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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

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### The Domestic Nonfinancial Economy

Industrial production increased 0.7 per cent in June, following gains of 1.0 per cent in May and 0.7 per cent in April. Automotive products, business equipment, and durable goods materials contributed substantially to the June advance, while output of nondurable consumer goods and consumer goods materials was little changed over the month. Industrial production rose at a 12-1/2 per cent annual rate between the first and second quarters, after a weather-damped 5.3 per cent annual rate of increase for the first quarter.

Products. Auto assemblies rose about 5-1/2 per cent from May to a 9.7 million unit annual rate in June, contributing significantly to the sharp rise in output of durable consumer goods. Production of business equipment continued to advance strongly, rising 1.5 per cent in June and at about an 18 per cent annual rate for the second quarter as a whole. Output of home goods and nondurable consumer goods rose slightly in June.

Materials. Production of nondurable goods materials was about unchanged in June but durable goods materials continued to increase rapidly. Iron and steel output rose further but at a slower rate than that of the previous three months.

INDUSTRIAL PRODUCTION  
(seasonally adjusted)

Indexes, 1967=100	1977				Per cent changes		
	Mar.	Apr.	May (p)	June (e)	Month ago	Year ago	QI to QII
Total	135.2	136.2	137.6	138.6	.7	6.5	3.0
Products, total	134.9	136.2	137.2	138.3	.8	6.8	2.4
Final products	133.0	134.4	135.3	136.3	.7	6.8	2.6
Consumer goods	142.8	143.6	143.9	144.7	.6	5.0	2.0
Durable goods	152.4	152.0	152.6	155.2	1.7	7.6	3.7
Nondurable goods	139.0	140.3	140.4	140.7	.2	4.1	1.3
Business equipment	144.5	147.0	149.3	151.6	1.5	12.3	4.3
Intermediate products	141.9	142.8	144.6	145.8	.8	7.3	1.8
Construction supplies	136.4	137.4	139.6	141.1	1.1	7.1	2.4
Materials	135.5	136.4	137.9	138.9	.7	5.9	3.6

p -- preliminary      e -- estimated

Book value of retail trade inventories increased at a \$12.9 billion annual rate in May, following increases of \$7.6 billion in April and \$12.0 billion in the first quarter. Stocks at durable goods outlets rose at a \$7.0 billion annual rate, following a slight decline in April; excluding automotive dealers and stores, durable inventories were up \$1.9 billion in May. Nondurable inventories rose at a \$5.8 billion annual rate in May, following an \$8.0 billion April increase.

For manufacturing and trade as a whole, book value of inventories rose at a \$39.2 billion rate in May, well above the \$32.8 billion first quarter annual rate of rise. In contrast to the preceding

two months, the increase in total durable goods inventories (\$24.6 billion, annual rate) was more rapid than that in nondurable goods (\$14.6 billion). The total manufacturing and trade inventory-sales ratio edged up to 1.46 from 1.45 in April--still fairly low by historical standards.

#### 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 6.

#### ERRATA

- Part I: Page I-13, line 5 should read: "deficit in the last half  
of calendar 1976,  
Page I-15, last line: change "7.6" to "7.3"  
Page I-16, first line: change "27.6" to "23.5"  
Page I-20, first line: change \$14.6 million to \$14.6 billion
- Part II: Page II-11: See revised tables "Business Inventories" and  
"Inventory Ratios" on page 4.  
Page III-4: See revised table "Monetary Aggregates" on  
page 5.

REVISED JULY 15, 1977

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

	1975	1976				1977		
	QIV	QI	QII	QIII	QIV	QI	Apr.	May
Manufacturing and trade	-.4	23.1	31.5	29.6	10.3	32.8	32.8	39.2
Manufacturing	.6	7.5	14.2	15.4	6.5	11.2	16.4	24.7
Durable	-4.4	1.7	6.8	6.8	6.4	7.8	6.1	12.4
Nondurable	5.0	5.8	7.5	8.6	.0	3.3	10.4	12.3
Trade, total	-1.0	15.6	17.3	14.2	3.9	21.6	13.8	14.4
Wholesale	-2.0	5.1	9.0	4.3	1.6	9.7	6.2	1.5
Retail	1.0	10.5	8.3	9.9	2.2	12.0	7.6	12.9
Auto	-.9	1.1	.1	4.8	1.3	2.2	-.9	5.1

INVENTORY RATIOS

	1974	1975	1976		1977		
	QI	QI	QIII	QIV	QI	Apr.	May
<u>Inventory to sales:</u>							
Manufacturing and trade	1.50	1.66	1.53	1.51	1.47	1.45	1.46
Manufacturing	1.65	1.91	1.67	1.65	1.58	1.56	1.58
Durable	2.04	2.43	2.04	2.03	1.93	1.91	1.91
Nondurable	1.22	1.36	1.27	1.25	1.20	1.18	1.21
Trade, total	1.35	1.42	1.38	1.36	1.36	1.34	1.34
Wholesale	1.12	1.25	1.22	1.22	1.22	1.19	1.18
Retail	1.53	1.56	1.51	1.47	1.47	1.44	1.47
<u>Inventories to unfilled orders:</u>							
Durable manufacturing	.518	.591	.640	.632	.635	.630	.628

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MONETARY AGGREGATES  
(Seasonally adjusted)<sup>1/</sup>

