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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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SUPPLEMENTAL NOTES

The Domestic Nonfinancial Economy

Industrial production in March increased by an estimated 1.4 per cent to 135.1 per cent of the 1967 average, following the 1.0 per cent gain in February. In March, gains in output were widespread among consumer goods, business equipment, construction supplies, and materials; but production by utilities declined appreciably. About one-third of the advance in total output reflected a stepped-up pace of motor vehicle production. March output of factories, mines, and utilities was 20.9 per cent above the recession low two years earlier and about 2.5 per cent above the prerecession high in June 1974.

Output of durable consumer goods increased 5.7 per cent in March, with auto assemblies up 21 per cent to an annual rate of 9.9 million units. Announced schedules for auto assemblies indicate an annual rate for April of 9.4 million units. Output of nondurable consumer goods rose slightly. Production of business equipment increased 1.5 per cent.

Output of materials in March rose by 1.1 per cent. Production gains were widespread in both durable goods and nondurable goods materials. Among durable goods materials, output of iron and steel rose sharply; among nondurable goods materials, large gains occurred for textiles and paper.

INDUSTRIAL PRODUCTION
(Seasonally Adjusted)

Indexes, 1967=100	1976	1977			Per cent changes		
	Dec.	Jan.	Feb. (p)	Mar. (e)	Month ago	Year ago	QIV to QI
Total	133.1	132.0	133.3	135.1	1.4	5.5	1.3
Products, total	133.8	133.0	133.7	135.7	1.5	5.9	1.8
Final products	132.1	130.8	131.5	133.7	1.7	5.8	1.7
Consumer goods	142.0	140.1	140.9	143.4	1.8	5.4	1.6
Durable goods	151.2	145.1	145.5	153.8	5.7	9.5	2.3
Nondurable goods	138.4	138.1	139.0	139.2	.1	3.6	1.2
Business equipment	143.2	142.0	142.9	145.1	1.5	8.3	2.5
Intermediate products	139.8	141.3	141.9	142.8	.6	5.9	2.2
Construction supplies	135.5	135.4	135.6	137.2	1.2	6.6	.7
Materials	131.9	130.5	132.5	134.0	1.1	4.5	.4

p--preliminary

e--estimated

Book value of retail trade inventories increased at a \$3.1 billion annual rate in February, following the very rapid \$14.5 billion January rise. Stocks of durable goods were down slightly in February as auto dealers' inventories fell at a \$1.7 billion annual rate; excluding autos, however, durable inventories were up \$1.5 billion annual rate--still well below the \$5.1 billion January gain. Nondurable goods stores increased inventories at a \$3.4 billion annual rate--off from the \$6.0 billion January rate of rise. The ratio of inventories to sales at retail stores declined from 1.48 to 1.44 in February.

Book value of total manufacturing and trade inventories rose at a \$22.1 billion annual rate in February, following a \$34.2 billion January increase. The January-February average increase of \$28.1 billion, annual rate, is far above the \$10.3 billion fourth quarter rise. The ratio of inventories to sales at all manufacturing and trade firms dropped to 1.46 from 1.49 in January.

BUSINESS INVENTORIES
(Change at annual rates in seasonally
adjusted book values; billions of dollars)

	1976	1977	
	QIV	Jan.	Feb.
Manufacturing and trade	10.3	34.2	22.1
Manufacturing	6.5	10.7	12.4
Durable	6.5	10.0	9.0
Nondurable	.0	.7	3.4
Trade, total	3.9	23.4	9.7
Wholesale	1.6	8.9	6.6
Retail	2.2	14.5	3.1
Auto	1.3	3.4	-1.7

INVENTORY RATIOS

	1976	1977	
	QIV	Jan.	Feb.
<u>Inventory to sales:</u>			
Manufacturing and trade	1.51	1.49	1.46
Manufacturing	1.65	1.62	1.58
Durable	2.04	2.00	1.96
Nondurable	1.24	1.21	1.18
Trade, total	1.36	1.37	1.34
Wholesale	1.22	1.21	1.20
Retails	1.47	1.48	1.44
<u>Inventories to unfilled orders:</u>			
Durable manufacturing	.632	.631	.633

The Domestic Financial Economy

No textual addendums to the Greenbook were required, but the usual updating of interest rate developments is contained in the table on page 5.

