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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

June 20, 1969

SUPPLEMENTAL NOTES

The Domestic Economy

New orders for durable goods declined 3 per cent in May.

Rail equipment and machinery accounted for most of the decline, as they had accounted for most of April's increase. Nevertheless, declines in May, like increases in April, were fairly general, with only the aircraft and motor vehicle industries showing moderate increases.

The May decline was less than the April increase, and the April-May average was still above the first quarter average, both in current dollar terms and after allowance for price increase.

PERCENTAGE CHANGE IN NEW ORDERS FOR DURABLE GOODS

	April-May average from first quarter average
Durable goods manufacturers, total	1.7
Primary metals	2.4
Iron and steel	7.8
Machinery and equipment industries	4.9
Defense products industries	3.4
Consumer durables exc. autos	-4.6
All other durable goods	2.6
Defense products	-6.4

The second-quarter strength is mainly in capital goods and iron and steel. Orders for consumer durables (excluding autos) and the new defense products series declined in May for the third month.

(The April-May strength in defense industries may reflect commercial aircraft orders.)

Durable goods shipments changed little in May. They were still below new orders and the total backlog rose slightly further. Backlogs increased at iron and steel, machinery and equipment and motor vehicle plants, and declined at defense and other consumer durables plants.

The Domestic Financial Situation

Mortgage market. Mortgage commitments outstanding at insured S&L's and at New York State savings banks declined slightly during May for the first time this year, after seasonal adjustment, as these lenders became more cautious in approving new commitments. The commitment backlogs continued to represent about a 5-month volume of S&L mortgage acquisitions and a 9-month volume of savings bank lending, based on the moderate rate of loans disbursed by these institutions in May.

RESIDENTIAL MORTGAGE COMMITMENTS OUTSTANDING
AT SELECTED THRIFT INSTITUTIONS

Date	Outstanding Commitments			Month-to-Month Change		
	Total	Insured S&L's	Mutual Savings Banks (N.Y. State)	Total	Insured S&L's	Mutual Savings Banks (N.Y. State)
	(\$ Billions, Seasonally Adjusted)			(Per Cent)		
<u>1968</u>						
May	8.5	6.0	2.6	-0.9	-1.6	0.8
<u>1969</u>						
January	9.8	6.6	3.2	2.0	1.9	2.2
February	10.0	6.8	3.2	2.1	2.5	1.1
March	10.2	6.9	3.3	1.7	1.4	2.3
April	10.3	7.0	3.3	1.4	1.9	0.2
May	10.2	7.0	3.2	-1.3	-0.7	-2.7

Note: Based on seasonally adjusted dollar volume. Data from Federal Home Loan Bank Board and Savings Banks Association of New York State. Reporting savings banks account for about 70 per cent of total mortgage lending in the industry. Data for savings banks and insured S&L's include a minor amount of nonresidential commitments. Subtotals may not add to totals because of rounding.

Savings and loan associations. Inflows to savings and loan associations during May were slightly lower than last year, following the same pattern as the savings banks. Similarly, the pace of inflows after seasonal adjustment has slowed perceptibly during the April-May period. During May, there was virtually no change in the S&L's liquid position, except for a slight reduction in net liquid holdings resulting from their borrowing activities during the month.

SAVINGS GROWTH AT NONBANK DEPOSITARY INTERMEDIARIES^{1/}
(Seasonally adjusted annual rate, in per cent)

	Mutual Savings Banks	Savings and Loan Associations	Both
1968 - I	7.1	5.6	6.1
II	6.7	5.7	6.0
III	6.5	5.9	6.1
IV	7.1	6.2	6.5
1969 - I	6.2	6.1	6.1
March	7.1	8.1	7.8
April	2.9	1.9	2.2
May	6.7	4.3	5.1
Memo: April - May			
1968	6.8	4.9	5.5
1969	4.8	3.1	3.7

^{1/} Because of seasonal adjustment difficulties, quarterly or bi-monthly patterns are more reliable than monthly.

