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CONFIDENTIAL (FR)

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

November 12, 1971

By the Staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

Retail sales. Seasonally adjusted retail sales for August and September--and the third quarter--have been revised upward, mainly because of larger increases now reported for the automotive group. August sales are now indicated to be up 2.9 percent from July and September sales are estimated to be up 1.4 percent from August. For the third quarter, the increase is now shown to be 2.6 percent instead of 2.1 percent.

The advance monthly indication for October is for a rise of 0.3 percent from September for total sales with nondurable goods up 1.0 percent. Sales of durable goods show a small decline, but this apparently reflects seasonal adjustment problems in the automotive group.

Home sales. Seasonally adjusted sales of new homes by speculative builders declined further in September. However, the annual rate of 597,000 was a tenth above the rising pace a year earlier and the third quarter average matched the record reached in the first quarter of the year. The median price of new homes sold rose to \$25,800, more than \$3,000 above a year earlier, reflecting, in part, the greatly improved demand for upgraded, non-subsidized homes this year. While stocks of new homes available for sale increased somewhat further, they were still not especially high in relation to sales and--unlike last year--at a median price only moderately above that for homes sold.

The number of existing homes sold in September also was well above a year earlier, 16 percent, according to the National Association of Real Estate Boards. At \$24,830, the median price of such homes showed the same year-to-year rise--8 percent--as in August.

NEW SINGLE FAMILY HOMES SOLD AND FOR SALE

| | Homes sold ^{1/} | Homes for sale ^{2/} | Median price of: | |
|-------------|--------------------------|---------------------------------|------------------------|----------------|
| | | | Homes sold | Homes for sale |
| | (Thousands of units) | | (Thousands of dollars) | |
| <u>1969</u> | 448 | 228 | 25.6 | 27.0 |
| <u>1970</u> | 485 | 227 | 23.4 | 26.2 |
| IIQ | 457 | 219 | 24.4 | 27.0 |
| IIIQ | 518 | 215 | 23.0 | 27.1 |
| IVQ | 471 571 | 227 | 22.6 | 26.2 |
| <u>1971</u> | | | | |
| IQ | 661 | 220 | 24.3 | 26.1 |
| IIQ (r) | 629 | 247 | 25.6 | 26.4 |
| IIIQ (p) | 660 | 268 | 25.2 | 26.1 |
| <u>1971</u> | | | | |
| June (r) | 630 | 247 | 26.1 | 26.4 |
| July (r) | 725 | 250 | 25.1 | 26.7 |
| Aug. (r) | 658 | 259 | 25.1 | 26.4 |
| Sept. (p) | 597 | 268 | 25.8 | 26.1 |

^{1/} SAAR.

^{2/} SA, end of period.

The Domestic Financial Situation

Mortgage market. In the primary market for conventional new-home mortgages, average interest rates charged on new commitments declined slightly in October, according to the FHA series, reflecting mixed regional changes. The rate decline was the first since last spring. Discounts on FHA-insured loans in the secondary market continued to edge down in October for the third consecutive months, reaching 6.1 points, the lowest level in 5 months. Although there was some additional improvement in average gross yield spreads of home mortgages over new issues of high grade corporate bonds, the margin continued to offer no strong investment inducement for diversified lenders, after account is taken of higher servicing costs on mortgages. Confidential until November 16.

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES

| | Primary market: Conventional loans | | Secondary market: FHA-insured loans | | |
|-------------|---------------------------------------|--------------------------------------|--|--------------------------------------|----------------------|
| | Level (per cent) | Yield spread (basis points) | Level (per cent) | Yield spread (basis points) | Discount (points) |
| <u>1970</u> | | | | | |
| Low | 8.30 (Dec.) | -56 (June) | 8.40 (Dec.) | 1 (May) | 3.1 (Nov.) |
| High | 8.60 (July, Aug.) | 50 (Dec.) | 9.29 (Feb.) | 99 (Feb.) | 6.0 (Feb.) |
| <u>1971</u> | | | | | |
| May | 7.65 | -36 | 7.75 | -36 | 6.1 |
| June | 7.70 | -20 | 7.89 | -1 | 7.2 |
| July | 7.80 | -16 | 7.97 | 1 | 7.8 |
| Aug. | 7.85 | 20 | 7.92 | 27 | 7.4 |
| Sept. | 7.85 | 41 | 7.84 | 40 | 6.8 |
| Oct. | 7.80 | 51 | 7.75 | 46 | 6.1 |

NOTE: FHA series; interest rates on conventional first mortgages (excluding additional initial fees and charges) are rounded to the nearest 5 basis points. On FHA loans carrying the 7 percent ceiling rate in effect since mid-February 1971, a change of 1.0 points in discount is associated with a change of 12 to 14 basis points in yield. Gross yield spread is average mortgage return, before deducting servicing costs, minus average yield on new issues of high-grade corporate bonds with 5-year call protection. Confidential until November 16.