INTEREST RATES
(One day quotes--in per cent)

	1977		1977	
	Highs	Lows	Mar. 14	Apr. 14
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	4.77(3/23)	4.47(1/5)	4.62(3/16)	4.65(4/13)
3-month				
Treasury bills (bid)	4.77(1/27)	4.39(1/3)	4.57	4.52
Comm. paper (90-119 days)	4.88(2/3)	4.63(1/10)	4.75	4.75
Bankers' acceptances	4.93(2/3)	4.66(1/3)	4.80	4.75
Euro-dollars	5.31(3/29)	4.88(1/5)	5.13	5.13
CD's (NYC) 90 days				
Most often quoted new	4.80(2/2)	4.50(1/5)	4.77(3/9)	4.70(4/13)
6-month				
Treasury bills (bid)	5.06(1/27)	4.54(1/3)	4.83	4.70
Comm. paper (4-6 mos.)	4.83(4/14)	4.63(1/7)	4.88	4.88
CD's (NYC) 180 days				
Most often quoted new	5.05(2/2)	4.65(1/5)	5.00(3/9)	5.00(4/13)
1-year				
Treasury bills (bid)	5.32(2/2)	4.66(1/3)	5.13	4.94
CD's (NYC)				
Most often quoted new	5.25(4/13)	5.00(1/5)	5.25(3/9)	5.25(4/13)
Prime municipals	3.00(1/21)	2.65(1/7)	2.90(3/11)	2.90(4/15)
<u>Intermediate- and Long-Term</u>				
Treasury (constant maturity)				
3-year	6.66(2/2)	5.73(1/3)	6.44	6.03
7-year	7.27(2/2)	6.50(1/3)	7.17	6.93
20-year	7.78(3/8)	7.20(1/3)	7.74	7.58
Corporate				
Seasoned Aaa	8.13(3/14)	7.87(1/5)	3.13	8.06(4/13)
Baa	9.18(2/25)	9.04(1/6)	9.14	9.10(4/13)
Aaa Utility New Issue	3.30(3/9)	7.90(1/5)	8.30(3/11)	8.23p(4/15)
Recently Offered	8.32(3/9)	7.95(1/5)	8.32(3/11)	8.16p(4/15)
Municipal				
Bond Buyer Index	5.93(2/2)	5.70(4/13)	5.92(3/10)	5.70
Mortgage--average yield in				
FNMA auction	8.72(4/6)	8.46(1/12)	8.66(3/7)	8.72(4/4)

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APPENDIX A*

BANK CREDIT REVISION

The commercial bank credit figures used in this month's analysis of financial developments reflect revisions based on the June 30, 1976, Call Report. This Appendix explains the effects of the revisions on previous estimates of loans and investments.

According to the June Call Report data, growth in commercial bank credit was considerably larger over the first half of 1976 than the partially estimated data had indicated. The seasonally adjusted annual rate of growth in total loans and investments for this period is now estimated at 7.7 per cent compared with the previous estimate of 4.9 per cent as shown on Table I. The new higher level for total bank credit reflects mainly upward revisions in the level of total loans, as shown in Table II. Holdings of U.S. Treasury and other securities were increased only moderately.

The level of the total bank credit series was raised by \$10 billion for June 30, 1976, and the level of the total loans series by \$8.6 billion-- both larger dollar revisions than had occurred in any previous benchmark adjustment. The levels of U.S. Treasury securities and other securities were raised by \$0.6 billion and \$0.7 billion respectively, both close to the average amounts of revisions in previous years.

There were three sources of error involved in the original monthly estimates.

(a) Initial estimates for both loans and securities at non-member banks were too low.^{1/} The June Call Report indicated that credit expansion at nonmember banks in the first half of 1976 had been \$6.3 billion more than previously estimated. This revision, which accounted for almost two-thirds of the total revision for all banks, also raised nonmember estimates for earlier months back to January 1976. The new Call Report ratios have been carried forward raising monthly estimates of nonmember bank credit subsequent to June 1976. Most of the revisions in nonmember bank credit reflected stronger loan growth. As of June 30, 1976, nonmember bank loans were \$5.6 billion higher than initially

^{1/} Initial estimates for nonmember banks are based on data reported weekly by the smaller member banks, using ratios that relate nonmember amounts to the amounts reported by smaller member banks in the most recently available mid-year or end-of-year Call Report. Previous estimates reflected Call Report relationships as of December 31, 1975.

* Prepared by Edward R. Fry and Mary Jane Harrington, Banking Section, Division of Research and Statistics.

estimated, accounting for about two-thirds of the revision in total loans at all commercial banks. Benchmark revisions in U.S. Treasury securities and other securities were relatively small for nonmember banks--\$0.2 billion and \$0.6 billion higher, respectively.

(b) Revisions in the original data reported weekly by member banks, which are incorporated into the all-commercial bank credit series, were unusually large. Loans and investments, including interbank loans, as originally reported by member banks were revised upward for the first half of 1976--\$3.4 billion as of June 30, 1976. This source of error accounted for about one-third of the total revision in all-commercial bank credit.^{1/} While the reported member bank data have sometimes revised substantially, the 1976 revisions were larger than usual. Analysis of the data indicated that loans in one District had been consistently understated following introduction of a net loans concept in the March Call.^{2/} This understatement affected both the member bank totals and the nonmember estimates derived from the small member bank data. Revised data for this District were incorporated into the member bank series before the new nonmember estimates were computed. Also, various smaller revisions for other Districts were incorporated in the revision. Monthly patterns of change between the old and new series were affected to some extent by the revisions in member bank data beginning in April and by the substitution of member bank Call data for June 30, 1976.

