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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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The Domestic Economy

Labor market. Conditions continued slack in the labor market in January. As expected, employment rose in transportation equipment industry (by 60,000) and some allied manufacturing industries such as rubber, reflecting the further recovery in auto production. Outside the auto group, however, most other manufacturing industries reported small employment declines and manufacturing employment was about unchanged over the month. However, manufacturing was still nearly down half a million from the September 1970 pre-strike level. Outside of manufacturing, the major increase was trade, which rose 185,000. But that increase merely offset a decline of about the same amount between October and December. An uptick of 40,000 in transportation and public utilities employment was due to the return of strikers. Thus, while there was an indicated rise of 225,000 in total nonfarm payroll employment, there was little evidence of a sustainable strengthening of demand for labor.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	Jan. 1969- Jan. 1970	Jan. 1970- Jan. 1971	Dec. 1970- Jan. 1971
Total	1,640	-505	223
Manufacturing	-5	-1,213	-9
Nonproduction workers	121	-223	-5
Production workers	-126	-990	-4
Durable	- 5	-941	-3
Nondurable	134	-272	-6
Mining	8	- 5	-5
Contract construction	3	-168	-85
Transportation & public util.	145	- 24	40
Trade	525	76	184
Finance	161	89	12
Service	490	316	62
Government	313	424	24
Federal	-46	- 59	8
State and local	359	487	16

At 6.0 per cent, seasonally adjusted, the overall unemployment rate was down slightly in January from an upward revised December rate of 6.2 per cent. The change was related to the seasonal adjustment method rather than to any significant improvement in the unemployment situation in January. In fact, the change on the unadjusted number of unemployed between December and January this year was almost identical to that of last year when the adjusted rate rose. Unemployment rate changes from December to January for the various age-sex groups are subject to the same problems of seasonal adjustment. Compared to a year earlier, however, all rates are much higher, with the largest relative increases for men.

UNEMPLOYMENT RATES
(Seasonally adjusted)

	1970		1971
	Jan.	Dec.	Jan.
Unemployment rates:			
Total	3.9	6.2	6.0
Men 20 to 24 years old	6.1	10.9	10.4
Men 25 and over	2.1	3.7	3.5
Women 20 and over	3.7	5.8	5.7
Teenagers	13.7	17.8	17.6

Industrial production. The industrial production index in January is still tentatively estimated to be about 165 in January, up about 1 point from the December level as reported in the Greenbook (II-7). Additional information becoming available since the Greenbook seems roughly consistent with this estimate.

The Domestic Financial Situation

Monetary aggregates. The narrowly defined money stock (M_1) is now estimated to have increased in January at an annual rate of 2.8 per cent little changed from the 3.0 per cent rate indicated in the Greenbook (III-3). Growth in M_2 (M_1 plus time and savings deposits other than large CD's) is essentially unchanged at an annual rate of 12.6 per cent, and initial data for M_3 (M_2 plus savings deposits at Mutual Savings Banks and Savings and Loan Associations) indicate that it rose at a 15.5 per cent rate in January.

Growth in total time and savings deposits in January has not been changed, but CD's are now estimated to have increased at a 51 per cent annual rate (instead of 56 per cent) while the increase in

other time deposits was raised slightly to an annual rate of 22.9 per cent. Growth in the adjusted credit proxy for January has been reduced very slightly to an annual rate of 10.9 per cent. Savings deposits at Mutual Savings Banks and Savings and Loan Associations indicate that these deposits rose at a 21 per cent rate in January.

Bank credit. Commercial bank credit, adjusted for transfers of loans between banks and their affiliates, is now estimated to have increased at an annual rate of 13.8 per cent rather than at the 12.7 per cent annual rate shown in the Greenbook (III-6). Expansion in total loans was revised upward, more than offsetting downward revision in investment growth.

