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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

September 6, 1974

By the Staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

Labor market. The unemployment rate edged up .1 percentage point in August to 5.4 percent, seasonally adjusted, the highest level since October, 1972. The increase was concentrated among men 20-to-24 years of age. Jobless rates for other major groups showed little change, except for teenagers whose unemployment rate declined. The civilian labor force declined by some 100,000 as decreased participation by adult women and teenagers more than offset a rise by adult males.

Nonfarm payroll employment (establishment survey) rose by some 80,000 in August as declines in durable manufacturing were more than offset by gains in the service industry and State and local government. The overall increase was due in part to a 30,000 net decline in workers on strike. In contract construction, even though over 100,000 striking workers returned to their jobs in the most recent survey period, employment rose by only 20,000. Since December, construction jobs have declined nearly 200,000. Average weekly hours in manufacturing edged up .1 hour to 40.3 hours, while overtime was unchanged. Compared with August 1973, total factory hours and overtime have declined by .2 and .4 hour respectively.

The private nonfarm hourly earnings index rose .9 percent in August, as did also the manufacturing component. The sharpest increase was in contract construction, up 2.6 percent from July. In the three months from May to August, the total index rose at an annual rate of over 12 percent, reaching a level 8.9 percent above a year earlier. In constant dollars, however, the index declined 3.0 percent over the 12-month period ending in July, the latest date for which the consumer price index is available.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
(Seasonally adjusted, in thousands)

	Aug. 1974	Change from:	
		July 1974 Aug. 1974	Aug. 1973 Aug. 1974
Total labor force	93,281	-106	2,270
Civilian labor force	91,061	-106	2,357
Total employment	86,187	-125	1,674
Nonagricultural	82,907	-163	1,656
Unemployed	4,874	19	683
Nonfarm payroll employment	77,177	77	1,430
Manufacturing	19,801	-114	- 60
	Aug. 1974	July 1974	Aug. 1973
Unemployment rate (percent)			
Total	5.4	5.3	4.7
Males 20+	3.8	3.5	3.1
Females 20+	5.2	5.2	4.8
Teenagers	15.3	16.2	14.3
State insured	3.3	3.4	2.6

Auto sales. Sale of new autos rose sharply last month to the highest level this year. August sales of new domestic-type autos were at a 9.6 million unit annual rate, 17 percent above July and slightly above the rate in August a year ago. In the last 10 days of the month, sales were at a 9.7 million unit rate. The strength of sales throughout August was due in part to consumer buying of 1974 models in anticipation of large price increases on 1975 models and to dealer incentive contests of Ford and Chrysler on small cars.

Foreign car sales in August were at a 1.6 million unit rate, 17 percent above July but 6 percent below the same month last year. Recent

strength may be due to the fact that relative prices now favor these imported makes as their announced prices have not changed. The import share on a seasonally adjusted basis was 13.9 percent, the same as in July but below the 14.9 percent of August 1973.

Anticipated plant and equipment spending. The Commerce Department's most recent survey of plant and equipment expenditures--taken in late July and August--shows business planning a 12.5 percent increase for 1974, little different from the previous survey taken last May. Manufacturers have revised average plans upward a bit, but still expect outlays to rise by about 20 percent for the year. Materials producing industries continue to show the greatest strength within manufacturing, with an increase of about 30 percent indicated for 1974. Outside of manufacturing, plans on average remain about the same for the year, with further downward revisions by public utilities offset by increases in communications.

Outlays in the second quarter turned out to be \$.8 billion larger than had been indicated by May plans, the second successive quarter in which actual expenditures exceeded anticipations. For the third and fourth quarters the level of anticipated outlays is little changed from the prior survey. Thus, with higher second quarter outlays, the rise now indicated for the last half of the year is less than earlier anticipations.

