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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

April 26, 1968

SUPPLEMENTAL NOTES

The Domestic Economy

The BLS wholesale price index increased another 0.2 per cent in April, to 108.4 per cent of the 1957-59 average, according to their preliminary estimate. Prices of farm products declined somewhat but processed foods and feeds recovered their March dip, and the combined average for agricultural-based products edged up slightly further (0.1 per cent, to 107.0). The price rise for industrial commodities slowed further, to 0.2 per cent from 0.3 per cent in March and 0.5 per cent in February. (The April estimate for the industrial total was 108.8 per cent of the 1957-59 average.) About as many industrial commodity product classes showed increases in April as in March (107, or 48 per cent; as compared with 110, or 49 per cent in March). But most increases were relatively small; the earlier sharp rise for lumber slowed somewhat; copper prices began to recede from their greatly inflated March level; and prices of steel scrap declined substantially further.

The BLS consumer price index increased 0.4 per cent in March, to 119.5 per cent of the 1957-59 average. Service costs, which have been speeding up in recent months, showed a further acceleration in March with a rise of 0.6 per cent. Prices of foods and nondurable commodities except foods each rose 0.4 per cent, while prices of durable goods increased 0.2 per cent.

The large March increase brought the rise in the CPI for the past 6 months (September to March) to an annual rate of 4.1 per

cent. After rough allowance for seasonal influences, the rate of increase was about 4.3 per cent, with commodity prices increasing at a rate of over 3.5 per cent and services close to 5.5 per cent. The CPI in March was 3.9 per cent above a year earlier.

The Domestic Financial Situation

Preliminary estimates indicate that total loans and investments at all commercial banks, after declining in March, expanded in April at about an 8.5 per cent annual rate, somewhat above the average first quarter pace. This recent growth was entirely in loans, particularly business loans, as bank security holding declined about \$700 million on a seasonally adjusted basis over the month.

CHANGES IN BANK CREDIT
All Commercial Banks
(Seasonally adjusted annual rates, per cent)

	1968				
	January	February	March	1st Qtr.	April ^{1/}
Loans and investments	10.8	13.8	- 4.1	6.8	8.5
U.S. Govt. securities	-10.1	54.8	-36.9	2.0	-12.0
Other securities	19.5	3.8	17.2	13.7	- 1.9
Total loans	13.9	6.3	- 1.1	6.4	16.3
Business loans	2.8	6.9	11.0	7.0	17.8

^{1/} All April figures are preliminary estimates based on incomplete data and are subject to revision.

Data for weekly reporting banks indicate that while direct corporate borrowing at banks for tax payments in April was about the same as last year, total tax financing at banks was somewhat lower--probably reflecting the larger amount of tax bills turned in for tax payments.

CHANGES IN SELECTED BALANCE SHEET ITEMS AT
WEEKLY REPORTING BANKS OVER THE APRIL TAX PERIOD^{1/}
(Millions of dollars)

Item	1965	1966	1967	1968
Business loans	+ 77	+158	+646	+675
Government security dealer loans	+276	+274	- 84	-562
Finance company loans	+124	+293	+235	+521
Treasury bill holdings of banks	+ 26	+271	-287	-342
Negotiable CD's outstanding	<u>+121</u>	<u>+ 65</u>	<u>-527</u>	<u>-697</u>
Total bank financing	+382	+931	+1,037	+989
Corporate income tax payments (1968 estimated)	1,187	2,440	4,295	4,600
Direct bank financing (business loans) as a percentage of tax payments	6.5	7.0	15.0	14.7
Total bank financing as a percentage of tax payments	32.2	38.2	24.1	21.5

Memo:				
Tax bills outstanding	n.a.	n.a.	2,510	3,507
Tax bills turned in for taxes	n.a.	n.a.	790	1,200
Tax bills turned in for taxes as a percentage of tax payments	n.a.	n.a.	18.4	26.1

^{1/} Reporting week including April 15.		n.a. - Not available.		

