

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

¹ In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

² A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

February 11, 1972

By the Staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

Retail sales. The advance release for January indicates that total sales rose 0.2 per cent from December--slightly less than the 0.5 per cent suggested by the weekly data. Sales of nondurable goods increased 0.3 per cent, with a 2.5 per cent gain in the sales of general merchandise group offsetting losses in most other major categories of nondurables. Durable goods sales were 0.2 per cent higher; the automotive group declined 0.7 per cent and furniture and appliance sales rose 0.8 per cent. Total sales, excluding automotive and nonconsumer items, were also 0.2 per cent higher than December.

RETAIL SALES
(Percentage change from previous month)

	1971			1972
	Oct	Nov	Dec prel.	Jan adv.
Total sales	- .7	1.7	-2.6	.2
Durable goods	-1.2	1.6	-5.2	.2
Automotive	-3.5	2.0	-8.4	- .7
Furniture & appliances	5.7	- .5	3.0	.8
Nondurable goods	- .5	1.8	-1.3	.3
Food stores	-1.7	1.1	- .4	- .3
General merchandise	- .9	2.4	-4.8	2.5
GAAF	.5	2.2	-3.0	1.1
Total, excluding automotive & nonconsumer items	- .1	1.4	- .9	.2
Total, real*	- .6	1.6	-3.0	n.a.

* Deflated by seasonally adjusted all commodities CPI.

Inventories. Book value of business inventories rose at a \$10 billion rate in December. In addition to the jump in wholesale stocks, there was a relatively high rate of accumulation at retail trade establishments other than automotive which may have been involuntary, at least in part, since it was associated with declining sales.

For the quarter as a whole, book value increase was a little below the third-quarter rate. (However, price increases slowed, and somewhat more of the fourth-quarter book value increase therefore represents physical additions to inventories.) This overall stability was the result of offsetting changes in major sectors; nondurable manufacturers and wholesale trade establishments stepped up their rate of accumulation, while auto dealers, who had built stocks at a high rate during the third quarter, sold cars out of those stocks in the fourth. The jump in wholesale trade apparently reflected disruptions caused by dock strikes and by attempts to avoid strike-caused shortages.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
(Seasonally adjusted annual rates, billions of dollars)

	1971			
	Q III	Q IV (Prel.)	Nov. (Rev.)	Dec. (Prel.)
Manufacturing and trade	6.1	5.2	- .7	9.8
Manufacturing, total	-1.1	2.0	.6	- .5
Trade, total	7.2	3.3	-1.4	10.3
Wholesale	1.9	4.7	3.7	9.1
Retail	5.2	-1.5	-5.1	1.2
Durable	4.4	-2.6	-4.2	-2.2
Automotive	4.2	-3.1	-4.4	-3.4
Nonautomotive	.1	.5	.3	1.3
Nondurable	.9	1.1	- .9	3.3

NOTE: Detail may not add to total because of rounding.

The inventory-sales ratio for manufacturing and trade rose from 1.53 in November to 1.55 in December--still in 1971's relatively healthy range rather than the recession levels of 1970. The ratio increased at retail trade as well as wholesale and reflected the December decline in automotive and other retail sales.

INVENTORY RATIOS

	1970		1971	
	Nov.	Dec.	Nov. (Rev.)	Dec. (Prel.)
Inventories to sales:				
Manufacturing and trade	1.66	1.62	1.53	1.55
Manufacturing, total	1.92	1.84	1.71	1.71
Trade, total	1.40	1.39	1.35	1.38
Wholesale	1.28	1.28	1.24	1.26
Retail	1.47	1.47	1.42	1.46
Durable	2.25	2.23	1.96	2.05
Automotive	1.87	1.82	1.64	1.75
Nonautomotive	2.68	2.72	2.46	2.49
Nondurable	1.17	1.15	1.14	1.17

New home sales. Seasonally adjusted sales of new single-family homes available from speculative builders in December held near the record November rate for a new quarterly high of 693,000 in the fourth quarter of last year. For 1971 as a whole, such sales totaled 657,000--more than a third above the 1970 total and a new high for the series which began in late 1962. While stocks of such homes rose further, they were still not particularly high in relation to sales. At \$25,700, the median price of new homes sold in December was unchanged from the revised (downward) median in November and \$200 below the median price of homes awaiting sale. (Confidential until release, Monday.)

NEW SINGLE-FAMILY HOMES SOLD AND FOR SALE

	Homes Sold ^{1/} (Thousands of units)	Homes for Sale ^{2/} (Thousands of units)	Median price of:	
			Homes Sold (Thousands of dollars)	Homes for Sale (Thousands of dollars)
<u>1970</u>	485	227	23.4	26.2
IIIQ	518	215	23.0	27.1
IVQ	571	227	22.6	26.2
<u>1971</u>	657	286	25.2	25.9
IQ	661	220	24.3	26.1
IIQ	629	247	25.8	26.4
IIIQ (r)	662	268	25.3	26.1
IVQ	693	286	25.7	25.9
<u>1971</u>				
Sept.	601	268	25.4	26.1
Oct. (r)	647	273	25.6	25.8
Nov. (r)	730	277	25.7	25.9
Dec. (p)	701	286	25.7	25.9

1/ SAAR.

2/ SA, end of period.

The Domestic Financial Situation

Mortgage market. The decline in home mortgage yields accelerated in January, according to the FHA. In the primary market, the average contract rate on conventional new home mortgages dropped 10 basis points to 7.60 per cent--the lowest rate since April 1971. The January rate decline was the largest monthly drop reported since the series turned down in October and coincided with a massive inflow of savings at the depository institutions in a month of seasonally slack loan demand. In the secondary market for FHA-insured new home loans, the average yield also declined 10 basis points during January to 7.49 per cent. This drop, which was much sharper than the decline indicated by the recent FNMA auctions, reduced the discount associated with the 7 per cent loans to 4 points. (Confidential until February 16.)

