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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

October 12, 1973

By the Staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

Industrial production. Industrial production increased 0.7 percent in September, following the slight decline in August. Both the July and August indexes were revised up slightly from those previously published. The total index at 127.4 percent of the 1967 average was 8.3 percent above a year earlier. Output in the third quarter rose at an annual rate of 6.7 percent from the average of the second quarter.

The rise in production in September resulted from a substantial recovery in autos, a further increase in business equipment, and a gain in output of construction products and durable goods materials, including steel.

INDUSTRIAL PRODUCTION
(1967=100, seasonally adjusted)

	1972	1973		Percent change from		
	Sept.	July	Aug.	Sept.	Month ago	A year ago
Total index	117.6	126.7	126.5	127.4	.7	8.3
Consumer goods	125.2	132.8	130.4	131.7	1.0	5.2
Business equip.	109.6	123.3	123.7	124.7	.8	13.8
Defense equip	77.6	81.1	80.6	81.5	1.1	5.0
Materials	120.9	130.0	131.3	132.2	.7	9.3
steel	114.7	120.9	119.2	121.5	1.9	5.9
Autos*	8.5	10.3	8.0	9.1	13.9	7.9

*Seasonally adjusted annual rate, millions of units.

Very confidential until release Tuesday, October 16, 1973.

Retail sales. Sales in September were off almost 1 percent from August, largely because of lower sales of durable goods. Outlays for the automotive group declined 3.9 percent and expenditures for furniture and appliances were 1.5 percent lower. On the average, sales of the nondurable goods stores were little changed from August levels.

A more complete sample count lowered rather substantially the August advance estimate of sales for all stores, and the month is now indicated to be off 1.3 percent instead of unchanged from July. According to present data, the third quarter is 2.2 percent above the second and 12.2 percent above a year earlier.

RETAIL SALES
(Seasonally adjusted, percentage change from previous quarter)

	1973			1973		
	Q I	Q II	Q III	July	August	Sept.
Total sales	5.7	.1	2.2	3.9	-1.3	- .9
Durable	8.2	-2.0	1.0	4.9	.0	-3.0
Auto	7.8	-3.3	2.4	9.0	- .2	-3.9
Furniture and appliance	9.1	.5	-1.0	-.3	- .2	-1.5
Nondurable	4.4	1.3	2.8	3.4	-1.9	.2
Food	3.7	2.2	4.0	6.2	-2.6	.1
General merchandise	6.3	.4	1.7	1.6	-1.7	- .1
Total, less auto and nonconsumption items	4.7	1.3	2.4	3.0	-1.7	.1
GAF	6.9	- .5	1.4	1.2	-1.8	.1
Real*	3.8	-2.5	n.a.	3.6	-3.7	n.a.

*Deflated by all commodities CPI, seasonally adjusted.

New homes sold by merchant builders, already down sharply from the peak in the fourth quarter of 1972, declined further in August--to a seasonally adjusted annual rate of 566,000 units, the lowest in more than 2-1/2 years. Builders' stocks of homes for sale continued to rise and by the month's end equaled a record 9.9 months' supply at the reduced August sales rate. The median price of new homes sold declined in August; but, at \$33,200, it remained above the still advancing median price of homes awaiting sale. While the median price of existing homes sold changed little from July--at \$30,030, sales of such units in August edged below a year earlier for the first time since the spring of 1970.

SALES, STOCKS AND PRICES OF NEW SINGLE FAMILY HOMES

	Homes sold <u>1/</u>	Homes for sale <u>2/</u>	Months' supply	Median price of:	
	(Thousands of units)			Homes sold	Homes for sale
				(Thousands of dollars)	
<u>1972</u>					
QIII	733	386	6.3	28.0	27.1
QIV	761	402	6.3	29.1	28.3
<u>1973</u>					
QI	733	426	7.0	30.4	29.4
QII (r)	681	432	7.6	32.7	31.2
June (r)	664	432	7.8	33.2	31.2
July (r)	582	448	9.2	34.2	31.4
Aug. (p)	566	468	9.9	33.2	31.7

1/ SAAR.

2/ SA, end of period.

