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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 25, 1968

SUPPLEMENTAL NOTES

The Domestic Financial Situation

KEY INTEREST RATES

	1968			
	Low	High	Oct. 7	Oct. 24
<u>Short-Term Rates</u>				
Federal funds (weekly average)	4.54 (1/3)	6.34 (5/15)	5.95	5.84 (10/23)
3-months				
Treasury bills (bid)	4.82 (1/29)	5.92 (5/21)	5.26	5.40
Bankers' acceptances	5.25 (3/7)	6.13 (5/24)	5.62	5.88
Euro-dollars	5.43 (2/2)	7.19 (6/4)	5.96	6.44
Federal agencies	5.00 (2/9)	6.11 (5/17)	5.38	5.63
Finance paper	5.13 (3/7)	6.13 (6/25)	5.50	5.50
CD's (prime NYC)				
Highest quoted new issue	5.25 (2/8)	6.00 (7/18)	5.62	5.85
Secondary market	5.20 (1/31)	6.20 (5/31)	5.75	6.05
6-months				
Treasury bills (bid)	4.98 (1/29)	6.08 (5/21)	5.36	5.42
Bankers' acceptances	5.38 (3/7)	6.25 (5/24)	5.75	6.00
Commercial paper	5.50 (3/7)	6.25 (7/25)	5.75	5.88
Federal agencies	5.25 (2/9)	6.25 (5/24)	5.49	5.68
CD's (prime NYC)				
Highest quoted new issue	5.50 (3/7)	6.25 (7/11)	5.62	5.62
Secondary market	5.45 (1/31)	6.40 (5/31)	5.80	6.00
1-year				
Treasury bills (bid)	5.05 (8/1)	6.03 (5/21)	5.24	5.41
Federal agencies	5.45 (10/24)	6.01 (5/31)	5.58	5.45
Prime municipals	2.75 (8/8)	3.90 (5/31)	2.90	3.10
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	5.42 (1/12)	6.21 (5/21)	5.54	5.61
20-years	5.16 (8/1)	5.77 (3/14)	5.39	5.45
Corporate				
Seasoned Aaa	5.95 (9/5)	6.29 (6/6)	6.03	6.13
Baa	6.77 (10/3)	7.10 (6/3)	6.77	6.88
New Issue Aaa				
With call protection	6.13 (8/29)	6.83 (5/24)	6.31	6.50
Without call protection	6.29 (2/2)	6.99 (6/3)	6.64	6.64
Municipal				
Bond Buyer Index	4.07 (8/8)	4.71 (5/24)	4.36	4.52
Moody's Aaa	3.80 (8/8)	4.42 (5/31)	4.14	4.21
Mortgage--Implicit yield				
in FNMA weekly auction <u>1/</u>	7.12 (5/6)	7.72 (6/10)	7.23 (9/3)	7.20 (10/21)

1/ Yield on 6-month forward commitment after allowance for commitment fee and required FNMA stock purchase. Assumes discount on 30-year loan amortized over 15 years.

International developments

Canadian budget. The Canadian Government's proposed budget for the fiscal year ending March 31, 1970, was presented to Parliament on October 22. Finance Minister Benson said that the main economic problem facing Canada in the near term was the excessive degree of inflation. Hence budget policy was aimed at restraining excess demand and easing the pressures on financial markets that had been caused by large government deficits in the past few years. To this end, tax increases were proposed, including: a new Social Development Tax, at the rate of 2 per cent of personal income up to a maximum tax payment of C\$120; a second speedup of corporate tax payments; and several tax reform measures relating to estate and gift taxes and taxation of insurance companies, banks, and other financial institutions. These tax increases were expected to yield C\$845 million in 1969-70.

Including these new receipts, total budgetary receipts would increase from C\$10.1 billion in 1968-69 to C\$11.7 billion in 1969-70, while budgetary expenditures were expected to rise from C\$10.8 billion to C\$11.7 billion. On a national income accounts basis, the budget would swing from a deficit of C\$435 million to a surplus of about C\$250 million. GNP growth was forecast at 7 to 8 per cent in 1969 (4-1/2 per cent in real terms) compared with 8 per cent (also 4-1/2 per cent real) in 1968.

