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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL SITUATION

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

January 10, 1969

SUPPLEMENTAL NOTES

The Domestic Economy

Auto output, sales, and stocks. As a result of observance of two additional holidays in December by the auto industry, provided by the latest labor contract, a revision has been developed in the working day allowances for auto assemblies for use in the industrial production index. Late trade reports on the auto industry indicate that GM has raised its January output target by about 10 per cent so that total auto assemblies could be at an annual rate of about 8.7 million units instead of the 8.3 million reported in the Greenbook.

When the official figures on unit auto sales and stocks for December became available, it also was apparent that some adjustments were necessary in the seasonal adjustment factors used in the preceding year. The December sales rate has been revised upwards to an 8.5 million annual rate from the 8.2 million shown in the Greenbook, and the decline from November is 4 per cent rather than 7 per cent.

Stocks of new domestic autos remained at the high November level, rather than declining somewhat as reported earlier, but the number of days supply of cars on hand remained at 56.

Retail sales. Retail sales in December declined 2.1 per cent from November, for the largest month-to-month decline in 14 months, according to the advance release. Over the year, total sales were up by 7 per cent.

Sales of nondurable goods stores dropped 2.4 per cent from November. The important department store category with a 6.6 per cent

decline was responsible for a significant proportion of the weakness, but all other major components except drug stores also had lower sales.

Sales of durable goods stores declined 1.6 per cent, with the automotive group off 1.8 per cent and the furniture and appliance group down 1.1 per cent. Both durable and nondurable sales are now at lower levels than in any month since May.

RETAIL SALES
(Per cent change from preceding month)

	1968			
	September	October	November	December
Total	-0.6	-0.5	0.6	-2.1
Durable goods	1.4	-3.1	-0.9	-1.6
Automotive	3.0	-4.8	-2.0	-1.8
Furniture and appliance	-3.0	-3.1	-0.2	-1.1
Lumber, building material, houseware	-0.1	0.3	-0.2	-2.7
All other	0.5	2.2	2.8	-0.3
Nondurable goods	-1.6	0.7	1.4	-2.4
Apparel	-4.5	0.8	2.4	-5.0
Drugs	-0.5	-0.4	-1.6	0.5
Eating and drinking	0.6	-0.2	0.0	-2.1
Food	-0.8	-0.2	2.3	-1.1
Gasoline	-1.7	0.1	2.2	-1.0
General merchandise	-3.6	2.6	2.1	-5.2
Department stores	-4.5	2.4	4.5	-6.6
Other	1.0	1.7	-2.3	-0.7
G A F	-3.7	1.1	1.8	-4.4
Total less automotive	-1.5	0.6	1.3	-2.2
Durable less autos	-1.0	-0.3	0.8	-1.3

The Domestic Financial Situation

Bank credit. The estimated growth in total loans and investments at all commercial banks in December has been revised upward from the amount shown in the Greenbook to reflect a greater increase in loans at large banks outside New York and Chicago in the last week of the month than had been projected earlier. The increase was primarily in security loans and loans to nonbank financial institutions, and presumably reflects only a temporary surge related to year-end "window-dressing."

NET CHANGE IN BANK CREDIT
All Commercial Banks
(Seasonally adjusted annual rates, in per cent)

	1968	
	December ^{1/}	Year ^{1/}
Total loans and investments ^{2/}	10.1	11.1
U.S. Government securities	--	2.2
Other securities	13.7	15.6
Total loans	11.5	12.2
Business loans	5.1	9.7
All other loans	15.4	13.7

^{1/} All December rates are preliminary estimates based on incomplete data and are subject to revision.

^{2/} Based on December 31, 1968 and 1967 data.

Savings flows. The reinvestment experience at large New York City savings banks was very similar to that of 1965-66, with fairly large outflows. Similarly, savings banks in New York State received reduced inflows during the month of December, comparable to those a year earlier. The banks reportedly expected this kind of experience, however, and are said to have been prepared for it.

Corporate and municipal bond markets. New bond issues priced after the prime rate increase on Tuesday were accorded a good response by investors. The general improvement in both corporate and municipal markets in the last two days has brought yields down to near the levels prevailing prior to the prime rate action.

BOND YIELDS
(Weekly averages, per cent per annum)

	Corporate Aaa		State and local Government	
	New With call protection	Seasoned	S&P High Grade	Bond Buyers (mixed qualities)
<u>1968</u>				
Low	6.13 (8/30)	5.95 (9/13)	4.15 (8/9)	4.07 (8/9)
High	6.92 (12/13)	6.53 (12/27)	4.93 (12/27)	4.85 (12/27)
Week ending:				
Dec. 6	6.81	6.33	4.83	4.76
13	6.92	6.45	4.93	4.82
20	6.86	6.48	4.93	4.85
27	--	6.53	4.93	4.85
Jan. 3	--	6.55	4.93	4.85
10	6.90	6.58	4.93	4.85

U.S. Government securities market. The Treasury plans to sell \$1.75 billion of additional June tax bills on Tuesday, for payment on January 20. Banks again will be allowed to pay for their awards by crediting Treasury tax and loan accounts, but estimates of the value of this privilege vary widely, reflecting differences of opinion among estimators regarding the likely average length of the tax and loan carry.

