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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

January 8, 1971

SUPPLEMENTAL NOTES

The Domestic Economy

Labor market. The labor market eased further in December with the unemployment rate rising from 5.8 per cent in November to 6.0 per cent, the highest level since the end of 1961. The increase was among adults, mainly those who had been laid off from their last job. The unemployment rate for men 25 years and over rose from 3.3 to 3.6 per cent--twice as high as a year ago--and for women 25 years and over from 4.7 in November to 5.0 per cent. For young persons 16 to 24 years unemployment rates remained at about their November highs. Recalls of workers on secondary layoff in auto supplier firms resulted in a reduction of insured unemployment.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	December 1969	November 1970	December 1970
Total	3.5	5.8	6.0
Men aged:			
16 to 19 years	11.0	16.6	16.8
20 to 24 years	5.5	10.2	10.3
25 and over	1.8	3.3	3.6
Women aged:			
16 to 19 years	12.8	18.6	18.4
20 to 24 years	6.1	9.5	9.1
25 and over	3.0	4.7	5.0
Insured unemployment*	2.4	4.5	4.2
White-collar workers	2.1	3.5	3.7
Blue-collar workers	4.3	7.3	7.7
Service workers	3.6	5.9	6.1

* For survey week.

Nonfarm payroll employment increased 290,000, reflecting a rebound of 375,000 in manufacturing employment following the end of the GM strike. Retail trade employment declined significantly further in December.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	Dec. 1968- Dec. 1969	Dec. 1969- Dec. 1970	Nov. 1970- Dec. 1970
Total	1,805	- 451	288
Manufacturing	73	-1,164	373
Nonproduction workers	112	- 202	-10
Production workers	-39	- 962	383
Durable	5	- 938	376
Nondurable	68	- 226	- 3
Mining	11	- 2	- 1
Contract construction	110	- 183	8
Transportation	114	- 26	-51
Trade	494	79	-104
Finance	163	93	9
Service	508	285	23
Government	332	467	31
Federal	- 5	- 52	- 9
State and local	337	519	40

The increase in auto production was also reflected in employment gains in fabricated metals, electrical equipment, and primary metals. In nondurable goods industries, employment was again little changed.

Manufacturing was still about 350,000 below its September pre-strike level and off by 1.2 million from a year earlier. About one-sixth of the decline from a year earlier occurred among nonproduction workers.

The average workweek of factory production workers edged up by 0.1 hour but at 39.7 hours in December was an hour less than a year earlier; reductions in overtime hours accounted for most of the over-the-year decline. The average workweek in private nonfarm industries as a whole was unchanged in December.

Auto sales. Sales of new domestic autos rose in the last selling period of December to an annual rate of 5.6 million units from a 4.8 million rate in the first 20 days. The rise reflected the beginning of G.M.'s recovery from the strike. Sales for the month as a whole, however, were unchanged from November and were at an annual rate of 5.0 million units.

Foreign car sales continued strong in December and were at a seasonally adjusted annual rate of 1.3 million units.

AUTO SALES
Millions of cars

	1969	1970
Total	9.52	8.36
Domestic	8.46	7.11
Imports	1.06	1.25
Imports as per cent of total	11.1	15.0

Inventories of new domestic autos rose sharply in December from the strike reduced November level and at month's end were 17 per cent below a year earlier. The rise reflected both the end of the G.M.

strike and poor sales by Chrysler and A.M.C. (Chrysler announced employment reductions yesterday).

Consumer credit. Consumer instalment credit outstanding fell \$3.6 billion, seasonally adjusted annual rate, in November. This unusually large decline reflected a reduction of \$5.4 billion (SAAR) in auto debt that was only partly offset by modest gains in other types of credit.

Total extensions of instalment credit declined to their lowest rate since last March; on a seasonally adjusted annual rate basis November extensions were down \$2.0 billion from October and were \$7.8 billion below the peak of \$108.8 billion in July. Repayments, on the other hand, rose to a new high for the second month in a row.

The impact of the GM strike, as seen in the reduced volume of new car sales during November, dropped auto credit extensions to a six-year low. Nonautomotive consumer goods extensions were unchanged from the relatively high October figure, however, and personal loan extensions increased moderately.

