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CONFIDENTIAL (FR)  
CLASS II - FOMC

October 13, 1978

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

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### The Domestic Nonfinancial Economy

Retail sales are indicated to have increased 1.5 per cent in September, after rising 1.8 per cent in August (sharply upward revised from earlier estimate). Sales of stores of all major types of goods increased sharply over the August-September period. Total sales in the third quarter are reported to have been 1.9 per cent above those in the second quarter, slightly below the average of the quarterly increases in the first two quarters of the year, and appreciably less than in the second quarter. Third quarter sales of durable goods were 3.2 per cent above that in the second quarter, with those of the furniture, home furnishings, and equipment grouping of stores and at miscellaneous durable goods outlets particularly strong. Sales at nondurable goods stores in the third quarter were up 1.2 per cent from those in the preceding quarter.

RETAIL SALES  
 (Per cent change from previous period;  
 based on seasonally adjusted data)

	1978				
	QII	QIII	July	Aug.	Sept.
Total sales	4.6	1.9	- .2	1.8	1.5
(Real)	2.0	n.a.	- .6	1.3	n.a.
Total, less auto and nonconsumption items	3.8	1.7	.4	.7	1.3
GAF	6.1	1.9	.1	1.9	1.4
<u>Durable</u>	7.2	3.2	- .7	4.2	2.1
Auto	6.8	1.4	-2.7	5.6	1.6
Furniture & appliances	6.9	2.5	.7	3.4	1.3
<u>Nondurable</u>	3.4	1.2	.1	.6	1.2
Apparel	6.3	3.7	2.1	4.2	.2
Food	3.3	1.4	.8	.1	1.6
General merchandise	5.8	1.0	- .9	.5	1.9
Gasoline	.1	-.6	-2.6	1.7	1.6

1/ Deflated by all commodities SA consumer price index.

The book value of wholesale trade inventories declined in August at a seasonally adjusted annual rate of \$1.5 billion, about the same as in July. The small book value reductions in July and August followed substantial increases earlier this year. Excluding raw farm products, these stocks increased at an annual rate of \$0.7 billion in August and \$12.9 billion in July. The July rate of wholesalers' accumulation of goods excluding raw farm products was a little above the second quarter rate. The August decline in inventories of all merchant wholesalers was accompanied by a moderate rise in sales (1.5 per cent) and, as a result, the ratio of inventories to sales declined to 1.17, somewhat below average but still above historical lows.

Inventories held by durable goods wholesalers rose at an annual rate of \$.6 billion in August, with a relatively large accumulation at wholesalers of machinery. In July, durable goods stocks had increased at a \$9.2 billion rate. Wholesalers of nondurable goods reduced stocks at an annual rate of \$2.1 billion in August, less than one-fifth the drop in July. In both months declines occurred in inventories of raw farm products--in August the decline was particularly large.

WHOLESALE TRADE INVENTORIES: CHANGE IN BOOK VALUE  
(Billions of dollars; seasonally adjusted, annual rate)

	1977				1978			
	QI	QII	QIII	QIV	QI	QII	July(r)	Aug.(p)
Total	12.0	2.6	4.7	7.5	19.5	11.8	- 1.9	-1.5
Durable	5.4	5.4	8.1	5.9	9.9	7.9	9.2	.6
Nondurable	6.6	-2.8	-3.4	1.6	9.7	3.9	-11.1	-2.1
Excluding farm	3.2	.1	.7	-.7	4.5	3.2	3.8	.1
Farm	3.4	-2.9	-4.1	2.3	5.1	.7	-14.8	-2.2

WHOLESALE TRADE INVENTORY/SALES RATIO

	1977				1978			
	QI	QII	QIII	QIV	QI	QII	July(r)	Aug.(p)
Total	1.24	1.21	1.24	1.23	1.27	1.20	1.19	1.17
Durable	1.77	1.76	1.78	1.73	1.76	1.69	1.66	1.66
Nondurable	.84	.79	.79	.79	.85	.79	.78	.75

r = revised.

p = preliminary.

