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CONFIDENTIAL (FR)

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 14, 1970

SUPPLEMENTAL NOTES

The Domestic Economy

Industrial production. Industrial production in December was 170.9 per cent of the 1957-59 average, .3 per cent below November (revised to 171.4 from 171.1) and 1.3 per cent above a year earlier. Declines were concentrated in output of consumer durable goods, but materials production also eased off further, especially in the automotive supporting industries. (Confidential until released January 16).

Retail sales. The year ended with no apparent change in the cautious buying pattern of consumers. Sales at all retail stores in December--despite some pick-up in the last 1-1/2 weeks were, at \$29.6 billion (advance release), virtually unchanged from November and October. In real terms, December was the seventh month of sales below a year earlier. Unit auto sales, which fell from an annual rate of 8.3 million in November to 7.7 million in December, declined sharply further in the first 10 days of January when the weather was unusually bad.

Inventories. The increase in the book value of retail inventories slowed sharply in November, as a result of a switch by automotive dealers from rapid buildup in October. For total manufacturing and trade, the November increase was less than half the October rate.

The Commerce Department has estimated that on a GNP basis nonfarm inventory accumulation in the fourth quarter as a whole was at a \$7.6 billion annual rate, below the third quarter rate of \$10.3 billion. The implied book value increase for the quarter was about the same as in the third quarter, but the valuation adjustment was higher. The fourth quarter figures imply a December book value increase above the reduced rate reported for November.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
Seasonally adjusted annual rate, billions of dollars

	1969			
	QII avg.	QIII avg.	October	November
Manufacturing and trade, total	11.5	13.9	18.2	8.3
Manufacturing, total	7.6	8.0	8.5	5.4
Durable	6.0	6.2	7.2	5.8
Nondurable	1.6	1.8	1.3	-0.4
Trade, total	3.9	5.9	9.7	2.9
Wholesale	2.2	0.4	2.9	1.0
Retail	1.7	5.5	6.8	1.9
Durable	-0.7	2.9	5.8	0.5
Automotive	0.2	2.8	5.0	-0.1
Nondurable	2.4	2.6	1.0	1.4

Retail inventory-sales ratios increased slightly in November and as a result aggregate retail ratios were at or above late-1966 levels.

INVENTORY-SALES RATIOS

	1966			1969	
	Oct.	Nov.	Dec.	Oct.	Nov.
Manufacturing and trade, total	1.51	1.54	1.56	1.54	1.55
Trade, total	1.36	1.38	1.39	1.39	1.39
Wholesale	1.17	1.21	1.22	1.18	1.18
Retail	1.48	1.49	1.51	1.53	1.54
Durable	2.07	2.10	2.10	2.20	2.23
Automotive	1.62	1.68	1.67	1.80	1.82
Nondurable	1.20	1.20	1.23	1.22	1.23

Gross national product. (Confidential until release January 16).

In the fourth quarter of last year, GNP rose by \$10.3 billion, annual rate; in real terms GNP was unchanged from the third quarter. Final sales were up \$13.3 billion, current prices, slightly less than the third quarter increase and inventory accumulation in the fourth quarter was \$7.8 billion, annual rate, about \$3 billion less than in the previous quarter. GNP prices rose by 4.4 per cent annual rate in the fourth quarter.

GROSS NATIONAL PRODUCT AND RELATED ITEMS

	Billions of Dollars Seasonally Adjusted Annual Rate 1969		1969-IVp Change From Preceding Quarter	
	III	IVp	Billion \$	Per Cent per year
Gross National Product	942.8	953.1	10.3	4.4
Final sales	932.0	945.3	13.3	5.7
Private	715.0	726.4	11.4	6.4
Personal consumption expend.	579.8	589.2	9.4	6.5
Durable goods	89.8	89.6	-0.2	-0.9
Nondurable goods	245.1	249.4	4.3	7.0
Services	244.9	250.2	5.3	8.7
Gross private domestic invest.	143.3	142.4	-0.9	-2.5
Residential construction ^p	31.4	31.6	0.2	2.5
Business fixed investment	101.1	103.0	1.9	7.5
Change in business inventories	10.7	7.8	-2.9	--
Nonfarm	10.3	7.6	-2.7	--
Net exports of goods & services	2.7	2.6	-0.1	--
Gov't purchases of goods & serv.	217.0	218.9	1.9	3.5
Federal	103.2	102.7	-0.5	-1.9
Defense	80.3	79.2	-1.1	-5.5
Other	22.9	23.5	0.6	10.5
State and local	113.8	116.2	2.4	8.4
GNP in constant 1958 dollars	730.6	730.5	-0.1	-0.1
GNP implicit deflator	129.0	130.5	--	4.4
Personal income	756.5	766.9	10.4	5.5
Disposable income	639.0	647.1	8.1	5.1
Saving rate (per cent)	6.7	6.4	--	--

^p/ Preliminary.

The Domestic Financial Situation

Bank credit. Final data on bank credit for December indicate that the decline in total loans and investments at all commercial banks in December was slightly less than was estimated in the supplement of January 9. Total loans increased at a faster rate over the month than originally estimated and this more than offset a decline in holdings of municipal and Federal agency issues that was somewhat larger than previously estimated. The change in U.S. Treasury security holdings in December turned out to be the same as estimated in the January 9 supplement. The final December data revealed that business and security loan categories were slightly stronger than had been estimated earlier.

Bank sources of funds. During the last week of December consumer-type time and savings deposits at weekly reporting banks increased approximately \$300 million which is about \$160 million less than the advance recorded in the final week of 1968. Preliminary data from eleven Federal Reserve Districts indicate that, as is customary, large banks lost a part of this increase during the first week of January. The outflow at banks in the eleven Districts was about \$80 million which is about equal to the outflow recorded during this week last year at large banks in all Districts.