Immediately following the increase in Regulation Q ceilings, banks advanced their offering rates on most maturities of CD's. Late this week, posted rates generally were somewhat below ceilings on all maturities beyond 60 days, with a substantial volume of sales reported to be on 3-4 month maturities at the 6 per cent ceiling for this maturity

range. One bank is reported to be offering maximum rate on all maturities. Reflecting these higher rates, large banks in New York and Chicago raised their outstandings by \$184 million and \$34 million, respectively, during the week ending April 24.

Corporate and municipal yields rose significantly in the week ended March 26, with the corporate yield surpassing its March peak. While the largest issue of that week, Bell Telephone Co. of Pennsylvania's \$100 million bond offering, was reported as partially sold in the Greenbook, subsequent investor interest was sufficient to achieve a sell-out of the bonds at a yield of 6.75 per cent--as well as to drive the price to a slight premium.

BOND YIELDS
(Weekly average, per cent)

	Corporate Aaa With call protection	Bond buyer municipals
<u>1968</u>		
Low	6.12 (2/2)	4.16 (2/2)
High	6.64 (3/29)	4.62 (3/14)
Week ending:		
April 5	6.58	4.31
12	--	4.29
19	6.41*	4.33
26	6.66	4.43

* - Some issues carry 10-year call protection.

The corporate bond volume for May has been revised upward. It has been learned, on a confidential basis, that two industrial bond issues totaling \$250 million will be announced next week with scheduled

offering dates in May. At \$1.1 billion the revised public bond volume expected in May would be the heaviest for any month so far this year. In the municipal market, the expected volume in May was also revised upward to reflect the announcement of a State of California \$100 million issue schedule for May 7--which may reflect an acceleration of that State's financing plans. Even after this revision in the estimate, May volume in the municipal market is still expected to remain below the pace earlier in the year.

SELECTED BOND OFFERINGS
(Millions of dollars)

	1968		
	QI estimate (monthly average)	April estimate	May estimate
Corporate bonds (publicly offered)	820	825	1,100 ^{r/}
Municipal bonds	1,232	1,100	1,000 ^{r/}

KEY INTEREST RATES

	1967		1968		
	High	Nov. 17 ^{1/}	Apr. 1	Apr. 18	Apr. 25
<u>Short-Term Rates</u>					
3-months					
Treasury bills (bid)	5.07 (12/5)	4.67	5.13	5.34	5.50
Bankers' acceptances	5.63 (12/29)	4.88	5.75	5.63	5.88
Euro-dollars	6.88 (11/28)	5.75	6.25	6.06	6.50
Federal agencies	5.30 (12/29)	5.05	5.29	5.44	5.54
Finance paper	5.88 (1/6)	5.13	5.50	5.50	5.75
CD's (prime NYC)					
Highest quoted new issue	5.50 (12/29)	5.25	5.50	5.50	5.88
Secondary market	5.70 (12/29)	5.30	5.70	5.70	5.95
6-months					
Treasury bills (bid)	5.60 (12/1)	5.13	5.22	5.46	5.63
Bankers' acceptances	5.88 (12/29)	5.00	5.88	5.75	6.00
Commercial paper	6.00 (1/16)	5.13	5.75	5.75	6.00
Federal agencies	5.55 (12/29)	5.40	5.67	5.73	5.73
CD's (prime NYC)					
Highest quoted new issue	5.50 (12/29)	5.38	5.50	5.50	6.00
Secondary market	6.00 (12/29)	5.60	5.90	6.00	6.15
1-year					
Treasury bills (bid)	5.71 (12/29)	5.27	5.34	5.32	5.65
Federal agencies	5.95 (12/29)	5.75	5.67	5.60	5.80
Prime municipals	4.00 (12/29)	3.40	3.60	3.50	3.65
<u>Intermediate and Long-Term</u>					
Treasury coupon issues					
5-years	5.91 (11/13)	5.72	5.63	5.72	5.85
20-years	5.81 (11/20)	5.70	5.53	5.44	5.49
Corporate					
Seasoned Aaa	6.25 (12/28)	6.13	6.21	6.20	6.22
Baa	6.98 (12/28)	6.76	6.97	6.95	6.96
New Issue Aaa					
With call protection	6.55 (12/7)	6.53	6.63	6.41	6.66
Without call protection	6.70 (12/1)	6.68	--	6.49	--
Municipal					
Bond Buyer Index	4.45 (12/7)	4.33	4.54	4.33	4.43
Moody's Aaa	4.15 (12/28)	3.98	4.28	4.08	4.18
FHA home mortgages					
30-years	6.81 (Dec.)	6.77 (Nov.)	6.78 (Feb.)	6.83 (Mar.)	--

