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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

May 19, 1972

By the staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

Consumer prices. The consumer price index in April increased at a seasonally adjusted annual rate of 2.1 per cent, following little change in March. Food prices in April declined at a one per cent rate, while nonfood commodity and service costs rose at 2.0 and 3.7 per cent rates, respectively. The overall index was 3.4 per cent above the level of a year earlier.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	August 1971 to April 1972	March 1972 to April 1972
All items	2.8	2.1
Food	4.1	-1.0
Commodities less food	1.4	2.0
Services <u>1/</u>	3.5	3.7
Addendum:		
All items less mortgage costs <u>2/</u>	2.7	2.0
Services less home finance <u>1/</u> <u>2/</u>	3.0	3.8
Commodities less food, used cars, home purchase <u>3/</u>	1.6	1.0

1/ Not seasonally adjusted.

2/ Confidential: Home financing costs excluded from services reflect property taxes and insurance rates as well as mortgage costs, which in turn move with mortgage interest rates and house prices.

3/ Confidential.

NOTE: Seasonally adjusted changes based on revised seasonal factors.

Significant reductions in food prices occurred in April for beef, fresh vegetables, poultry, and eggs. Beef prices, however, were still more than 9 per cent above their year-ago levels. Department of Agriculture data show further declines in beef prices in April after the first week, which is the CPI pricing date.

A further drop in gasoline prices offset in part advances in other commodity prices--apparel, new cars (seasonally adjusted), used cars and household durables. Most service costs continued to rise at well below pre-freeze rates.

Manufacturers' orders and shipments. New orders for durable goods rose 0.9 per cent in April (advance, partial sample) after rising 1.7 per cent in March. (The final March figure was almost unchanged from the preliminary.) New orders for capital equipment were down 1 per cent from an upward-revised March level, and slightly below the first quarter average. Other major groups showed moderate increases from March levels.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
(Per cent change)

	April (advance) from March	April (advance) from Q I avg.
Durable goods, total	.9	1.5
Primary metals	.1	3.6
Motor vehicles & parts	4.6	4.7
Household durables	.6	7.4
Defense products	7.4	-15.2
Capital equipment	-1.1	-.2
Construction and other durables	.2	2.2

Shipments rose 1.8 per cent in April but were still below the level of incoming orders, and the order backlog rose 0.2 per cent-- a somewhat lower rate than the previous five months of increase. The order backlog for capital equipment rose for the third straight month.

Gross national product. The revised Commerce estimates of GNP and related series (released May 18) are shown in detail in the Greenbook of May 17. The total of \$1,103.6 billion, annual rate, is little changed from the preliminary estimate, but real GNP is now shown to have increased at an annual rate of 5.6 per cent, rather than the 5.3 per cent estimated earlier. Larger increases now estimated for personal consumption expenditures and business fixed investment are about offset by smaller increases in Federal and State and local purchases and a larger decline in net exports.

Personal income, and wage and salary disbursements also are little different than indicated earlier. However, the figure for personal Federal tax payments has been raised \$1.5 billion, primarily because of larger final settlements on 1971 liabilities than first estimated; and disposable personal income is lower by nearly this amount. Lowering disposable income while raising consumption expenditures resulted in a 7.0 per cent saving rate, down from 7.8 per cent in the final quarter of last year. On a national income account basis, the Federal Government deficit is estimated at \$13.3 billion, only about half the deficit in the preceding quarter.

The Domestic Financial Situation

Corporate profits. The preliminary first quarter estimates released May 18 by the Bureau of Economic Analysis (Commerce Department) show a substantial increase in seasonally adjusted aggregate corporate profits before tax, both before and after adjustment for changes in inventory valuation. This increase was entirely in the profits of domestic nonfinancial corporations.

Profits originating in the rest of the world returned to the same level as the first quarter of 1971, i.e., \$5.2 billion at an annual rate. This represents a 17.5 per cent decline from the previous quarter, when there was substantial repatriation of foreign earnings. The earnings of financial institutions at \$14.1 billion in the first quarter of 1972 were virtually unchanged from the level maintained throughout 1971. Although many banks have reported lower first quarter earnings, the banking sector as a whole is estimated to have maintained earnings at a level slightly above that of the fourth quarter.

For the domestic nonfinancial corporate sector as a whole, profits were up 13.7 per cent from the first quarter of 1971 and 10 per cent from the fourth quarter. Eliminating inventory profits reduces the rates of increase, but they are still substantial. The largest percentage gain occurred in the profits of durable goods manufacturers. Construction, trade, and services behaved much like the sector as a whole. While the regulated industries showed little change in the book profits, they did show a decline from the fourth quarter level in profits plus inventory valuation adjustment.

Preliminary data on manufacturing before-tax profit margins indicate that while margins are up slightly for manufacturing as a whole and for durables as a group, in most cases the bulk of the increase occurred between the first and the fourth quarters of 1971. For manufacturers of many categories of nondurables, profit margins appear to be lower than they were a year ago. Even so, with sales higher, the B.E.A. estimates of total profits for this group show gains over both the first and the fourth quarters of 1971.