Government securities market. The Treasury auctioned \$2.75 billion of 15-month 4-7/8 percent notes on Tuesday, November 9, as noted in the Greenbook. The average price set in the auction was around 99.96, which resulted in a yield of 4.91 percent. With no tax and loan account privilege allowed in the auction, commercial banks were not principal underwriters in this financing. As a result, Government security dealers received very large initial awards of nearly \$1.2 billion.

INTEREST RATES

| | 1971 | | | | |
|-----------------------------------|--------------|--------------|-------------|--------------|--------------|
| | Highs | Lows | Aug. 13 | Oct. 18 | Nov. 11 |
| Short-Term Rates | | | | | |
| Federal funds (wkly. avg.) | 5.59 (9/15) | 3.29 (3/10) | 5.59 (8/11) | 5.29 (10/13) | 4.93 |
| 3-month | | | | | |
| Treasury bills (bid) | 5.53 (7/19) | 3.22 (3/11) | 5.15 | 4.45 | 4.18 |
| Bankers' acceptances | 5.62 (8/23) | 3.88 (3/10) | 5.62 | 5.00 | 4.75 |
| Euro-dollars | 10.00 (8/17) | 4.94 (3/17) | 7.89 | 6.60 | 5.93 |
| Federal agencies | 5.70 (7/30) | 3.27 (2/24) | 5.58 | 4.68 (10/15) | 4.33 |
| Finance paper | 5.62 (8/16) | 3.62 (3/15) | 5.50 | 5.12 | 4.62 |
| CD's (prime NYC) | | | | | |
| Most often quoted new | 5.75 (8/11) | 3.62 (3/24) | 5.75 | 5.25 | 4.75 |
| Secondary market | 6.05 (8/18) | 3.80 (3/17) | 5.88 (8/11) | 5.34 | 4.88 |
| 6-month | | | | | |
| Treasury bills (bid) | 5.84 (7/24) | 3.35 (3/11) | 5.51 | 4.60 | 4.39 |
| Bankers' acceptances | 5.75 (8/23) | 4.00 (3/10) | 5.75 (e) | 5.12 (e) | 4.88 (e) |
| Commercial paper (4-6 mo.) | 5.88 (8/18) | 4.00 (3/29) | 5.88 | 5.62 | 4.88 |
| Federal agencies | 6.02 (7/30) | 3.53 (3/10) | 5.63 | 4.80 (10/15) | 4.43 |
| CD's (prime NYC) | | | | | |
| Most often quoted new | 6.00 (8/11) | 4.00 (3/24) | 6.00 | 5.38 | 5.00 |
| Secondary market | 6.40 (8/18) | 3.70 (3/3) | 6.25 (8/11) | 5.50 | 5.00 |
| 1-year | | | | | |
| Treasury bills (bid) | 6.01 (7/28) | 3.45 (3/11) | 5.85 | 4.74 | 4.48 |
| CD's (prime NYC) | | | | | |
| Most often quoted new | 6.25 (8/11) | 4.38 (3/3) | 6.25 | 5.62 | 5.12 |
| Prime municipals | 3.60 (8/12) | 2.15 (3/24) | 3.60 | 2.70 (10/15) | 2.70 |
| Intermediate and Long-Term | | | | | |
| Treasury coupon issues | | | | | |
| 5-years | 7.03 (8/10) | 4.74 (3/22) | 6.78 | 5.92 | 5.80 |
| 20-years | 6.56 (6/15) | 5.69 (3/23) | 6.32 | 5.94 | 5.86 |
| Corporate | | | | | |
| Seasoned Aaa | 7.71 (8/13) | 7.05 (2/16) | 7.71 | 7.36 | 7.24 |
| Baa | 8.93 (1/5) | 8.33 (2/25) | 8.87 | 8.48 | 8.37 |
| New Issue Aaa | 8.23 (5/20) | 6.76 (1/29) | 7.97 | 7.22 (10/15) | 7.12 |
| Municipal | | | | | |
| Bond Buyer Index | 6.23 (6/24) | 5.00 (3/18) | 6.03 | 4.99 (10/15) | 5.19 |
| Moody's Aaa | 5.90 (6/30) | 4.65 (10/21) | 5.80 | 4.65 (10/15) | 4.90 |
| Mortgage--implicit yield | | | | | |
| in FNMA auction <u>1/</u> | 8.07 (7/26) | 7.32 (4/12) | -- | 7.83 | *7.77 (11/1) |

1/ Yield on 3-month forward commitment after allowance for commitment fee and required purchase and holding of FNMA stock. Assumes discount on 30-year loan amortized over 15 years. * 4-month commitment. e--estimated.

International Developments

The Swedish Riksbank lowered its discount rate on November 11 from 5-1/2 to 5 percent. It was the fourth half-point cut this year, the last cut having been made on September 10. The Riksbank action was taken in part because of interest rate declines elsewhere, but mainly the move was intended as an expansionary measure. Economic activity in Sweden has been lagging since last spring. In addition to easing monetary policy, the government has introduced several stimulative fiscal measures this year.