^{1/} Pre-devaluation yield levels.

Volume of mortgage debt outstanding continued upward at an advanced rate in the first quarter of 1968 and reached a level of \$375 billion, as shown in the table. Net mortgage debt formation by mutual savings banks and life insurance companies were apparently the lowest for any first quarter since 1962 and far short of year-earlier levels, based on tentative indications now available. These year-to-year shortfalls, however, were more than offset by advanced net takings by savings and loan associations--the dominant mortgage-lender group and the one with the fewest alternative investment options. At the same time, net mortgage acquisitions by commercial banks were exceptionally large, partly reflecting a less than seasonal decline in housing starts and related pressures for construction loans in the first quarter. And, in addition, net takings by the Federal National Mortgage Association of eligible Government-assisted mortgages exceeded those for any quarter on record, even including the first quarter of 1966.

MORTGAGE DEBT OUTSTANDING BY TYPE OF HOLDER
(Billions of dollars, without seasonal adjustment)

	Amount March 1968p	Increase in 1st qtr. of:			
		1968p	1967	1966	1965
<u>All holders</u>	374.9	5.3	3.5	5.7	5.1
Financial institutions	302.7	3.8	2.5	4.6	4.8
Commercial banks	60.1	1.0	.2	1.0	.8
Mutual savings banks	51.2	.5	.8	.8	1.0
Savings and loan assoc.	123.4	1.7	.5	1.7	1.9
Life insurance companies	68.0	.4	1.1	1.2	1.2
Federal agencies	19.6	1.2	.6	1.1	.1
FNMA	9.8	.9	.3	.8	-.1
Individuals and others	52.6	.3	.4	--	.2

On a seasonally adjusted basis, net mortgage debt expansion for 1- to 4-family properties in the first quarter of this year are indicated to have dropped below the near-record rate reached in the previous quarter. However, the first quarter rate about matched the advanced rate in the third quarter of last year and was still more than double the recent low in the fourth quarter of 1966. The rate of increase for loans on multifamily and commercial properties edged higher, reflecting increasingly selective concentration in income-property lending particularly by life insurance companies. Even so, over-all expansion of such debt remained appreciably under the highs in early 1966.

INCREASE IN MORTGAGE DEBT OUTSTANDING
(Seasonally adjusted annual rates in billions of dollars)

	Total	1-4 family	Multifamily & commercial ^{1/}	Farm ^{1/}
1966 - I p	27.1	14.1	11.0	2.3
II p.	23.8	12.0	9.8	2.1
III p.	18.1	8.4	7.5	2.2
IV p.	14.7	7.0	5.8	1.9
1967 - I p.	17.0	7.9	7.7	1.4
II p.	20.2	10.4	8.3	1.6
III p.	25.2	14.9	8.0	2.3
IV p.	27.2	16.0	8.9	2.4
1968 - I p.	25.5	14.8	9.0	1.7

^{1/} Includes estimates for holdings of individual and others which are excluded in the flow of funds series.