NET CHANGE IN CONSUMER INSTALLMENT CREDIT OUTSTANDING
(Billions of dollars, seasonally adjusted annual rates)

	Total	Automobile	Other consumer goods	Personal loans
1970 - QI	4.0	.0	2.4	1.7
QII	4.6	.2	2.3	1.9
QIII	4.1	- .6	2.4	2.1
Oct.-Nov.	-2.3	-3.9	.6	.9

Retail inventories. The book value of retail inventories declined at a \$4.5 billion annual rate in November, as the GM strike caused a continued runoff in auto dealers' stocks. Other durable goods retailers and nondurable outlets built stocks at a higher rate than in October or the previous quarter.

CHANGE IN BOOK VALUE OF RETAIL INVENTORIES
Seasonally adjusted annual rates, billions of dollars

	1970			
	QII	QIII	October	November
Retail, total	.8	4.7	- 9.7	-4.5
Durable	.3	2.9	-11.7	-9.0
Automotive	1.0	2.8	-12.0	-9.5
Nonautomotive	-.7	.1	.3	.5
Nondurable	.5	1.8	2.1	4.5

NOTE: Detail may not add to totals because of rounding.

Inventory-sales ratios rose generally at retail establishments in November.

RETAIL INVENTORY-SALES RATIOS

	1969		1970	
	October	November	October	November
Retail, total	1.50	1.50	1.47	1.48
Durable	2.14	2.15	2.16	2.20
Automotive	1.73	1.72	1.84	1.87
Nonautomotive	2.77	2.80	2.55	2.57
Nondurable	1.20	1.21	1.18	1.19

Retail sales. On the basis of five weeks sales (ending January 2, 1971), total retail sales for the month of December are now estimated to be up 1.4 per cent from preliminary November sales, about as indicated in the January 6 Greenbook. Excluding sales at automotive, lumber, building materials, hardware, and farm equipment outlets, total retail sales in December were up 0.9 per cent from November and 8.3 per cent from a year earlier. For the fourth quarter, total sales were estimated to be down 1.2 per cent from the third quarter but excluding autos, building materials, etc., such sales were 2.1 per cent higher than in the third quarter.

RETAIL SALES
(Per cent changes*)

	December 1970 from		QIV 1970 from QIII 1970
	November 1970	December 1969	
Retail, total	1.4	4.0	-1.2
Durable goods	3.0	-6.4	-8.8
Nondurable goods	.9	8.9	2.2
Total, less automotive, building materials, lumber, hardware, and farm equipment	.9	8.3	2.1

* Changes based on 5 weeks ending January 2 for December 1970 and final October and preliminary November figures.

The Domestic Financial Situation

Bank credit. On the basis of additional data, estimates of bank credit developments for November, December and the fourth quarter of 1970 have been revised from those presented on page III-3 of the Greenbook. The revisions for November are minor. Total bank credit and total loans, both adjusted for transfers of loans between banks and their affiliates, are now estimated to have risen at a slightly slower pace than was indicated in the Greenbook. On the other hand business loans (adjusted for transfers) are now estimated to have declined at a slightly slower pace than indicated in the Greenbook.

The revision in the preliminary estimate of the annual rate change in total bank credit (adjusted for transfers) in December is also quite minor (to 9.5 per cent from 9.7 per cent), but estimates of the rates of change in components of this total have been revised significantly. Holdings of U.S. Treasury securities and other securities are now estimated to have increased at annual rates of 27.6 per cent and 33.2 per cent, respectively, rather than at annual rates of 14.9 per cent and 27.4 per cent. On the other hand, the December change in total loans (adjusted for transfers) now appears weaker, as it is estimated to have declined at an annual rate of 1.3 per cent rather than to have risen at an annual rate of 3.3 per cent.

Reductions in the estimated rates of growth in security loans and consumer loans are responsible for a major portion of the downward revision in estimated growth of total loans. In addition, business loans adjusted for transfers are now estimated to have declined at an annual rate of 6.5 per cent rather than 5.4 per cent. However, a

change in tax laws in late 1969 eliminated the benefits that firms in the extractive industries previously derived from carve-out loans and they no longer borrow heavily around the end of the year. A rough correction for this shift in seasonal pattern suggests that the decline in business loans (adjusted for transfers) may have been at an annual rate of 3.5 per cent to 4 per cent rather than the reported 6.5 per cent.

As a result of adjustments in November and December data, estimates of fourth quarter bank credit developments have also been revised. Total loans and investments (adjusted for transfers) are now estimated to have increased over the fourth quarter at an annual rate of 5.2 per cent rather than 5.3 per cent. Estimates of the annual rates of increase in both categories of investments have been raised--U.S. Treasuries to 1.4 per cent from -2.8 per cent and Other Securities to 34.0 per cent from 32.0 per cent. The annual rate of decline in total loans for the fourth quarter has been changed to -1.8 per cent from -0.3 per cent.