Federal finance. Treasury receipts and expenditures data becoming available in the critical closing weeks of June suggest that the Treasury balance at the end of the fiscal year may fall somewhat short of \$6 billion--about \$500 million below the Greenbook projection. With the balance at this lower level, the Treasury is expected to opt for a larger cash financing in July--possibly as much as \$4 billion. To assure an attractive tax and loan carry for bank subscribers to this financing, the Treasury would probably have to receive payment in the third week of July and announce before the next meeting of the Open Market Committee.

On June 18, the Senate passed a fiscal 1970 spending ceiling that is substantially different in form and level from the House-approved version referred to in the Greenbook. The Senate ceiling is similar to the one now operative for fiscal 1969 in that it exempts certain "uncontrolable" spending categories. But in addition to the Vietnam defense, interest, veterans benefit, farm price support, and social insurance benefit categories already exempted, the new Senate ceiling exempts education expenditures as well. To make the restrictive effect of its ceiling seem credible relative to that of the House, the Senate proposal also calls for a cut of \$1.9 billion in the Administration's overall budget, as shown in the table.

EFFECT OF SENATE CEILING ON 1970 OUTLAYS
(In billions of dollars)

Total outlays requested by administration		<u>192.9</u>
Share of total represented by exempt programs		111.0
Ceiling for outlays in covered programs		<u>80.0</u>
Non-Vietnam defense	55.0	
Nondefense	25.0	
Estimated budget cut from administration request		1.9

KEY INTEREST RATES

	1969			
	Lows	Highs	May 28	June 19
Short-Term Rates				
Federal funds (weekly averages)	5.95 (1/1)	9.20 (6/4)	8.93	8.54
3-months				
Treasury bills (bid)	5.91 (3/24)	6.81 (6/12)	6.08	6.60
Bankers' acceptances	6.38 (2/17)	8.12 (6/18)	7.50	8.12
Euro-dollars	7.14 (1/2)	12.50 (6/10)	9.82	11.23
Federal agencies	6.08 (3/26)	7.36 (6/19)	6.85	7.36
Finance paper	6.25 (2/6)	7.25 (6/18)	6.88	7.25
CD's (prime NYC)				
Highest quoted new issue	6.00	6.00	6.00	6.00
Secondary market	6.45 (2/13)	8.25 (6/18)	7.40	8.25
6-month				
Treasury bills (bid)	6.04 (3/25)	6.98 (6/11)	6.37	6.74
Bankers' acceptances	6.50 (2/17)	8.25 (6/18)	7.62	8.25
Commercial paper	6.25 (1/7)	8.38 (6/18)	7.50	8.38
Federal agencies	6.32 (1/16)	7.78 (6/19)	6.77	7.78
CD's (prime NYC)				
Highest quoted new issue	6.25	6.25	6.25	6.25
Secondary market	6.50 (1/30)	8.25 (6/18)	7.50	8.25
1-year				
Treasury bills (bid)	5.86 (1/16)	6.96 (6/12)	6.27	6.82
Prime municipals	3.90 (1/2)	5.40 (6/11)	4.40	5.25
Intermediate and Long-Term				
Treasury coupon issues				
5-years	6.11 (1/20)	6.76 (6/9)	6.68	6.73
20-years	5.91 (4/14)	6.46 (5/28)	6.46	6.26
Corporate				
Seasoned Aaa	6.56 (1/2)	7.03 (6/19)	6.86	7.03
Baa	7.26 (2/3)	7.76 (6/19)	7.59	7.76
New Issue Aaa				
No call protection	7.05 (1/9)	7.45 (4/9)	--	--
Call protection	6.90 (2/20)	7.75 (6/11)	7.44	7.71
Municipal				
Bond Buyer Index	4.82 (1/23)	5.82 (6/11)	5.60	5.79
Moody's Aaa	4.57 (1/2)	5.60 (6/18)	5.40	5.60
Mortgage--implicit yield				
in FNMA weekly auction <u>1/</u>	7.66 (1/9)	8.26 (6/16)	7.91	8.26

