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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

May 1, 1970

SUPPLEMENTAL NOTES

The Domestic Economy

New Construction. Seasonally adjusted outlays for new construction put in place rose somewhat in April to an annual rate of \$90.6 billion. This was within 2 per cent of the rate a year earlier when such outlays reached their high; on a constant dollar basis, however, the year-to-year gap actually amounted to 7 per cent. Within the private sector, expenditures for residential construction turned upward, according to the preliminary Census estimate. But the turn was slight and followed a downward revision of about 2 per cent for earlier months. Nonresidential outlays--already very near the peak achieved last September--apparently changed little. Within the public sector, outlays for Federally owned projects advanced from a reduced March rate; expenditures for State and locally owned projects were unchanged at a level about 4 per cent below the high reached last February.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	April 1970 (\$ billions) ^{1/}	Per cent change from	
		March 1970	April 1969
Total	90.6	+1	- 2
Private	62.5	+1	- 1
Residential	28.0	+1	-15
Nonresidential	34.4	--	+15
Public	28.2	--	- 5
Federal	3.2	+5	-15
State and local	24.9	--	- 4

^{1/} Seasonally adjusted annual rates; preliminary. Data for the most recent month (April) are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Productivity. Output per manhour in the private nonfarm economy declined in the first quarter of 1970, as real output was reduced more than manhours. Increases in compensation per manhour continued large and unit labor costs continued to rise sharply. It should be noted that productivity in this broad sector has shown some net decline since late 1968.

The table presents a year-over-year comparison in order to smooth out some of the erratic movements that are typical of changes between successive quarters. Productivity was down somewhat over the year ending in the first quarter, while compensation per manhour was up more than 6-1/2 per cent, about the same as the average rise during 1969. As a result, unit labor costs were 7 per cent above a year earlier in the first quarter, about the same year-over-year increase as in the last half of 1969.

PRIVATE NONFARM ECONOMY

Per cent change from a year earlier

	Compensation per manhour	Output per manhour	Unit labor costs
1968:IV	8.2	3.6	4.6
1969:I	7.0	1.8	5.1
II	6.9	0.3	6.6
III	7.0	0.0	7.0
IV	6.3	-0.7	7.0
1970:I	6.6	-0.4	7.0

Wages. The average wage and benefit increase negotiated in major collective bargaining settlements in the first quarter of 1970 was 8.6 per cent, virtually unchanged from the rise for the year 1969. Wage increases effective in the first year of the contract were larger than last year.

WAGE INCREASE IN MAJOR SETTLEMENTS
Private nonfarm industries

	1969		1970
	First Quarter	Average for the year	First Quarter
	Annual Rate (per cent)		
<u>Wages</u>			
First year	7.6	9.2	10.8
Life of Contract	6.1	7.6	8.0
<u>Wages and benefits</u>	7.1	8.6	8.6

First-year increases accelerated sharply in nonmanufacturing-- up from 10.8 per cent in 1969 to 14.1 per cent this year; in manufacturing, the rise was more moderate--up from 7.9 to 8.2 per cent. The settlements in manufacturing, were dominated by the G.E. and Westinghouse agreements with the electrical workers which provided relatively moderate increases. In nonmanufacturing, settlements in retail trade and construction predominated. First-year increases in construction in early 1970 averaged about 18 per cent and were above last year's increases.

Consumer prices: The accompanying table replaces the table on consumer prices on page II-31 of the April 29 Greenbook. The figures appearing in the Greenbook table are the percentage changes at annual rates from the average price in one quarter to the average price in the next, and not the change from the third month of one quarter to the third month of the next, as is suggested by the table heading.

CONSUMER PRICES
Percentage changes, seasonally adjusted, annual rates

	Dec. '68 to Mar. '69	Mar. '69 to Jun. '69	June '69 to Sept. '69	Sept. '69 to Dec. '69	Dec. '69 to Mar. '70	Feb. '70 to Mar. '70
All items	6.5	6.0	5.0	6.5	6.1	4.8
Durable Commodities ^{1/}	9.9	1.1	1.8	5.0	2.8	4.2
New cars	3.2	1.2	0	4.3	2.3	-1.2
Household durables ^{2/}	5.4	5.4	1.5	1.1	3.4	5.6
Nondurable Commodities	4.0	7.2	4.2	7.3	3.4	0.9
Food	3.9	8.5	5.4	10.1	5.2	1.8
Apparel	3.3	5.5	4.4	5.6	2.2	0.9
Services ^{2/}	8.1	6.8	7.5	6.3	10.8	12.7
Medical care	10.9	8.0	7.3	1.4	9.7	12.3
Rent	2.7	3.4	4.0	4.3	4.3	4.9
Transportation	12.0	4.0	4.8	12.2	16.4	3.1
Mortgage interest rates	13.4	16.7	9.8	4.1	26.6	45.2
Addendum:						
Durable products ^{3/}	3.8	4.5	1.5	1.8	2.9	2.2
Services less home finance	6.3	5.1	5.8	5.3	7.5	6.6

^{1/} Includes home purchase and used cars.
^{2/} These items have no significant seasonal.
^{3/} Excludes home purchase and used cars.