CONFIDENTIAL (FR)

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

October 28, 1968

SUPPLEMENTAL NOTES

The Domestic Economy

The BLS wholesale price index in October remained at the September level of 109.1 per cent of the 1957-59 average, according to preliminary estimates (to be released at 11:00 a.m., October 29). The industrial commodity average rose 0.4 per cent further, with autos, lumber, and plywood accounting for nearly half the rise. The proportion of product classes showing increases accelerated further--approaching the levels reached during the period of sharp price advance early this year. At an estimated 109.6, the industrial average has risen nearly 0.7 per cent from August to October, after showing little change from April to August. Meanwhile, wholesale prices of farm products and foods, which had risen in September, dropped back again in October to about the August level--offsetting, in the October total wholesale index, the sharp rise in industrial commodities.

The preliminary nonfarm employment estimate for September will be revised down by about 70,000, reducing the September employment pickup to about 75,000. (Confidential until November 6.) The August estimate was also reduced slightly. The bulk of the September adjustment occurred in the government estimate (down by 60,000 from the preliminary figure) and in services (down about 40,000). There was a partially offsetting increase for trade. The over-all manufacturing figure was not revised significantly; however, the workweek estimate was raised slightly. The table below presents revised figures for the estimates shown on page II - 21 of the regular Greenbook.

REVISED JUNE TO SEPTEMBER NONFARM PAYROLL EMPLOYMENT CHANGES
(In thousands, seasonally adjusted)

Total	303*
Manufacturing	-26
Nonmanufacturing	326*
Federal Government	-79

* Adjusted for reduced strike activity in construction.

International developments

Balance of payments. More nearly complete data on the September changes in the payments balance (see table on page 7) show a larger unadjusted surplus on the liquidity basis than the earlier estimate used in the Green Book -- \$155 million rather than \$72 million. With a rough allowance for seasonality, and before special transactions, this would correspond to a deficit for the month of roughly \$200 million. For the third quarter, the liquidity deficit before special transactions would be somewhat under a \$2-1/2 billion annual rate. On the published basis -- that is, including receipts from special transactions -- the third quarter deficit will be even lower than the \$170 million registered for the second quarter.

The September data for the official settlements balance show an unadjusted surplus of \$185 million, about the same as was assumed in the Green Book. This yields an estimated annual rate surplus for the quarter -- seasonally adjusted and before some relatively small special transactions -- of about \$1-1/4 billion.

Foreign trade. Part of the payments strength in September was related to a pickup in the export surplus. Trade figures for the month show that both exports and imports expanded much more sharply than had been expected, though the net surplus is near that estimated in the Green Book. For the quarter as a whole the export surplus was at an annual rate of \$1.2 billion compared with a rate of about \$1/4 billion in the first half.

	1 9 6 7					1 9 6 8		
	<u>Total</u>	1st <u>Qtr.</u>	2nd <u>Qtr.</u>	3rd <u>Qtr.</u>	4th <u>Qtr.</u>	1st <u>Qtr.</u>	2nd <u>Qtr.</u>	3rd ^{3/} <u>Qtr.</u>
Exports	30.5	30.6	30.8	30.5	29.9	31.7	33.2	35.4
Imports	<u>27.0</u>	<u>26.7</u>	<u>26.4</u>	<u>26.2</u>	<u>28.6</u>	<u>31.3</u>	<u>33.1</u>	<u>34.2</u>
Balance	3.5	3.9	4.4	4.3	1.3	0.4	0.1	1.2

e/ Adjustment to balance of payments basis estimated.

Exports in the third quarter, and especially in September, were raised by shipments anticipating a possible dock strike, so that the rate of increase is exaggerated. For the first nine months as a whole, exports in 1968 were 9.1 per cent ahead of exports in the same period of 1967; the increase in the third quarter over the first half 1968 rate was at an annual rate of over 30 per cent. It is difficult to measure the effect of the strike anticipations, but on the whole it appears that most of the export gain in the third quarter was related to rising demand abroad rather than to such anticipations. Gains were registered in the quarter in most types of manufactured goods, though in September there were lower deliveries of aircraft and agricultural products.