(c) Bank credit estimates were raised slightly by downward revision of interbank loans which are netted out of the bank loans series.^{3/} On June 30, 1976, the estimating error in this item was small relative to past experience--\$0.3 billion--and contributed only nominally to the total error in bank credit. This revision reflects offsetting errors in reported data from member banks and in the nonmember/country member bank estimating ratio that had been carried forward from the December 1975 Call.

^{1/} Reported member bank data can be checked directly with the Call Report only infrequently--when the last-Wednesday of June or December happens to be a Call date, as was the case on June 30, 1976. In cases where the last-Wednesday of June or December does not fall on the Call date, differences between the last-Wednesday reported data and the Call reflect "window-dressing," and errors in estimating this item often have contributed significantly to revisions in the series.

^{2/} Beginning in the March 1976 Call, both gross loans and loans net of unearned income and loan loss reserves were reported. The gross loan concept, used historically in the bank credit series, has been continued.

^{3/} Domestic interbank loans, including Federal funds transactions with banks, are estimated on the basis of reported data for member banks and nonmember estimates relying on data reported by small member banks and Call Report ratios of nonmember to small member interbank loans.

Business loan estimates were raised \$2.0 billion on the basis of the June Call, about the same amount as in other recent revisions but somewhat more than the longer-run average. On the revised basis, business loans declined at an annual rate of 2.7 per cent over the January-June 1976 period compared with a previously estimated decline of 4.9 per cent. Real estate loans also showed a substantial upward revision--\$1.5 billion. This was about double the average error of recent years. Initial estimates of total loans and of business and real estate loans, the two largest loan categories, tend to be biased downward, and benchmark revisions over the years generally have raised the levels and growth rates of these series.^{1/}

Outstanding loans to nonbank financial institutions and to brokers and dealers in securities were somewhat lower on the Call date than had been estimated. Ordinarily these estimates, which rely heavily on weekly reporting bank data, are changed little by Call Report benchmarks for nonweekly reporting banks, since smaller banks are relatively unimportant lenders in these financial categories. Agricultural loans, which are concentrated at the smaller banks, also showed a small downward revision.

On balance, \$1.9 billion of the total \$3.6 billion upward revision in total loans as of June 30, 1976, was in the residual category "all other loans." It is likely that part of this revision eventually will be reflected in consumer loans, adding to the relatively strong expansion of these loans already reflected in the estimates for the year 1976. Consumer loans, which are derived from consumer credit survey reports, were not affected by this benchmark revision; however, this series also will be benchmarked to the Call when total consumer credit data are revised. Revisions in these loans generally have been upward.

^{1/} Data for loan categories are available currently only for weekly reporting banks. Estimates for other commercial banks are made largely on the basis of the movement of total loans at the smaller banks, the trend of business and other loans as indicated by the most recent Call Report, and patterns for previous years established in the semiannual benchmarking.

Table I

COMMERCIAL BANK CREDIT^{1/}
 COMPARISON OF OLD AND REVISED RATES OF GROWTH*
 (Seasonally adjusted changes at annual percentage rates)

