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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

January 8, 1964.

## SUPPLEMENTAL NOTES

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### The Domestic Economy

Sales of new domestic autos in December were 12 per cent above a year earlier, setting a record seasonally adjusted annual rate of over 8.9 million units.

Production of domestic cars set a new monthly record in December, but inventories at the end of the month were still 7.5 per cent below a year ago. Despite an estimated loss of over half a million cars during the autumn strike period, production in 1964 reached 7.7 million cars, exceeding the previous year but still below the 7.9 million peak reached in 1955.

Total civilian employment, seasonally adjusted, rose by 150,000 to 70.9 million in December. In nonfarm activities, employment continued to show sustained improvement and advanced by 300,000 to 66.3 million. The unemployment rate declined slightly to 4.9 per cent and was at the low point of the 4.9 to 5.3 per cent range that has prevailed since May. In December 1963, the unemployment rate was 5.5 per cent. The labor force in December increased about as much as employment and, at 74.5 million, was 1.4 million above a year earlier.

The unemployment rate for adult men remained at the low November level of 3.5 per cent. The rate for adult women dropped to 4.6 per cent, the first substantial decline since early 1964. In the previous 7 months the rate had been 5.0 per cent. The teenager unemployment rate, however, at 15.4 per cent was higher than in November or a year earlier. Long duration unemployment continued at about 900,000 but was 100,000 lower than a year earlier.

New construction put in place continued about unchanged in December, at a rate only slightly below the highs reached earlier in 1964. Residential activity receded further from the peak of last March, but nonresidential activity held at a record rate and public construction edged higher.

For 1964 as a whole, total construction activity expanded slightly more than in 1963 with acceleration of the rise in private business construction in public construction the main factor.

NEW CONSTRUCTION PUT IN PLACE

	December (billions) <sup>1/</sup>	Per cent change from year earlier		
		December	1964	1963
Total	\$65.7	+ 1	+ 6	+ 5
Private	45.4	- 1	+ 5	+ 5
Residential	25.4	- 6	+ 3	+ 6
Nonresidential	20.0	+ 6	+ 8	+ 3
Business	14.4	+ 8	+ 9	+ 4
Public	20.3	+ 5	+ 7	+ 5

<sup>1/</sup> Seasonally adjusted annual rate; preliminary.

The Domestic Financial Situation

Consumer instalment credit was up \$301 million, after seasonal adjustment, in November. This was the smallest increase in more than two years, as a smaller rise in the automobile sector resulted from earlier work stoppages. Other consumer goods paper and personal loans showed about the same dollar rise as in the preceding month.

Net flows of savings to savings and loan associations which had fallen behind a year ago in October showed a moderate year-over-year rise again in November. After allowing roughly for seasonal influences, however, the November inflow still ran behind the very large inflows that developed during the summer months.

At mutual savings banks the rate of growth in deposits has also subsided a bit since the peak summer months in which special promotional efforts were made at some banks in New York City. But a significant year-over-year growth has been maintained, particularly in November.

NET SAVINGS FLOWS <sup>1/</sup>  
(millions of dollars)

	To savings and loan associations		
	1964	1963	Net change
August	773	643	+ 130
September	1,073	916	+ 157
October	750	795	- 45
November	836	804	+ 32
	To mutual savings banks		
	1964	1963	Net change
August	345	168	+ 177
September	472	417	+ 55
October	233	195	+ 38
November	317	239	+ 78

<sup>1/</sup> Unadjusted for seasonal variation.

The only major corporate bond issue to reach the market since before Christmas, a \$40 million A-rated industrial, was an immediate sellout this week. The yield on this issue adjusted to 4.48 per cent

on a triple A basis, about the same as that on the last previous eligible issue, offered in early December. In the municipal market, retail demand has strengthened further, and with new issues in small supply this week, dealers' advertised inventories of unsold securities dropped sharply to around \$575 million. Yields on seasoned Aaa-rated municipal bonds were unchanged at 2.99 per cent, but yields on lower-grade issues edged off further.

Standard and Poor's composite index of 500 stocks has continued to advance this week on rising trading volume. On January 7, it closed at 85.26 up 2-1/2 per cent from the December low, but still 1 per cent below the record November 20 high of 86.28.

The seasonally adjusted money supply for the month of December was revised downward slightly from \$159.5 billion to \$159.4 billion, bringing the monthly increase to \$300 million. Over 1964, the money supply increased 4 per cent compared with 3.8 per cent in 1963.

#### International developments

France has announced its intention to purchase \$150 million of gold from the U. S. this month. Another purchase of this size is reportedly contemplated for later this year. These special purchases will be in addition to their usual monthly purchases, which over the past year have averaged approximately \$35 million. French official reserves of gold and foreign exchange increased \$647 million in 1964 and totaled \$5,104 million at the end of the year. Almost all of the additions to reserves in 1964 were taken in the form of gold (\$554 million). Gold holdings totaled \$3,729 million at the end of 1964, and were 73 per cent of total reserves.