The market took the tax bill announcement in stride, even though the size of the offering is somewhat larger than many market participants were expecting. This favorable response was apparently attributable in part to the general strengthening of the Government securities market that has occurred since the sharp yield advance following the latest prime rate hike. At noon on January 10, rates on most Treasury bills were around 10 to 15 basis points below the levels reached just after the prime rate action (and reported in the Greenbook). The 3-month bill was quoted at 6.10 per cent, and yields on Government bonds were generally about 1/8 of a percentage point lower,

The general strengthening of securities markets appears to reflect a growing belief among market participants that the chances for a credit crunch have been over-discounted. In these circumstances some retail buying has developed, at a time when dealer inventories are quite low.

Other short-term rates. Secondary market rates on prime New York CD's have receded from their levels just after the prime rate increase, in line with the general interest rate declines since that time. However, the administered rates on commercial paper, finance company paper and bankers' acceptances--which generally tend to lag behind yield movements on other short-term instruments--are 1/8 to 3/8 of a percentage point higher than they were on January 7.

KEY INTEREST RATES

	1968-69		1968	1969
	Low	High	Dec. 12	Jan. 9
<u>Short-Term Rates</u>				
Federal funds (weekly average)	4.56 (1/3)	6.43 (1/8)	5.82 (12/11)	6.43 (1/8)
3-months				
Treasury bills (bid)	4.82 (1/29)	6.29 (12/24)	5.89	6.15
Bankers' acceptances	5.25 (3/7)	6.62 (1/9)	6.13	6.62
Euro-dollars	5.43 (2/2)	7.56 (1/9)	7.06	7.56
Federal agencies	5.00 (2/9)	6.49 (1/9)	6.02	6.49
Finance paper	5.13 (3/7)	6.38 (1/9)	5.88	6.38
CD's (prime NYC)				
Highest quoted new issue	5.25 (2/8)	6.00 (1/9)	6.00	6.00
Secondary market	5.20 (1/31)	6.65 (1/9)	6.20	6.65
6-months				
Treasury bills (bid)	4.98 (1/29)	6.41 (12/24)	5.96	6.33
Bankers' acceptances	5.38 (3/7)	6.75 (1/9)	6.00	6.75
Commercial paper	5.50 (3/7)	6.62 (1/9)	6.00	6.62
Federal agencies	5.25 (2/9)	6.62 (12/26)	6.16	6.57
CD's (prime NYC)				
Highest quoted new issue	5.50 (3/7)	6.25 (1/9)	6.25	6.25
Secondary market	5.45 (1/31)	6.75 (1/9)	6.30	6.75
1-year				
Treasury bills (bid)	5.05 (8/1)	6.47 (12/24)	5.83	6.06
Prime municipals	2.75 (8/8)	4.00 (1/9)	3.65	4.00
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	5.42 (1/12)	6.43 (1/7)	6.05	6.34
20-years	5.16 (8/1)	6.12 (12/24)	5.81	5.99
Corporate				
Seasoned Aaa	5.95 (9/5)	6.58 (1/9)	6.47	6.58
Baa	6.77 (10/3)	7.37 (1/2)	7.18	7.34
New Issue Aaa				
With call protection	6.13 (8/29)	6.92 (12/12)	6.92	6.90
Without call protection	6.29 (2/2)	7.14 (12/5)	7.07	7.05
Municipal				
Bond Buyer Index	4.07 (8/8)	4.85 (1/9)	4.82	4.85
Moody's Aaa	3.80 (8/8)	4.58 (1/9)	4.45	4.58
Mortgage--Implicit yield				
in FNMA weekly auction <u>1/</u>	7.12 (5/6)	7.71 (6/10)	7.51 (12/9)	7.66 (1/6)

1/ Yield on 6-month forward commitment after allowance for commitment fee and required FNMA stock purchase. Assumes discount on 30-year loan amortized over 15 years.

