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CONFIDENTIAL (FR)
CLASS II - FOMC

April 13, 1979

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

Industrial production increased 0.8 per cent in March, following two months in which the level of total output was almost unchanged. Advances were widespread among products and materials. Rebounds from earlier weather effects contributed significantly to substantial increases in production of motor vehicles and parts, steel, and coal; these increases accounted for a large part of the rise in the total index. Production in March was 0.9 per cent higher than in December 1978, equivalent to an annual rate of growth during the first quarter of 3.5 per cent. At 152.2 per cent of the 1967 average, the index for March is 8.0 per cent above the level a year earlier.

Output of consumer goods increased 0.8 per cent in March, reflecting a rebound in automotive products, a moderately large increase in home goods, and a modest gain in consumer nondurable goods such as food. The rate of auto assemblies increased about 6 per cent to an annual rate of 9.4 million units. Over the first quarter of 1979 output of home goods, which includes appliances and TV, carpeting, furniture, and miscellaneous items, has risen sharply, but the level of output in March was only modestly above that of last fall. Production of business equipment advanced moderately in March, as it had in the two preceding months, with continued strength evident in the output of manufacturing, power, and commercial equipment and a large rise in output of transit equipment; business equipment production in March was 8.6 per cent above a year earlier.

Production of materials advanced 1.0 per cent in March, following small declines in February and January that were due in part to weather and other production problems. Durable materials output increased sharply in March, reflecting increases in basic metals and in parts for equipment and consumer durables. Coal production rose significantly but was below late 1978 levels.

Capacity utilization in manufacturing and in materials production rose in March, partly reflecting production rebounds from earlier weather effects--particularly in motor vehicles and parts, steel, and coal. In some sectors levels of production late in 1978 moved relatively close to capacity, and with moderate gains in output over the past three months capacity utilization rates in March were little different, or still below, those at year end.

In manufacturing, capacity utilization rose 0.4 percentage point to 86.3 per cent, the same as in December, 1978. Capacity utilization in primary processing industries rose 0.5 percentage point to 88.7 and in advanced processing industries it rose to 85.1 per cent, up 0.4 percentage point. Utilization of capacity in industrial materials industries in March rose 0.8 percentage point to 87.9 per cent. Operating rates for basic metal industries and energy materials each rose by more than 1 percentage point and the rate for nondurable goods materials rose by 0.4 percentage point. The March utilization rates for primary processing industries, basic metal materials production, and energy production were

below their December rates and those for advanced processing industries and nondurable goods materials production were a little higher than in December.

Retail trade inventories in February declined in book value terms at an \$8.9 billion annual rate, following an \$11.1 billion rate of increase in January. In the fourth quarter of 1978 these inventories had been accumulated at a \$9.9 billion annual rate; over 1978 they had increased in book value terms by \$10.7 billion. Stocks were reduced in February at a quite rapid pace at department stores and at nondurable goods stores in the aggregate other than general merchandise, apparel, and food; stocks were also reduced by retail lumber, building materials, and hardware establishments. Stocks of both department stores and variety stores, which make up the general merchandise grouping, were reduced each of the three consecutive months ending in February. Stocks of automotive stores and furniture and appliance stores rose somewhat in February. The ratio of inventories to sales for all retail outlets in February declined to 1.42 from 1.44 in January.

Manufacturers and trade inventories in February increased at a \$42.1 billion annual rate in book value terms, down from a \$54.6 billion rate in January. In the fourth quarter of last year these inventories rose at a \$39.5 billion rate. The ratio of inventories to sales in February remained at 1.41, historically a relatively low ratio.

The Domestic Financial Economy

Money Market Certificate (MMC) issuance by commercial banks and thrift institutions increased in March. Net sales of MMCs amounted to \$15.4 billion (NSA) in March, compared to \$11.7 billion in February (see Table). The March figure represents the third largest monthly increase in MMC balances and is 20 per cent above the average monthly net sales of the certificates, which were introduced in June of last year.