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

International Developments

The German central bank increased its discount rate from 4 to 5 per cent and its rate for advances against securities from 5 to 6 per cent to be effective from June 20. As money market rates in Germany had been above the discount rate since the beginning of June--in some instances by more than one percentage point--this action in part represents a technical adjustment. More fundamentally, however, the rate increase indicates an unwillingness to counteract tightening tendencies in the market, in view of rising inflationary pressures in Germany--especially in the absence of strong fiscal measures, which the Bundesbank would prefer, following the May 9 decision by the German government not to revalue the DM.

SUPPLEMENTAL APPENDIX A: SURVEY OF BANK LOAN COMMITMENTS, APRIL 1969*

The results of the April 30 survey of bank loan commitments indicated that total unused commitments--at 33 banks that responded to all items in the current and the previous survey--declined slightly further during the three months covered by the survey. Reductions in unused commitments to nonbank financial institutions and on real estate mortgages more than offset the rise in these commitments to commercial and industrial firms. At the end of April unused commitments amounted to 62 per cent of total loans outstanding at the reporting banks compared with 69 per cent in late October.

New commitments made during the period covered by the recent survey were in excess of \$15 billion, and were substantially larger than those reported in the previous survey. Most of this acceleration took place in confirmed lines of credit to commercial and industrial firms and in commitments to finance companies, which are subject to annual review by banks, and may reflect in part delays in renewal which would tend to bias downward the amount of these commitments reported in the previous survey and inflate the amount reported in the current survey. However, in view of the widespread nature of these increases--virtually every bank in the current survey reported an increased volume of these commitments made--this possible explanation should be viewed with caution.

In several other areas, new commitments were significantly less than those made in the period covered by the previous survey. New commitments made on term loans to businesses in particular had been reduced, as might be expected during a period in which the availability of lendable funds was being rapidly curtailed and interest rates were rising. This is consistent with the fact that 85 per cent of the respondents indicated that their commitment policies were firmer than at the time of the previous survey, with 95 per cent of these banks giving "reduced availability of funds," and 60 per cent "increased loan demand" as the reasons for their more restrictive policies.

Takedowns were somewhat larger in the three months covered by the current survey than in the period covered by the previous survey. Takedowns by finance companies, in particular, were almost twice as large as in the previous period, and may have reflected some temporary diversion of borrowing demands from the commercial

* Prepared by Joseph Burns, Economist, Division of Research and Statistics.

paper market to banks as money market tightened late in April. Takedowns by C&I firms were also slightly larger than in the previous period, but these were concentrated solely in confirmed lines of credit, with takedowns of all other types of commitments by C&I firms significantly less than in the previous period.

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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS 1
(AS OF APR 30, 1969)

