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CONFIDENTIAL (FR)

November 17, 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

Total personal income increased \$21.3 billion in October to a seasonally adjusted annual rate of \$1,764.2 billion. The October rise was substantially more than in the two preceding months, but in the third quarter as a whole the income gains had averaged \$15-3/4 billion. Private wages and salaries rose sharply in October, reflecting large increases in employment and earnings. In addition, Government wages and salaries rose sharply, with \$2-1/3 billion of the rise due to the 5-1/2 per cent pay raise for Federal civilian and military personnel. (Table follows).

The book value of retail trade inventories declined at a seasonally adjusted annual rate of \$1.0 billion in September, following increases in two preceding months at annual rates averaging \$12.8 billion in each month. Liquidation was widespread by type of store in September, but stocks at general merchandise stores were accumulated at a \$4.2 billion annual rate. Over the third quarter, retailers accumulated stocks at an \$8.2 billion annual rate, a little below the rate of build-up in the first half of the year.

The book value of inventories held by manufacturing and trade establishments increased at a \$26.5 billion annual rate in September, down from the \$42.2 billion rate in August and a little more than the rate of accumulation in July. For the quarter as a whole, accumulation by nonfarm businesses was at a \$32.4 billion rate in book value terms;

this compares with rates of accumulation of \$44-1/4 billion annual rate in each of the first two quarters of the year.

The inventory-sales ratio for all retail stores edged down to 1.41 in September, a little below the historical average. At general merchandise stores, however, this ratio edged up further and was at the highest level in ten years. For manufacturing and trade, the inventory-sales ratio in September was 1.41, also--quite low historically.

PERSONAL INCOME  
(Based on seasonally adjusted data)

	1977	1978			Aug. 78	Sept. 78
		QI	QII	QIII	to Sept. 78	to Oct. 78
- - Average monthly change, in billions of dollars - -						
Total personal income	\$13.5	\$12.4	\$16.5	\$15.8	\$12.9	\$21.3
Nonagricultural income	12.3	15.7	14.1	15.4	11.6	19.8
Agricultural income	1.2	-3.3	2.4	.4	1.3	1.4
Wage and salary disbursements	8.3	13.1	10.6	7.0	8.2	15.6
Private	7.0	12.2	9.6	6.2	7.4	12.3
Manufacturing	2.7	4.0	1.9	1.9	2.7	4.1
Other income	5.7	1.0	6.4	9.1	5.2	6.5
Transfer payments	1.3	1.0	.2	3.7	1.1	1.5
- - Per cent change, compound annual rate <u>1/</u> - -						
Total personal income						
Current dollars	11.4	9.3	13.8	12.0	8.9	14.6
Constant dollars <u>2/</u>	4.4	1.4	2.6	3.1	-.2	n.a.
Wage and salary disbursements						
Current dollars	11.0	12.1	15.9	8.6	8.9	16.7
Constant dollars <u>2/</u>	4.1	3.9	4.5	.0	-.3	n.a.

1/ Monthly per cent changes at annual rates, not compounded; 1977 per cent change from QIV to QIV.

2/ Deflated by the CPI for all urban consumers, seasonally adjusted.

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

	1977			1978			Aug.	Sept.
	QII	QIII	QIV	QI	QII	QIII		
Manufacturing and trade	28:3	25:2	17:8	44:2	44:3	32:4	42:2	26:5
Manufacturing	15:7	10:2	2:8	16:6	22:8	18:1	20:6	14:3
Trade, total	12:6	15:0	14:9	27:6	21:5	14:4	21:6	12:2
Wholesale	2:6	4:7	7:5	19:5	11:8	6:1	7:1	13:2
Retail	10:0	10:3	7:4	8:1	9:8	8:2	14:5	-1:0
Durable	3:8	5:1	3:9	3:9	2:1	2:1	3:4	-:9
Auto	2:2	1:5	2:8	:9	:2	-.2	:2	-1:2
Nondurable	6.2	5.2	3.5	4.1	7.7	6.1	11.1	- .1

