflects mainly a large increase in these loans at banks in New York City for the week ending the 27th, although nearly half of this increase was in bankers' acceptances.

CHANGES IN BANK CREDIT
All Commercial Banks
(Seasonally adjusted annual rate, per cent)

	1967		1968	
	1st half	2nd half	Jan.-Feb.	Mar. 1/
Bank loans and investments	9.9	11.5	13.9	- 0.3
U.S. Gov't. securities	6.3	16.6	18.0	-27.2
Other securities	31.2	14.6	18.9	17.3
Total loans	5.9	9.4	11.5	2.1
Business loans	10.9	7.2	7.7	11.0

1/ All March figures are preliminary estimates based on incomplete data and are subject to revision.

Data for all weekly reporting banks covering the March tax and dividend period are consistent with the findings for New York City banks presented in the Greenbook that corporate demands for bank financing to cover the March tax and dividend payments were lighter than in previous years. However, such demands at banks outside New York City were somewhat stronger in relation to total tax payments than in earlier years, particularly with respect to direct business borrowing and the amount of CD's turned in, but not enough so to change the over-all picture.

Figures for the week ending March 27 for New York and Chicago suggest that some banks might be having trouble issuing CD's. In a period when banks usually add to their deposits in preparation for large April tax period maturities, outstandings showed little change in New York and declined more than $20 million in Chicago.

Preliminary February data for mutual savings banks have just been made available. These data indicate that savings banks continued to acquire corporate securities at a high rate--approximating that of the first three quarters in 1967. Mortgage acquisitions moderated.

During the first day of the current reinvestment period (March 27) deposit withdrawals at the largest New York City mutual savings banks were $108.4 million, compared to $87.1 million during the similar day in 1967, and $119.9 million in 1966.[1/]

1/ The 1968 and 1967 data are for 13 banks while the 1966 data are for 15 institutions. The difference reflects 2 banks that will be open on Saturday and whose grace period thus begins one day later.

Reflecting recent announcements of new issues, the estimated volume of corporate public bond offerings expected in April has been raised to $825 million, an increase of $75 million from the projection shown in the current Greenbook. Nonetheless, even with the upward revision, corporate bond volume remains well below the monthly pace of 1967 and about in line with the pace of the first quarter of this year.

CORPORATE PUBLIC BOND OFFERINGS
(Millions of dollars)

Monthly average		April
1967	1968 Q1	
1,249	852 e/	825 e/ r/

e/ Estimated.
r/ Revised.

On March 28, the Senate reversed its earlier vote which had prohibited the Treasury from rescinding by regulation the tax-exemption privilege of industrial revenue bonds. In the latest vote, the Senate approved a rider to the excise tax bill that would terminate the tax-exempt features on new industrial revenue bonds sold after January 1, 1969. The House has not yet voted on any bill on this subject.

In the event this or similar legislation is finally enacted, issues of industrial revenue bonds are likely to be quite large late in 1968. As in the fourth quarter of 1967, an increased volume of such offerings would bring additional pressure on the municipal bond market.

Although preliminary figures had indicated a $90 million decrease in stock market margin debt during February, final figures now available show such debt essentially unchanged at $6,150 million. However, some technical difficulties have arisen with the Federal Reserve margin debt panel and debt may have, in fact, declined in February.