Nonbank depositary intermediaries. Reinvestment period outflows from the nonbank depositary institutions were substantially larger than a year ago. At mutual savings banks net withdrawals were approximately 50 per cent larger than a year earlier and net withdrawals from S&Ls were nearly double a year earlier. In line with usual seasonal patterns, however, recent outflows were somewhat smaller than during the June-July 1969 period.

DEPOSIT FLOWS DURING THE DECEMBER- JANUARY
REINVESTMENT PERIOD
(Millions of dollars, not seasonally adjusted)

	Mutual Savings Banks 1/	Savings and Loans Associations 2/
1966 - 67	- 64	- 360
1967 - 68	-189	- 632
1968 - 69	-226	- 740
1969 - 70	-323	-1,344

Memo: June-July 1969		
Reinvestment period	-419	-1,459

1/ 15 largest mutual savings banks in New York City, which account for 29 per cent of industry deposits, Data exclude interest credited.

2/ Universe estimates made by the FHLBB based on a sample of 480 associations. Data exclude dividends and interest credited.

Mortgage market. In the latest FNMA auction, the implicit private market yield on FNMA 6-month forward purchase commitments continued to rise quite sharply as FNMA again received a massive volume of bids for its commitments based on the new 8-1/2 per cent FHA and VA rate ceiling. The extent of the rise in the FNMA yield

in the last two auctions suggest that under the former ceiling rate of 7-1/2 per cent, the discount of nearly 10 points may have been the highest level at which originations could take place and that without this discount barrier, yields would have been even higher. Currently, the discount associated with the 6-month FNMA commitment is already over 5-1/2 points and with the strong demand for FNMA funds expected to continue, the average discount may soon approach the December levels.

FNMA WEEKLY AUCTIONS

	<u>Amount of total offers</u>		<u>Implicit private</u>	<u>Average discount</u>
	<u>Received</u>	<u>Accepted</u>	<u>market yield on</u>	<u>on 6-month</u>
	<u>(Millions of dollars)</u>		<u>6-month commitments</u>	<u>commitments</u>
			<u>(per cent)</u>	<u>(Points)</u>
<u>Highs</u>				
1968	\$232 (6/3)	\$ 89 (7/1)	7.71 (6.10)	8.1 (5/6)
1969	410 (6/13)	152 (9/8)	8.87 (12/29)	9.6 (12/29)
Dec.				
1	236	121	8.58	7.6
8	243	123	8.64	8.1
15	229	122	8.70	8.6
22	307	122	8.78	9.0
29	269	128	8.87	9.6
Jan.				
5	705	123	9.19	4.5
12	672	151	9.36	5.7

Note: Average secondary market yield after allowance for commitment fee, and required purchase and holding of FNMA stock, assuming prepayment period of 15 years for 30-year Government-underwritten mortgages. Yields shown are gross, before deduction of 50 basis point fee paid by investors to servicers. The first auction date was May 6, 1968.

INTEREST RATES

	1969			1970
	Lows	Highs	December 15	January 13
Short-Term Rates				
Federal funds (weekly averages)	5.95 (1/1)	9.61 (9/24)	8.75 (12/10)	8.45 (1/7)
3-months				
Treasury bills (bid)	5.87 (4/30)	8.08 (12/29)	7.92	7.82
Bankers' acceptances	6.38 (2/17)	8.63 (12/15)	8.63	8.75
Euro-dollars	7.06 (1/22)	12.50 (6/10)	11.14	10.38
Federal agencies	6.03 (3/28)	8.39 (11/20)	8.19 (12/11)	8.30 (1/8)
Finance paper	6.13 (3/11)	8.25 (12/3)	8.00	8.25
CD's (prime NYC)				
Highest quoted new issue	6.00	6.00	6.00	6.00
Secondary market	6.40 (4/30)	9.05 (12/31)	8.75	9.00
6-months				
Treasury bills (bid)	5.96 (4/30)	8.09 (12/29)	7.93	7.60
Bankers' acceptances	6.50 (2/17)	8.75 (12/15)	8.75	8.88
Commercial paper	6.25 (1/7)	8.88 (10/8)	8.88	8.75
Federal agencies	6.32 (1/16)	8.58 (11/20)	8.45 (12/11)	8.44 (1/8)
CD's (prime NYC)				
Highest quoted new issue	6.25	6.25	6.25	6.25
Secondary	6.50 (1/30)	9.15 (12/31)	9.00	9.00
1-year				
Treasury bills (bid)	5.86 (1/16)	7.86 (11/24)	7.60	7.46
Prime municipals	3.90 (1/2)	6.25 (12/11)	6.25 (12/11)	5.60 (1/8)
Intermediate and Long-Term				
Treasury coupon issues				
5-years	6.11 (1/20)	8.33 (12/29)	7.95	8.14
20-years	5.91 (6/5)	7.14 (12/29)	6.88	6.88
Corporate				
Seasoned Aaa	6.56 (1/2)	7.91 (12/31)	7.67	7.91 (1/9)
Baa	7.26 (2/3)	8.91 (12/31)	8.63	8.93 (1/9)
New Issue Aaa				
No call protection	7.03 (1/23)	7.80 (6/29)	--	--
Call protection	6.90 (2/20)	8.85 (12/5)	8.70	8.58 (1/8)
Municipal				
Bond Buyer Index	4.82 (1/23)	6.90 (12/19)	6.88 (12/11)	6.61 (1/8)
Moody's Aaa	4.57 (1/2)	6.57 (12/26)	6.48 (12/11)	6.41 (1/8)
Mortgage--implicit yield				
in FNMA weekly auction <u>1/</u>	7.66 (1/6)	8.87 (12/29)	8.70	9.36 (1/12)

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.