In Japan, the discount rate was reduced from 6.57 to 6.21 per cent effective January 9. This latest easing of Japanese monetary policy followed a reduction of commercial bank reserve requirements in mid-December and several other easing measures taken since last fall. Some of the credit restrictions adopted in late 1963 and early 1964, however, continue to remain in effect.

APPENDIX

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The results of the second quarterly survey of changes in bank lending practices conducted as of December 15, 1964, are summarized below. Reports were received from 81 banks in the quarterly interest rate survey.

About two-fifths of the banks (32 of the 81) reported that demand for commercial and industrial loans had strengthened in the fourth quarter of 1964, substantially less than the three-fifths that had so indicated in the third quarter (item 1). For the most part the banks reporting strengthened loan demand were the same in both quarters. Few banks indicated a weakening in demand, and the appended comments suggest that some of these may not have made allowance for seasonal influences.

Most respondents, including those reporting stronger demand for loans, had not changed their policies with respect to soliciting new loans (item 2). The few banks that had become less aggressive in seeking new loans also generally reported tighter lending terms and conditions.

In considering credit requests, the borrower's value to the bank as a depositor and source of collateral business was considered more important than earlier at 34 of the 81 banks and the applicant's intended use of the proceeds of the loan also was judged more important at 14 of the banks (item 3). In each case, the number was about 10 less than in September.

Over one-fourth of the banks (23 out of 81) had established a firmer policy with respect to extending credit lines to new business borrowers and about the same proportion also had a firmer policy on lending to nonlocal businesses. These were also somewhat smaller proportions than in September. By contrast, a slightly higher, though still small, number of banks applied tighter lending standards to established and to local customers in December than in September (item 4).

The most striking changes in the fourth quarter were in terms and conditions of lending. Over two-fifths of the banks, widely distributed geographically, indicated that they had a firmer policy with respect to interest rates charged as well as with respect to compensating balances (item 5). These proportions were substantially higher than in September, particularly with respect to interest rates. About one-fourth of the banks reported a firmer policy with respect to standards of creditworthiness of the borrower, but this was about one-third less than in September. There was little change from September in the small proportions of banks firming policies on collateral and maturity.

Several banks commented on the change in interest-rate policy by referring to the narrowing spread between rates they must pay on funds and the rates charged on loans. They indicated that such changes would be selective and gradual, which may explain why the December survey of interest rates on short-term business loans showed so little increase--from an average of 4.98 in September to 5.00 in December.

Practices with respect to term loans changed little in the fourth quarter, although 10 banks, compared with 15 in September, reported that they had become less willing to make such loans.

Practices in lending to finance companies also firmed, but to a lesser extent than for nonfinancial businesses. Except for establishing new or larger credit lines, considerably more banks reported firmer policies than in September.

Not for quotation or publication

January 7, 1965.

Quarterly Survey of Changes in Bank Lending Practices  
September - December 1964  
(Numbers of banks)

Lending to Nonfinancial Businesses

	<u>Stronger</u>	<u>Weaker</u>	<u>Unchanged</u>
1. Strength of loan demand	32	5	44
	<u>Greater</u>	<u>Less</u>	<u>Unchanged</u>
2. Aggressiveness of bank in seeking new loans	10	8	63
3. Factors considered in deciding whether to approve credit requests:			
	<u>More important</u>	<u>Less important</u>	<u>Essentially unchanged</u>
Applicant's value to the bank as a depositor or source of collateral business	34	-	47
Applicant's intended use of loan proceeds	14	-	67
4. Practices with respect to reviewing lines of credit or loan applications of:			
	<u>Firmer</u>	<u>Easier</u>	<u>Essentially unchanged</u>
Established customers	6	-	75
New customers	23	2	56
Local service area customers	7	-	74
Nonlocal service area customers	22	-	59
5. Terms and conditions of loans:			
	<u>Firmer</u>	<u>Easier</u>	<u>Essentially unchanged</u>
Interest rates	35	-	46
Compensating or supporting balances	33	-	48
Standards of credit worthiness	22	-	59
Type and amount of collateral	14	-	67
Maturity	6	2	73

6. Term loans

	<u>More willing</u>	<u>Less willing</u>	<u>Unchanged</u>
Willingness to make	3	10	68
	<u>Longer</u>	<u>Shorter</u>	<u>Unchanged</u>
Maximum maturity bank will approve	3	1	77

<u>Years</u>	<u>Number of banks</u>
3	7
5	34
6	1
7	16
8	4
10	7
n.a.	12

Lending to Finance Companies

	<u>Firmer</u>	<u>Easier</u>	<u>Essentially unchanged</u>
Interest rates	12	-	69
Size of compensating or supporting balances required	8	-	73
Enforcement of balance requirements	22	-	59
Establishing new or larger credit lines	17	1	63

Source: Survey of Lending Practices at Large Banks in the Federal Reserve Quarterly Interest Rate Survey conducted as of December 15, 1964.