KEY INTEREST RATES

	1967 High	1967 Nov. 17 1/	1968 Mar. 1	1968 Mar. 29
Short-Term Rates				
3-months				
Treasury bills (bid)	5.07 (12/5)	4.67	5.01	5.17*
Bankers' acceptances	5.63 (12/29)	4.88	5.25	5.75
Euro-dollars	6.88 (11/28)	5.75	5.69	6.38
Federal agencies	5.30 (12/29)	5.05	5.10	5.29
Finance paper	5.88 (1/6)	5.13	5.13	5.50
CD's (prime NYC)				
Highest quoted new issue	5.50 (12/29)	5.25	5.38	5.50
Secondary market	5.70 (12/29)	5.30	5.35	5.70
6-months				
Treasury bills (bid)	5.60 (12/1)	5.13	5.21	5.37*
Bankers' acceptances	5.88 (12/29)	5.00	5.38	5.88
Commercial paper	6.00 (1/16)	5.13	5.50	5.75
Federal agencies	5.55 (12/29)	5.40	5.40	5.67
CD's (prime NYC)				
Highest quoted new issue	5.50 (12/29)	5.38	5.50	5.50
Secondary market	6.00 (12/29)	5.60	5.62	5.90
1-year				
Treasury bills (bid)	5.71 (12/29)	5.27	5.33	5.51*
Federal agencies	5.95 (12/29)	5.75	5.50	5.67
Prime municipals	4.00 (12/29)	3.40	3.25	3.60
Intermediate and Long-Term				
Treasury coupon issues				
5-years	5.91 (11/13)	5.72	5.56	5.77**
20-years	5.81 (11/20)	5.70	5.39	5.64**
Corporate				
Seasoned Aaa	6.25 (12/28)	6.13	6.08	6.16**
Baa	6.98 (12/28)	6.76	6.79	6.92**
New Issue Aaa				
With call protection	6.55 (12/7)	6.53	6.40	--
Without call protection	6.70 (12/1)	6.68	6.48	6.64
Municipal				
Bond Buyer Index	4.45 (12/7)	4.33	4.44	4.54
Moody's Aaa	4.15 (12/28)	3.98	4.16	4.28
FHA home mortgages				
30-years	6.81 (Dec.)	6.77 (Nov.)	6.78 (Feb.)	--

1/ Pre-devaluation yield levels.
* 11:00 a.m. quotations.
** March 28 close.

International Developments

On March 7, after substantial losses of Canadian official reserves since the January 1 announcement of the U.S. balance of payments program, the United States and Canada announced that Canada would be exempted from the capital flow restrictions administered by the Federal Reserve and the Department of Commerce. However, Canadian reserve losses continued in the following week. On March 14, the Federal Reserve discount rate action was matched by the Bank of Canada, which raised its bank rate from 7 to 7-1/2 per cent.

The repeal of the gold reserve requirement against Federal Reserve notes was passed by Congress on March 14 and became law on March 18.

The communique issued at the March 16-17 weekend meeting in Washington of gold pool central bank governors is the subject of a separate memorandum.

It was announced on March 17 that the System's swap arrangements with foreign central banks and the B.I.S. had been increased by $2,275 million to $9,355 million.

The British budget (page IV - 13 and Appendix C) was widely accepted as being even more restrictive of demand (and accordingly helpful for the British balance of payments) than had been looked for. On March 21, two days after the budget announcement, the Bank of England lowered its bank rate from 8 to 7-1/2 per cent.

In gold markets during the past two weeks (since sales by gold pool central banks were terminated) prices have settled at levels nearer \$35 than some had expected, but no great volume of profit-taking sales has developed. Evidently many holders feel that time remains on their side. Uncertainties persist about the gold policies various central banks will follow, especially with regard to the treatment of new production. Uncertainties about the U.S. and U.K. balances of payments continue to nourish speculative thinking about gold. (See page IV - 5 regarding the volume of dealings earlier in March.)

Similarly, in foreign exchange markets crisis conditions such as developed in mid-March are not present now, but uncertainties hang over the markets. There is little indication of reflows of flight money back into sterling or the Canadian dollar. The widened forward discounts on the U.S. dollar against some currencies and the very high Euro-dollar interest rates (pages IV - 6 to 8) have been reduced, but not back to March 1 levels. Rising gold market activity before mid-March was accompanied by weakening of sterling quotations, in an erratic market that was thin for the most part but suffered occasional bursts of heavy selling. Probably sterling area official as well as private holders of sterling were among those buying gold. Since then, the sterling market has shown somewhat more resiliency but at times has reacted one-sidedly to such "uncertainties" as developed yesterday about the outcome of the Stockholm meeting of the Group of Ten today. Forward discounts for sterling have remained over 5 per cent per annum on the three-month contract.

Corrections

Page II - 5, paragraph 2. Present estimates exceed those implied in the Budget by $900 million, at an annual rate, in the first quarter and $1.9 billion in the second.

Page II - 7. The capacity utilization indexes for QIII and QIV 1967 should be 84.1 and 84.4, respectively. The QI 1968 estimate of industrial production shown here is believed to be consistent with projected GNP.

Page II - 10. Delete the first steel in next to the last sentence.

Appendix A, Chart 1, refers to acquisitions instead of holdings of the household sector. Page A - 10, end of line 3 below table, should read Estimates may understate.