COMMERCIAL BANK CREDIT ADJUSTED TO INCLUDE
OUTSTANDING AMOUNTS OF LOANS SOLD TO AFFILIATES^{1/}
(Seasonally adjusted percentage changes, at annual rates)

	1970	1970	
	QIV ^p	November	December ^P
Total loans & investments ^{2/}	5.2	7.6	9.5
U.S. Govt. securities	1.4	4.3	27.6
Other securities	34.0	35.6	33.2
Total loans ^{2/}	-1.8	.8	-1.3
Business loans ^{3/}	-9.2	-7.5	-6.5

^{1/} Last Wednesday of month series.

^{2/} Includes outstanding amounts of loans sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

^{3/} Includes outstanding amounts of business loans sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

Monetary aggregates. Estimates of the annual rates of change in currency plus demand deposits (M_1) for December and the fourth quarter of 1970 have been revised from those published in the table on page III - 5 of the Greenbook. M_1 is now estimated to have risen in December at an annual rate of 6.7 per cent rather than 7.9 per cent and over the fourth quarter at an annual rate of 3.6 per cent rather than 3.9 per cent. Because of these adjustments in rates of change in M_1 , the annual rate of growth in M_2 has been lowered for December (to 12.7 per cent) and for the fourth quarter (to 9.2 per cent).

December data for savings deposits at mutual savings banks and S&L's have become available since the Greenbook was written. The December and fourth quarter annual rates of change in these deposits and in the monetary aggregates, M_3 and M_4 , which include these deposits, are also presented in the table below.

MONETARY AGGREGATES
(Per cent, annual rates of change)

	1970	
	QIV	December
1. Currency plus private demand deposits	3.6	6.7
2. Commercial bank time and savings deposits	21.6	28.3
a. large CD's	79.3	105.4
b. other time and savings	15.2	19.1
3. Savings deposits at mutual savings banks and S&L's	11.0	12.9
4. Adjusted bank credit proxy	8.1	16.2
<u>Concepts of money</u>		
5. $M_1 = (1)$	3.6	6.7
6. $M_2 = (1) + (2)$	9.2	12.7
7. $M_3 = (1) + (2b) + (3)$	9.8	12.8
8. $M_4 = (1) + (2b) + (3) + (2a)$	12.1	16.2

Estimates of the change in the adjusted bank credit proxy have also been revised. The proxy is now estimated to have increased at an annual rate of 16.2 per cent in December and at an annual rate of 8.1 per cent in the fourth quarter.

Nonbank depository institutions. As expected, savings and loan associations experienced no pressure on their deposits during the early part of the December-January reinvestment period. In fact, the modest net outflow was smaller, by a wide margin, than that incurred during any other recent comparable period. While the favorable experience was well dispersed geographically, the most dramatic relative improvement was in the San Francisco FHLB district.

SAVINGS AND LOAN ASSOCIATIONS
DECEMBER GRACE-PERIOD DEPOSIT FLOWS*
(Millions of dollars)

	All U.S.	San Francisco District	U.S. except San Francisco
1966	-558	-102	-456
1967	-442	- 85	-357
1968	-553	-210	-343
1969	-580	-129	-451
1970	- 24	36	- 60

* Data are for the last three business days in December, and exclude interest or dividends credited.

Preliminary estimates for the month of December indicate, also as expected, that deposit growth continued to be strong at both sets of nonbank institutions. For the fourth quarter as a whole, the rate of growth in deposits was somewhat larger than the unusually high third quarter rate.

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)

	Mutual Savings Banks	Savings and Loan Associations	Both
1970 - QI	2.4	1.4	1.7
QII	6.3	7.1	6.9
QIII	6.6	11.5	10.0
QIV p/	8.7	11.9	10.9
October*	8.4	11.8	10.7
November* p/	8.1	9.2	8.8
December* p/	9.5	14.3	12.8

* Monthly patterns may not be significant because of difficulties with seasonal adjustment.

p/ Preliminary. December and fourth quarter data are partially estimated.

Corporate and municipal securities markets. The corporate bond market started the new year in a weak position, with a heavy carryover of dealer inventories and a sharp increase over December yields evident in the rate set on the first major offering of the year. However, the quick sell-out of this bond indicated that investor expectations of future declines in interest rates were still strong. These expectations were re-enforced by cuts in the prime rate and discount rate, and succeeding issues came at substantially lower yields. By the end of the first week in January, dealer stocks were reduced to comfortable levels and yields on new high-grade issues had dropped below the December lows.

