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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

October 29, 1965

## SUPPLEMENTAL NOTES

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### The Domestic Economy

The consumer price index rose .2 per cent from August to September and regained the level reached in July -- 110.2 per cent of the 1957-59 average. Apparel and fuels, which usually increase in September, accounted for much of the rise, and the index for telephone rates rebounded following the influence of rebates in August. Average food prices declined .4 per cent chiefly as a result of improved supplies of fresh fruits and vegetables, and prices of new and used cars declined further in the final month before introduction of 1966 models. The total index remained 1.7 per cent higher than a year ago.

### The Domestic Financial Situation

Within the past week a sharp step-up in announcements of new corporate and municipal bond offerings has expanded the November calendar by about one-fourth of a billion dollars in each market. Only a week ago, there was still some expectation that the November calendars would be on the light side. Now it appears that the flow of November offerings will be as large or larger than October in the municipal bond market and will substantially exceed October in the corporate bond market.

Despite this changing supply picture, underwriters bid rather aggressively for the sole competitive offering of corporate bonds this week. The 4.73 per cent reoffering yield on the issue adjusted down to a 4.63 per cent level in the corporate new issue

series -- 8 basis points below the late-August high and the lowest since early in that month. However, distribution of the issue has been exceedingly slow, and yields on recently distributed corporate bonds have risen again. Meanwhile, in the municipal market, yields on seasoned, Aaa-rated offerings edged up a basis point to 3.32 per cent, and dealer's advertised inventories of unsold securities have again reached nearly \$700 million, reflecting the slow distribution of last week's very large new supply.

Although there have been some sharp day-to-day movements in common stock prices this week, (as measured by Standard and Poor's Index of 500 stocks), on balance the index has increased only about 1/4 of 1 per cent, to 92.21 at the October 28 close. Average trading volume has declined to about 7.2 million shares daily from the very high levels of the past two weeks.

On October 27 the Treasury announced a cash offering of about \$9.7 billion new 18-month notes to refund a similar amount of maturing securities. The new 4-1/4 per cent notes were priced to yield 4.37 per cent and they have met with a favorable initial market response.

#### International Developments

Preliminary and partial VFCR reports for September show a rise of about \$85 million in the banks' own claims on foreigners. This may in part be seasonal.

As there were reductions in claims reported by banks for account of their customers, and in claims representing Ex-Im Bank guarantees (and hence excluded from the VFCR program), there was a little net change in total bank-reported claims in September. That had also been the case in August, and the third-quarter reduction in outstanding bank-reported claims on foreigners of \$207 million (not \$270 million as stated in the Green Book) occurred almost entirely in July.

Errata

Page IV - 3, the sentence on lines 4-6 should read: "In the third quarter, inflows of foreign commercial bank funds, concentrated in July and August, were particularly large."