The Domestic Financial Situation

Bank credit. Preliminary estimates of all commercial bank credit developments for April indicate that total bank credit expanded at about the same moderate rate of increase as in March. In addition, the general pattern of change in major balance sheet items was also quite similar to that of March, as a comparatively strong expansion in total investments more than off-set a reduction in total loans. However, the April decline in total loans is estimated to have been somewhat larger than recorded in March, and "other" security holdings (mainly State and local securities and Federal Agency issues) increased only about half as much as in March. The April growth in holdings of U. S. Treasury securities, on the other hand, is estimated to have been about five times as large as the March increase.

COMMERCIAL BANK CREDIT, ADJUSTED TO INCLUDE LOAN SALES^{1/}
(Seasonally adjusted percentage change, at annual rates)

	1969	1970		
	2nd Half	Q1	March	April 2/
Total loans and investments <u>3/</u>	1.5	2.6	4.2	4.4
U. S. Govt. securities	-16.0	-15.4	9.7	48.2
Other securities	- 3.6	10.8	27.1	14.9
Total loans <u>3/</u>	6.4	4.0	-3.0	-6.0
Business loans ^{4/}	7.1	6.3	-3.3	-2.2

1/ Last Wednesday of month series.

2/ Preliminary estimates. Loan sales are through April 22.

3/ Includes outright sales of loans by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

4/ Includes outright sales of business loans by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

On the basis of recently received information it now appears that business loans (adjusted for loan-sales) declined slightly in April instead of increasing moderately as reported in the Greenbook. The rate of decline was somewhat less than in March. The picture of developments in other major loan categories remains essentially the same as was reported in the Greenbook.

Corporate profits in manufacturing. A decline in corporate profits before taxes of the magnitude estimated for the first quarter in the Greenbook--to a seasonally adjusted annual rate of \$36.5 billion, from \$91.4 billion in the fourth quarter and \$95.5 billion in the first quarter of last year--would not likely have occurred without a marked drop in the volatile manufacturing sector. That such a drop did in fact take place is indicated by the published earnings reports of over 700 manufacturers that have accounted in other recent quarters for at least two-thirds of total profits in this sector.

These data suggest a decline from year-earlier levels of nearly 9 per cent in profits after taxes of all manufacturing corporations (FTC-SEC series). Because after-tax earnings were bolstered by the reduction in the surcharge, the decline in profits before taxes must have been significantly larger--on the order of 12-13 per cent from the first quarter of 1969. Three-fourths of the year-to-year decline, in dollar terms, occurred in the motor vehicle, electric machinery, and primary iron and steel groups. After-tax profits in these industries appear to have been about 30 per cent lower than in

the first quarter of last year. For all other manufacturing industries, the over-all decline amounted to only 2-1/2 per cent, with the non-ferrous metals and food processing groups showing sizable increases and most of the remaining industries small to moderate declines.

Government securities market. In the May quarterly refunding, the Treasury is selling for cash \$3.5 billion of an 13-month 7-3/4 per cent note discounted to yield 7.79 per cent. Commercial banks may pay for 50 per cent of their awards by crediting Treasury tax and loan accounts. Simultaneously, the Treasury is reopening two outstanding notes in exchange for the two maturing May issues. The reopened issues are the 7-3/4 per cent notes of May 1973, priced to yield 7.93 per cent, and the 8 per cent notes of February 1977 which will be priced at par.

Books will be open for the rights exchange on Monday through Wednesday, (May 4-6) while the cash sale will be only on Tuesday. The settlement date for all issues is Friday, May 15.

Most recently the reopened 7-3/4 per cent notes of 1973 were quoted at 99.17-.19 (in 1/32's) in when-issued trading--giving a yield of 7.39 per cent offered--a slight premium above their initial pricing on Wednesday at about 99.13. The 3 per cent notes, which are being reopened at par, were quoted at 100.04-.06 to yield 7.96 per cent.

