The original documents are located in Box C2, folder “Presidential Handwriting, 8/31/1974” of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

Central Files

THE PRESIDENT HAS SEEN...

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

August 31, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Monetary and Financial Conditions, August 30, 1974

Recently released money stock data show that the narrowly defined money stock (M_1) grew at an annual rate of 4.7 percent during the 13-week period ended August 21. The broadly defined money stock (M_2) grew at an annual rate of 8.0 percent during the same period.

The 3-month Treasury bill rate moved up by 100 basis points to a record 9.9 percent in the last week of August. The previous high was 9.0 percent in the first full week of May of this year. Unlike the Treasury bill rate, the rate on 4- to 6-month prime commercial paper remained slightly below the high reached in July (which was 12 percent), and the Federal funds rate actually declined from 12.2 to 11.8 percent. The steep rise of the Treasury bill rate is attributable primarily to the large volume of offerings creating a temporary imbalance in the market, and not to any further tightening of the reserve position of the member banks.

In the bond market, the yield on Moody's composite of Aaa and Baa bonds advanced by 10 basis points or less to 9.1 percent and 9.9 percent, respectively, and the yield on long term governments changed little. However, the yield required on mortgages continued to rise rapidly, particularly in the secondary market. The average yield on 4-month commitments issued by FNMA to purchase home mortgages rose to 10.4 percent in the August 26 auction, up from 10.1 percent on August 12. The Federal National Mortgage Association (FNMA) paid 11.0 percent on all maturities of the consolidated discount notes offered in the last week of August, compared to 10 percent or less only two weeks before. These rate increases suggest that secondary market support for mortgages is declining at a time when potential mortgage originators already suffer from a significant tightness of funds.

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The Dow Jones Industrial average closed the week at 678.58, down 8 points from last week's closing of 686.80. However, the market rose strongly on the last trading day in August, before the long holiday weekend. At Friday's closing, the DJ index was hovering 7.5 percent above the May 1970 low of 631.

Herbert Stein

Herbert Stein

STEIN'S LAST MEMO

Monetary Aggregates

Recent rates of growth of monetary aggregates are shown in the table below.

Growth Rates of Monetary Aggregates
(Percent Change, Seasonally Adjusted Annual Rates)

Period	M_1 (currency plus demand deposits)	M_2 (currency plus all commercial bank deposits except large CD's)	Credit (adjusted bank credit proxy)
Change to 4 weeks ended August 21, 1974 from 4 weeks ended			
July 24, 1974 (4 weeks prior)	2.3	6.9	5.8
June 26, 1974 (8 weeks prior)	2.3	6.4	8.7
May 22, 1974 (13 weeks prior)	4.7	8.0	10.8
February 20, 1974 (26 weeks prior)	6.4	7.8	15.7
August 22, 1973 (52 weeks prior)	5.4	8.5	10.4