It now appears that total loans expanded at about a 7.0 per cent annual rate (rather than 3.7 per cent). Loans to brokers and dealers increased moderately rather than declined, and growth in loans to nonbank financial institutions now appears somewhat stronger. In contrast, adjusted business loan growth has been reduced to an annual rate of 5.4 per cent (instead of 7.6 per cent).

The revised estimates indicate that the composition of the January expansion in investment holdings also differs from what was originally estimated. Growth in holdings of U. S. Treasury securities is now estimated to have been at an annual rate of 16.5 per cent (rather than 29.0 per cent) and holdings of other securities was increased a little to a rate of 35 per cent.

Nonbank depository intermediares. Savings and loan associations received a deposit inflow during January of about \$2.5

billion, not seasonally adjusted, which exceeds by two-and-one-half times the previous record January inflow and tops the inflow received net of dividends credited during any other month. Seasonally adjusted, such inflows expanded at almost a 27 per cent annual rate--a record since at least 1955--but the adjustment factor is influenced strongly by the net outflows incurred during four of the past five Januarys, and thus probably overstates the improvement. Mutual savings banks are estimated to have also exceeded, but by a small margin, the largest previous January deposit inflow; however, their deposit growth rate during January is estimated to have changed little from recent months.

DEPOSIT GROWTH AT THRIFT INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)

		Mutual Savings Banks	Savings and Loan Associations	Both
1970	QI	2.4	1.4	1.7
	QII	6.3	7.1	6.9
	QIII	6.6	11.5	10.0
	QIV p/	8.8	12.0	11.0
	December* p/	9.5	14.6	13.0
1971	January* p/	8.3	26.8	20.8

p/ preliminary

* Monthly patterns may not be significant because of difficulties with seasonal adjustment. The January mutual savings bank statistic is an estimate.

The FHLBB, which continues to expect that about one-third of its subsidized advances to associations will be repaid between April and June, now plans to pay down \$2.7 billion of its own

outstanding debt obligations between now and June. The FHLBB is now (confidentially) considering increasing S&L liquidity requirements by one percentage point; present requirements are exceptionally low, having been reduced in successive steps to free funds for mortgages during a period of weak deposit flows. The possible new requirement that liquid assets equal at least 6.5 per cent of the sum of deposits and borrowed money will probably not have much immediate impact since the aggregate ratio for the industry in December was nearly 10 per cent.

The following is a corrected version of the table that appeared on page 5 of Appendix C.

STAFF ESTIMATE'S OF
FEDERAL SECTOR IN THE NATIONAL INCOME ACCOUNTS
AND THE HIGH EMPLOYMENT BUDGET 1/

(Calendar years, billions of dollars, SAAR)

	2nd half	1971		1972
		1st half	2nd half	1st half
Total Receipts	194.5	202.8r	211.8r	na
Total Expenditures	208.1	222.2	229.6	243.0
Purchases	98.5	97.3	98.4	106.1
Defense	75.2	73.0	71.8	76.3
Nondefense	23.3	24.3	26.6	29.8
Other Expenditures	109.6	124.9	131.2	137.0
Transfers to persons	62.2	72.6	76.9	80.0
Grants	24.8	29.2	32.8	36.0
All other	22.6	23.1	21.5	21.0
Surplus/deficit (-)	-13.6	-19.4r	-17.8r	na
High Employment surplus/deficit (-)	0	- 1.8	1.3	-3.5

na--not available r--revised

1/ The staff estimate of expenditures for the projected period exceeds the budget estimate because (1) the staff assumes a 10 per cent increase in social security benefits in the first half of 1971 rather than the 6 per cent increase included in the budget; (2) the staff estimate includes a postal pay increase in the first half of 1972 that is not financed by an additional rate increase; (3) the staff projects a higher level of unemployment compensation expenditures because of projected higher rate of unemployment than assumed in the budget.