International Developments

Complete but still preliminary data on U.S. liquid liabilities to foreign official and private accounts are now available. Together with the reserve data, they suggest that the first-quarter payments deficit on the liquidity basis before special transactions appears to have been at an annual rate of about \$2 billion. On the official reserve transactions basis, the deficit (little affected by special transactions) appears to have been somewhat in excess of \$1-1/2 billion annual rate. These estimates, expressed as quarterly amounts, are shown in the appended revisions of page I -- T - 3 and Appendix A.

The new deficit estimates are confidential until publication of final figures at the middle of May. Revisions of seasonal adjustments, as well as of unadjusted data, will be incorporated in the final figures.

With the March merchandise trade data (pp. IV - 4 to 6) it now appears that the goods and services balance in the first quarter may have been substantially less than the estimated \$2.6 billion annual rate included in the preliminary GNP estimate (table on p. II - 7, "net exports"). As noted in the Greenbook (pp. IV - 3) offsetting improvements occurred in the capital account. It is possible, too, that dollar receipts from foreign trade in March were not delayed by the port strike as much as shipments were.

U.S. BALANCE OF PAYMENTS
(In millions of dollars)

	1 9 6 7				1 9 6 8		
	I	II	III	IV	I.	Feb.	Mar.
	Seasonally adjusted						
Goods and services, net <u>1/</u>	1,353	1,320	1,408	719			
Trade balance <u>2/</u>	1,009	1,154	1,077	243	92	156	-175
Exports <u>2/</u>	7,671	7,712	7,626	7,454	7,921	2,758	2,438
Imports <u>2/</u>	-6,662	-6,558	-6,549	-7,211	-7,830	-2,602	-2,612
Services balance	344	166	331	476			
Remittances and pensions	-264	-395	-356	-269			
Govt. grants & capital <u>3/</u>	-1,201	-1,013	-966	-947			
U.S. private capital	-984	-1,113	-1,741	-1,608			
Direct investments	-622	-648	-939	-818			
Foreign securities	-263	-170	-446	-373			
Banking claims	69	-228	-392	96			
Other	-168	-67	36	-513			
Foreign capital, nonliquid	858	1,194	808	217			
Official foreign accts.	392	736	25	119			
Long-term deposits	304	584	-215	147			
U.S. Govt. liab.	88	152	240	-28			
Int'l. institutions <u>4/</u>	70	97	117	15			
Other <u>5/</u>	396	361	666	83			
Errors and omissions	-295	-546	209	37			
	Balances, with and without seasonal adjustment (- deficit)						
Liquidity balance, S.A.	-533	-553	-638	-1,851	-542		
Seasonal component	295	330	-573	-52	300		
Balance, N.S.A.	-238	-223	-1,211	-1,903	-242	-72	-19
Official settlements bal., S.A.	-1,817	-832	456	-1,205	-401		
Seasonal component	537	143	-495	-185	533		
Balance, N.S.A. <u>6/</u>	-1,280	-689	-39	-1,390	132	34	-200
	Reserve changes, N.S.A. (decrease -)						
Total monetary reserves	-1,027	419	375	181	-904	170	-864
Gold stock	-51	-15	-92	-1,012	-1,362	-103	-1,197
Convertible currencies	-1,007	424	462	1,145	401	59	511
IMF gold tranche	31	10	5	48	57	214	-178

1/ Equals "net exports" in the GNP.

2/ Balance of payments basis which differs a little from Census basis.

3/ Net of scheduled and non-scheduled repayments.

4/ Long-term deposits and Agency securities.

5/ Includes some foreign official transactions in securities.

6/ Differs from liquidity balance by counting as receipts (+) increase in liquid liabilities to commercial banks, private nonbanks, and international institutions (except IMF) and by not counting as receipts (+) increases in certain nonliquid liabilities to foreign official institutions.