RETURNS ON HOME MORTGAGES
(Per cent)

	Primary Market (Conventional loans)		Secondary Market (FHA-insured loans)
	<u>New Homes</u>	<u>Existing Homes</u>	<u>New Homes</u>
<u>1971</u>			
High	7.95 (Jan.)	8.05 (Jan.)	7.97 (July)
Low	7.55 (Apr.)	7.65 (Mar., Apr.)	7.32 (Mar.)
October	7.80	7.90	7.75
November	7.75	7.85	7.62
December	7.70	7.80	7.59
<u>1972</u>			
January	7.60	7.70	7.49

NOTE: The FHA data are based on opinion reports submitted by field offices on prevailing local conditions as of the first of the succeeding month. The series on average contract interest rates on conventional first mortgages in the primary market are unweighted and are rounded to the nearest 5 basis points. For the secondary market, yields on FHA-insured mortgages are derived from weighted averages of private secondary market prices for sec. 203, 30-year mortgages with minimum downpayment and with an assumed prepayment at the end of 15 years.

Corporate bond market. Yields on newly issued corporate bonds rose in the latest week as underwriters sought to stimulate investor interest in the face of a heavy calendar. Yields on bonds sold in previous weeks also adjusted upward as syndicates terminated. At these higher yields, bonds sales accelerated, dealer inventory positions lightened, and prices improved in the latter part of the week.

INTEREST RATES

	1971		1972	
	Highs	Lows	Jan. 10	Feb. 10
<u>Short-Term Rates</u>				
Federal funds (wkly avg.)	5.73 (9/8)	3.29 (3/10)	3.57 (1/5)	3.25 (2/9)
3-month				
Treasury bills (bid)	5.53 (7/19)	3.22 (3/11)	3.02	3.06
Bankers' acceptances	5.62 (8/23)	3.63 (3/12)	3.88	3.50
Euro-dollars	10.00 (8/17)	4.94 (3/17)	5.62	5.05
Comm. paper (90-119 day)	5.88 (8/18)	4.25 (4/12)	4.13	3.88
CD's (prime NYC)				
Most often quoted new	5.75 (8/11)	3.62 (3/24)	4.00 (1/5)	3.62 (2/9)
Secondary market	6.05 (8/18)	3.80 (3/17)	4.15 (1/5)	3.70 (2/9)
6-month				
Treasury bills (bid)	5.84 (7/27)	3.35 (3/11)	3.35	3.56
Comm. paper (4-6 mo.)	5.88 (8/18)	4.00 (3/24)	4.12	4.00
Federal agencies	6.20 (7/23)	3.67 (3/16)	4.00	3.89
CD's (prime NYC)				
Most often quoted new	6.00 (8/11)	4.00 (3/24)	4.38 (1/5)	4.12 (2/9)
Secondary market	6.40 (8/18)	3.70 (3/3)	4.50 (1/5)	3.95 (2/9)
1-year				
Treasury bills (bid)	6.01 (7/28)	3.45 (3/11)	3.63	4.00
Federal agencies	6.56 (7/28)	3.93 (3/16)	4.52	4.47
CD's (prime NYC)				
Most often quoted new	6.25 (8/11)	4.25 (2/24)	4.88 (1/5)	4.75 (2/9)
Prime municipals	3.60 (8/12)	2.15 (3/24)	2.45	2.60
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	7.03 (8/10)	4.74 (3/22)	5.48	5.69
20-years	6.56 (6/15)	5.69 (3/23)	5.96	6.10
C Corporate				
Seasoned Aaa	7.71 (8/13)	7.05 (2/16)	7.19	7.30
Baa	8.93 (1/4)	8.33 (2/25)	8.25	8.25
New Issue Aaa	8.23 (5/20)	6.76 (1/29)	7.00 (1/7)	7.30
Municipal				
Bond Buyer Index	6.23 (6/24)	4.97 (10/21)	5.03 (1/6)	5.27
Moody's Aaa	5.90 (7/1)	4.65 (10/21)	4.75 (1/6)	5.00
Mortgage--implicit yield				
in FNMA auction <u>1/</u>	8.07 (7/26)	7.32 (4/12)	7.61	7.61 (2/7)

1/ Yield on short-term 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.

CORRECTIONS:

Section I, page I-5, GROSS NATIONAL PRODUCT AND RELATED ITEMS Table

The personal saving and saving rate figures for 1972 should be as follows:

	1972 Proj.	1972 Projected			
		I	II	III	IV
Personal saving	62.1	60.5	62.9	63.7	61.4
Saving rate (per cent)	7.8	7.9	8.0	7.9	7.5

Section II, page II-13, SELECTED SHORT TERM INTEREST RATES Table

Column 3, the date should be February 8 (not 9)

90-119 day commercial paper should be 3.88 (not 3.75)

Column 5, the change dates should be Jan 12-Feb 8

90-119 day commercial paper should be -.12

Text - following the table, line 7, exchanges should be followed by "into" (not "in")

Line 10 after of should be "a short-term issue."

Page II-22, Table "Staff Estimate of Federal Sector in the National Income Accounts."

Changes in receipts should read:

Calendar Half Years

	1971		1972	
	I	II	I	II
Tax Structure changes	-2.7	-1.5	+1.0	-4.0
Growth in tax base	9.4	4.9	10.2	10.9

Tax structure changes were reduced by \$2.5 billion from the Greenbook figure for first half 1971 because this amount was a drop in surtax which occurred in mid-1970, not between second half 1970 and first half 1971. The changes in 1972 reflect revision in individual income tax change estimates, particularly involving changes in withholding schedules and in final payments.