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CONFIDENTIAL (FR)  
CLASS II - FOMC

April 14, 1978

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 1.4 per cent in March, following a downward-revised 0.3 per cent rise in February and a decline of 0.8 per cent in January (not revised). March production was 0.9 per cent above that in December of last year, but in the first three months of this year industrial production was 0.2 per cent above that in the fourth quarter of 1977.

Relatively large increases in industrial production were widespread by market and industry groupings except for steel and utilities. Production of consumer goods rose 2.1 per cent. Output of automotive products advanced 10.3 per cent, as auto assemblies rose over 13 per cent to an annual rate of 9.3 million units. Production of home goods recorded a very large increase again in March and that of consumer non-durable goods another moderately large gain. Output of business equipment, construction supplies, and materials increased 1.2 per cent, 1.1 per cent, and 1.2 per cent, respectively, from February. Production of durable goods materials and nondurable goods materials in March each rose 1.3 per cent from that in February. Output of mines increased 4.4 per cent last month, reflecting a 39 per cent increase in coal production, as miners returned to work after their extended strike ended, and about a 7 per cent rise in iron ore production, following the end of the strike in that industry.

Output of utilities are indicated to have declined 2.1 per cent in March, following a 1.1 per cent decline in February; these declines represented reductions from a very high level of output in January because of the return to more normal weather temperatures and because of conservation of coal use in electric power generation. Output of steel (raw steel and steel mill and steel foundry products) declined 1.6 per cent further in March, extending the downtrend in this product grouping which began last May.

INDUSTRIAL PRODUCTION: SUMMARY  
(Seasonally Adjusted)

Indexes, 1967=100	1978		Per Cent Changes						
	Feb. (p)	Mar. (e)	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Mar. 1977
			From Preceding Month						
Total	139.0	141.0	.3	.3	.3	-.8	.3	1.4	4.2
Products, Total	139.8	142.0	.1	.4	.6	-1.3	.9	1.6	5.1
Final Products	136.7	139.1	-.2	.4	.4	-1.9	1.3	1.8	4.4
Consumer Goods	143.8	146.8	.0	.2	.4	-2.9	1.6	2.1	2.7
Durable	151.4	159.2	.8	-1.0	.4	-6.0	3.4	5.2	4.5
Nondurable	140.7	141.8	-.4	.8	.4	-1.5	.7	.8	1.9
Business Equipment	154.8	156.7	.3	.6	.3	-.7	1.2	1.2	8.2
Intermediate Products	151.4	152.6	.9	.4	1.3	.5	.1	.8	7.6
Construction Supplies	149.5	151.2	1.2	1.1	1.2	.5	.3	1.1	10.9
Materials	137.8	139.5	.7	.1	-.1	.0	-.7	1.2	3.0

p-- preliminary      e--estimate

Sales of new, domestic-model autos in the first ten days of April are estimated to have been at a 10.0 million unit annual rate, after adjustment for usual seasonal movements. This is only slightly above the 9.9 million unit rate for March but up from the 9.0 million unit annual rate in the final third of the month following the near record rate in the middle third of the month.

The book value of retail trade inventories was little changed during February, edging up at only a seasonally adjusted annual rate of \$0.7 billion. Revised figures indicate that in January the value of these stocks rose at an \$11.0 billion rate, following a \$2.8 billion rate increase over the preceding three months. Durable stocks also only edged up slightly in February--down from the January rise at an \$8.5 billion rate as stocks at automotive dealers fell at a \$2.1 billion annual rate; modest increases were reported for most other categories. Inventories of nondurable goods were about unchanged following a modest increase in January and only a slight rise in the fourth quarter. The ratio of inventories to sales at all retail stores declined from the January level of 1.48 to 1.44 in February, remaining at a level above its average over the past eight years.

The book value of total manufacturing and trade inventories (manufacturers' inventories, shipments, and orders for the years 1958 to the present have been revised) rose at an annual rate of \$28.4 billion in February, substantially less than the revised January rate of \$38.1 billion. The inventory to sales ratio for total manufacturing and trade declined to the relatively low level of 1.44 in February from the January level of 1.47.

