

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

¹ In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

² A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

CONFIDENTIAL (FR)
CLASS II - FOMC

October 14, 1977

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

THE DOMESTIC NONFINANCIAL ECONOMY	<u>Page</u>
Industrial production.....	1
Retail sales.....	2
Wholesale trade inventories.....	3
TABLES:	
Industrial production.....	2
Retail sales.....	3
Wholesale trade inventories: change in book value.....	4
THE DOMESTIC FINANCIAL ECONOMY	
Securities markets.....	4
Business credit.....	5
TABLE:	
Interest rates	7
INTERNATIONAL DEVELOPMENTS	
Monetary and financial developments in major foreign countries.....	5
REVISIONS AND CORRECTIONS	
Part II.....	6

SUPPLEMENTAL NOTES

The Domestic Nonfinancial Economy

Industrial Production. Industrial production in September is estimated to have increased .4 per cent to 138.8 per cent of the 1967 average, regaining its July level. About one-third of the small September rise is attributable to the resumption of production after the end of strikes. Increases were widespread in September--as declines had been in August, when a decline now indicated to be .4 per cent occurred. Industrial production in the third quarter of 1977 was 1.2 per cent above that in the second quarter--about half the increase from the first to the second quarter. As compared with a year earlier, September industrial production was up 6.3 per cent.

Output of consumer goods in September increased .3 per cent, following a decline in August. Auto assemblies were about unchanged at a relatively high 9.5 million unit seasonally adjusted annual rate. Production of business equipment increased .3 per cent in September to a level 10.4 per cent above a year earlier; output of construction products rose .5 per cent from August.

Production of durable goods materials increased .5 per cent last month, with a post-strike increase in copper production more than offsetting a decline in steel output. Output of nondurable goods materials advanced modestly; the production of energy materials surged 1.1 per cent, largely reflecting a post-strike increase in coal mining and an increase in Alaskan crude oil production.

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

	1976			1977			Sept.	Oct. (p)
	QII	QIII	QIV	QI	QII	QIII		
Manufacturing and trade	33.8	29.5	11.4	34.2	32.1	26.4	31.9	14.3
Manufacturing	14.2	15.4	6.5	11.2	17.8	9.4	12.7	8.0
Durable	6.8	6.7	6.4	7.8	10.9	5.5	4.0	3.5
Nondurable	7.5	8.6	.0	3.3	6.8	3.9	8.7	4.5
Trade, total	19.6	14.1	4.9	23.0	14.3	17.1	19.2	6.3
Wholesale	11.6	4.1	3.5	12.0	2.6	4.7	12.3	3.5
Retail	8.0	10.1	1.5	11.1	11.8	12.4	6.9	2.8
Auto	.1	4.8	1.3	2.2	2.4	1.3	-7.1	2.1

INVENTORY RATIOS

	1976		1977				
	QIII	QIV	QI	QII	QIII	Sept.	Oct. (p)
Inventory to sales:							
Manufacturing and trade	1.51	1.49	1.46	1.46	1.48	1.47	1.46
Manufacturing	1.67	1.66	1.58	1.58	1.59	1.57	1.57
Durable	2.04	2.04	1.94	1.94	1.93	1.91	1.90
Nondurable	1.27	1.25	1.20	1.20	1.22	1.21	1.21
Trade, total	1.36	1.34	1.34	1.34	1.37	1.37	1.35
Wholesale	1.24	1.24	1.24	1.21	1.23	1.24	1.24
Retail	1.47	1.42	1.43	1.45	1.48	1.48	1.44
Inventories to unfilled orders:							
Durable manufacturing	.640	.632	.635	.631	.640	.640	.629

mainly consumption items were up .4 per cent. In contrast, spending in the quarter for general merchandise, apparel and furniture, and apparel combined was up 3.6 per cent.

RETAIL SALES
(Per cent change from previous period;
based on seasonally adjusted data)

	1977				
	QII	QIII	July	Aug.	Sept.
Total sales	1.5	.3	.8	1.5	-1.2
(Real*)	-.5	n.a.	.7	1.2	n.a.
Total, less auto and nonconsumption items	1.8	.4	1.8	-.1	-.9
GAF	2.2	3.6	5.8	-.5	-1.5
<u>Durable</u>	1.3	.6	-.7	5.0	-1.9
Auto	-.6	-.3	-3.2	6.7	-2.9
Furniture and appliances	3.0	2.3	6.2	-1.2	-2.6
<u>Nondurable</u>	1.6	.2	1.6	-.3	-.8
Apparel	-1.7	3.2	3.0	2.1	-.4
Food	3.4	.2	.9	-1.5	.2
General merchandise	3.0	4.1	6.3	-1.0	-1.5
Gasoline	1.4	-2.2	.6	-.2	-.7

*Deflated by all commodities SA consumer price index.

Wholesale Trade Inventories. The book value of wholesale trade inventories rose in August at a seasonally adjusted annual rate of \$8.9 billion, following a \$3.0 billion rate decline in July; the August rise was the largest since March. Durable goods stocks increased at a \$5.3 billion rate in August, up from the July rate of \$3.7 billion. Stocks of nondurables rose at a \$3.7 billion annual rate,

as compared with declines in each of the previous three months which on average were at a \$5.5 billion rate. Merchant wholesalers' holdings of farm products were about unchanged in August, having declined sharply in July.

