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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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SUPPLEMENTAL NOTES

The Domestic Nonfinancial Economy

Total private housing starts rose 2 per cent in February to a seasonally adjusted annual rate of 1.58 million units, after posting the sharpest decline, 30 per cent, of the post-war period in the previous month. For much of February, as was the case in January, adverse weather conditions apparently were a substantial factor inhibiting starts. Starts of single-family units fell nearly 6 per cent in February to an annual rate of 1.09 million units, the lowest rate since January of last year. Multifamily starts, on the other hand, increased 25 per cent last month to a rate of 489 thousand units per year, after declining by nearly two-thirds in the preceding month. Starts activity by region was mixed. In the Northeast and South, total starts in February were down 39 per cent and 10 per cent, respectively, while they rose 43 per cent in the North Central States and 5 per cent in the West.

Residential building permits increased 8 per cent in February to an 1.62 million units rate, after a drop of 17 per cent in January. As with starts, all of the February increase in permits was in multifamily units, which rose 40 per cent to the highest rate since early 1974. Single-family permits declined 6 per cent further in February.

PRIVATE HOUSING STARTS AND
RESIDENTIAL BUILDING PERMITS

	(Thousands of units at seasonally adjusted annual rate)			Per cent change from:	
	Dec. 1977(r)	Jan. 1978(r)	Feb. 1978(p)	Jan. 1978	Feb. 1977
<u>STARTS</u>	2,203	1,547	1,580	+2	- 10
1 - family	1,574	1,155	1,091	-6	- 20
2 - or more - family	629	392	489	+25	+ 26
Northeast	119	118	72	-39	- 40
North Central	432	281	402	+43	- 2
South	905	654	588	-10	- 10
West	667	494	518	+ 5	- 9
<u>PERMITS</u>	1,811	1,496	1,622	+ 8	+ 6
1 - family	1,210	1,027	967	- 6	- 9
2 - or more - family	601	469	655	+40	+ 41
Northeast	187	152	202	+33	+ 68
North Central	392	276	368	+33	+ 7
South	662	545	507	- 7	+ 4
West	570	523	545	+ 4	- 5
MEMO: Mobile home shipments	324	322	269	-17	- 2

NOTE: r - revised, p - preliminary,

Personal income in February increased \$8.2 billion to a seasonally adjusted annual rate of \$1,634.1 billion. Wage and salary disbursements rose almost as much last month as total income; the increase in these was reduced by about \$1-1/2 billion (in annual rate terms) because of layoffs resulting from coal and electricity shortages. Other types of income except that of farm proprietors also increased; farm income declined sharply again in February but not as much as in January.

The impact of coal shortages on employment in manufacturing and trade establishments in eleven coal-dependent states declined during the week ended March 11, according to a special survey of large establishments in 11 mid-western states by the Bureau of Labor Statistics. Approximately 22,900 factory workers were on layoff for all or part of that week because of coal and electricity shortages. Workers on layoff in manufacturing were down 2,600 from the preceding week, were less than had been anticipated by employers responding to the survey a week earlier, and were a quite small proportion of the 7.8 million factory workers in those States. Aggregate hours worked in manufacturing were reduced by about 1.3 per cent in the March 5 to 11 week because of coal shortages, down from an 1.8 per cent reduction in the previous week. Cutbacks in employment in trade establishments were limited during that week, as earlier, and the reduction in aggregate hours was unchanged from 3.0 per cent in the preceding week.

The book value of manufacturing and trade inventories increased at a \$26.0 billion annual rate in January, after a small decline in December. The January rise was more than twice that in the final quarter of last year but about the same as for the year as a whole. Sales (or shipments) by manufacturers, merchant wholesalers, and retailers each declined in January, and apparently were factors in that inventory buildup. The inventory to sales ratio for manu-

facturing and trade businesses increased to 1.46 in January from 1.41 in December; for each of these types of business the inventory to sales ratio rose in January.

The over-all inventory increase in January was fairly evenly divided between durable goods, and also among manufacturers, wholesalers, and retailers. At wholesale establishments the buildup was mainly in nondurable goods, while at retailers in durable goods--mainly at establishments handling automotive products and building, hardware, and related products.