COMMERCE SURVEY RESULTS OF ANTICIPATED
PLANT AND EQUIPMENT EXPENDITURES
1974
(Percent increase from 1973)

Survey Date	Dec. 1973	Feb. 1974	May 1974	Aug. 1974	1973-IV ^{1/} to 1974-II	1974-III ^{1/} to 1974-IV
All Industry	12.0	13.0	12.2	12.5	14.8	8.5
Manufacturing	16.8	19.3	19.8	20.2	23.2	10.6
Durables	16.6	17.6	16.8	19.2	19.7	13.6
Nondurables	17.1	21.1	22.8	21.2	26.7	7.7
Nonmanufacturing ^{2/}	9.1	9.1	7.6	7.7	9.4	7.1
Railroads	17.2	21.3	29.6	22.8	36.1	17.4
Other trans- portation	-5.7	-8.6	.2	6.4	6.1	29.1
Electric util- ities	15.7	17.0	13.6	12.0	16.5	2.4
Gas utilities	18.3	29.7	18.1	10.9	-13.6	35.5
Communications	10.8	10.1	7.4	10.2	10.6	14.3 ^{3/}
Commercial	3.2	1.4	1.2	.9	2.6	-3.7 ^{3/}

^{1/} Figures are expressed at annual rates, not compounded.

^{2/} Includes industries not shown separately.

^{3/} Confidential results.

Construction. The seasonally adjusted total value of new construction put in place in current dollars edged down in August from the upward revised July rate. Private residential outlays slowed further and were more than a fifth below their February 1973 peak. Private non-residential construction on balance continued only slightly below its record high in June 1974, even though outlays for commercial buildings have been declining in recent months. Despite a rise in Federally-owned construction expenditures, public construction in August was virtually unchanged from a month earlier. In constant dollar terms, total construction outlays declined further and were 15 percent below their February 1973 high.

NEW CONSTRUCTION PUT IN PLACE
(Seasonally adjusted annual rates, in billions of dollars)

	1973	1974		Percent change in August 1/ from		
	QII	QI	QII(r)	Aug.(p)1/	July 1974	Aug. 1973
Total - current dollars	134.4	134.7	138.6	136.8	--	--
Private	102.3	98.5	99.4	96.9	- 1	- 8
Residential	58.1	49.4	49.5	47.9	- 2	-19
Nonresidential	44.2	49.1	49.9	49.0	--	+ 6
Public	32.2	36.3	39.2	40.0	+ 1	+25
State and local	27.2	31.2	33.6	34.6	--	+27
Federal	4.9	5.1	5.6	5.4	+ 7	+15
Total - 1967 dollars	89.6	83.1	82.7	79.5	- 1	-10

1/ Data for August 1974 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

-- Means change less than 1 percent.

The Domestic Financial Situation

Bank credit. Data now available confirm that the growth of total loans and investments at all commercial banks slowed from the July pace. In August, as in July, banks sold Treasury securities and kept their holdings of other securities unchanged. The expansion of total loans was considerably below the July rate, but still more rapid than during the second quarter.

COMMERCIAL BANK CREDIT^{1/}
(Seasonally adjusted changes at annual percentage rates)

	1973	1974				
	QIV	QI	QII	June	July	Aug. <u>pe/</u>
Total loans and investments ^{2/}	6.3	15.9	11.5	7.8	13.1	10.5
U.S. Treasury securities	-25.5	25.8	6.4	8.5	-35.7	-13.0
Other securities	17.6	6.8	9.1	13.4	--	--
Total loans ^{2/}	7.1	17.4	12.7	6.2	22.4	16.0
Business loans ^{2/}	4.6	22.2	23.0	12.3	19.7	18.7
Real estate loans	15.9	12.2	12.2	10.7	7.6	8.6
Consumer loans	10.1	5.4	4.4	4.4	4.3	4.3

(Average monthly change, billions of dollars)

Memorandum:

Security loans	--	- .1	- .1	.3	2.2	1.0
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1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.

2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

pe/ Partially estimated.

Nonfinancial business credit demands remained large in August, with corporations borrowing both at banks and in the commercial paper market. However, on average for the last three months, the growth of both business loans at banks and total short-term business credit remained 5 or 6 percentage points below the first-half pace. Much of the strength in business loans at large banks reflected lending to durable and nondurable manufacturing firms, though the growth of loans to these concerns tapered off by month's end. Lending to construction firms also was sizable during the month. However, large repayments of loans by foreign businesses provided some offset to these increases.