Imports in September also rose by an exceptionally large amount, lifting the third quarter import rate to \$34.2 billion. This represented a deceleration from the much greater import increase of

the first and second quarters, but the share of imports in GNP continued to rise slightly. Imports of some goods, primarily foodstuffs, were lower in September, but gains were reported for crude materials, fuels, and machinery. Trade both ways with Canada in automobiles and parts rose considerably in September.

Early October data. Strictly confidential weekly data for October through the 23rd indicate that we are having a repetition of the very large liquidity deficits for this month that occurred in 1966 and 1967, when they averaged nearly \$800 million -- before special transactions but not seasonally adjusted. Large private capital transactions in October that affected the balance included the sale of an International Bank bond issue in the U.S. market and the liquidation of a large U.S. direct investment in the United Kingdom, but these known transactions are roughly offsetting. There may well have been a sizable drop in exports in early October because of the acceleration of shipments in September, with the effect of improving the September deficit, if payments for exports are current, at the expense of the October figures.

The official settlements balance showed deficits in late September and early October as liquid liabilities to private foreign accounts declined, but then shifted toward surplus in the

week ended October 23, as U.S. banks again raised their Euro-dollar borrowings via foreign branches. Prospects for this balance are hard to evaluate, but the supply of Euro-dollars seems likely to come under pressure as economic activity in Europe and Japan picks up, speculation against sterling and the French franc is diminished, liquidity in the German financial market is reduced somewhat, and U.S. companies draw down the proceeds of foreign borrowings to stay within the control guidelines.

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

	1 9 6 7				1 9 6 8			
	I	II	III	IV	I	II	III ^P	Sept. ^P
	Seasonally adjusted							
Goods and services, net ^{1/}	1,293	1,269	1,359	848	356	492		
Trade balance ^{2/}	975	1,098	1,085	319	87	9	305 ^e	217 ^e
Exports ^{2/}	7,661	7,703	7,626	7,478	7,924	8,302	8,850	3,196
Imports ^{2/}	-6,686	-6,605	-6,541	-7,159	-7,837	-8,293	-8,545	-2,979
Services balance	318	171	274	529	269	483		
Remittances and pensions	-262	-392	-358	-263	-266	-280		
Govt. grants & capital ^{3/}	-1,176	-1,039	-988	-1,008	-1,164	-1,101		
U.S. private capital	-975	-1,104	-1,788	-1,638	-646	-1,230		
Direct investments	-653	-651	-902	-815	-374	-1,034		
Foreign securities	-259	-199	-476	-332	-385	-81		
Banking claims	79	-198	-435	95	364	204		
Other	-142	-56	25	-586	-251	-319		
Foreign capital, nonliq.	865	1,202	766	353	1,365	2,171		
Official foreign accts.	382	724	18	150	331	923		
Long-term deposits	304	584	-215	147	119	160		
U.S. Govt. liab.	78	140	233	3	212	763		
Int'l. institutions ^{4/}	70	97	117	30	-92	-19		
Other ^{5/}	413	381	631	173	1,126	1,267		
Errors and omissions	-250	-458	207	-34	-305	-222		
	Balances, with and without seasonal adjustment (- deficit)							
Liquidity balance, S.A.	-505	-522	-802	-1,742	-660	-170	-36*	n. a.
Seasonal component	267	302	-410	-159	411	303	-450*	n. a.
Balance, N. S. A.	-238	-220	-1,212	-1,901	-249	133	-486*	154 [†]
Official settlements								
balance, S.A.	-1,764	-806	247	-1,082	-535	1,459	390*	n. a.
Seasonal component	485	101	-272	-314	629	102	-300*	n. a.
Balance, N. S. A. ^{6/}	-1,279	-705	-25	-1,396	94	1,561	90*	185 [†]
	Reserve changes, N. S. A. (decrease -)							
Total monetary reserves	-1,027	419	375	181	-904	137	571	207
Gold stock	-51	-15	-92	-1,012	-1,362	-22	74	74
Convertible currencies	-1,007	424	462	1,145	401	-267	474	136
IMF gold tranche	31	10	5	48	57	426	23	-3

^{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.

^{e/} Adjustment to "balance of payments" basis estimated.

^{*/} Strictly Confidential.