INTEREST RATES

	1970		1971	
	Highs	Lows	Jan. 11	Feb. 4
<u>Short-Term Rates</u>				
Federal funds (weekly averages)	9.39 (2/18)	4.82 (12/30)	3.82 (1/6)	4.09 (2/3)
3-months				
Treasury bills (bid)	7.93 (1/6)	4.74 (12/17)	4.66	4.03
Bankers' acceptances	8.75 (1/13)	5.25 (12/31)	5.12	4.25
Euro-dollars	10.50 (1/9)	6.50 (12/31)	6.26	5.86
Federal Agencies	8.30 (1/9)	4.81 (12/18)	4.90 (1/8)	3.90
Finance paper	8.25 (2/1)	5.38 (12/10)	5.38	4.63
CD's (prime NYC)				
Most often quoted new issue	6.75 (10/30)	5.50 (11/25)	5.38 (1/6)	4.50
Secondary market	9.25 (1/23)	5.38 (12/23)	5.62 (1/6)	4.65
6-month				
Treasury bills (bid)	7.99 (1/5)	4.78 (12/17)	4.69	4.08
Bankers' acceptances	8.88 (1/13)	5.50 (12/4)	5.25 (e)	4.38 (e)
Commercial paper (4-6 months)	9.13 (1/8)	5.63 (12/4)	5.38	4.63
Federal agencies	8.50 (1/28)	5.12 (12/18)	5.10 (1/8)	4.22
CD's (prime NYC)				
Most often quoted new issue	7.00 (10/7)	5.50 (12/23)	5.50 (1/6)	4.50
Secondary market	9.38 (1/23)	5.50 (12/23)	5.68 (1/6)	4.80
1-year				
Treasury bills (bid)	7.62 (1/30)	4.74 (12/31)	4.59	4.08
CD's (prime NYC)				
Most often quoted new issue	7.50 (9/16)	5.50 (12/23)	5.50 (1/6)	4.50
Prime municipals	5.60 (1/9)	2.95 (12/17)	3.00 (1/8)	2.45
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	8.30 (1/7)	5.85 (12/4)	6.01	5.73
20-years	7.73 (5/26)	6.15 (12/16)	6.28	6.09
Corporate				
Seasoned Aaa	8.60 (6/24)	7.47 (12/29)	7.43	7.10
Baa	9.47 (8/28)	8.57 (3/10)	8.86	8.45
New Issue Aaa	9.30 (6/19)	7.68 (12/18)	7.59 (1/7)	6.91
Municipal				
Bond Buyer Index	7.12 (5/28)	5.33 (12/10)	5.74 (1/8)	5.27
Moody's Aaa	6.95 (6/18)	5.15 (12/10)	5.40 (1/8)	5.10
Mortgage--implicit yield				
in FNMA biweekly auction <u>1/</u>	9.36 (1/2)	8.36 (12/28)	--	7.97 (1/25)

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 years. e--estimated.

International Developments

Four foreign central banks reduced their discount rates in January.

CENTRAL BANK DISCOUNT RATES
(per cent)

	<u>Former rate</u>		<u>New rate</u>	
	<u>Month</u> Effective	<u>Rate</u>	<u>Date</u> Effective	<u>Rate</u>
<u>Decreases:</u>				
France	Oct. 1970	7.0	Jan. 8	6.5
Japan	Oct. 1970	6.0	Jan. 20	5.75
Denmark	May 1969	9.0	Jan. 20	8.0
Spain	Mar. 1970	6.5	Jan. 25	6.25
<u>Increase:</u>				
India	Mar. 1968	5.0	Jan. 9	6.0

Perhaps more important than any of these cuts, so far as the outlook for Euro-dollar interest rates is concerned, is the fact that neither Germany nor Britain have made any central bank rate reductions since December and April, respectively. Three of the changes that were made in January reflected some willingness of the authorities to shift financial policy a little from restraint toward ease. Denmark, however, is still much concerned about the current account deficit in its balance of payments and is not relaxing its policies.

India has been experiencing increasing inflationary pressures over the past two years, following an interval of price stability during 1968.

CORRECTIONS:

Page I-7, line 4 change "many" to some.

Page II-35, end of paragraph two change "each quarter" to last
quarter.