**INVENTORY/SALES RATIOS**

	1977			1978			Aug.	Sept.
	QII	QIII	QIV	QI	QII	QIII		
Manufacturing and trade	1:46	1:48	1:44	1:46	1:42	1:43	1:40	1:41
Manufacturing	1:60	1:61	1:56	1:56	1:52	1:54	1:51	1:52
Trade, total	1:32	1:35	1:33	1:36	1:31	1:32	1:30	1:31
Wholesale	1:21	1:24	1:23	1:27	1:20	1:21	1:18	1:20
Retail	1:43	1:45	1:42	1:45	1:42	1:43	1:42	1:41

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

	1978						Oct. '77 to
	QI	QII	QIII	Aug.	Sept.	Oct. <sup>P</sup>	Oct. '78 <sup>P</sup>
<u>Major monetary aggregates</u>							
1. M-1 (currency plus demand deposits)	6.2	9.9	7.6	8.5	14.1	3.3	7.7
2. M-2 (M-1 plus time & savings deposits at CBs, other than large CDs)	6.9	7.9	8.9	10.4	12.5	6.7	8.2
3. M-3 (M-2 plus all deposits at thrift institutions)	7.7	7.8	10.1	11.8	13.9	10.0	9.3
<u>Bank time and savings deposits</u>							
4. Total	12.8	10.1	9.5	7.5	13.8	7.9	11.6
5. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2)	7.3	6.4	10.0	11.5	11.8	9.1	8.6
6. Savings deposits	2.6	1.6	1.3	8.1	9.7	-1.6	2.0
7. Individuals <sup>2/</sup>	2.4	1.8	2.5	9.9	8.7	-2.9	2.3
3. Other <sup>3/</sup>	2.6	0.0	-15.5	16.2	0.0	16.0	-1.9
9. Time deposits	11.4	10.5	17.3	14.2	13.6	17.7	14.4
10. Small time <sup>4/</sup>	3.6	6.8	8.5	4.2	11.9	22.8	7.6
11. Large time <sup>4/</sup>	26.9	17.3	32.7	31.3	16.4	9.2	28.3
12. Time and savings deposits subject to rate ceilings (6+10)	3.0	3.8	4.4	6.4	10.7	9.0	4.4
<u>Deposits at nonbank thrift institutions <sup>5/</sup></u>							
13. Total	9.0	7.6	11.6	13.9	15.8	14.6	10.9
14. Savings and loan associations	9.0	7.9	12.8	15.6	16.9	15.2	11.5
15. Mutual savings banks	5.8	3.9	7.1	9.7	11.3	10.4	6.7
16. Credit unions	18.2	15.8	13.6	11.7	20.9	18.3	17.4
<u>Average monthly changes, billions of dollars</u>							
<b>MEMORANDA:</b>							
17. Total U.S. Govt. deposits	-1.2	1.1	1.5	0.7	0.8	4.0	0.8
18. Total large time deposits <sup>6/</sup>	4.6	2.8	3.1	1.5	3.2	0.9	3.7
18. Nondeposit sources of funds <sup>7/</sup>	1.7	0.7	1.2	2.1	1.5	5.3	1.7

p--preliminary. n.a.--not available.

<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 borrowings.