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SECOND 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 13, 1969

Department of Commerce preliminary estimates for 1968 and 1968-IV.
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January 13, 1969

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of dollars, with quarterly figures at annual rates)

	1967	1968p	1968			
			I	II	III	IVP
Gross National Product	789.7	860.7	831.2	852.9	871.0	887.8
Final sales	783.6	853.1	829.1	842.1	863.5	877.8
Private	605.2	656.0	638.6	646.4	663.9	675.3
Personal consumption expenditures	492.2	533.7	519.4	527.9	541.1	546.3
Durable goods	72.6	82.5	79.0	81.0	85.1	84.8
Nondurable goods	215.8	230.2	226.5	228.2	232.7	233.5
Services	203.8	221.0	213.9	218.7	223.4	228.0
Gross private domestic investment	114.3	127.5	119.7	127.3	127.1	136.1
Residential construction	24.6	30.0	29.1	29.5	29.5	31.8
Business fixed investment	83.6	90.0	88.6	87.0	90.1	94.2
Change in business inventories	6.1	7.6	2.1	10.8	7.5	10.0
Nonfarm	5.6	7.2	1.6	10.4	7.3	9.2
Net Exports	4.8	2.4	1.5	2.0	3.3	3.0
Gov't. purchases of goods & services	178.4	197.1	190.5	195.7	199.6	202.5
Federal	90.6	100.0	97.1	100.0	101.2	101.6
Defense	72.4	78.9	76.8	79.0	79.6	80.0
Other	18.2	21.1	20.3	21.0	21.5	21.6
State & local	87.8	97.1	93.4	95.6	98.4	100.8
Gross national product in constant (1958) dollars	673.1	706.9	692.7	703.4	712.3	719.1
GNP implicit deflator (1958=100)	117.3	121.8	120.0	121.2	122.3	123.5
Personal income	628.8	685.8	662.7	678.1	694.3	708.2
Wages and salaries	423.4	463.5	448.3	457.6	469.0	479.0
Disposable income	546.3	589.0	574.4	586.3	592.7	602.5
Personal saving	40.2	40.8	40.8	44.0	37.1	41.4
Saving rate (per cent)	7.4	6.9	7.1	7.5	6.3	6.9
Corporate profits before tax	81.6	92.3	88.9	91.8	92.7	95.8*
Federal government receipts and expenditures (N.I.A. basis)						
Receipts	151.2	176.9	166.6	171.8	182.1	187.1*
Expenditures	163.6	182.2	175.1	181.9	184.9	186.8
Surplus or deficit (-)	-12.4	-5.3	-8.6	-10.2	-2.8	0.3*

* Projected.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967	1968p	1968			
			I	II	III	IV _p
-----In billions of dollars-----						
Gross National Product	42.1	71.0	20.2	21.7	18.1	16.8
Inventory change	-8.6	1.5	-6.2	8.7	-3.3	2.5
Final sales	50.8	69.5	26.4	13.0	21.4	14.3
Private	28.6	50.8	19.4	7.8	17.5	11.4
Government	22.2	18.7	7.0	5.2	3.9	2.9
GNP in constant (1958) dollars	16.0	33.8	10.9	10.7	8.9	6.8
Final sales	24.0	32.7	16.9	2.8	12.0	4.5
Private	9.8	24.2	12.4	0.1	11.1	3.6
-----In Per Cent Per Year-----						
Gross National Product	5.6	9.0	10.0	10.4	8.5	7.7
Final sales	6.9	8.9	13.2	6.3	10.2	6.6
Private	5.0	8.4	12.5	4.9	10.8	6.9
Personal consumption expenditures	5.7	8.4	13.7	6.5	10.0	3.8
Durable goods	3.0	13.6	25.9	10.1	20.2	-1.4
Nondurable goods	4.4	6.7	14.8	3.0	7.9	1.4
Services	8.2	8.4	8.2	9.0	8.6	8.2
Gross private domestic investment	-5.4	11.5	-6.9	25.4	-0.6	28.3
Residential construction	-0.8	22.0	8.4	5.5	0.0	31.2
Business fixed investment	2.8	7.7	16.9	-7.2	14.3	18.2
Gov't. purchases of goods & services	14.2	10.5	15.3	10.9	8.0	5.8
Federal	17.1	10.4	15.4	11.9	4.8	1.6
Defense	19.5	9.0	11.8	11.5	3.0	2.0
Other	8.3	15.9	27.4	13.8	9.5	1.9
State & local	11.4	10.6	15.1	9.4	11.7	9.8
GNP in constant (1958) dollars	2.4	5.0	6.4	6.2	5.0	3.8
Final sales	3.7	4.9	10.0	1.6	6.9	2.6
Private	1.9	4.6	9.3	0.1	8.2	2.6
GNP implicit deflator	3.1	3.8	3.5	4.2	3.4	3.9
Personal income	7.2	9.1	10.8	9.3	9.6	8.0
Wages and salaries	7.3	9.5	10.9	8.3	10.0	8.5
Disposable income	6.8	7.8	10.6	8.3	4.4	6.6
Corporate profits before tax	-4.7	13.1	16.4	13.0	1.7	13.4*
Federal government receipts and expenditures (N.I.A. basis)						
Receipts	5.7	17.0	26.1	12.5	23.5	11.0*
Expenditures	14.9	11.4	15.4	15.5	6.6	4.1

* Projected.