BUSINESS INVENTORIES
 (Change at annual rates in seasonally
 adjusted book value; billions of dollars)

	1975	1976	1977					1978
			QI	QII	QIII	QIV	Dec.	Jan.
Manufacturing and trade	-3.4	24.5	34.2	32.1	26.4	12.5	-.5	26.0
Durable	-1.3	12.4	17.6	20.2	19.2	11.3	8.4	13.6
Nondurable	-2.1	12.1	16.6	11.9	7.3	1.2	-8.9	12.5
Trade, total	-1.2	13.6	23.0	14.3	17.1	10.3	4.8	17.0
Wholesale	-1.4	6.2	12.0	2.6	4.7	7.5	11.4	8.1
Retail	.3	7.4	11.1	11.8	12.4	2.8	-6.6	8.9
Auto	-.8	1.8	2.2	2.4	1.3	1.8	-.6	6.5

INVENTORY/SALES RATIO

	1975	1976	1977					1978
			QI	QII	QIII	QIV	Dec.	Jan.
<u>Inventory to sales:</u>								
Manufacturing and trade	1.58	1.48	1.46	1.46	1.48	1.44	1.41	1.46
Trade, total	1.35	1.33	1.34	1.34	1.36	1.33	1.31	1.36
Wholesale	1.24	1.22	1.24	1.21	1.24	1.23	1.19	1.22
Retail	1.45	1.42	1.42	1.45	1.48	1.43	1.42	1.49

The Domestic Financial Economy

No textual addendums to the Greenbook were required, but the usual updating of interest rate developments is contained in the table on page 7.

INTEREST RATES
(One day quotes--in per cent)

	1977		1978	
	Highs	Lows	Feb. 27	Mar. 16
<u>Short-Term Rates</u>				
Federal funds (wkly avg.)	6.65(12/28)	4.47(1/5)	6.80(3/1)	6.77(3/15)
3-month				
Treasury bills (bid)	6.36(10/13)	4.39(4/28)	6.40	6.25
Comm. paper (90-119 days)	6.68(12/30)	4.63(1/10)	6.75	6.75
Bankers' acceptances	6.75(12/29)	4.66(1/3)	6.80	6.80
Euro-dollars	7.56(12/29)	4.88(1/5)	7.31	7.25
CDs (NYC) 90 days				
Most often quoted new	6.70(12/21)	4.50(1/5)	6.75(2/22)	6.73(3/15)
6-month				
Treasury bills (bid)	6.55(10/13)	4.54(1/3)	6.70	6.60
Comm. paper (4-6 mos.)	6.75(10/18)	4.63(1/7)	6.78	6.79
CDs (NYC) 180 days				
Most often quoted new	6.92(11/9)	4.65(1/5)	7.13(2/22)	7.13(3/15)
1-year				
Treasury bills (bid)	6.64(10/13)	4.66(1/3)	6.83	6.79
CDs (NYC)				
Most often quoted new	7.10(12/28)	5.00(1/5)	7.38(2/22)	7.25(3/15)
Prime municipal note	3.65(12/30)	2.65(1/7)	3.60(2/24)	3.60(3/17)
<u>Intermediate- and Long-Term</u>				
Treasury (constant maturity)				
3-year	7.40(12/29)	5.73(1/3)	7.70	7.64
7-year	7.77(12/29)	6.50(1/3)	7.94	7.91
20-year	8.00(12/29)	7.20(1/3)	8.20	8.17
Corporate				
Seasoned Aaa	8.30(12/28)	7.87(1/5)	8.48	8.45
Baa	9.18(2/25)	8.77(9/9)	9.21	9.21
Aaa Utility New Issue	8.36(12/16)	7.90(1/5)	8.71(2/24)	-- (3/17)
Recently offered	8.48(12/30)	7.95(1/5)	8.70(2/24)	8.64p(3/17)
Municipal				
Bond Buyer index	5.93(2/2)	5.45(11/17)	5.65(2/23)	5.58
Mortgage--average yields in				
FNMA auction	8.98(12/26)	8.46(1/12)	9.35(2/22)	9.36(3/6)

FOR F.R. USE ONLY

ATTACHMENT A

**SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
FOR _____**

The purpose of this questionnaire is to obtain information on recent changes in bank practices regarding selected types of loans. ALL DISCUSSION OF LOANS IN THIS SURVEY SHOULD BE RESTRICTED TO LOANS AT DOMESTIC OFFICES. The questionnaire should be completed by a senior officer thoroughly familiar with the lending practices of the bank in the areas covered. The views expressed will be treated as unofficial.

