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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 an estimated 0.3 per cent in June, with gains about equally distributed between products and materials industries. This follows advances in total production of 1.5 and 0.6 per cent in April and May respectively. The preliminary second quarter index, strengthened somewhat by upward revisions in April and May levels, was up 12.3 per cent at an annual rate from the first quarter. At 144.3 per cent of the 1967 average, the index for June is 4.7 per cent higher than a year earlier.

**Product:** Despite a small decline in auto production, output of consumer goods advanced 0.3 per cent in June. Auto assemblies were at a seasonally adjusted annual rate of 9.3 million units, allowing for the earlier-than-usual model changeover. Current schedules call for a rate of assemblies at about this level over the next few months. Production of home goods, such as appliances and nondurable consumer goods, increased somewhat further in June. Business equipment output rose 0.4 per cent in June and, at 161.4 per cent of the 1967 average, is 7.5 per cent higher than a year ago. Production of intermediate goods, such as business and construction supplies, also continued to expand.

**Materials:** Output of durable materials advanced 0.6 per cent mainly due to the continued strength in equipment parts and basic metals. Nondurable materials production increased only slightly.

INDUSTRIAL PRODUCTION: SUMMARY  
(Seasonally Adjusted)

	1978		Per cent changes						
	May (p)	June (e)	Jan.	Feb.	Mar.	Apr.	May	June	June 77
			From preceding month						
Total	143.8	144.3	-.6	.3	1.2	1.5	.6	.3	4.7
Products, total	143.3	143.7	-1.3	.8	1.4	.8	.4	.3	4.7
Final Products	140.6	141.1	-2.0	1.1	1.8	1.2	.0	.4	4.2
Consumer Goods	147.1	147.5	-2.7	1.4	1.5	1.2	-.3	.3	2.6
Durable	159.6	159.9	-6.0	3.2	4.2	2.8	-1.4	.2	2.6
Nondurable	142.3	142.7	-1.3	.6	.4	.4	.3	.3	2.6
Business Equipment	160.7	161.4	-.9	1.0	2.1	1.3	.8	.4	7.5
Intermediate Products	153.2	153.6	.8	-.1	.0	.1	1.1	.3	6.2
Construction Supplies	150.4	151.0	.6	-.4	-.5	.2	1.5	.4	7.9
Materials	144.7	145.3	.3	-.4	.9	2.5	.9	.4	4.8

p--preliminary e--estimate

Wholesale trade inventories in book values declined at a seasonally adjusted annual rate of \$1.2 billion in May following the exceptionally high upward revised April rate of \$23.8 billion. The adjustment in wholesale trade stocks comes after six months of substantial buildup and marks the first reduction since last July. In May the slight reduction in stocks was accompanied by moderate expansion in both wholesalesales (2 per cent) and production. The ratio of inventories to sales for all wholesale trade merchants declined to 1.18 in May, a bit low on an historical basis.

Durable wholesale inventories rose at an annual rate of \$2.2 billion in May, well below the April pace of \$10.0 billion. The large increase in stocks at wholesalers of motor vehicles, primarily importers of foreign cars, was offset by a substantial reduction in merchants' stocks of machinery. Nondurable inventories declined at an annual rate of \$3.4 billion following the strong April accumulation of \$13.8 billion. While the book value of stocks at wholesale groceries increased, merchants of raw farm products reported a sharp decline after 9 months of accumulation.

#### The Domestic Financial Economy

No textual addendums to the Greenbook were required, but the usual updating of the interest rate developments and monetary aggregates tables are contained on pages 5 and 6, respectively.

#### CORRECTIONS

Part III - Page III-14, lines 4-5 "third quarter of 1974" should read "second quarter of 1977."