TABLE 1
UNUSED AND NEW COMMITMENTS 2
PART A -- MILLIONS OF DOLLARS

	UNUSED COMMITMENTS			NEW COMMITMENTS		TAKEDOWNS, EXPIRATIONS AND CANCELLATIONS	
	AS OF APR 30 1969	CHANGE FROM JAN 31 1969	PERCENT CHANGE FROM JAN 31 1969	DURING QUARTER ENDING APR 30 1969	AS A PERCENT OF UNUSED COMMIT 3	DURING QUARTER ENDING APR 30 1969	AS A PERCENT OF AVAILABLE COMMIT 4
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
NUMBER OF BANKS 5	35	(33)	(33)	(33)	(33)	(33)	(33)
GRAND TOTAL COMMITMENTS	41,416	- 185	- .4	15,731	40.8	15,916	29.3
TOTAL-COMMERCL + INDUS FIRMS	31,734	+ 173	+ .6	12,542	42.5	12,369	29.4
TOTAL-NONBANK FINANCIAL INST	6,917	- 279	- 4.0	2,370	34.1	2,649	28.5
TOTAL-REAL ESTATE MORTGAGES	2,765	- 79	- 3.8	819	39.6	898	31.1
MEMO-CONSTR LOANS (INCL ABOVE)	(2,634)	+ (293)	+(16.2)	(646)	(35.8)	(353)	(14.4)
TOTAL-COMMERCL + INDUS FIRMS							
TERM LOANS	1,611	+ 223	+ 19.6	1,063	93.2	840	38.1
REVOLVING CREDITS	7,975	+ 678	+ 11.9	2,090	36.6	1,412	18.1
TOTAL TERM + REVOLVING 6	10,030	+ 547	+ 7.1	3,131	40.9	2,584	24.0
CONFIRMED LINES OF CREDIT	21,098	- 480	- 2.2	8,871	41.5	9,351	30.9
OTHER COMMITMENTS	606	+ 106	+ 21.2	540	108.0	434	41.7
TOTAL-NONBANK FINANCIAL INST							
FINANCE COMPANIES	4,211	- 293	- 6.6	1,639	37.1	1,932	31.9
FOR MORTGAGE WAREHOUSING	1,234	- 4	- .4	300	26.5	304	21.2
ALL OTHER	1,472	+ 18	+ 1.3	431	30.9	413	22.6
TOTAL-REAL ESTATE MORTGAGES							
RESIDENTIAL	780	+ 9	+ 1.5	274	46.5	265	30.7
OTHER	1,985	- 88	- 6.0	545	36.9	633	31.3

- 1 PARTICIPANTS IN QUARTERLY INTEREST RATE SURVEY WITH TOTAL DEPOSITS OF MORE THAN \$1 BILLION (48 BANKS).
- 2 DETAILED DATA NOT AVAILABLE FOR ALL BANKS THEREFORE ACTUAL COMMITMENTS MAY BE MORE THAN INDICATED HERE.
- 3 NEW COMMITMENTS DURING CURRENT PERIOD AS A PERCENT OF UNUSED COMMITMENTS AT END OF PREVIOUS PERIOD.
- 4 AVAILABLE COMMITMENTS ARE DEFINED AS UNUSED COMMITMENTS AT END OF PREVIOUS PERIOD PLUS NEW COMMITMENTS DURING THE CURRENT PERIOD.
- 5 PARENTHESES INDICATE MATCHED SAMPLE OF BANKS.
- 6 MAY EXCEED SUM OF PREVIOUS TWO ITEMS BECAUSE SOME BANKS REPORT COMBINED TOTAL ONLY.

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TABLE 1
UNUSED AND NEW COMMITMENTS
PART B -- PERCENTAGES

	UNUSED COMMITMENTS	NEW COMMITMENTS	TAKEDOWNS, EXPIRATIONS AND CANCELLATIONS
	AS OF APR 30 1969 (1)	DURING QUARTER ENDING APR 30 1969 (2)	DURING QUARTER ENDING APR 30 1969 (3)
NUMBER OF BANKS	35	(33)	(33)
GRAND TOTAL COMMITMENTS	100.0	100.0	100.0
TOTAL-COMMERCL + INDUS FIRMS	76.6	79.7	77.7
TOTAL-NONBANK FINANCIAL INST	16.7	15.1	16.7
TOTAL-REAL ESTATE MORTGAGES	6.7	5.2	5.6
MEMO-CONSTR LOANS (INCL ABOVE)	(6.4)	(4.1)	(2.2)
TOTAL-COMMERCL + INDUS FIRMS	100.0	100.0	100.0
TERM LOANS	5.1	8.5	16.8
REVOLVING CREDITS	25.1	16.7	11.4
TOTAL TERM + REVOLVING	31.6	25.0	20.9
CONFIRMED LINES OF CREDIT	66.5	70.7	75.6
OTHER COMMITMENTS	1.9	4.3	3.5
TOTAL-NONBANK FINANCIAL INST	100.0	100.0	100.0
FINANCE COMPANIES	60.9	69.1	72.9
FOR MORTGAGE WAREHOUSING	17.8	12.7	11.5
ALL OTHER	21.3	18.2	15.6
TOTAL-REAL ESTATE MORTGAGES	100.0	100.0	100.0
RESIDENTIAL	28.2	33.5	29.5
OTHER	71.8	66.5	70.5