**MEASURES OF THE U.S. BALANCE OF PAYMENTS
AND SELECTED "SPECIAL" TRANSACTIONS
(Millions of dollars) 1/**

	Year	1 9 6 7				1968
		I	II	III	IV	I
1. Liquidity deficit (-), NSA	-3,575	-238	-223	-1,211	-1,903	-242
Seasonal adjustment		-295	-330	573	52	-300
Liquidity deficit, SA		-533	-553	-638	-1,851	-542
2. SELECTED "SPECIAL" TRANSACTIONS						
A. Investments in long-term deposits:						
Foreign governments <u>2/</u>	+893	+306	+634	-214	+167	+ 90
International and regional institutions	+172	+70	+24	+54	+24	- 51
B. Investments in U.S. Govt. Agency securities:						
*Foreign governments <u>2/</u>	+28	--	--	--	+28	+ 60
International and regional institutions	+120	-6	+70	+67	-11	- 46
C. U.K. official transactions:						
*In U.S. stocks and agency issues	-495	+9	+52	+4	-560	--
Long-term time deposits and Ex-Im participations	-72	-1	-50	-1	-20	- 16
D. *Nonscheduled debt repayments to the U.S. Government	+5	--	--	+5	--	--
E. Transactions in nonmarketable, nonconvertible, medium-term U.S. Govt. securities	+414	-1	-3	+323	+95	+207
F. *Canadian Government transactions:						
Advance repurchase of Canadian bonds	+30	--	+30	--	--	--
Purchase of IBRD bonds	+12	--	--	--	+12	- 35
Rescheduling of new Canadian issues	--	--	--	--	--	--
TOTAL SELECTED "SPECIAL" TRANSACTIONS	+1,107	+377	+757	+238	-265	+209
3. <u>LIQUIDITY DEFICIT BEFORE REDUCTION BY "SPECIAL" TRANSACTIONS</u>	<u>-4,682</u>	<u>-910</u>	<u>-1,310</u>	<u>-876</u>	<u>-1,586</u>	<u>-751</u>
4. Official settlements deficit (-), NSA	-3,398	-1,280	-689	-39	-1,390	132
Seasonal adjustment		-537	-143	495	185	-533
Official settlements deficit, SA		-1,817	-832	456	-1,205	-401
5. "SPECIAL" TRANSACTIONS AFFECTING OFFICIAL SETTLEMENTS BALANCE (Items marked * above)	-420	+9	+82	+9	-520	+ 25
6. <u>OFFICIAL SETTLEMENTS BALANCE BEFORE REDUCTION BY "SPECIAL" TRANS.</u>	<u>-2,978</u>	<u>-1,826</u>	<u>-914</u>	<u>447</u>	<u>-685</u>	<u>-426</u>

1/ Figures may not add because of rounding. 2/ Excluding U.K.

ADDENDUM TO THE SUPPLEMENT OF APRIL 26, 1968

Corrections to:

GREENBOOK

Page II - 4, paragraph 2. The rise in consumer prices over the past year was almost 4 per cent.

Page III - 21, in table titled, "MARKET YIELDS ON U.S. GOVERNMENT SECURITIES," the figures below are the correct ones:

Bills	April 1
1-month	5.05
3-month	5.13
6-month	5.22
1-year	5.34

SUPPLEMENT

Page 9. Substitute the following paragraph for the first paragraph under International Developments:

Complete but still preliminary data on U.S. liquid liabilities to foreign official and private accounts are now available. Together with the reserve data, they suggest that the first-quarter payments deficit on the liquidity basis before special transactions was about \$3 billion at an annual rate. (An estimate of \$3-1/2 billion was given on page I - 7.) The corresponding balance after reduction by special transactions appears to have been at an annual rate of about \$2 billion. On the official reserve transactions basis, the deficit (little affected by special transactions) appears to have been somewhat in excess of \$1-1/2 billion annual rate. These estimates, expressed as quarterly amounts, are shown in the appended revisions of Page I -- T - 3 and Appendix A.