	1976	1977				
	QIV	QI	QII	May	June	HI
<u>Net changes at annual rates, per cent</u>						
<u>Major monetary aggregates</u>						
1. M <sub>1</sub> (Currency plus demand deposits)	6.5	4.2	8.5	0.7	4.9	6.4
2. M <sub>2</sub> (M <sub>1</sub> plus time and savings deposits at commercial banks other than large CDs)	12.5	9.9	9.2	4.7	8.1	9.7
3. M <sub>3</sub> (M <sub>2</sub> plus all deposits at thrift institutions)	14.4	11.3	10.0	7.3	9.4	10.8
4. Adjusted bank credit proxy	8.2	5.4	5.2	-1.5	16.1	5.3
<u>Bank time and savings deposits</u>						
5. Total	12.2	12.5	8.3	8.3	13.2	10.5
6. Other than large negotiable CDs	17.1	14.0	9.8	7.6	10.5	12.1
7. Savings deposits	24.7	21.9	7.9	4.5	-2.3	15.1
8. Individuals <sup>2/</sup>	18.8	16.0	8.3	6.1	0.6	12.4
9. Other <sup>3/</sup>	136.5	103.0	2.8	-10.9	38.2	53.2
10. Time deposits <sup>4/</sup>	10.6	7.1	11.4	10.9	22.5	9.4
11. Small time <sup>5/</sup>	27.5	7.9	14.2	12.1	10.5	11.2
12. Large time <sup>4/</sup>	-21.2	5.5	5.5	8.2	49.0	5.5
<u>Deposits at nonbank thrift institutions<sup>6/</sup></u>						
13. Total	17.3	13.4	11.0	11.1	11.3	12.4
14. Savings and loan associations	18.8	14.7	12.3	12.5	12.4	13.1
15. Mutual savings banks	12.8	9.2	6.6	6.9	7.6	7.5
16. Credit unions	18.8	16.2	14.1	11.0	14.1	14.7
<u>Average monthly changes, \$ billions</u>						
<u>Memoranda:</u>						
17. Total US Govt. deposits	-0.3	0.0	-0.4	-0.2	-0.5	-0.2
18. Negotiable CDs	0.1	-0.4	0.6	0.7	1.7	0.1
19. Nondeposit sources of funds	0.3	-0.5	0.2	0.1	0.6	-0.1

<sup>1/</sup> Quarterly growth rates are computed on a quarterly average basis.

<sup>2/</sup> Savings deposits held by individuals and nonprofit organizations.

<sup>3/</sup> Not seasonally adjusted.

<sup>4/</sup> Excluding negotiable CDs at weekly reporting banks.

<sup>5/</sup> Small time deposits are total time deposits (excluding savings deposits) less large time deposits, negotiable and nonnegotiable, at all commercial banks.

<sup>6/</sup> Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.



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

	1977		1977	
	Highs	Lows	June 20	July 13
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	5.45(5/25)	4.47(1/5)	5.43(6/22)	5.33
3-month				
Treasury bills (bid)	5.17(5/20)	4.39(1/3)	5.01	5.16
Comm. paper (90-119 days)	5.50(6/10)	4.63(1/10)	5.40	5.38
Bankers' acceptances	5.63(5/23)	4.66(1/3)	5.40	5.43
Euro-dollars	6.19(5/24)	4.88(1/5)	5.81	5.69
CD's (NYC) 90 days				
Most often quoted new	5.44(5/25)	4.50(1/5)	5.35(6/15)	5.25
6-month				
Treasury bills (bid)	5.40(5/19)	4.54(1/3)	5.22	5.36
Comm. paper (4-6 mos.)	5.63(6/1)	4.63(1/7)	5.50	5.40
CD's (NYC) 180 days				
Most often quoted new	5.72(6/1)	4.65(1/5)	5.63(6/15)	5.60
1-year				
Treasury bills (bid)	5.62(5/19)	4.66(1/3)	5.42	5.49
CD's (NYC)				
Most often quoted new	6.00(5/25)	5.00(1/5)	5.88(6/15)	5.75
Prime municipals	3.10(5/27)	2.65(1/7)	2.90(6/17)	2.95(7/8)
<u>Intermediate- and Long-Term</u>				
Treasury (constant maturity)				
3-year	6.68(5/20)	5.73(1/3)	6.36	6.42
7-year	7.35(5/11)	6.50(1/3)	7.04	7.05
20-year	7.80(5/11)	7.20(1/3)	7.65	7.58
Corporate				
Seasoned Aaa	8.13(3/14)	7.87(1/5)	7.94	7.94
Baa	9.18(2/25)	8.87(6/17)	8.87	8.88
Aaa Utility New Issue	8.34(5/18)	7.90(1/5)	8.01(6/17)	8.14p(7/15)
Recently Offered	8.33(5/4)	7.95(1/5)	8.06(6/17)	8.12p(7/15)
Municipal				
Bond Buyer Index	5.93(2/2)	5.55(6/16)	5.55(6/16)	5.64(7/15)
Mortgage--average yield in				
FNMA auction	8.79(5/31)	8.46(1/12)	8.77(6/15)	8.72(7/11)

International Developments

Addendum to Monetary and Financial Developments in Major Foreign Countries. On July 14, the Bundesbank announced a 1/2 percentage point reduction in its Lombard rate to 4 per cent. The German bank rate and reserve requirements were left unchanged. The Swiss National Bank reduced the Swiss Bank rate from 2 per cent to 1-1/2 per cent, and also lowered the Swiss Lombard rate by 1/2 percentage point.