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<sup>1</sup> In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

<sup>2</sup> A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

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 20, 1967

## SUPPLEMENTAL NOTES

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### The Domestic Economy

The level of personal income (seasonally adjusted annual rate) in September was up only \$2 billion from August, after rising almost \$4.5 billion in each of the three previous months. There was only a small increase in wages and salaries as about a quarter of a million more workers were off work because of strikes than in the preceding month. Even aside from strike curtailments, however, payrolls rose less than in earlier months. In both government and services, payrolls were up \$1/2 billion, the same increases as in August. The distributive industries showed no increase in payrolls as declines in transportation and communication activities offset improvement in trade. Nonpayroll incomes, except dividends which edged down, increased in September.

### The Domestic Financial Situation

The rise in United Kingdom bank rate from 5-1/2 to 6 per cent on October 19 was accompanied by very little reaction in U.S. domestic financial markets.

### International Developments

On Thursday, October 19, the Bank of England raised the Bank rate from 5-1/2 to 6 per cent. Following as it did the moderate advances in sterling money market rates in recent weeks (discussed on page IV-10 of this week's Greenbook), the action was a further effort to diminish the interest incentive for movements out of sterling into the Euro-dollar market.

The change in Bank rate produced immediate further advances in U.K. money market rates. The Treasury bill tender rate maximum today was 5.732 per cent, compared to 5.481 per cent a week ago. Recently the tender and market rates for Treasury bills have been unusually high in relation to the 5-1/2 Bank rate; this explains why Treasury bill rates have now risen no more than 1/4 per cent. Other market rates, such as local authority deposit rates, which had risen more than Treasury bill rates over the past several weeks, advanced further today.

Despite advances in Euro-dollar rates since mid-September (Greenbook, pages IV-4 and 5), and despite the widening of the forward discount on sterling in the past two or three weeks, the rise in sterling market rates has been sufficient to keep the adverse covered-interest incentive from growing, and enough to reduce it somewhat in the past two days. The particular comparison shown, as an illustration, in the table below suggests, however, that a slight incentive for out-flow still exists, comparable to the position during most of July and August.

U.K. MONEY MARKET AND EURO-DOLLAR MARKET  
ILLUSTRATIVE INTEREST RATE COMPARISON  
(Per cent per annum)

	Aug. 9	Sept. 13	Oct. 4	Oct. 20
3-mo. Euro-dollar deposits	5.13	5.13	5.56	5.63
3-mo. local authority deposit	<u>5.56</u>	<u>5.50</u>	<u>5.88</u>	<u>6.38</u>
Uncovered differential	.43	.37	.32	.75
Forward discount on sterling	<u>-.70</u>	<u>-.83</u>	<u>-.75</u>	<u>-.95</u>
Covered differential	-.27	-.46	-.43	-.20

Errata

Page I - 6. The last figure in the last line of the first paragraph should be \$875 million instead of \$925 million.

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SECOND 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 -- CORRECTION

International Developments

According to information received after the October 20 Supplemental Notes were put out, the U.K. 3-month local authority deposit rate quotation on October 20 comparable with those shown for earlier dates in the table on page 2 was 6.25 per cent rather than 6.38 per cent. The covered differential against Euro-dollars was therefore -0.33 per cent rather than -0.20 per cent, showing only a very small change from October 4.