Part IV - Page IV-8, line 3 of table, final column, ".0" should be "+0.8." Page IV-12, line 18, "industry exports" should be "industry experts." Page IV-13, lines 1-3 should read: "Foreign official assets in the United States (excluding OPEC holdings) rose by \$0.6 billion in May, after having fallen by \$2.8 billion in April. Exchange-" Page IV-24, 3-Month Rates for Switzerland in final column, "4.25" should be "1.62."

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

	1975	1976	1977				1978		
			QI	QII	QIII	QIV	QI	Apr.(r)	May(p)
Total	1.4	6.2	12.0	2.6	4.7	7.5	19.5	23.8	-1.2
Durable	.5	3.6	5.4	5.4	8.1	5.9	9.9	10.0	2.2
Nondurable	-2.0	2.6	6.6	-2.8	-3.4	1.6	9.7	13.8	-3.4
Excluding farm	-.5	2.1	3.2	.1	.7	-.7	4.5	8.8	-.2

WHOLESALE TRADE INVENTORY/SALES RATIO

	1975	1976	1977				1978		
			QI	QII	QIII	QIV	QI	Apr.(r)	May(p)
Total	1.24	1.22	1.24	1.21	1.24	1.23	1.27	1.20	1.18
Durable	1.88	1.79	1.77	1.76	1.78	1.73	1.76	1.65	1.67
Nondurable	.80	.80	.84	.79	.79	.79	.85	.82	.77

r = revised

p = preliminary

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

	1978			
	Highs	Lows	June 19	July 13
<u>Short-Term Rates</u>				
Federal funds (w/ky avg.)	7.78(6/28)	6.58(1/11)	7.49(6/14)	7.72(7/12)
3-month				
Treasury bills (bid)	7.20(7/11)	6.09(4/24)	6.69	7.18
Comm. paper (90-119 days)	7.87(7/13)	6.63(1/6)	7.67	7.87
Bankers' acceptances	8.08(7/13)	6.70(1/6)	7.85	8.08
Euro-dollars	8.75(6/27)	7.00(2/8)	8.50	8.56
CDs (NYC) 90 days				
Most often quoted new	8.00(7/12)	6.65(1/4)	7.58(6/14)	8.00(7/12)
6-month				
Treasury bills (bid)	7.54(7/13)	6.43(1/4)	7.23	7.54
Comm. paper (4-6 mos.)	7.92(7/13)	6.66(1/5)	7.70	7.92
CDs (NYC) 180 days				
Most often quoted new	8.34(7/5)	6.85(1/4)	8.00(6/14)	8.25(7/12)
1-year				
Treasury bills (bid)	7.84(7/13)	6.53(1/4)	7.55	7.84
CDs (NYC)				
Most often quoted new	8.25(7/12)	7.05(1/4)	8.10(6/14)	8.25(7/12)
prime municipal note	4.40(7/7)	3.55(3/3)	4.20(6/16)	4.40(7/7)
<u>Intermediate- and Long-Term</u>				
Treasury (constant maturity)				
3-year	8.56(7/13)	7.38(1/4)	8.30	8.56
7-year	8.58(7/13)	7.71(1/5)	8.38	8.58
20-year	8.73(7/13)	8.00(1/5)	8.50	8.73
Corporate				
Seasoned Aaa	8.92(7/12)	8.28(1/3)	8.73	8.92(7/12)
Baa	9.64(6/5)	9.09(1/3)	9.57	9.57(7/12)
Aaa Utility New Issue	9.19(7/14)	8.61(3/24)	9.03(6/16)	9.19p(7/14)
Recently Offered	9.22(7/14)	8.48(1/6)	8.96(6/16)	9.22p(7/14)
Municipal				
Bond Buyer index	6.32(7/13)	5.58(3/16)	6.16(6/15)	6.32
Mortgage--average yields in				
FNMA auction	10.02(7/10)	9.13(1/9)	9.86(6/12)	10.02(7/10)