Most of the increase in book profits is reflected in a substantial rise in retained earnings. The effective tax rate has been declining as a result of the investment tax credit, liberalized depreciation guidelines, actual operating losses in some sectors, and the recent large charges to surplus from the write-off of unprofitable operations which give rise to tax credits with no reduction in profits before tax. The dollar amount of dividends paid has changed little if at all; thus, the payout rate has declined substantially. The bulk of retained income, however, takes the form of capital consumption allowances; when these are added to undistributed profits, the increase in corporate internal funds is even more striking.

CORPORATE PROFITS: PRELIMINARY

	All Corporations <u>4/</u>			Domestic Nonfinancial Corporations		
	1972-I \$Billion SAAR	Percentage change from		1972-I \$Billion SAAR	Percentage change from	
		1971-I	1971-IV		1971-I	1971-IV
Profits before tax and inventory valuation adjustment	86.0	8.2	4.9	66.7	11.0	7.9
Profits before tax	91.6	10.4	6.5	72.3	13.7	9.9
Profits tax liability	39.3	2.6	8.0	32.1	3.9	10.0
Profits after tax	52.3	16.7	5.2	40.2	22.9	9.8
Dividends	25.8	.8	2.0	21.5	.9	4.9
Undistributed profits	26.5	38.0	8.6	18.7	64.0	16.1
Cash flow ^{1/}	92.8	18.1	4.5	82.2	20.2	5.5
Effective tax rate (percent) ^{2/}	42.9	-6.9	+1.4	44.4	-8.6	+0
Payout rate (percent) ^{3/}	49.3	-13.7	-3.1	53.5	-17.9	-4.5

1/ Capital consumption allowances plus undistributed profits.

2/ Profits tax liability/Profits before tax.

3/ Dividends/Profits after tax.

4/ Includes both foreign and domestic profits.

INTEREST RATES

	1972			
	Highs	Lows	April 17	May 18
Short-Term Rates				
Federal funds (wkly. avg.)	4.32 (5/17)	3.18 (3/1)	4.18 (4/12)	4.32 (5/17)
3-month				
Treasury bills (bid)	3.94 (3/15)	2.99 (2/11)	3.85	3.79
Comm. paper (90-119 day)	4.62 (4/21)	3.75 (2/29)	4.62	4.50
Bankers' acceptances	4.50 (4/20)	3.38 (2/23)	4.50	4.25
Euro-dollars	5.94 (3/27)	4.62 (3/8)	5.31	4.75
CD's (prime NYC)				
Most often quoted new	4.50 (4/12)	3.50 (2/23)	4.50 (4/12)	4.38 (5/17)
Secondary market	4.75 (4/19)	3.50 (2/16)	4.70 (4/12)	4.39 (5/17)
6-month				
Treasury bills (bid)	4.44 (4/4)	3.35 (1/10)	4.28	4.27
Comm. paper (4-6 mo.)	4.62 (5/2)	3.88 (3/3)	4.62	4.50
Federal agencies	4.76 (4/13)	3.79 (2/17)	4.67	4.48
CD's (prime NYC)				
Most often quoted new	4.75 (4/12)	3.88 (2/23)	4.75 (4/12)	4.62 (5/17)
Secondary market	5.25 (4/12)	3.70 (2/2)	5.00 (4/12)	4.68 (5/17)
1-year				
Treasury bills (bid)	4.86 (4/4)	3.57 (1/8)	4.75	4.55
Federal agencies	5.32 (4/14)	4.32 (1/17)	5.31	4.88
CD's (prime NYC)				
Most often quoted new	5.12 (5/17)	4.62 (1/19)	5.12 (4/12)	5.12 (5/17)
Prime municipals	3.15 (4/13)	2.35 (1/12)	3.15 (4/13)	2.85
Intermediate and Long-Term				
Treasury coupon issues				
5-years	6.28 (4/13)	5.47 (1/13)	6.21	5.86
20-years	6.22 (4/14)	5.95 (1/14)	6.21	6.06
Corporate				
Seasoned Aaa	7.37 (4/24)	7.14 (1/17)	7.31	7.30
Baa	8.29 (1/3)	8.17 (1/19)	8.24	8.27
New Issue Aaa	7.42 (4/14)	6.86 (1/14)	7.42 (4/14)	7.25
Municipal				
Bond Buyer Index	5.54 (4/13)	4.99 (1/13)	5.54 (4/13)	5.29
Moody's Aaa	5.25 (4/13)	4.65 (1/13)	5.25 (4/13)	5.15
Mortgage-implicit yield				
in FNMA auction <u>1/</u>	7.63 (5/15)	7.54 (3/20)	7.60	7.63 (5/15)

1/ Yield on short-term 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.

CORRECTIONS

Section I Table I-T-I, for wholesale the seasonally adjusted figures should be: wholesale prices, 117.4; industrial commodities, 117.1; farm products & foods and feeds, 118.5. The per cent change from preceding period should be: wholesale prices, 3.4; industrial commodities, 4.2; farm products & foods and feeds, -1.0. For consumer prices, the per cent change from preceding period should be 2.0 for food, and 3.1 for commodities, except food. The per cent change from three periods earlier should be 7.2 for food and 1.4 for commodities except food.

Page 22, line 4. Last word should be seven (not eight).

Section II Table II-T-I. The data for "FNMA auction yield" should read across as follows: 7.63, .07, .02, and .06.

Section III Page 14. The heading at the top of the first column should read (8/16 to 9/30 only).

Section IV Page 13-21, should be III, page 13-21.