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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)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

August 19, 1966

SUPPLEMENTAL NOTES

The Domestic Economy

The proposed settlement of the airline strike (to be voted on by the Machinist Union on Friday, August 19) involves an increase in wages and fringes significantly higher than the 3.2 per cent guideposts; the total cost of the package has not been made public, but it seems likely to be around 5 per cent exclusive of limited benefits from an escalator clause. The contract, which runs for three years from January 1, 1966, when the previous contract ran out, calls for increases in wage rates of 5 per cent in 1966 (retroactive to January 1), again on January 1, 1967, and May 1, 1968, as well as holiday, overtime and other benefits.

The cost-of-living adjustment clause contained in the proposed contract is rather unusual. It first comes into effect for six months in the second half of 1967, and then again for six months from March to August 1968, calling for a one cent wage rise for each 0.4 percentage point increase in the CPI in the six-month period, limited to a maximum of 3 cents per period.

By comparison, escalator increases in 1965 in contracts in other industries averaged about 4 cents, and in the first half of 1966, workers in auto, aerospace and meat-packing received cost-of-living adjustments of 6 to 7 cents, the largest such increases since 1958.

The proposed wage increase is significantly higher than the 3-3/4 per cent average for settlements during the first half of 1965 and the first half of 1966; increases during 1963 and 1964 averaged

3.1 and 3.2 per cent. In agreements concluded in the first half of 1966, about 25 per cent of workers received wage increases of 5 per cent or more.

Private housing starts, including farm, dropped 16 per cent further in July to a seasonally adjusted annual rate of 1,064 thousand, the lowest in the last 6 years. On a three-month moving average basis, the rate was 1,193 thousand, a fifth under the like period a year before.

Building permits declined 5 per cent in July, following a 14 per cent drop in June. Permits, at 902,000 were the lowest since the present series began in January 1959. Both single and multifamily units shared in the decline.

PRIVATE HOUSING STARTS AND PERMITS

	July <u>1</u> / (thousands of units)	Per cent change from	
		June	Year ago
Starts (total)	1,064	-16	-28
Permits (total)	902	- 5	-27
1 family	551	- 4	-22
2-or-more family	351	- 8	-35
Northeast	216	+ 6	-11
North Central	216	- 8	-41
South	289	-12	-24
West	181	- 3	-29

1/ Seasonally adjusted annual rates; preliminary.

July's annual rate of \$74,656 million for total new construction put in place (according to preliminary estimates which are often revised by substantial amounts) was somewhat below the upward revised June figure of \$75,239 million, and was the lowest figure so far this year. Public expenditures, which totaled \$23.6 billion in July, have been edging up since spring while private expenditures have tended downward.

NEW CONSTRUCTION PUT IN PLACE

	July 1966 ^{1/} (billions)	Per cent change from June 1966 July 1965	
Total	\$74.7	-1	+ 6
Private	51.0	-1	+ 4
Residential	25.5	-2	- 5
Nonresidential	25.5	-1	+15
Public	23.6	<u>2/</u>	+11

^{1/} Seasonally adjusted annual rates; preliminary.

^{2/} Less than one-half of 1 per cent.

Manufacturers' new orders for durable goods declined 1.2 per cent in July, after little change in June. The main element in the July drop was a 13 per cent reduction in orders for motor vehicles (basically shipments). Defense orders were off slightly, following a very sharp run-up in June. Orders for durable goods other than defense products and motor vehicles were up 1.7 per cent in July because of relatively large rises in iron and steel and machinery and equipment. Nonferrous metals orders were off 2 per cent from June and 4 per cent

from May. Unfilled orders held by manufacturers rose somewhat further in July and were one-fourth higher than a year earlier.

The Domestic Financial Situation

Corporate and municipal bond yields rose substantially this week against a background of expected higher future yields. Pittsburgh Plate Glass Company's \$125 million Aa-rated debenture issue -- carrying 10 year call protection -- was reoffered to investors at a yield of 5.63; about 90 per cent of this negotiated offering was sold the first day. The recent AT & T issue is trading in the free market at about 5.84, or 26 basis points above its initial yield. New municipal issues this week were offered to investors at yields 20 to 25 basis points above comparable issues entering the market last week.

Corrections

Page I - 6: Delete last two words of second paragraph.

Page I - T-2: First line under "Banking," using recently revised series, should read:

Total reserves ^{5/}	171	53	2.6	4.3
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Page II - 5: Substitute 76.9 for 71.9 to show 1966 projected civilian labor force.

Page II - 19: Substitute 12.1 for 11.8 in last line of first paragraph.

Page IV - 4: Substitute + for -.2 in line for miscellaneous imports and - for +2.18 in next line, for special adjustment.