**Business Inventories**  
(Change at annual rates in  
seasonally adjusted book value; billions of dollars)

	1976	1977				1978	
	QIV(r)	QI(r)	QII(r)	QIII(r)	QIV(r)	Jan. (r)	Feb. (p)
Manufacturing and Trade	14.8	33.6	30.1	27.2	13.1	38.1	28.4
Manufacturing	9.8	10.6	15.7	10.2	2.8	15.2	17.6
Trade, total	4.9	23.0	14.3	17.1	10.3	22.9	10.8
Wholesale	3.5	12.0	2.6	4.7	7.5	11.9	10.1
Retail	1.5	11.1	11.8	12.4	2.8	11.0	.7
Durable	1.7	4.3	3.8	5.6	2.3	8.5	.8
Auto	1.3	2.2	2.4	1.3	1.8	6.5	-2.1
Nondurable	-.3	6.7	7.9	6.7	.4	2.4	-.1

**Inventory/Sales Ratio**

	1976	1977				1978	
	QIV(r)	QI(r)	QII(r)	QIII(r)	QIV(r)	Jan. (r)	Feb. (p)
Manufacturing and Trade	1.50	1.47	1.47	1.49	1.44	1.47	1.44
Manufacturing	1.66	1.60	1.60	1.61	1.56	1.58	1.54
Trade, total	1.34	1.34	1.34	1.37	1.33	1.36	1.33
Wholesale	1.24	1.24	1.21	1.24	1.23	1.23	1.21
Retail	1.42	1.43	1.45	1.48	1.43	1.48	1.44

p = preliminary

r = revised

The Domestic Financial Economy

Stock prices now have climbed, on average, about 2.5 per cent since the March FOMC meeting. N.Y.S.E.-listed issues have advanced approximately 1.5 per cent, while A.S.E.-listed and O-T-C stocks have risen about 5 per cent. Market observers have attributed these increases in part to data indicating that the economy is rebounding from the first quarter's slowdown in economic activity and to the recent less-than-expected growth in the monetary aggregates.

CORRECTION & UPDATES

Page III-4: Monetary aggregates table (see attached page 6).

Page IV-F-1: U.S. International Transactions  
Line 15 Feb. 1977 should read -691 instead of 691.



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

	1978			
	Highs	Lows	Mar. 20	Apr. 13
<u>Short-Term Rates</u>				
Federal funds (wkly avg.)	6.86 (4/5)	6.58 (1/11)	6.77 (3/22)	6.74 (4/12)
3-month				
Treasury bills (bid)	6.68 (1/11)	6.16 (1/4)	6.16	6.29
Comm. paper (90-119 days)	6.84 (1/18)	6.63 (1/6)	6.75	6.80
Bankers' acceptances	7.03 (1/11)	6.70 (1/6)	6.76	6.85
Euro-dollars	7.44 (3/29)	7.00 (2/8)	7.25	7.38
CDs (NYC) 90 days				
Most often quoted new	6.88 (1/25)	6.65 (1/4)	6.73 (3/15)	6.83 (4/12)
6-month				
Treasury bills (bid)	6.90 (1/11)	6.43 (1/4)	6.53	6.70
Comm. paper (4-6 mos.)	6.87 (4/12)	6.66 (1/5)	6.79	6.84
CDs (NYC) 180 days				
Most often quoted new	7.23 (4/12)	6.85 (1/4)	7.13 (3/15)	7.23 (4/12)
-year				
Treasury bills (bid)	7.00 (1/11)	6.53 (1/4)	6.72	6.92
CDs (NYC)				
Most often quoted new	7.40 (4/12)	7.05 (1/4)	7.25 (3/15)	7.40 (4/12)
Prime municipal note	3.90 (4/14)	3.55 (3/3)	3.60 (3/17)	3.90p (4/14)
<u>Intermediate- and Long-Term</u>				
Treasury (constant maturity)				
3-year	7.83 (4/12)	7.38 (1/4)	7.62	7.81
7-year	8.06 (4/11)	7.71 (1/5)	7.88	8.05
20-year	8.34 (4/13)	8.00 (1/5)	8.15	8.34
Corporate				
Seasoned Aaa	8.57 (4/12)	8.28 (1/3)	8.45	8.57 (4/12)
Baa	9.31 (4/12)	9.09 (1/3)	9.22	9.31 (4/12)
Aaa Utility New Issue	8.88 (4/14)	8.61 (3/24)	8.70 (3/10)	8.88p (4/14)
Recently offered	8.86 (4/14)	8.48 (1/6)	8.64 (3/17)	8.86p (4/14)
Municipal				
Bond Buyer index	5.76 (4/6)	5.58 (3/16)	5.58 (3/16)	5.74
Mortgage--average yields in				
FNMA auction	9.44 (4/3)	9.13 (1/9)	9.33	9.44 (4/3)