The Domestic Financial Economy

Money market certificates continued to attract a sizable volume of funds in September (see Table). Total flows into the new certificates during September equalled flows in August, though MSBs and commercial banks experienced a moderate reduction in certificate sales while S&Ls stepped up certificate issuance over the month.<sup>1/</sup> As expected, 6-month certificate inflows in September were substantially weaker than in June and July, the first two months of money market certificate issuance.

No additional information is available concerning the proportion of money market certificate flows representing new money. However, judging from September deposit flow data, it seems clear that the new certificate did indeed have a significant positive impact on thrift institution deposit growth in September. MSB and S&L combined deposit growth accelerated last month measured on an end-of-month basis. This 16.4 per cent seasonally adjusted annual rate of growth is the highest rate experienced since August of last year.

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<sup>1/</sup> S&L certificate flows include a small amount of interest credited. Interest on the money market certificates will be credited every 3 months by these institutions.

Errata:

Page II-6. Section on Residential Construction, line 4: "September" should be changed to read "August."

Page IV -T-1: Table on U.S. International Transactions should be updated to read as follows:

For 1978-Q2:

Line 14	--	-5,100
17	--	374
19	--	489
21	--	7,914

For 1978 - August:

Line 4	--	39
6b	--	-535
14	--	1913
17	--	-322
19	--	590
21	--	43

Page IV-9: Table on U.S. International Transactions Summary should be updated to read as follows:

For 1978-Q2:

Line 7		-2.7
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For 1978 - August:

Line 3	--	
4	--	
7		3.4

Page IV-12: Section on Bank-reported private capital transactions,

Line 2: "net inflow of \$0.5 billion" should be changed to read "very small net inflow."

ESTIMATED MONEY MARKET CERTIFICATE INFLOWS

	Inflows (\$ billions) <sup>1/</sup>				Money Market Certificates Outstanding as of the End of August:	
	June	July	August	September	\$ billions	Per cent of total deposits outstanding <sup>2/</sup>
Commercial Banks	2.1	3.4	2.3	1.9	9.7	2.4
S&Ls	4.9	6.0	3.1	4.0	18.0	4.3
MSBs	1.6	1.9	1.5	1.0	6.0	4.3
All Institutions	8.6	11.4	6.9	6.9	33.7	3.5

<sup>1/</sup> Commercial bank and MSB certificate inflow through last Wednesday of month. S&L certificate inflow through last day of month.

<sup>2/</sup> Per cent of small-denomination time and savings deposits for commercial banks.

-8-  
 MONETARY AGGREGATES  
 (Seasonally adjusted)<sup>1/</sup>

Updated

	1978					Sept. '77 to Sept. '78 <sup>P</sup>	
	QI	QII	QIII <sup>P</sup>	July	Aug.	Sept. <sup>P</sup>	
<u>Major monetary aggregates</u>							
1. M-1 (currency plus demand deposits)	6.2	9.9	7.6	4.8	8.5	14.1	8.4
2. M-2 (M-1 plus time & savings deposits at CBs, other than large CDs)	6.9	7.9	8.9	8.0	10.4	12.5	8.5
3. M-3 (M-2 plus all deposits at thrift institutions)	7.7	7.8	10.0	9.3	11.8	13.7	9.4
<u>Bank time and savings deposits</u>							
4. Total	12.8	10.1	9.5	10.2	7.5	13.4	12.1
5. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2)	7.3	6.4	9.9	10.3	11.5	11.4	8.5
6. Savings deposits	2.6	1.6	1.3	-4.3	8.1	9.7	2.5
7. Individuals <sup>2/</sup>	2.4	1.8	2.5	-0.6	9.9	8.7	3.0
8. Other <sup>3/</sup>	2.6	0.0	-15.5	-68.8	0.0	16.2	-4.5
9. Time deposits	11.4	10.5	17.2	22.5	14.2	13.1	14.0
10. Small time <sup>4/</sup>	3.6	6.8	8.3	8.5	4.2	11.2	6.1
11. Large time <sup>4/</sup>	26.9	17.3	32.7	47.5	31.3	16.4	30.1
2. Time and savings deposits subject to rate ceilings (6+10)	3.0	3.8	4.3	1.2	6.4	10.3	4.0
<u>Deposits at nonbank thrift institutions <sup>5/</sup></u>							
13. Total	8.9	7.6	11.6	11.2	13.9	15.4	10.8
14. Savings and loan associations	9.0	7.9	12.8	12.8	15.6	17.5	11.6
15. Mutual savings banks	5.8	3.9	6.8	6.2	9.7	10.5	6.7
16. Credit unions	18.2	15.8	12.8	11.8	11.7	13.9	17.0