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TABLE 2
RATIOS OF UNUSED COMMITMENTS
TO LOANS OUTSTANDING

UNUSED COMMITMENTS.....AS A PERCENT OF.....LOANS OUTSTANDING 1		OCT 31 1968	JAN 31 1969	APR 30 1969
		(1)	(2)	(3)
NUMBER OF BANKS		34	42	35
TOTAL UNUSED COMMITMENTS	GROSS LOANS	68.6	63.0	62.0
COMMERCL + INDUSTRL FIRMS	COMMERCIAL + INDUSTRIAL LOANS	109.0	100.5	87.9
NONBANK FINANCIAL INST	LOANS-NONBANK FINANCIAL INST	131.2	135.5	115.6
REAL ESTATE MORTGAGES	REAL ESTATE LOANS	23.2	25.1	34.3
COMMERCL + INDUSTRL FIRMS				
TERM LOANS	COMMERCIAL + INDUSTRIAL LOANS	5.4	4.8	4.5
REVOLVING CREDITS	COMMERCIAL + INDUSTRIAL LOANS	22.5	25.3	22.1
TOTAL TERM + REVOLVING	COMMERCIAL + INDUSTRIAL LOANS	34.4	29.8	27.8
CONFIRMED LINES OF CREDIT	COMMERCIAL + INDUSTRIAL LOANS	69.6	65.9	58.4
OTHER COMMITMENTS	COMMERCIAL + INDUSTRIAL LOANS	2.3	3.8	1.7
NONBANK FINANCIAL INST				
FINANCE COMPANIES	LOANS TO FINANCE COMPANIES	164.1	173.2	126.4
MORTGAGE WAREHOUSING	OTHER NONBANK FINANCIAL INST	53.4	53.5	46.6
ALL OTHER	OTHER NONBANK FINANCIAL INST	47.4	46.2	55.4
REAL ESTATE MORTGAGES				
RESIDENTIAL	REAL ESTATE LOANS	0.3	7.1	9.7
OTHER	REAL ESTATE LOANS	17.0	18.1	24.6

1 AS REPORTED ON THE WEEKLY REPORT OF CONDITION (FR416) FOR THE WEDNESDAY
NEAREST THE SURVEY DATE.

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TABLE 3
VIEWS ON COMMITMENT POLICY
PART A -- NUMBER OF BANKS

	OCT 31 1968	JAN 31 1969	APR 30 1969
	(1)	(2)	(3)
TOTAL NUMBER OF BANKS	47	48	48
UNUSED COMMITMENTS IN THE PAST THREE MONTHS HAVE			
RISEN RAPIDLY	1	3	4
RISEN MODERATELY	25	19	19
REMAINED UNCHANGED	18	17	11
DECLINED MODERATELY	3	9	14
DECLINED RAPIDLY	-		
TAKEDOWNS IN THE NEXT THREE MONTHS SHOULD			
RISE RAPIDLY	1	4	2
RISE MODERATELY	27	28	26
REMAIN UNCHANGED	19	15	17
DECLINE MODERATELY	-	1	3
DECLINE RAPIDLY	-		
COMMITMENT POLICY COMPARED WITH THREE MONTHS AGO IS			
MUCH MORE RESTRICTIVE	1	8	26
SOMEWHAT MORE RESTRICTIVE	9	28	15
UNCHANGED	33	12	7
LESS RESTRICTIVE	4	-	-
MUCH LESS RESTRICTIVE	-	-	