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

	1978			
	Highs	Lows	Oct. 16	Nov. 16
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	9.77(11/8)	6.58(1/11)	8.78(10/18)	9.68(11/15)
3-month				
Treasury bills (bid)	8.99(11/8)	6.09(4/24)	7.88	8.17
Comm. paper (90-119 days)	10.31(11/16)	6.63(1/6)	8.96	10.31
Bankers' acceptances	10.70(11/1)	6.70(1/6)	9.20	10.44
Euro-dollars	12.06(11/14)	7.00(2/8)	9.94	10.63
CDs (NYC) 90 days				
Most often quoted new	10.25(11/15)	6.65(1/4)	9.13(10/11)	10.25(11/15)
6-month				
Treasury bills (bid)	9.48(11/8)	6.43(1/4)	8.55	9.00
Comm. paper (4-6 mos.)	10.41(11/15)	6.66(1/5)	9.02	10.40
CDs (NYC) 180 days				
Most often quoted new	10.72(11/15)	6.85(1/4)	9.50(10/11)	10.72(11/15)
1-year				
Treasury bills (bid)	9.38(9/9)	6.53(1/4)	8.43	9.02
CDs (NYC)				
Most often quoted new	10.04(11/15)	7.05(1/4)	9.00(10/11)	10.04(11/15)
Prime municipal note	5.25(11/10)	3.55(3/3)	4.60(10/13)	5.25(11/10)
<u>Intermediate- and Long-Term</u>				
Treasury (constant maturity)				
3-year	9.32(10/31)	7.38(1/4)	8.51	8.85
7-year	9.00(10/31)	7.71(1/5)	8.61	8.70
20-year	8.90(10/31)	8.00(1/5)	8.65	8.68
Corporate				
Seasoned Aaa	9.09(10/31)	8.28(1/3)	8.87	9.01(11/15)
Baa	9.85(11/10)	9.09(1/3)	9.55	9.83(11/15)
Aaa Utility New Issue	9.30(11/10)	8.61(3/24)	9.04(10/6)	9.26
Recently offered	9.30(11/10)	8.48(1/6)	9.03(10/13)	9.25
Municipal				
Bond Buyer index	6.32(7/13)	5.58(3/16)	6.10(10/12)	6.11
Mortgage--average yields in				
FNMA auction	10.27(11/13)	9.13(1/9)	9.98	10.27(11/13)

REVISIONS

Because of revised sources data, the following changes should be made:

Part 1, page I-22 -- change final sentence of the full paragraph on that page to read: "Bank-reported private capital transactions recorded a moderate net inflow in the third quarter, following a sizable net inflow in the third quarter, following a sizable net inflow in the second quarter."

Part 2, Page IV--T-1, table on U.S. International Transactions-- change items indicated to read as follows:

Line 4: Q3, 824; Sept., 1,826.  
Line 5: Q3, 3,701, Sept. 6,581  
Line 13: Sept., 622  
Line 20: Q3, 3,657; Sept. 872

Part 2, page IV-4 -- change line 7 to read: "and a moderate net inflow of bank-reported private capital, following a sizable".

Part 2, page IV-5 -- table on U.S. International Transactions Summary -- change items indicated to read as follows:

Private capital trans. adj.<sup>2/</sup>: Q-3, -.1; Sept. 1.5  
Private capital as rept. net : Q-3, -.4; Sept. 2.5  
All Other 4/: Q-1, 3.3; Q-2, 7.7; Q-3, 4.9; July, .8;  
Aug., 2.4; Sept., 1.9.

Part 2, page IV-8 -- In line 19, change "net outflow of \$0.6 billion" to read "net inflow of \$1.1 billion"; and in line 21, change "outflow was more than accounted for "to read" net inflow was reduced".

APPENDIX  
SAVINGS ACCOUNTS SUBJECT TO AUTOMATIC TRANSFER\*

Commercial banks and other depository institutions were permitted, beginning November 1, to offer savings accounts subject to automatic transfer (ATS accounts). A survey of media and other public sources by the Reserve Banks just prior to November 1 indicated that many large commercial banks were ready to offer ATS services and had been advertising to educate the consumer on the merits of such an account. Smaller banks (those with assets under \$300 million) appeared to be promoting ATS accounts less actively; there were scattered reports that some smaller institutions were not ready to offer the service because of delays in converting their processing facilities to handle the new automatic transfers.

Terms on ATS accounts varied widely across the country, with a considerable variety of monthly service fees and charges per item--usually tied to average or minimum balances maintained. Accounts with balances above some threshold--varying from \$1000 to \$5000--often were exempt from all service charges. Most large banks appeared to be setting the terms on ATS accounts so that it would be attractive for larger depositors to use such accounts as transactions balances. Some of the large banks also offered other plans designed as overdraft protection--and many smaller banks appeared to favor this alternative.