LOAN DEMAND

- 1. Indicate the strength of demand for *commercial and industrial loans* (after allowing for your bank's usual seasonal variation) now as compared with three months ago.
- 2. Indicate how strong the demand for *commercial and industrial loans* (after allowing for your bank's usual seasonal variations) is expected to be during the next three months as compared with now.

Much Stronger	Moderately Stronger	Essentially Unchanged	Moderately Weaker	Much Weaker

INTEREST RATE POLICIES

With respect to the *commercial and industrial loan* terms and conditions listed below, indicate your bank's practices now as compared with three months ago.

- 3. Standards of credit worthiness to qualify for prime rate
- 4. Standards of credit worthiness to qualify for a given spread above prime and/or the structure of spreads between the prime rate and lending rates to nonprime borrowers.

Much Firmer	Moderately Firmer	Essentially Unchanged	Moderately Easier	Much Easier

- 5. Willingness to make short-term (maturities under one year) loans with *predetermined rates*.
- 6. Willingness to make long-term (maturities of one year or more) loans with *predetermined rates*.

Considerably Greater	Moderately Greater	Essentially Unchanged	Moderately Less	Considerably Less

CREDIT AVAILABILITY AND NONPRICE TERMS

Indicate your bank's practices now as compared to three months earlier regarding approval of lines of credit or loan applications for *commercial and industrial loans* for the types of borrowers listed below.

- 7. Established customers
- 8. New customers
- 9. Local service area customers
- 10. Nonlocal service area customers.

Much Firmer	Moderately Firmer	Essentially Unchanged	Moderately Easier	Much Easier

Indicate what the size and enforcement of compensating balance requirements for the types of loans listed below are now as compared to three months earlier.

- 11. Commercial and industrial loans.
- 12. Loans to finance companies.

Much Firmer	Moderately Firmer	Essentially Unchanged	Moderately Easier	Much Easier

APPENDIX
SENIOR LOAN OFFICER OPINION SURVEY
ON BANK LENDING PRACTICES*

The Federal Reserve's quarterly survey of lending practices at large banks has been revised in a number of ways, in particular to improve our understanding of the general interest rate policies regarding term loans. (The new survey form is Attachment A.) The new survey will continue to be taken on the 15th of the mid-month of each quarter, and the results of the new survey taken in February 1978 at 121 large banks are attached (Attachment B). The general cast of the survey results is different in one regard from a typical example of the predecessor survey. The range of responses to individual questions on lending terms is wider than had normally been the case; senior lending officers may have read the new survey form more carefully than had been their practice and as a consequence answered the questions more carefully.

Over 30 per cent of the 121 senior loan officers responding to the survey taken in mid-February reported moderately stronger business loan demand than three months earlier. About 55 per cent of the respondents anticipated a further strengthening in business loan demands in the next three months, somewhat higher than the 45 per cent who were expecting stronger loan demand at the time of the November survey. Changes in price and nonprice terms of lending were mixed, and the tilt toward a firming of loan policies noted in the August and November surveys was not continued in February.

The prime rate charged by major banks was raised just prior to the November survey and again in early January, increasing from 7 1/2 per cent to 8 per cent in these two steps. In prior surveys, a climate of rising rates would have insured that a substantial number of respondents to the lending practices survey would have reported that their interest rate policies had tightened. From the old survey, it was impossible to tell whether such a tightening meant that bank lending rates had risen relative to market rates or had simply risen absolutely. The new survey attempts to clarify this issue by asking respondents several questions about interest rates on commercial and industrial loans. For example, respondents are now asked whether they have firmed or eased standards of credit-worthiness to qualify for the prime rate and what their policies are for spreads between the prime and actual lending rates. In the February survey, responses to these two questions were

* Prepared by Patricia Davis and Paul Boltz, Economists, Banking Section, Division of Research and Statistics.

mixed, and on balance moves toward ease at some banks were matched by tightening moves at others.

A noticeable minority of banks indicated an increased willingness to make fixed rate short-term business loans, in response to another new question on the survey. For term loans, responses were much more diverse, with no trend discernible in willingness to make fixed-rate loans. It is notable, however, that the majority of responses indicating increased willingness to make term loans with fixed rates were from very large money center banks with assets of over \$5 billion.

On nonprice terms, a growing number of respondents continued to report an easing of compensating balance requirements compared to those reporting firmer requirements--particularly on commercial and industrial loans. The banks reporting easing requirements were almost evenly divided between the two size groups. More than 80 per cent of the respondents reported no change in their policies related to reviewing credit lines or loan applications.