Updated

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

	1977	1978					QII-77
	QIV	QI	QII <sup>P</sup>	April	May	June <sup>P</sup>	to QII-78 <sup>P</sup>
<u>Major monetary aggregates</u>							
1. M-1 (currency plus demand deposits)	7.5	5.6	9.5	19.0	8.0	8.0	7.9
2. M-2 (M-1 plus time & savings deposits at CBs other than large CDs)	8.2	6.9	8.3	11.5	7.8	8.6	8.6
3. M-3 (M-2 plus all deposits at thrift institutions)	10.7	7.7	8.0	9.8	7.5	9.8	9.9
<u>Bank time and savings deposits</u>							
4. Total	13.1	13.4	11.0	8.3	14.4	6.9	12.5
5. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2)	8.6	7.9	7.4	6.2	7.7	9.1	9.1
6. Savings deposits	5.4	2.6	1.6	3.3	2.2	-1.6	4.3
7. Individuals <sup>2/</sup>	6.6	2.4	2.1	4.7	1.7	-2.3	5.2
8. Other <sup>3/</sup>	-7.6	2.6	-5.2	-7.8	-7.8	15.8	-6.7
9. Time deposits	11.6	12.7	12.3	8.3	12.8	18.1	13.4
10. Small time <sup>4/</sup>	3.4	6.1	10.3	10.7	9.9	14.0	7.2
11. Large time <sup>4/</sup>	28.3	25.5	15.5	3.9	18.3	24.4	26.7
12. Time and savings deposits subject to rate ceilings (6+10)	4.5	4.0	5.5	6.5	5.5	5.2	5.6
<u>Deposits at nonbank thrift institutions <sup>5/</sup></u>							
13. Total	14.4	8.9	7.5	7.3	7.0	9.0	11.9
14. Savings and loan associations	15.4	9.0	7.8	7.6	7.6	9.6	12.6
15. Mutual savings banks	9.9	5.8	3.6	3.6	3.6	4.4	7.4
16. Credit unions	20.0	18.2	15.8	14.7	12.1	16.8	19.9

Average monthly changes, \$ billions

MEMORANDA:

17. Total U.S. Govt. deposits	0.2	-1.2	1.1	0.4	-1.0	4.0	-0.1
18. Total large time deposits <sup>6/</sup>	5.7	4.4	2.8	1.7	5.1	1.6	3.6
19. Nondeposit sources of funds <sup>7/</sup>	1.5	1.7	0.9	1.1	0.1	1.5	1.4

p--preliminary

- <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 average 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, including borrowings from the Federal Reserve, Eurodollar borrowings, and loans sold, less interbank loans.

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APPENDIX

EXPERIENCE WITH THE MONEY  
MARKET CERTIFICATES IN JUNE\*

Survey data for the month of June indicate that the money market certificate has attracted a sizable volume of deposits in its first month (See Chart). By the end of June commercial banks had issued an estimated \$2.1 billion of the new certificates. As anticipated, thrift institution sales were even stronger owing to the rate ceiling differential and more intense promotion. An estimated \$4.9 billion of the certificates were issued by S&Ls in June. MSB sales amounted to roughly \$1.6 billion.<sup>1/</sup>

Survey data available for commercial banks and MSBs suggest that the largest institutions accounted for a slightly greater fraction of money market certificate sales than of small-denomination time deposits as a whole. Large commercial banks, which hold 23 per cent of all small-denomination time deposits outstanding, accounted for 32 per cent of certificate sales. For large MSBs the proportions were closer, with money market certificate sales at 54 per cent of the savings bank total and holdings of small time deposits at just under half of outstanding accounts.

The Chart also indicates that by the end of June money market certificates represented roughly one-half of one per cent of small-denomination time and savings deposits at commercial banks, and 1.2 per cent of total deposits at thrift institutions.

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<sup>1/</sup> Commercial bank and MSB estimates are for certificate sales through June 28. Due to additional survey data, the MSB figure has been revised slightly from earlier estimates.