	Total loans & investments ^{2/}		US Treasury securities		Other securities		Total loans ^{2/}		Business loans ^{2/}		Real estate	
	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised
1976--1st half	4.9	7.7	36.8	38.5	-1.0	--	1.6	5.0	-4.9	-2.7	8.0	9.3
1st quarter	5.5	6.7	44.3	44.8	-4.1	-3.6	2.1	3.7	-7.4	-6.7	8.9	11.0
2nd quarter	4.3	8.5	26.3	29.0	2.2	3.6	1.0	6.2	-2.1	1.4	6.9	9.2
3rd quarter ^{p/}	7.2	5.5	--	-1.3	8.3	7.5	8.2	6.2	3.5	4.6	6.0	8.7
4th quarter ^{p/}	7.9	7.9	10.6	10.6	6.3	6.5	7.9	7.7	9.6	9.7	8.1	9.6
2nd half ^{p/}	7.6	6.7	5.3	4.6	7.4	7.0	8.1	7.0	6.6	7.2	7.1	9.3
year 1976 ^{p/}	6.4	7.3	21.5	22.0	3.2	3.5	4.9	6.1	0.8	2.2	7.7	10.0
1976--January	3.5	4.5	24.2	24.2	1.7	1.7	0.7	2.2	4.0	4.7	7.2	9.8
February	6.1	7.1	50.4	51.9	-4.1	-3.3	1.7	2.9	-8.7	-8.0	10.7	11.5
March	6.9	8.5	54.0	54.0	-10.0	-9.1	3.8	6.0	-17.5	-16.9	8.8	11.4
April	5.4	11.1	24.5	25.8	5.9	6.7	1.9	9.7	-6.2	0.7	6.9	11.2
May	5.4	6.3	40.0	38.6	--	0.8	0.7	2.1	2.1	3.4	8.6	9.4
June	2.1	7.9	12.9	20.6	0.8	3.3	0.5	6.8	-2.1	--	5.1	6.8
July ^{p/}	7.1	2.2	-16.6	-21.5	13.3	10.8	9.7	4.2	5.5	6.2	7.7	9.3
August ^{p/}	8.2	8.4	29.8	32.3	3.3	3.3	5.7	5.6	-2.1	--	1.7	5.9
September ^{p/}	6.1	5.8	-12.6	-13.8	8.2	8.2	8.9	8.8	6.9	7.5	8.5	10.8
October ^{p/}	12.2	12.1	-6.4	-7.6	3.3	4.1	18.2	17.9	19.2	18.3	6.7	9.1
November ^{p/}	9.4	9.6	10.3	11.5	22.0	21.9	5.7	5.9	12.9	14.0	7.5	9.0
December ^{p/}	2.0	1.7	28.0	26.6	-6.4	-6.4	-0.2	-0.7	-3.3	-3.3	10.0	10.6
1977--January ^{p/}	9.0	8.9	-9.9	-9.9	-3.2	-4.0	16.0	16.0	8.1	8.6	8.2	8.6
February ^{p/}	14.8	14.5	56.4	57.4	5.6	5.6	9.9	9.4	10.0	9.9	11.5	9.9

^{1/} Last-Wednesday-of-month series except for June and December which are adjusted to the last business day of the month.

^{2/} Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank's holding company (if not a bank) and nonconsolidated nonbank subsidiaries of holding companies.

* Data revised to reflect adjustment to June 30, 1976 Call Report benchmark.

^{p/} Preliminary.

Table II

SEASONALLY ADJUSTED BANK CREDIT^{1/}
COMPARISON OF OLD AND REVISED LEVELS*
(In billions of dollars)

	<u>Total loans & investments^{2/}</u>		<u>US Treasury securities</u>		<u>Other securities</u>		<u>Total loans^{2/}</u>		<u>Business loans^{2/}</u>		<u>Real estate</u>	
	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised
1976--January.	727.6	728.2	81.0	81.0	145.0	145.0	501.6	502.2	179.1	179.2	135.2	135.5
February	731.2	732.5	84.4	84.5	144.5	144.6	502.3	503.4	177.8	178.0	136.4	136.8
March	735.4	737.7	88.2	88.3	143.3	143.5	503.9	505.9	174.0	174.3	138.2	138.9
April	738.7	744.5	90.0	90.2	144.0	144.3	504.7	510.0	173.1	174.4	139.0	140.2
May	742.0	748.4	93.0	93.1	144.0	144.4	505.0	510.9	173.4	174.9	140.0	141.3
June	743.3	753.3	94.0	94.7	144.1	144.8	505.2	513.8	173.1	174.9	140.6	142.1
July ^{p/}	747.7	754.7	92.7	93.0	145.7	146.1	509.3	515.6	173.9	175.8	141.5	143.2
August ^{p/}	752.8	760.0	95.0	95.5	146.1	146.5	511.7	518.0	173.6	175.8	141.7	143.9
September ^{p/}	756.6	763.7	94.0	94.4	147.1	147.5	515.5	521.8	174.6	176.9	142.7	145.2
October ^{p/}	764.3	771.4	93.5	93.8	147.5	148.0	523.3	529.6	177.4	179.6	143.5	146.3
November ^{p/}	770.3	777.6	94.3	94.7	150.2	150.7	525.8	532.2	179.3	181.7	144.4	147.4
December ^{p/}	771.6	778.7	96.5	96.9	149.4	149.9	525.7	531.9	178.8	181.2	145.6	148.7
1977--January ^{p/}	777.4	784.5	95.7	96.1	149.0	149.4	532.7	539.0	180.0	182.5	146.6	149.9
February ^{p/}	787.0	794.0	100.2	100.7	149.7	150.1	537.1	543.2	181.5	184.0	148.0	151.4

^{1/} Last-Wednesday-of-month series except for June and December which are adjusted to the last business day of the month.

^{2/} Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank's holding company (if not a bank) and nonconsolidated nonbank subsidiaries of holding companies.

* Data revised to reflect adjustment to June 30, 1976 Call Report benchmark.

^{p/} Preliminary.