These data shed only limited light on the impact of the March 15 change in MMC rate ceilings, in part because intramonthly data are available only for S&Ls and because seasonal patterns are unknown. Furthermore, the MMC flows could well have been influenced by efforts of savers--encouraged by advertising--to deposit funds prior to the lowering of rates. As they stand, however, the figures do not evidence an immediate impact on overall MMC issuance; nor do they indicate a shift in market share to commercial banks as a consequence of the elimination of the rate differential.

Net Flows into Money Market Certificates
(in billions of dollars)

	Net MMC Flows ^{1/} at:			
	Commercial banks	FSLIC-Insured S&Ls	MSBs ^{2/}	All Institutions
1978-June	2.1	5.4	1.6	9.1
July	3.4	6.4	1.9	11.7
August	2.3	3.3	1.5	7.1
September	1.9	4.2	1.1	7.2
October	4.2	7.4	2.8	14.4
November	5.8	7.9	1.9	15.6
December	3.3	6.2	2.0	11.4
1979-January	8.9	14.2	4.7	27.8
February	4.1	5.9	1.7	11.7
March	5.3 ^{p/}	7.9	2.2 ^{p/}	15.4 ^{p/}
Total MMC balances	41.3	68.8	21.4	131.5
Percent of total deposits outstanding	10.1 ^{3/}	15.8	15.0	13.3

^{1/} Net flows are defined as total MMCs issued less maturing MMCs. Commercial bank and MSB net flows are based on the last Wednesday of each month.

^{2/} Figures for MSBs derived from FDIC survey data.

^{3/} Percent of small-denomination time and savings deposits for commercial banks.

^{p/} Preliminary.

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MONETARY AGGREGATES
(Seasonally adjusted)^{1/}

	1978			1979			Mar. '78
	H1	QIII	QIV	Q1	Feb.	Mar. ^{e/}	to Mar. '79 ^{e/}
<u>Major monetary aggregates</u>							
1. M-1 (currency plus demand deposits)	8.0	8.1	4.4	-2.4	-3.7	0.7	4.6
2. M-2 (M-1 plus time & savings deposits at CBs, other than large CDs)	7.7	9.9	7.7	1.6	2.3	3.6	6.9
3. M-3 (M-2 plus all deposits at thrift institutions)	8.3	10.4	9.3	4.6	4.7	6.0	8.4
<u>Bank time and savings deposits</u>							
4. Total	12.2	11.3	12.4	8.4	8.6	-1.4	10.5
5. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2)	7.6	11.1	10.2	4.4	6.5	5.6	8.6
6. Savings deposits	2.9	2.3	-0.9	-10.2	-12.0	-6.1	-2.1
7. Individuals ^{2/}	2.7	3.5	-0.8	-10.2	-10.6	-5.3	-1.7
8. Other ^{3/}	5.2	-12.7	-2.6	-10.5	-31.8	-16.3	-7.1
9. Time deposits	11.7	18.5	19.2	15.9	20.3	14.0	17.8
10. Small time ^{4/}	6.8	12.0	15.1	17.2	22.6	26.0	15.9
11. Large time ^{4/}	21.5	30.3	26.2	13.4	16.3	-6.4	21.3
12. Time and savings deposits subject to rate ceilings (6+10)	4.7	6.3	6.1	2.1	3.8	8.9	5.7
<u>Deposits at nonbank thrift institutions ^{5/}</u>							
13. Total	9.2	11.1	11.6	8.8	8.2	9.1	10.4
14. Savings and loan associations	9.5	12.3	13.1	11.3	11.0	10.1	12.0
15. Mutual savings banks	5.6	6.8	7.8	4.6	4.2	5.9	6.2
16. Credit unions	17.0	13.7	10.1	0.8	-6.8	11.4	9.0
<u>MEMORANDA: Average monthly changes, billions of dollars</u>							
17. Total U.S. Govt. deposits ^{6/}	0.3	1.1	-0.5	-2.0	-4.6	-0.7	0.0
18. Total large time deposits ^{7/}	3.6	3.3	4.9	1.3	3.1	-3.7	3.1
19. Nondeposit sources of funds ^{8/}	0.7	1.1	2.5	4.5	2.9	5.8	2.1

e--estimated.

^{1/} Quarterly growth rates are computed on a quarterly average basis.