During November 9-13, a telephone survey of 237 member and 117 nonmember commercial banks as well as 73 mutual savings banks was conducted by the Federal Reserve Banks and the FDIC. Institutions in the six New England states were not surveyed because it was found that NOW accounts were already firmly established and hence very few institutions were planning to offer ATS accounts.

National estimates based on the sample data suggest that about 40 per cent of all commercial banks outside of New England were offering ATS accounts on November 8 and that another 20 per cent of all banks were planning to offer this service within the next three months. It is estimated that over 90 per cent of all banks with assets over \$300 million were offering ATS accounts on that date or plan to soon, while roughly half of all banks with assets less than \$300 million were offering the service or had plans to offer it on November 8. In

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\* Prepared by Perry Quick and Darrel Parke.

New York State less than one-fourth of commercial banks were offering or had plans to offer ATS accounts on that date, as most of these institutions were apparently waiting to offer NOW accounts when permitted. 1/

Outstanding ATS account balances on November 8 are estimated at \$765 million. The average size of the approximately 125,000 accounts opened in the eight days ending November 8 was about \$6100-- which indicates that it was generally the larger depositor which found the ATS account attractive enough to induce a shift to this new service immediately after introduction.

Survey respondents also gave their best estimates of the source of the funds in ATS accounts. It was reported that in many cases such responses were given reluctantly, and there appears to be substantial variation from bank to bank. The survey results suggest that slightly more than half of the funds in ATS accounts on November 8--roughly \$400 million--came from demand deposits. Less than 3 per cent of the total--about \$20 million--appear to have been attracted from thrift institutions. These national estimates appear to be consistent with prior staff expectations.

At mutual savings banks in the eight states outside of New England where these institutions have third-party payment powers and can offer ATS accounts, an estimated 11,000 accounts were opened at 32 institutions. Outstanding balances on November 8 are estimated to have been around \$2.4 million.

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1/ Legislation authorizing NOW accounts in New York State was not signed into law until November 10--after this survey was taken.

SAVINGS DEPOSITS AUTHORIZED FOR AUTOMATIC TRANSFER

All Insured Commercial Banks and All Mutual Savings Banks  
in States other than Mass., N.H., Conn., Me., R.I. and Vt <sup>1/</sup>

November 8, 1978

	<u>Commercial Banks</u>			<u>Mutual Savings Banks</u>
	<u>New York State</u>	<u>Other</u>	<u>All</u>	
Number of institutions	234	13,763	13,997 <sup>2/</sup>	155
Number offering	48	5,367	5,415 <sup>2/</sup>	32
Number planning to offer in next 3 months	8	2,666	2,674 <sup>3/</sup>	8
ATS accounts (thousands)	3	122	125 <sup>4/</sup>	11
ATS balances (\$ millions)	17	748	765 <sup>5/</sup>	2
Per cent of ATS balances from:				
Demand accounts at bank	n.a.	n.a.	55	n.a.
Savings accounts at bank	n.a.	n.a.	34	n.a.
Time accounts at bank	n.a.	n.a.	2	n.a.
Outside bank	n.a.	n.a.	10	n.a.
Per cent of funds outside bank from:				
Other commercial banks	n.a.	n.a.	52	n.a.
Thrift institutions	n.a.	n.a.	29	n.a.
Other	n.a.	n.a.	19	n.a.

<sup>1/</sup> Based on data collected by the Federal Reserve and FDIC from a stratified random sample of 354 commercial banks and 73 mutual savings banks.

<sup>2/</sup> Estimated standard error is 13 per cent.

<sup>3/</sup> Estimated standard error is 23 per cent.

<sup>4/</sup> Estimated standard error is 16 per cent.

<sup>5/</sup> Estimated standard error is 18 per cent.

n.a. = not available.