* * * * *

CORRECTIONS:

Page IV-10. Insert at the top of the page the following paragraph:

"Elsewhere, stability of short-term rates has been the rule in the second half of 1971. In Belgium, Canada, Germany, the Netherlands, France, and Italy, the net change in short-term yields between the beginning of July and November was slight, and with only minor exceptions there have been no marked swings during this period."

Page IV-11. At the end of the first full paragraph, relating to discount rate reductions, change "European" to "OECD", to include Canada.

Page IV-12. In the first paragraph on Germany, the reserve requirement reduction on domestic liabilities should read "10 per cent."

SUPPLEMENTAL APPENDIX A

DEMAND DEPOSIT OWNERSHIP: THIRD QUARTER 1971*

Preliminary data obtained from the September Survey of Demand Deposit Ownership suggest that the slowdown in the growth of the money stock over the third quarter was broadly based, as changes in all ownership categories except foreign were weaker than in the comparable period of 1970. 1/ As may be seen in the last four columns of Table 1, this pattern is generally the same at both weekly reporting banks and non-weekly reporting banks.

TABLE 1

CHANGES IN THE OWNERSHIP OF GROSS IPC DEMAND DEPOSITS
AT ALL COMMERCIAL, WEEKLY REPORTING, AND NON-WEEKLY REPORTING BANKS
(3rd Quarter of 1970 and 1971, in \$ billions, not seasonally adjusted)

| | All commercial banks | | Weekly reporting banks | | Non-Weekly reporting banks | |
|--|----------------------|-------------|------------------------|-------------|----------------------------|-------------|
| | <u>1970</u> | <u>1971</u> | <u>1970</u> | <u>1971</u> | <u>1970</u> | <u>1971</u> |
| Financial business | -- | -.2 | -.1 | -.2 | .1 | -- |
| Non-Finance business | 2.7 | 1.8 | .9 | .1 | 1.8 | 1.7 |
| Consumer | 2.4 | 1.5 | .8 | .2 | 1.6 | 1.3 |
| Foreign | .2 | -- | -.2 | -- | -- | -- |
| All other <u>1/</u> | .4 | -1.0 | .2 | -.4 | .2 | -.5 |
| Total gross IPC demand deposits | 5.3 | 2.1 | 1.6 | -.3 | 3.7 | 2.3 |

1/ Nonprofit institutions, and trust departments of banks maintaining balances with their own bank.

* Prepared by Frederick M. Struble, Economist, Banking Section.

1/ The estimated changes for the third quarter of last year reflect revisions to the estimates of balances outstanding in the various owner categories in June 1970. The estimated levels for nonfinancial businesses and consumers were lowered approximately \$500 million and \$900 million, respectively, while the estimates for financial businesses and the foreign category were raised \$400 million and \$100 million, respectively by these revisions. The level for the all other category remained essentially unchanged. These alterations in the June levels had the effect of increasing the size of the 3rd quarter 1970 gains in nonfinancial businesses and consumers and lowering the estimated changes in financial businesses and foreign categories. The revised estimates of outstandings (in \$ billions) for June, 1970 are:

| | <u>Financial Business</u> | <u>Nonfinancial Business</u> | <u>Consumer</u> | <u>Foreign</u> | <u>All Other</u> |
|------------------------|---------------------------|------------------------------|-----------------|----------------|------------------|
| All Commercial Banks | 17.1 | 85.3 | 49.0 | 1.6 | 9.6 |
| Weekly Reporting Banks | 13.5 | 52.9 | 20.3 | 1.5 | 5.3 |

The monthly changes in demand deposit ownership at Weekly Reporting banks over the third quarter (Table 2) also suggest that all owner categories were responsible for the progressive weakening in monetary growth over the quarter. Data for August indicate, however, that the change in nonfinancial business deposits was primarily responsible for the slowdown in that month while the September cutback appears to have been more evenly distributed.

TABLE 2

MONTHLY CHANGES IN DEMAND DEPOSIT OWNERSHIP
AT WEEKLY REPORTING BANKS
(Billions of dollars, not seasonally adjusted)

| | C H A N G E | | |
|-----------------------|--------------------|----------------------|---------------------------|
| | June to July | July to August | August to September |
| Financial business | | | |
| 71 | .1 | -.8 | .5 |
| 70 | .0 | -.9 | .7 |
| Nonfinancial business | | | |
| 71 | .5 | -1.2 | .8 |
| 70 | .0 | -- | 1.0 |
| Consumer | | | |
| 71 | .4 | -.5 | .3 |
| 70 | .3 | -- | .6 |
| Foreign | | | |
| 71 | -- | -- | -- |
| 70 | -- | -.2 | -- |
| All other | | | |
| 71 | -.6 | -.4 | .5 |
| 70 | .0 | -.5 | .6 |
| Total IPC deposits | | | |
| 71 | .5 | -3.0 | 2.2 |
| 70 | .3 | -1.5 | 2.9 |