The inventories-to-sales ratio for wholesale merchants rose to 1.20 in August from a level of 1.18 in July.

WHOLESALE TRADE INVENTORIES: CHANGE IN BOOK VALUE
(Billions of dollars; seasonally adjusted, annual rate)

	1975	1976	1977			
			QI	QII	July (r)	Aug. (p)
Total	-1.4	5.0	9.7	2.9	-3.0	8.9
Durable	-.3	2.7	4.9	4.3	3.7	5.3
Nondurable	-1.1	2.3	4.7	-1.4	-6.7	3.7

R = revised

P = preliminary

The Domestic Financial Situation

Securities Markets. Prices in securities markets have declined somewhat further over the past few days, apparently reflecting anticipation of a possible tightening in the System's funds rate objective^s in light of the recent strong growth in the key monetary aggregates. Both short- and long-term interest rates have been affected by these expectations, with rate increases of about 10 basis points registered on short-term market instruments and 5 to 10 basis points on longer-term securities. Stock prices also have declined; the Dow-Jones

industrial average fell about 14 points on Wednesday and Thursday, bringing it to its lowest level in two years.

Following these latest increases, short-term interest rates are now about 35 to 50 basis points above their levels at the time of the September FOMC meeting, and long-term rates have moved 10 to 20 basis points higher over the same period.

Business Credit. Latest available data indicate that outstanding commercial paper issued by nonfinancial corporations declined by \$200 million in September, not \$500 as reported earlier. This decline just offset the small rise in business loans at banks, and thus, short-term credit extended to nonfinancial firms from these two sources showed no change for the month.

International Developments

Monetary and Financial Developments in Major Foreign Countries.

On October 12, Prime Minister Barre of France announced a target for the growth rate of M_2 in 1978 of 12 per cent. Note: the target for 1977 is 12-1/2 per cent, not 12 per cent, as stated on page IV-13, line 12 of the October 12 Greenbook.

Revisions and Corrections

Revisions have been made in Table IV-T-1, U.S. International Transactions. The revised data follow and are in millions of dollars.

	July	August
4. <u>Bank-reported private capital flows</u>	2481	-2432
5. Claims on foreigners (increase -)	1079	743
6. Long-term	-21	-206
7. Short-term	1100	949
(of which on commercial banks in offshore centers <u>2/</u>)	(1458)	(1149)
9. Liabilities to foreigners (increase +)	1402	-3175
10. Long-term	-106	88
11. Short-term	1508	-3263
12. to commercial banks abroad	3295	-3980
(of which to commercial banks in offshore centers <u>3/</u>)	(2125)	(-2568)

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

	1977		1977	
	Highs	Lows	Sept. 19	Oct. 13
<u>Short-term Rates</u>				
Federal funds (wkly. avg.)	6.41(10/12)	4.47(1/5)	6.10(9/21)	6.41(10/12)
3-month				
Treasury bills (bid)	6.36(10/13)	4.39(4/28)	5.86	6.36
Comm. paper (90-119 days)	6.50(10/13)	4.63(1/10)	6.15	6.50
Bankers' acceptances	6.68(10/13)	4.66(1/3)	6.19	6.68
Euro-dollars	7.44(10/13)	4.88(1/5)	6.56	7.44
CD's (NYC) 90 days				
Most often quoted new	6.63(10/13)	4.50(1/5)	6.00(9/14)	6.63(10/12)
6-month				
Treasury bills (bid)	6.55(10/13)	4.54(1/3)	5.98	6.55
Comm. paper (4-6 mos.)	6.55(10/13)	4.63(1/7)	6.25	6.55
CD's (NYC) 180 days				
Most often quoted new	6.75(10/13)	4.65(1/5)	6.40(9/14)	6.75(10/12)
1-year				
Treasury bills (bid)	6.64(10/13)	4.66(1/3)	6.06	6.64
CD's (NYC)				
Most often quoted new	7.02(10/12)	5.00(1/5)	6.45(9/14)	7.02(10/12)
Prime municipals	3.30(8/19)	2.65(1/7)	3.30(9/16)	3.25(10/13)
<u>Intermediate- and Long-term</u>				
Treasury (constant maturity)				
3-year	7.22(10/13)	5.73(1/3)	6.80	7.22
7-year	7.48(10/13)	6.50(1/3)	7.17	7.48
20-year	7.80(5/11)	7.20(1/3)	7.55	7.74
Corporate				
Seasoned Aaa	8.13(3/14)	7.87(1/5)	7.90	8.04(10/12)
Baa	9.18(2/25)	8.77(9/9)	8.78	8.87(10/12)
Aaa Utility New Issue	8.34(5/18)	7.90(1/5)	8.08(9/14)	8.20p(10/14)
Recently Offered	8.33(5/4)	7.95(1/5)	8.07(9/14)	8.21p(10/14)
Municipal				
Bond Buyer Index	5.93(2/2)	5.48(9/8)	5.51(9/14)	5.70
Mortgage--average yields in FNMA auction				
	8.79(5/31)	8.46(1/12)	8.74(9/5)	8.77(10/3)