RATE SPREADS AND CHANGES IN BUSINESS LOANS AND COMMERCIAL PAPER
(Amounts in billions of dollars, seasonally adjusted monthly changes)

	Prime rate less 30-59 day commercial paper rate (per cent)	Business loans at all commercial banks <u>1/</u>	Dealer placed commercial paper <u>2/</u>	Total	Annual rate of change in total (per cent)
<u>Average monthly changes</u>					
1973--QIII	--	2.1	.1	2.2	16.1
QIV	--	.6	1.1	1.7	12.3
1974--QI	--	2.9	.4	3.3	23.7
QII	--	3.2	.1	3.3	22.1
1973--Oct.	+.52	-.1	2.4	2.3	16.7
Nov.	+.38	1.2	1.0	2.2	15.7
Dec.	-.04	.7	-.1	.6	4.2
1974--Jan.	+.42	2.0	1.7	3.7	26.0
Feb.	+.85	1.2	1.6	2.8	19.3
Mar.	-.09	5.6	-2.0	3.6	24.4
Apr.	-.08	4.8	-.2	4.6	30.6
May	+.39	3.0	.5	3.5	22.7
June	+.38	1.8	.1	1.9	12.1
July	+.04	2.9	.7	3.6	22.7
Aug. <u>pe/</u>	+.22	2.8	.4	3.2	19.8
<u>Weekly pattern:</u>					
1974--July	3	-.23			
	10	-.13			
	17	-.25			
	24	+.05			
	31	+.55			
Aug.	7	+.45			
	14	+.38			
	21	+.13			
	28	--			
Sept.	4	+.06			

1/ Changes are based on last-Wednesday-of-month data and are adjusted for outstanding amounts of loans sold to affiliates.

2/ Measured from end-of-month to end-of-month.

pe/ Partially estimated.

INTEREST RATES

	1974			
	Highs	Lows	Aug. 19	Sept. 5
Short-Term Rates				
Federal funds (wkly. avg.)	13.55(7/3)	8.81(2/27)	12.02(8/14)	11.64(9/4)
3-month				
Treasury bills(bid)	9.74(8/23)	6.93(2/6)	8.84	9.33
Comm. paper (90-119 day)	12.25(7/17)	7.75(2/22)	11.88	11.88
Bankers' acceptances	12.50(8/15)	7.75(2/26)	12.20	11.70
Euro-dollars	14.38(7/16)	8.25(2/18)	13.50	13.31
CD's (NYC) 90-119 day				
Most often quoted new	12.00(9/4)	7.88(2/20)	11.88(8/14)	12.00(9/4)
6-month				
Treasury bills(bid)	9.86(8/23)	6.80(2/19)	8.88	9.36
Comm. paper (4-6 mo.)	12.13(7/10)	7.50(2/22)	11.75	11.75
Federal agencies	10.63(8/28)	7.16(2/19)	9.88	10.50
CD's (NYC) 180-269 day				
Most often quoted new	11.90(8/21)	7.50(2/27)	10.50(8/14)	10.50(9/4)
1-year				
Treasury bills (bid)	9.65(8/23)	6.37(2/15)	8.64	9.12
Federal agencies	10.18(8/26)	7.01(2/19)	9.59	9.97
CD's (NYC)				
Most often quoted new	9.75(7/17)	7.00(2/27)	9.25(8/14)	9.00(9/4)
Prime municipals	6.50(7/12)	3.70(2/15)	6.00(8/16)	5.70(9/6)
Intermediate and Long-Term				
Treasury coupon issues				
5-years	8.79(8/23)	6.72(2/14)	8.53	8.59
20-years	8.72(8/26)	7.40(1/4)	8.55	8.65
Corporate				
Seasoned Aaa	9.10(8/30)	7.73(1/2)	9.01	9.07
Baa	9.90(8/30)	8.54(1/2)	9.76	9.86
New Issue Aaa Utility	10.31(9/4)	8.05(2/13)	10.10(8/14)	10.31(9/4)
Municipal				
Bond Buyer Index	6.95(7/10)	5.16(2/6)	6.61(8/15)	6.88
Mortgage--average yield				
in FNMA auction	10.38(8/26)	8.43(2/25)	10.12(8/12)	10.38(8/26)