Inventories. Book value of retail inventories rose at a \$6.6 billion annual rate in August--up sharply from the \$2.1 billion rate in July. For total manufacturing and trade, the August rate of increase was \$22.5 billion and the July-August average rate of increase was \$20.6 billion compared with the second quarter average rate of \$22.9 billion.

The manufacturing and trade inventory-sales ratio rose slightly to 1.43 in August from 1.41 in July--still low by historical standards. On a quarterly average sales basis, the ratio went from 1.46 in the first quarter to 1.45 in the second.

The Domestic Financial Situation

Consumer credit. Though still at a relatively advanced level, the delinquency rate on consumer instalment loans at commercial banks edged down further in August according to the American Bankers Association series covering about 600 banks. The seasonally adjusted rate for loans delinquent 30-89 days declined to 1.70 percent in August from 1.75 percent in June and 1.81 percent in April (a 20-year high) but was still marginally above the 1.66 percent rate of August a year ago.

DELINQUENCY RATES ON CONSUMER INSTALMENT LOANS AT COMMERCIAL BANKS
(Seasonally adjusted by Federal Reserve)
(Percent)

	1967	1968	1969	1970	1971	1972	1973
February	1.54	1.25	1.31	1.56	1.54	1.51	1.72
April	1.57	1.30	1.38	1.55	1.49	1.55	1.81
June	1.44	1.32	1.41	1.57	1.53	1.63	1.75
August	1.37	1.33	1.46	1.61	1.53	1.66	1.70
October	1.43	1.27	1.46	1.60	1.61	1.76	
December	1.39	1.35	1.52	1.60	1.51	1.71	
Average	1.46	1.30	1.42	1.58	1.54	1.64	

NOTE: Delinquency rates are number of contracts delinquent 30-89 days as a percentage of number of accounts outstanding.

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INTEREST RATES

	1973			
	Highs	Lows	Sept. 17	Oct. 11
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	10.79(9/5)	5.61(1/3)	10.74(9/12)	9.87(10/10)
3-month				
Treasury bills (bid)	9.05(8/14)	5.12(1/4)	8.70	7.15
Comm. paper (90-119 day)	10.50(9/13)	5.63(1/12)	10.50	9.63
Bankers' acceptances	11.00(9/13)	5.75(1/11)	11.00	9.50
Euro-dollars	11.88(9/17)	5.81(1/5)	11.88	10.44
CD's (prime NYC) 60-89 day				
Most often quoted new	10.50(9/12)	5.38(1/3)	10.75(9/12)	9.38(10/10)
6-month				
Treasury bills (bid)	9.00(9/13)	5.38(1/4)	8.79	7.42
Comm. paper (4-6 mo.)	10.50(9/13)	5.63(1/12)	10.50	9.13
Federal agencies	9.83(9/12)	5.64(1/3)	9.61	8.26
CD's (prime NYC) 180-269 day				
Most often quoted new	9.38(8/15)	5.63(1/3)	9.25(9/12)	7.50(10/10)
1-year				
Treasury bills (bid)	8.50(9/13)	5.40(1/4)	8.27	7.32
Federal agencies	9.49(8/13)	5.86(1/2)	9.05	7.83
CD's (prime NYC)				
Most often quoted new	8.50(9/12)	5.75(1/3)	8.50(9/12)	7.50(10/10)
Prime municipals	6.00(8/8)	3.20(1/3)	5.25(9/12)	4.20(10/10)
<u>Intermediate and Long-term</u>				
Treasury coupon issues				
5-years	8.13(8/7)	6.23(1/4)	7.11	6.74
20-years	7.83(8/7)	6.04(1/3)	7.35	7.12
Corporate				
Seasoned Aaa	7.77(8/24)	7.10(1/2)	7.65	7.56
Baa	8.68(8/30)	7.88(1/12)	8.65	8.41
New Issue Aaa Utility	8.52(8/8)	7.29(1/10)	7.74(9/12)	7.96(10/10)
Municipal				
Bond Buyer Index	5.59(8/1)	4.99(10/10)	5.18(9/12)	4.99(10/10)
Mortgage--implicit yield				
in FNMA auction <u>1/</u>	9.27(9/4)	7.69(1/8)	9.27(9/4)	9.11(10/1)

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.

As a result of data problems, the August bank loan commitments survey--referred to in the Greenbook--is not available.