A noticeable number of banks continued to report a greater willingness to make consumer instalment and single-family mortgage loans. Participation loans with correspondents also were cited by 12 per cent of the respondents as an area in which their banks were allocating increased loan funds. The pattern of responses concerning other categories of loans was essentially unchanged from recent surveys.

The February survey indicated both easing and firming of price and nonprice lending terms. On balance, however, the results showed little change in lending policies at the majority of banks.

TABLE 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S.
(STATUS OF POLICY ON FEBRUARY 15, 1978 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS & PERCENT OF TOTAL BANKS ANSWERING QUESTION)

	MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL BANKS ANSWERING
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
L O A N D E M A N D											
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANKS USUAL SEASONAL VARIATION):											
1. COMPARED TO THREE MONTHS EARLIER	2	1.7	38	31.5	77	63.7	4	3.4	0	0.0	121
2. ANTICIPATED DEMAND IN NEXT 3 MONTHS	1	0.9	67	55.4	51	42.2	2	1.7	0	0.0	121
I N T E R E S T R A T E P O L I C Y											
STANDARDS OF CREDIT WORTHINESS:											
3. TO QUALIFY FOR PRIME RATE	1	0.9	5	4.2	109	90.9	5	4.2	0	0.0	120
4. TO QUALIFY FOR SPREAD ABOVE PRIME	1	0.9	14	11.6	90	74.4	16	13.3	0	0.0	121
WILLINGNESS TO MAKE FIXED RATE LOANS:											
5. SHORT-TERM (UNDER ONE YEAR)	0	0.0	18	14.9	95	78.6	7	5.8	1	0.9	121
6. LONG-TERM (ONE YEAR OR LONGER)	1	0.9	22	18.2	68	56.2	26	21.5	4	3.4	121
C R E D I T A V A I L A B I L I T Y A N D N O N P R I C E T E R M S											
REVIEWING CREDIT LINES OR LOAN APPLICATIONS FOR:											
7. ESTABLISHED CUSTOMERS	0	0.0	2	1.7	117	96.7	2	1.7	0	0.0	121
8. NEW CUSTOMERS	1	0.9	13	10.9	98	81.7	8	6.7	0	0.0	120
9. LOCAL SERVICE AREA CUSTOMERS	0	0.0	6	5.0	110	91.7	4	3.4	0	0.0	120
10. NONLOCAL SERVICE AREA CUSTOMERS	1	0.9	13	11.0	101	84.9	4	3.4	0	0.0	119
COMPENSATING BALANCE REQUIREMENTS FOR:											
11. COMMERCIAL & INDUSTRIAL LOANS	0	0.0	15	12.4	79	65.3	27	22.4	0	0.0	121
12. LOANS TO FINANCE COMPANIES	1	0.9	5	4.2	109	90.1	6	5.0	0	0.0	121
WILLINGNESS TO MAKE OTHER TYPES OF LOANS:											
SECURED REAL ESTATE LOANS:											
13. SECURED CONSTRUCTION & LAND DVLPMNT	0	0.0	14	11.6	95	78.6	12	10.0	0	0.0	121
14. 1-4 FAMILY RESIDENTIAL PROPERTIES	2	1.7	10	8.4	98	81.7	9	7.5	1	0.9	120
15. MULTI-FAMILY RESIDENTIAL PROPERTY	0	0.0	3	2.6	109	93.2	3	2.6	2	1.8	117
16. COMMERCIAL & INDUSTRIAL PROPERTY	0	0.0	6	5.0	108	89.3	7	5.8	0	0.0	121
17. INSTALYMENT LOANS TO INDIVIDUALS	0	0.0	16	13.4	101	84.2	3	2.5	0	0.0	120
COMMERCIAL AND INDUSTRIAL LOANS OF:											
18. 1-5 YEARS MATURITY	0	0.0	14	11.6	101	83.5	5	4.2	1	0.9	121
OVER 5 YEARS MATURITY	0	0.0	11	9.1	92	76.1	15	12.4	3	2.5	121
LOANS TO FINANCE COMPANIES	0	0.0	3	2.5	112	92.6	5	4.2	1	0.9	121
21. LOANS TO SECURITIES BROKERS & DEALERS	1	0.9	8	6.7	101	84.2	9	7.5	1	0.9	120
22. PARTICIPATION LOANS WITH CORRESPONDENT BANKS	0	0.0	14	11.7	104	86.7	2	1.7	0	0.0	120