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The attached Monetary Aggregates table was inadvertently left out of Current Economic and Financial Conditions Supplement sent to you on Friday, April 14, 1978.

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

	1 9 7 7		1 9 7 8			QI 77-	QI 78 <sup>P</sup>
	QIII	QIV	QI <sup>P</sup>	Jan	Feb	March <sup>P</sup>	
<u>Net changes at annual rates, per cent</u>							
<u>Major monetary aggregates</u>							
1. M <sub>1</sub> (currency plus demand deposits)	8.1	7.2	5.0	9.6	-1.1	3.5	7.3
2. M <sub>2</sub> (M <sub>1</sub> + time & savings deposits at CBs other than large CDs)	9.9	8.0	6.4	8.9	4.4	5.1	8.6
3. M <sub>3</sub> (M <sub>2</sub> + all deposits at thrift institutions)	11.9	10.6	7.4	8.7	5.5	5.9	10.4
<u>Bank time &amp; savings deposits</u>							
4. Total	10.3	13.0	13.1	12.3	13.7	11.4	11.6
5. Other than large negotiable CDs at weekly reporting banks	11.2	8.5	7.4	8.4	8.4	6.3	9.5
6. Savings deposits	7.3	5.4	2.2	6.0	0.5	0.5	6.1
7. Individuals <sup>2/</sup>	9.6	7.0	3.1	6.4	1.2	1.2	7.2
8. Other <sup>3/</sup>	-17.1	-17.8	-8.0	-8.1	8.2	-16.2	-7.5
9. Time deposits	14.6	11.4	12.0	10.5	14.7	12.2	12.7
10. Small time <sup>4/</sup>	8.3	1.0	2.7	5.1	1.5	11.0	7.4
11. Large time <sup>4/</sup>	28.1	32.4	29.9	20.4	38.8	14.3	26.1
<u>Deposits at nonbank thrift institutions<sup>5/</sup></u>							
12. Total	15.0	14.4	8.7	8.5	7.2	6.7	13.1
13. Savings and loans	16.2	15.4	8.9	8.4	6.8	6.7	14.1
14. Mutual savings banks	9.5	9.9	5.2	5.4	5.4	3.6	8.3
15. Credit unions	20.1	20.0	17.4	17.9	15.2	15.0	19.4
<u>MEMORANDA: Average monthly changes, \$ billions</u>							
16. Total US Govt deposits	0.2	0.2	-1.2	-1.7	-2.2	0.4	-0.3
17. Total large time deposits <sup>6/</sup>	1.7	6.2	4.5	3.8	6.0	3.7	3.2
18. Nondeposit sources of funds <sup>7/</sup>	1.4	1.3	1.9	2.2	2.5	1.1	1.3

<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> Savings deposits of business, government and others, not seasonally adjusted.  
<sup>4/</sup> Small time deposits are time deposits in denominations less than \$100,000. Large time deposits are time deposits in denominations of \$100,000 and above excluding negotiable CDs at weekly reporting banks.  
<sup>5/</sup> Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.  
<sup>6/</sup> All large time certificates, negotiable and nonnegotiable, at all CBs.  
<sup>7/</sup> Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money, Euro-dollar borrowings and loans sold, less interbank loans.  
p--preliminary.