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TABLE 4
COMPARISON OF SELECTED RESPONSES IN THE
JAN 31 1969 AND APR 30 1969 SURVEYS
PART A -- NUMBER OF BANKS

UNUSED COMMITMENTS IN THE PAST THREE MONTHS HAVE	JAN 31 1969	APR 30 1969		
	NUMBER OF BANKS	RISEN	REMAINED UNCHANGED	DECLINED
RISEN	22	11	9	6
REMAINED UNCHANGED	17	7	5	5
DECLINED	9	5	1	3
TOTAL	48	23	11	14

TAKEDOWNS IN THE NEXT THREE MONTHS SHOULD		TAKEDOWNS IN THE NEXT THREE MONTHS SHOULD		
		RISE	REMAIN UNCHANGED	DECLINE
RISE	32	19	13	
REMAIN UNCHANGED	15	9	4	2
DECLINE	1	-	-	1
TOTAL	48	28	17	3

COMMITMENT POLICY COMPARED TO THREE MONTHS AGO IS		TAKEDOWNS IN THE NEXT THREE MONTHS SHOULD		
		RISE	REMAIN UNCHANGED	DECLINE
MORE RESTRICTIVE	36	22	12	2
UNCHANGED	12	6	5	1
LESS RESTRICTIVE	-	-	-	-
TOTAL	48	28	17	3

TAKEDOWNS IN THE NEXT THREE MONTHS SHOULD		UNUSED COMMITMENTS IN THE PAST THREE MONTHS HAVE		
		RISEN	REMAINED UNCHANGED	DECLINED
RISE	32	15	8	9
REMAIN UNCHANGED	15	8	3	4
DECLINE	1	-	-	1
TOTAL	48	23	11	14

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TABLE 5
 CROSS CLASSIFICATION OF SELECTED
 RESPONSES IN THE CURRENT SURVEY
 PART A -- NUMBER OF BANKS

UNUSED COMMITMENTS IN THE PAST THREE MONTHS HAVE	NUMBER OF BANKS	COMMITMENT POLICY COMPARED TO THREE MONTHS AGO IS		
		MORE RESTRICTIVE	UNCHANGED	LESS RESTRICTIVE
RISEN	23	18	5	
REMAINED UNCHANGED	11	10	1	
DECLINED	14	13	1	
TOTAL	48	41	7	

UNUSED COMMITMENTS IN THE PAST THREE MONTHS HAVE		TAKEDOWNS IN THE NEXT THREE MONTHS SHOULD		
		RISE	REMAIN UNCHANGED	DECLINE
RISEN	23	16	6	1
REMAINED UNCHANGED	11	5	5	1
DECLINED	14	7	6	1
TOTAL	48	28	17	3

TAKEDOWNS IN THE NEXT THREE MONTHS SHOULD		COMMITMENT POLICY COMPARED TO THREE MONTHS AGO IS		
		MORE RESTRICTIVE	UNCHANGED	LESS RESTRICTIVE
RISE	28	25	3	
REMAIN UNCHANGED	17	14	3	
DECLINE	3	2	1	
TOTAL	48	41	7	

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TABLE 6
EXPLANATION OF RECENT CHANGE IN NEW COMMITMENT
POLICY AS INDICATED IN THE CURRENT SURVEY

INDICATED CHANGE	NUMBER OF BANKS INDICATING CHANGE	REASONS FOR CHANGE (NUMBER OF BANKS)		
		INCREASED LOAN DEMAND	REDUCED AVAILABILITY OF FUNDS	BOTH DEMAND AND FUNDS
MORE RESTRICTIVE	41	3	17	21
		DECREASED LOAN DEMAND	INCREASED AVAILABILITY OF FUNDS	BOTH DEMAND AND FUNDS
LESS RESTRICTIVE	NONE			