INTEREST RATES

	Late 1969			
	Highs	Lows	April 6	April 30
<u>Short-Term Rates</u>				
Federal funds (weekly averages)	9.32 (12/11)	7.45 (3/25)	7.93 (4/1)	8.43 (4/29)
3-months				
Treasury bills (bid)	8.08 (12/29)	6.08 (3/24)	6.39	6.93
Bankers' acceptances	8.75 (12/31)	7.13 (3/30)	7.25	8.00
Euro-dollars	11.56 (12/18)	8.00 (4/20)	8.60	8.53
Federal agencies	8.39 (11/20)	6.80 (4/10)	6.84 (4/3)	7.04 (4/24)
Finance paper	8.25 (12/3)	7.25 (4/28)	7.25	7.31
CD's (prime NYC)				
Highest quoted new issue	6.00	6.75	6.75	6.75
Secondary market	9.05 (12/31)	7.19 (4/3)	7.50 (4/1)	7.62
6-month				
Treasury bills (bid)	8.09 (12/29)	6.18 (3/23)	6.47	7.18
Bankers' acceptances	8.88 (12/31)	7.25 (3/30)	7.38	8.12
Commercial paper	9.00 (12/31)	7.88 (3/30)	8.13	8.13
Federal agencies	8.58 (11/20)	6.91 (4/17)	7.05 (4/3)	7.24 (4/24)
CD's (prime NYC)				
Highest quoted new issue	6.25	7.00	7.00	7.00
Secondary market	9.15 (12/31)	7.00 (4/1)	7.50	7.80
1-year				
Treasury bills (bid)	7.86 (11/24)	6.20 (4/13)	6.33	7.15
Prime municipals	6.25 (12/11)	3.80 (3/27)	4.00 (4/3)	4.45 (4/24)
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	8.33 (12/29)	7.05 (3/25)	7.38	7.94
20-years	7.14 (12/29)	6.55 (2/27)	6.69	7.08
Corporate				
Seasoned Aaa	7.91 (12/31)	7.78 (3/10)	7.80	7.93
Baa	8.91 (12/31)	8.57 (3/10)	8.63	8.84
New Issue Aaa				
No call protection	--	--	--	--
Call protection	8.85 (12/5)	8.20 (2/27)	8.55 (4/3)	8.91
Municipal				
Bond Buyer Index	6.90 (12/19)	5.95 (3/12)	6.11 (4/2)	6.73
Moody's Aaa	6.57 (12/26)	5.75 (3/12)	5.90 (4/2)	6.50
Mortgage--implicit yield				
in FNMA Biweekly auction <u>1/</u>	8.87 (12/29)	9.04 (4/20)	9.07	9.04 (4/20)

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

The following two tables were inadvertently omitted from the Greenbook of April 29. They relate to the text on pages III-24 to III-26 of the Greenbook.

PROJECTED CHANGES IN FEDERAL BUDGET OUTLAYS
(Billions of dollars, Fiscal Years)

	1970	1971
Total outlays, January Budget Document	197.9	200.8
Changes resulting from completed		
Congressional action	<u>1.6</u>	<u>1.8</u>
Federal employee pay raise ^{1/}	1.2	1.3
HEW appropriations (mainly education)	.3	.2
Veterans education benefits	.1	.3
Items not subject to tight control	<u>.5</u>	<u>.5</u>
Interest on the Federal debt	.4	.4
Agriculture price supports	.1	.1
Anticipated miscellaneous changes	<u>-1.0</u>	<u>+ .6</u>
Proposed postal rate increase, net ^{2/} (negative expenditure)	.2	- .4
Cuts in medicare	- .4	--
Cuts in HUD (mostly model cities)	- .2	--
Cuts in NASA	- .2	--
Administration release of construction funds	--	.6
Family assistance program, House postponement	--	- .5
Revenue sharing program, postponement	--	- .3
All other, net	- .4	1.2 ^{3/}
Total outlays, new Staff estimate	<u>199.0</u>	<u>203.7</u>

^{1/} Assumes \$.4 billion of pay raise absorption through personnel economies in fiscal year 1971.

^{2/} Reflects failure to raise postal rates in fiscal 1970, and rate increases resulting in additional revenues of \$1.6 billion in fiscal 1971 offset by revenue hikes of \$1.2 already assumed in January Budget.

^{3/} Includes \$0.3 billion of additional spending for education outside of HEW appropriation bill, additional pollution outlays, housing incentives, and miscellaneous.

STAFF ESTIMATE OF HIGH EMPLOYMENT SURPLUS
(Billions of dollars, SAAR)

	High Employment Surplus/Deficit (-) ^{e/}	Actual NIA Surplus/Deficit (-)
1968 I	- 15.1	- 8.4
II	- 18.7	- 9.5
III	- 3.6	- 2.8
IV	- 2.4	- 0.1
Year	- 10.0	- 5.2
1969 I	3.8	10.1
II	7.8	13.5
III	3.9	7.7
IV	5.6	6.6
Year	5.3	9.5
1970 I	5.8	- 0.2
II ^{e/}	- 1.0	- 10.9
III	4.9	- 6.2
IV	9.6	- 3.7
Year	4.8	- 5.3
1971 I	13.4) 0.0
II	18.1	

e--estimated by Board Staff.