Average monthly changes, billions of dollars

MEMORANDA:

17. Total U.S. Govt. deposits	-1.2	1.1	1.5	2.9	0.7	0.8	0.4
18. Total large time deposits <sup>6/</sup>	4.6	2.8	3.1	4.5	1.5	3.2	4.0
19. Nondeposit sources of funds <sup>7/</sup>	1.7	0.7	1.4	0.0	2.1	2.0	1.3

p--preliminary. n.a.--not available.

<sup>1/</sup> Quarterly growth rates are computed on a quarterly average basis.

<sup>2/</sup> Savings deposits held by individuals and nonprofit organizations.

<sup>3/</sup> Savings deposits of business, government, and others, not seasonally adjusted.

<sup>4/</sup> Small time deposits are time deposits in denominations less than \$100,000.

Large time deposits are time deposits in denominations of \$100,000 and above excluding negotiable CDs at weekly reporting banks.

<sup>5/</sup> Growth rates computed from monthly levels based on average of current and preceding end-of-month data.

<sup>6/</sup> All large time certificates, negotiable and nonnegotiable, at all CBs.

<sup>7/</sup> Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money (including borrowings from the Federal Reserve), Eurodollar borrowings, and loans sold, less interbank borrowings.

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

	1978			
	Highs	Lows	Sept. 18	Oct. 12
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	8.85(10/4)	6.58(1/11)	8.36(9/20)	8.71(10/11)
3-month				
Treasury bills=(bid)	8.21(10/10)	6.09(4/24)	7.90	7.78
Comm. paper (90-119 days)	8.93(10/12)	6.63(1/6)	8.46	8.93
Bankers' acceptances	9.10(10/12)	6.70(1/6)	8.53	9.10
Euro-dollars	10.00(10/10)	7.00(2/8)	9.06	9.88
CDs (NYC) 90 days				
Most often quoted new	9.13(10/11)	6.65(1/4)	8.34(9/13)	9.13(10/11)
6-month				
Treasury bills (bid)	8.42(10/11)	6.43(1/4)	8.01	8.35
Comm. paper (4-6 mos.)	8.99(10/12)	6.66(1/5)	8.49	8.99
CDs (NYC) 180 days				
Most often quoted new	9.50(10/11)	6.85(1/4)	8.63(9/13)	9.50(10/11)
1-year				
Treasury bills (bid)	8.29(10/11)	6.53(1/4)	8.02	8.26
CDs (NYC)				
Most often quoted new	9.00(10/11)	7.05(1/4)	8.63(9/13)	9.00(10/11)
Prime municipal note	4.60(10/6)	3.55(3/3)	4.50(9/15)	4.60(10/6)
<u>Intermediate- and Long-Term</u>				
Treasury (constant maturity)				
3-year	8.60(7/25)	7.38(1/4)	8.38	8.47
7-year	8.60(7/25)	7.71(1/5)	8.40	8.49
20-year	8.73(7/13)	8.00(1/5)	8.40	8.60
Corporate				
Seasoned Aaa	8.92(7/12)	8.28(1/3)	8.64	8.86(10/11)
Baa	9.64(6/5)	9.09(1/3)	9.38	9.53(10/11)
Aaa Utility New Issue	9.18(7/7)	8.61(3/24)	8.74(9/15)	9.04(10/6)
Recently offered	9.22(7/14)	8.48(1/6)	8.73(9/15)	9.04
Municipal				
Bond Buyer index	6.32(7/13)	5.58(3/16)	6.02(9/14)	6.10
Mortgage--average yields in				
FNMA auction	10.02(7/10)	9.13(1/9)	9.79	9.91(10/2)