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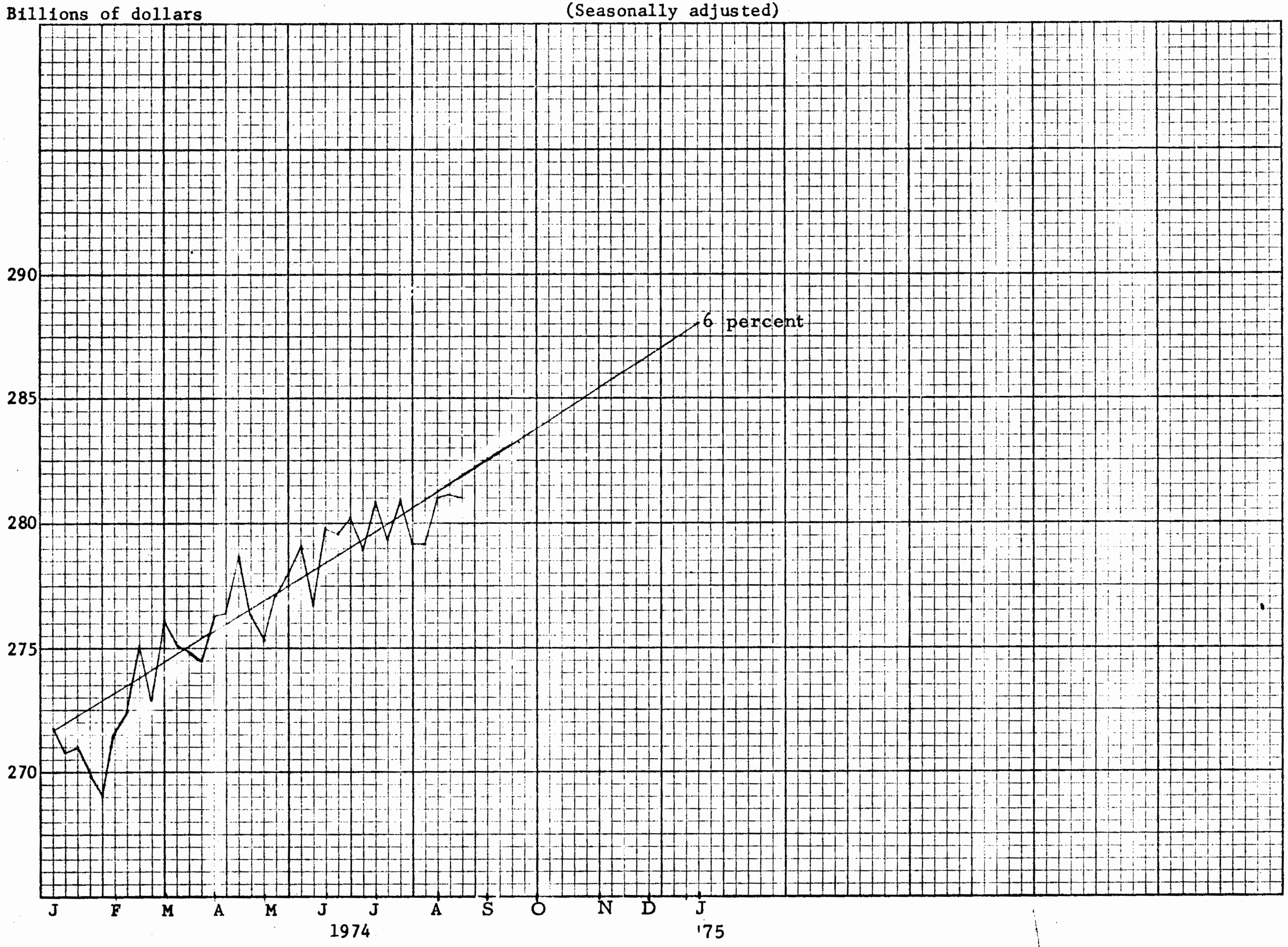
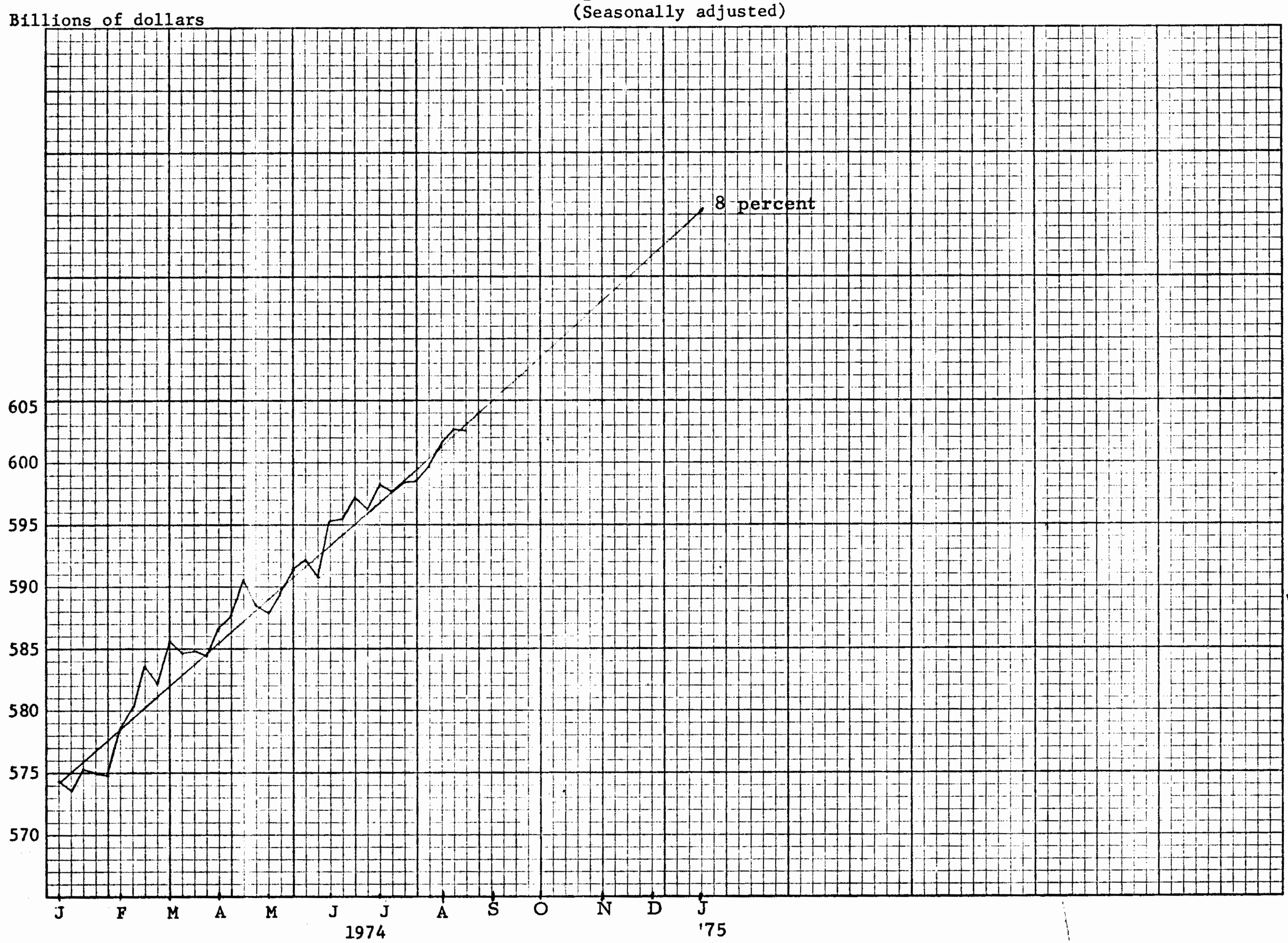
Weekly Money Stock, Narrowly Defined (M_1)

(Seasonally adjusted)



Weekly Money Stock, Broadly Defined (M_2) (Money Plus Time Deposits Less Large CDs at Commercial Banks)
(Seasonally adjusted)



Weekly Bond Yields and Interest Rates