^{2/} Savings deposits held by individuals and nonprofit organizations.

^{3/} Savings deposits of business, government, and others, not seasonally adjusted.

^{4/} 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.

^{5/} Growth rates computed from monthly levels are based on average of current and preceding end-of-month data.

^{6/} Includes Treasury demand deposits at commercial banks and Federal Reserve Banks and Treasury note balances.

^{7/} All large time certificates, negotiable and nonnegotiable, at all CBs.

^{8/} 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), gross Eurodollar borrowings, and loans sold, less interbank borrowings.

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 SELECTED FINANCIAL MARKET QUOTATIONS
 (per cent)

	1978 1/		1978 - 1979 2/					Change from:	
	High*	Low	End of 1978	FOMC Feb. 6	FOMC Mar. 20	Apr. 3	Apr. 12	End of 1978	Mar. FOMC
Short-term rates									
Federal funds 1/	10.25	6.58	10.25	10.06	10.09	9.95	9.93 ^{3/}	-.32	-.16
Treasury bills									
3-month	9.30	6.16	9.26	9.21	9.52	9.52	9.69	+.43	+.17
6-month	9.51	6.45	9.48	9.34	9.47	9.49	9.65	+.17	+.18
1-year	9.62	6.55	9.69	9.30	9.38	9.30	9.37	-.32	-.01
Commercial paper									
1-month	10.29	6.48	10.32	9.75	9.78	9.65	10.04	-.28	+.26
3-month	10.52	6.68	10.55	9.92	9.93	9.76	10.10	-.45	+.17
6-month	10.56	6.70	10.61	9.97	9.98	9.79	10.11	-.50	+.13
Large negotiable CDs 4/									
1-month	10.36	n.a.	10.29	9.86	9.96	9.87	10.11	-.18	+.15
3-month	10.96	6.77	10.83	10.14	10.22	10.11	10.31	-.52	+.09
6-month	11.52	6.97p	11.44	10.50	10.51	10.39	10.57	-.87	+.06
Euro-dollars									
3-month	11.95	7.20	11.69	10.81	10.94	10.56	10.88	-.81	-.06
Bank prime rate	11.57	7.75	11.75	11.75	11.75	11.75	11.75	0	0
Intermediate- and long-term rates									
U. S. Treasury (constant maturity)									
3-year	9.59	7.40	9.59	9.13	9.39	9.35	9.49	-.10	+.10
7-year	9.22	7.72	9.23	9.01	9.15	9.13	9.25	+.02	+.10
20-year	9.00	8.01	8.99	8.94	9.09	9.05	9.13	+.14	+.04
Municipal (Bond Buyer) 5/									
Corporate Aaa	6.67	5.58	6.61	6.22	6.30	6.28	6.33	-.28	+.03
New issue 6/									
Recently offered 7/	9.30	8.61	--	--	--	9.60	9.68p	--	--
Primary conventional mortgage 7/	9.54	8.48	9.51	9.40	9.65	9.59	9.67p	+.16	+.02
Primary conventional mortgage 7/	10.38	8.98	10.38	10.40	10.40	10.45	10.48	+.10	+.08
	Low 8/	High 8/	End of 1978	FOMC Feb. 6	FOMC Mar. 20	Apr. 3	Apr. 12	End of 1978	Mar. FOMC
Stock prices									
Dow-Jones Industrial	742.12	907.74	805.01	822.85	850.31	868.33	870.50	+65.49	+20.19
NYSE Composite	48.43	60.38	53.62	54.99	56.45	57.55	57.53	+3.91	+1.08
AMEX Composite	119.73	176.87	150.56	158.16	173.02	179.85	180.32	+29.76	+7.30
NASDAQ (OTC)	102.66	149.53	117.98	124.31	128.79	132.33	133.54	+15.56	+4.75

1/ Daily averages for statement week, except where noted.

2/ One-day quotes except as noted.

3/ Average for statement week ending April 11.

4/ Secondary market.

5/ One-day quotes for preceding Thursday.

Averages for preceding week.

One-day quotes for preceding Friday.

8/ Calendar week averages.

* All highs were reached at or close to the end of 1978.