Municipal bond yields continued to rise for the fourth week in a row, however, and were 40 basis points above their December low in the week ending January 8. Although commercial bank purchases continued

at a high level, they apparently did not increase sufficiently to offset the market pressures generated by abnormally heavy inventories on dealer shelves and the steadily building forward calendar.

BOND YIELDS
(In per cent)

	New Aaa Corporate Bonds ^{1/}	Long-term State and Local Bonds ^{2/}
<u>1970</u>		
Low	7.68 (12/18)	5.33 (12/11)
High	9.30 (6/18)	7.12 (5/28)
<u>Week of:</u>		
December 4	7.95	5.41
11	7.74	5.33
18	7.68	5.47
25	--	5.50
January 1	--	5.58
8	7.59	5.74

^{1/} With call protection (includes some issues with 10-year protection).
^{2/} Bond Buyer (mixed qualities).

NOTE: Section III Tables relating to Federal Finance. The projections shown for Treasury borrowing did not allow for an active constraint imposed by the \$395 billion debt ceiling. Given this ceiling, the Treasury may need to economize on cash balances and forego some of the February and March cash borrowing that is assumed in the tables.

CORRECTIONS

Page II - 26 should follow page II - 24 and be renumbered
II - 25.

INTEREST RATES

	1970			1971
	Highs	Lows	Dec. 14	Jan. 7
<u>Short-Term Rates</u>				
Federal funds (weekly averages)	9.39 (2/18)	4.82 (12/30)	4.91 (12/9)	3.82 (1/6)
3-months				
Treasury bills (bid)	7.93 (1/6)	4.74 (12/17)	4.80	4.81
Bankers' acceptances	8.75 (1/13)	5.25 (12/31)	5.25	5.25
Euro-dollars	10.50 (1/9)	6.50 (12/31)	7.38	6.38
Federal agencies	8.30 (1/9)	4.81 (12/18)	4.97 (12/11)	4.90
Finance paper	8.25 (2/1)	5.38 (12/10)	5.75	5.50
CD's (prime NYC)				
Most often quoted new issue	6.75 (10/30)	5.50 (11/25)	5.63 (12/9)	5.38
Secondary market	9.25 (1/23)	5.38 (12/23)	5.70 (12/9)	5.65
6-month				
Treasury bills (bid)	7.99 (1/5)	4.78 (12/17)	4.84	4.87
Bankers' acceptances	8.88 (1/13)	5.50 (12/4)	5.38 (e)	5.38 (e)
Commercial paper (4-6 months)	9.13 (1/8)	5.63 (12/4)	5.75	5.58
Federal agencies	8.50 (1/28)	5.12 (12/18)	5.13 (12/11)	5.10
CD's (prime NYC)				
Most often quoted new issue	7.00 (10/7)	5.50 (12/23)	5.63 (12/9)	5.50
Secondary market	9.38 (1/23)	5.50 (12/23)	5.80 (12/9)	5.70
1-year				
Treasury bills (bid)	7.62 (1/30)	4.74 (12/31)	4.80	4.71
CD's (prime NYC)				
Most often quoted new issue	7.50 (9/16)	5.50 (12/23)	5.63 (12/9)	5.50
Prime municipals	5.60 (1/9)	2.95 (12/17)	3.00	3.00
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	8.30 (1/7)	5.85 (12/4)	5.87	6.06
20-years	7.73 (5/26)	6.15 (12/16)	6.16	6.32
Corporate				
Seasoned Aaa	8.60 (6/24)	7.47 (12/29)	7.67	7.43
Baa	9.47 (8/28)	8.57 (3/10)	9.16	8.87
New Issue Aaa	9.30 (6/19)	7.68 (12/18)	7.74 (12/10)	7.59
Municipal				
Bond Buyer Index	7.12 (5/28)	5.33 (12/10)	5.33 (12/10)	5.74
Moody's Aaa	6.95 (6/18)	5.15 (12/10)	5.15 (12/10)	5.40
Mortgage--implicit yield				
in FNMA biweekly auction <u>1/</u>	9.36 (1/2)	8.36 (12/28)	8.43	8.36 (12/28)

1/ Yield on 6-month forward commitment after allowance for commitment fee and required purchase and holding of FNMA stock. Assumes discount on 30-year loan amortized over 15 years. e--estimated.