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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

May 22, 1970

SUPPLEMENTAL NOTES

The Domestic Economy

Orders for durable goods. New orders for durable goods increased by 1 per cent in April, according to the preliminary report. They remained slightly below the first-quarter average and 7 per cent below the fourth-quarter average.

NEW ORDERS FOR DURABLE GOODS
Seasonally adjusted, monthly averages, billions of dollars

| | <u>1969</u> | <u>1970</u> | April |
|--------------------------|-------------|-------------|-------|
| | QIV | QI | Prel. |
| Total durable goods | 31.1 | 29.1 | 28.9 |
| Primary metals | 5.0 | 4.6 | 5.0 |
| Iron and steel | 2.3 | 2.0 | 2.2 |
| Other primary metals | 2.7 | 2.6 | 2.8 |
| Motor vehicles and parts | 4.1 | 3.6 | 3.8 |
| Household durable goods | 2.0 | 2.0 | 2.0 |
| Defense products | 2.1 | 1.7 | 1.4 |
| Capital equipment | 8.8 | 8.5 | 8.2 |
| Machinery and equipment | 6.5 | 6.3 | 6.1 |
| All other durable goods | 9.1 | 8.7 | 8.5 |

There were increases from March to April in primary metals, machinery and equipment, and motor vehicles industries, while there was a substantial decrease in aerospace orders, apparently reflecting declines in both defense and nondefense orders. The capital equipment group, which includes nondefense aircraft orders, declined in April in contrast to the increase in the machinery and equipment group; both of these groups remained below the first-quarter average.

The order backlog dropped another 1 per cent in April, the fourth successive monthly decline of that magnitude, in spite of a jump in unfilled orders for iron and steel; except for primary metals and motor vehicle parts, all groups declined. Total durable goods shipments changed little; declines, mainly in iron and steel, were about offset by increases, mainly in the motor vehicles and aircraft industries.

INTEREST RATES

| | Late 1969 | | 1970 | | |
|-----------------------------------|---------------|--|-------------|-------------|-------------|
| | Highs | | Lows | May 4 | May 21 |
| <u>Short-Term Rates</u> | | | | | |
| Federal funds (weekly averages) | 9.32 (12/11) | | 7.45 (3/25) | 8.43 (4/29) | 7.84 (5/20) |
| 3-months | | | | | |
| Treasury bills (bid) | 8.08 (12/29) | | 6.08 (3/24) | 6.91 | 6.71 |
| Bankers' acceptances | 8.75 (12/31) | | 7.13 (3/30) | 8.13 | 7.88 |
| Euro-dollars | 11.56 (12/18) | | 8.00 (4/20) | 8.60 | 8.62 |
| Federal agencies | 8.39 (11/20) | | 6.80 (4/10) | 7.27 (5/1) | 7.22 |
| Finance paper | 8.25 (12/3) | | 7.25 (4/28) | 7.31 | 7.88 |
| CD's (prime NYC) | | | | | |
| Highest quoted new issue | 6.00 | | 6.75 | 6.75 | 6.75 |
| Secondary market | 9.05 (12/31) | | 7.19 (4/3) | 7.62 (5/1) | 8.15 |
| 6-month | | | | | |
| Treasury bills (bid) | 8.09 (12/29) | | 6.18 (3/23) | 7.36 | 7.00 |
| Bankers' acceptances | 8.88 (12/31) | | 7.25 (3/30) | 8.25 | 8.00 |
| Commercial paper | 9.00 (12/31) | | 7.88 (3/30) | 8.25 | 8.13 |
| Federal agencies | 8.58 (11/20) | | 6.91 (4/17) | 7.65 (5/1) | 7.52 |
| CD's (prime NYC) | | | | | |
| Highest quoted new issue | 6.25 | | 7.00 | 7.00 | 7.00 |
| Secondary market | 9.15 (12/31) | | 7.00 (4/1) | 7.80 (5/1) | 8.25 |
| 1-year | | | | | |
| Treasury bills (bid) | 7.86 (11/24) | | 6.20 (4/13) | 7.28 | 7.06 |
| Prime municipals | 6.25 (12/11) | | 3.80 (3/27) | 4.50 (5/1) | 5.20 |
| <u>Intermediate and Long-Term</u> | | | | | |
| Treasury coupon issues | | | | | |
| 5-years | 8.33 (12/29) | | 7.05 (3/25) | 8.05 | 8.01 |
| 20-years | 7.14 (12/29) | | 6.55 (2/27) | 7.21 | 7.21 |
| Corporate | | | | | |
| Seasoned Aaa | 7.91 (12/31) | | 7.78 (3/10) | 7.96 | 8.16 |
| Baa | 8.91 (12/31) | | 8.57 (3/10) | 8.87 | 9.03 |
| New Issue Aaa | | | | | |
| No call protection | -- | | -- | -- | -- |
| Call protection | 8.85 (12/5) | | 8.20 (2/27) | 8.91 (5/1) | 9.05 |
| Municipal | | | | | |
| Bond Buyer Index | 6.90 (12/19) | | 5.95 (3/12) | 6.79 (5/1) | 7.02 |
| Moody's Aaa | 6.57 (12/26) | | 5.75 (3/12) | 6.50 (5/1) | 6.74 |
| Mortgage--implicit yield | | | | | |
| in FNMA weekly auction <u>1/</u> | 8.87 (12/29) | | 9.04 (4/20) | 9.04 | 9.13 (5/18) |

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.

International Developments

Euro-dollar interest rates rose sharply, on Thursday and Friday after moving up considerably in the preceding week.

EURO-DOLLAR INTEREST RATES
(Per cent)

| | Average for weeks ending Wednesday | | Daily | |
|---------|---------------------------------------|--------|--------|--------|
| | May 13 | May 20 | May 20 | May 22 |
| Call | 7.40 | 8.28 | 8.63 | 9.00 |
| 1-month | 8.16 | 8.56 | 8.38 | 9.25 |
| 3-month | 8.51 | 8.81 | 8.94 | 9.50 |
| 6-month | 8.56 | 8.85 | 9.00 | 9.44 |

Euro-dollar borrowings by U.S. banks from their branches abroad are estimated--from incomplete data--to have risen moderately from Wednesday May 13 to Wednesday May 20, after declining in the preceding two weeks. (If U.S. bank demand is the explanation for the jump in Euro-dollar rates, liabilities to branches may be higher next week; transactions are for 2-day delivery.)

In foreign exchange markets, demand for the Canadian dollar has been very strong. Revaluation rumors circulated yesterday, May 21.

Sterling dropped sharply on Thursday, May 21, from about 240.30 to 240.09, and the Bank of England sold \$45 million in support of sterling. The pound opened under considerable pressure on Friday morning and the Bank of England sold an additional \$40 million to maintain the rate at around 240.07. The pressure on sterling was attributed in London to movement of arbitrage funds into Euro-dollar deposits. The

covered arbitrage for 3-month Euro-dollar deposits over U.K. local authority deposits was running on Friday at about 190 basis points in favor of Euro-dollars; the previous Friday it had been only 80 basis points in favor of Euro-dollars.

Corrections

Section III, page 14, line 14. Insert (1962-1968) after "years".

Section III, page 15, line 11. Change "shortfall" to "relative importance".