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[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).

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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

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SUPPLEMENTAL NOTES

The Domestic Financial Situation

In March, outstanding dealer placed commercial paper rose by $600 million, seasonally adjusted, continuing the sharp rise in the volume of such paper issued since November. In the four months since November, outstandings have increased by $1.6 billion, seasonally adjusted. The increased issuance of commercial paper in recent months reflects higher tax payments, a widening rate advantage of the paper market over bank loans, and the effort of some firms to build up their contacts in this market in order to have available an alternative source of funds.

Underwriters reoffered this week's volume of new corporate and municipal bonds at yields sharply above the week earlier, and new issue yields now stand significantly above the highs reached in late February. But investor interest in issues at current yield levels has been markedly lacking. Of particular note is General Electric's Aaa-rated $200 million debenture issue this week, which was reoffered at a yield of 5.34 per cent and carries 10-year call protection. Only a week ago underwriters were rationing bonds to potential investors because of intense interest in the bonds at a preliminary yield of 5.25 per cent. The 9 basis point increase in yield in less than a week, however, did not stem the deteriorating interest in the issue, and some bonds are still unsold. Also, including this week's offerings there are now 5 utility issues in syndicate with substantial unsold bonds--despite the 5 utility syndicate terminations last week.

Early market reaction to the Treasury refunding announced April 26 appears to be generally favorable, but not enthusiastic. The Treasury is offering two new issues--a 4-1/4 per cent 15-month note and a 4-3/4 per cent 5-year note. The short issue, to yield 4.29 per cent, will be available to holders of Treasury securities maturing in May and June. The longer note, priced at par, will be available to holders of August as well as May and June maturities. The total amount outstanding of rights issues is about $22.1 billion, of which some $9 billion are held by the public. Books are open for the exchange on May 1-3. The settlement date is May 15.

The fourth-to-first quarter decline in corporate profits before taxes now appears to have been considerably smaller than the $4.5 billion drop that would be consistent with present official GNP estimates.

Since earnings in some broad industry groupings such as financial institutions and public utilities seem likely to have shown little if any decline, a $4.5 billion drop in the total would imply a rather large decline--on the order of 15 per cent from the first quarter a year ago--in profits of both the manufacturing sector and the "all other" group that includes trade and service.

Data now available on reported first quarter profits of manufacturers, covering 566 companies that account for nearly 60 per cent of the earnings of all manufacturing corporations, indicate that earnings did decline, but by only about 5 per cent from a year ago. Declines were substantial in some industries; they ranged from 25 to

40 per cent for motor vehicles, building materials, and textile products. But these large declines were partially offset by much smaller declines in a number of industries and by year-to-year increases in some, such as nonelectrical machinery, fabricated metals, and petroleum.

Even if profits in the "all other" group were as much as 20 per cent below a year ago (and fragmentary evidence suggests a smaller decline), the apparently moderate decline in manufacturing profits means that the fourth-to-first quarter drop in total corporate profits may have been closer to $2.0 than to $4.5 billion.

Mortgage debt outstanding increased about $4 billion in the first quarter of the year, based on tentative estimates now available for that period. This was still unusually low relative to the first quarter levels in other recent years and particularly in comparison with a year earlier. Then takedowns from commitments made in an easier period had been relatively large and, with mortgage markets already tightening, net additions by the Federal National Mortgage Association had reached record proportions. In the first quarter of this year, only the mutual savings banks, which had turned down sooner than most other groups, matched their year-earlier volume. While net additions by savings and loan associations continued to account for a much less than traditional share of the total increase, they were up contra-seasonally from the fourth quarter. Also, expanding commitment volume supported by the sharp return in net inflows to all depository institutions in recent months raised the possibility of considerable further improvement over the period ahead.

MORTGAGE DEBT OUTSTANDING BY TYPE OF HOLDER
(Billions of dollars, without seasonal adjustment)

	Amount March 1967p	Increase in 1st quarter of 1967p	1966p	1965	1964
All holders	370.0	3.9	6.4	6.1	6.1
Financial institutions	283.5	2.5	4.6	4.8	4.9
Commercial banks	54.9	.2	1.0	.8	.8
Mutual savings banks	48.2	.8	.8	1.0	.9
Savings and loan assoc.	114.7	.5	1.7	1.8	2.2
Life insurance companies	65.8	1.0	1.2	1.2	.9
Federal agencies	16.3	.6	1.1	.1	..1
FNMA	7.5	.4	.8	-.1	-.1
Individuals and others	70.1	.8	.6	1.1	1.2

Partly reflecting the contra-seasonal increase for savings and loan associations--the major lenders on homes--seasonally adjusted net additions to mortgage debt on 1- to 4-family properties turned upward in the first quarter and about matched the rate in the third quarter of last year when the drop was still under way. While the rates of net mortgage debt formation for multifamily, commercial and farm properties, which had fallen appreciably less than home-debt formation during 1966, apparently continued in decline, the further declines were moderate. As a result, the rate of total net mortgage debt formation also recovered somewhat.

INCREASES IN MORTGAGE DEBT OUTSTANDING
(Seasonally adjusted annual rates in billions)

	Total	1-4 family	Multifamily commercial1/	Farm1/
1965 I	29.6	15.8	11.6	2.1
II	30.3	15.9	12.3	2.1
III	30.3	16.3	11.8	2.3
IV	30.4	16.6	11.0	2.7
1966 I p.	30.8	15.5	13.1	2.3
II p.	27.4	13.6	11.8	2.1
III p.	22.2	9.8	10.1	2.2
IV p.	17.8	7.8	8.0	2.0
1967 I p.	19.0	9.8	7.5	1.7

1/ Includes estimates for holdings of individuals and others which are excluded in the flow of funds series.

International Developments

Two weeks after reducing its discount rate the third time this year (p. IV - 9), the German central bank on April 27 took further action to ease credit conditions by making another reduction in reserve requirements, effective May 1. For the largest banks the requirement on demand deposits is cut from 11.7 per cent to 11.05 per cent; requirements for other banks and on time deposits are reduced in proportion. This reduction is only half as large as the one that took effect March 1, which was a cut of one-tenth (from 13 per cent to 11.7 per cent for demand deposits at the largest banks).

Since the Federal Reserve discount rate action on April 6, one other country, Canada, reduced its discount rate--on the same day, from 5 to 4-1/2 per cent.

Corrections:

Page I - T - 2, the last column, line 2 should be 3.82 instead of 4.01.

Page I - T - 3, footnote 1/ also applies to total reserves and credit proxy; footnote 2/ also applies to Bank Credit.

Page II - 1, last line of paragraph 1, the 4 per cent is at annual rates.

Page II - 19, Labor Market should be II - 21 and II - 20 and 21 should be II - 19 and 20.

The footnote "a/" indicating use of January-March data should be attached to the import figure for Japan in the last column of the table on page IV - 7 and to the export figure for U.S. in the last column of the table on page IV - 12.