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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 Economy

Industrial production in November was 134.9 per cent of the 1957-59 average compared with 131.6 in October and 134.0 in September. (Confidential until released, probably Tuesday, December 15) A sharp rise in output in the auto industry, despite the Ford strike, and further gains in output in many other industries pushed the November index to a level 7 per cent higher than a year earlier.

According to the Commerce advance report, seasonally adjusted retail sales in November showed a decline of one-half of 1 per cent (earlier estimates based on available weekly data had indicated a larger decline). The reduction was attributable to lagging nondurable sales (off 1.2 per cent) with declines registered among most categories. Durable goods sales, reflecting moderate gains at automotive outlets as supplies increased with General Motors back in production, were up slightly from the sharply reduced October level. Furniture and appliance sales were little changed from October.

The Domestic Financial Situation

Markets for corporate and municipal bonds have continued to strengthen this week. Two large new issues of lower investment grade corporate bonds sold out quickly, showing marked yield declines in secondary trading; and yields on other recently distributed corporate issues also edged slightly lower. In the municipal market, bidding for the week's large new supply of bonds was fairly aggressive. Retail demand was reported to be quite good for most issues, with the \$104 million

of Public Housing Authority bonds reported about 70 per cent sold. Yields on Aaa-rated seasoned bonds dropped to 3.01 per cent, their lowest level since late May, 1963.

Common stock prices, as measured by Standard and Poor's composite index of 500 stocks, have declined this week, with trading activity rising a little to 4.9 million shares a day. On December 10, the index closed at 83.45, which was 3-1/3 per cent below the all-time high reached November 20. In the May-June and July-August stock market declines earlier this year, the index declined 3-1/8 and 3-1/4 per cent, respectively.

International developments

In Britain, the Bank of England wrote to the British commercial banks on December 9, requesting that they be more selective in their lending, giving priority to exports and to productive investment programs. The letter also suggested that the pressures on bank liquidity that are developing for seasonal and other reasons are not likely to be relieved by the Bank of England.