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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

February 2, 1968

SUPPLEMENTAL NOTES

The Domestic Economy

Manufacturers' inventories rose \$460 million in December, according to preliminary estimates. This was about the same as the October-November average increase, bringing accumulations over the fourth quarter to \$1.37 billion, or an annual rate of \$5.5 billion.

Inventories of durable goods manufacturers were up \$235 million in December, considerably less than in October or November, and \$1.17 billion in the fourth quarter. Stocks of nondurable goods manufacturers rose by \$220 million in December, and the quarterly total showed about the same increase since such stocks had declined in October and changed little in November.

A revision in inventories of textile mills products, which extends back to 1963, is being incorporated in the figures for the first time with the release of the December figures. This revision has the effect of lowering the level of stocks of textile mill products and also the total for nondurable goods by close to \$300 million in recent months.

New and unfilled orders and shipments of durable goods manufacturers all rose considerably more in December than the exceptionally large increases indicated by the advance figures and discussed in the January 31 Greenbook. According to the preliminary figures, new orders advanced 12.0 per cent, unfilled orders, 1.4 per cent, and shipments, 7.5 per cent. However, the final estimates for November show substantially smaller gains for each of these three series than indicated by the preliminary figures--particularly for the new and unfilled order series. As a result, changes from October to December are little different from those indicated earlier.

The Domestic Financial Situation

The Treasury announced a two-phase February financing on January 31. In the first phase, a new 7-year, 5-3/4 per cent note is being offered to holders of coupon issues maturing in February, August, and November 1968. The public holds \$12.1 billion of the issues eligible for exchange, including \$1.7 billion of those maturing in February. Books will be open February 5 to 7 and settlement will be on February 15. This combined refunding and prerefunding will be followed by a cash offering of \$4.0 billion new 15-month notes on February 13 with payment date on February 20. Initial market reaction to the financings has been favorable and price adjustments in outstanding coupon issues have been small. Bill rates were marked down a few basis points following the announcement in anticipation of re-investment demand from sellers of issues eligible for exchange into the new 7-year note.

Correction

Page IV-6, third paragraph. Last sentence should read:
"In total, imports of industrial materials (including fuels) were 2.6 per cent of final sales of goods (GNP less services and changes in inventories) in the fourth quarter, equal to the ratio in first quarter and larger than in the middle two quarters."

KEY INTEREST RATES

	1967		1968	
	High	Nov. 17 <u>1/</u>	Jan. 8	Feb. 2
<u>Short-Term Rates</u>				
3-months				
Treasury bills (bid)	5.07 (12/15)	4.67	5.02	4.85*
Bankers' acceptances	5.63 (12/29)	4.88	5.50	5.13
Euro-dollars	6.88 (11/28)	5.75	6.13	5.44
Federal agencies	5.30 (12/29)	5.05	5.35	5.05
Finance paper	5.88 (1/6)	5.13	5.50	5.13
CD's (prime NYC)				
Highest quoted new issue	5.50 (12/29)	5.25	5.50	5.25
Secondary market	5.70 (12/29)	5.30	5.63	5.25
6-months				
Treasury bills (bid)	5.60 (12/1)	5.13	5.35	5.00*
Bankers' acceptances	5.88 (12/29)	5.00	5.63	5.25
Commercial paper	6.00 (1/16)	5.13	5.63	5.50
Federal agencies	5.55 (12/29)	5.40	5.65	5.25
CD's (prime NYC)				
Highest quoted new issue	5.50 (12/29)	5.38	5.50	5.50
Secondary market	6.00 (12/29)	5.60	5.95	5.50
1-year				
Treasury bills (bid)	5.71 (12/29)	5.27	5.40	5.19*
Federal agencies	5.95 (12/29)	5.75	5.95	5.50
Prime municipals	4.00 (12/29)	3.40	3.85	3.25
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	5.91 (11/13)	5.72	5.53	5.60
20-years	5.81 (11/20)	5.70	5.34	5.38
Corporate				
Seasoned Aaa	6.25 (12/28)	6.13	6.23	6.12
Baa	6.98 (12/28)	6.76	6.91	6.80
New Issue Aaa				
With call protection	6.55 (12/7)	6.53	--	6.16
Without call protection	6.70 (12/1)	6.68	6.32	6.29
Municipal				
Bond Buyer Index	4.45 (12/7)	4.33	4.38	4.16
Moody's Aaa	4.15 (12/28)	3.98	4.15	3.90
FHA home mortgages				
30-years	6.81 (Dec.)	6.77 (Nov.)	--	--

1/ Pre-devaluation yield levels.

* 2:00 p.m. quotations.