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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

July 13, 1973

By the Staff  
Board of Governors  
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

Industrial production. Industrial production rose by an estimated 0.3 percent in June, following an increase of 0.7 percent in May. At 123.9 percent of the 1967 average, the June index was 9.3 percent above a year earlier. Output of business equipment and industrial materials advanced further, but production of consumer goods dipped. (The May index was revised up 0.1 to 123.5, while the April index was revised down to 122.7.) Confidential until July 16, p.m.

Auto assemblies in June were at an annual rate of 10.2 million units compared to a 10.0 million rate in May. Production of carpeting and furniture rose further in June, but output of some appliances, other household durable goods, and consumer nondurable goods declined. Production of business equipment rose 0.4 percent following a 1.4 percent advance in May.

Output of construction products increased in June. Steel production also rose, following a decline in May. Output of most other durable materials and the textile, paper, and chemical industrial materials sector increased.

INDUSTRIAL PRODUCTION  
Percent changes, annual rates<sup>1/</sup>

	QII 1972 QII 1973(p)	QIII 1972 QIV 1972	QIV 1972 QI 1973	QI 1973 QII 1973(p)
Total index	9.1	11.8	8.8	7.9
Market groupings				
Final products	8.4	12.2	9.4	6.1
Consumer goods	6.5	10.1	7.3	4.4
Business equipment	16.3	20.3	18.6	12.9
Materials	9.8	10.9	8.6	10.7
Industry groupings				
Manufacturing	9.4	11.6	9.9	8.0
Durables	11.9	14.7	12.4	10.0
Nondurables	6.1	7.5	6.4	5.1
Mining and utilities	3.2	7.1	2.5	-2.0

<sup>1/</sup> Not compounded. On a compounded basis the annual rates of increase in the total index in these quarters would be .3 or .4 points higher.

For release July 16, p.m.

For the second quarter as a whole, the rise in the total index was substantial, but the rate of increase has been diminishing over the past 3 quarters, as can be seen in the following table.

INDUSTRIAL PRODUCTION  
(1967=100, seasonally adjusted)

	1972	1973			Percent change	
	June	April	May	June	Month ago	Year ago
Total index	113.4	122.7	123.5	123.9	.3	9.3
Market groupings						
Final products	110.1	118.7	119.6	119.2	-.3	8.3
Consumer goods	122.1	129.7	130.6	129.7	-.7	6.2
Business equipment	102.4	117.4	119.1	119.6	.4	16.8
Materials	116.1	126.4	126.6	127.8	.9	10.1
Industry groupings						
Manufacturing	112.5	122.1	123.1	123.3	.2	9.6
Durables	106.8	118.3	119.1	119.7	.5	12.1
Nondurables	121.3	127.7	128.8	128.4	-.3	5.9
Mining and utilities	122.7	125.9	127.1	126.8	-.2	3.3

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Inventories. Book value of retail trade inventories rose at a \$7.8 billion annual rate in May, following an April rate of \$6.4 billion. For manufacturing and trade, the May rate was \$23.6 billion, compared with \$15.1 billion in April and a first-quarter rate (unrevised basis) of \$22.2 billion. (Retail as well as manufacturing inventories have now been revised, though in both cases the revisions appear minor.)

The manufacturing and trade inventory-sales ratio rose for the second month; from 1.41 in March it has risen to 1.43 in May-- still quite low.

Real estate. New homes sold by merchant builders turned upward somewhat in May to a seasonally adjusted annual rate of 704,000, still moderately below the reduced first quarter pace and about the same as in May 1972. Homes available for sale reached a new high in May and continued to equal more than 7 months' supply at the recent rate of sales. Partly reflecting a shift in the mix of demands, the median price of new homes sold dipped in May to \$32,000. This was nearly a fifth above a year earlier and remained appreciably higher than the median price of homes still for sale.

The median price of existing homes sold in May tended higher, and, at \$28,880, was 6 percent above a year earlier. Unit sales of existing homes remained quite strong, at a level nearly a tenth above a year earlier. (Confidential until release July 16, p.m.)

NEW SINGLE FAMILY HOMES SOLD AND FOR SALE

	Homes Sold <u>1/</u>	Homes for Sale <u>2/</u>	Median price of	
	(Thousands of units)		Homes Sold	Homes for Sale
			(Thousands of dollars)	
<u>1972</u>				
QI	688	318	26.5	26.1
QIII	733	386	28.0	27.1
QIV (r)	761	402	29.1	28.3
<u>1973</u>				
QI (p)	732	426	30.5	29.4
March (r)	729	426	31.3	29.4
April (p)	678	424	32.8	30.1
May	704	429	32.2	30.9

1/ SAAR.

2/ SA, end of period.

p - Preliminary r - Revised.

The Domestic Financial Situation

Mortgage rates. Average rates on home mortgages increased further, according to the HUD(FHA) field office opinion survey taken in late June. The average contract rate on conventional first new-home mortgages in the primary market rose 10 basis points to 8.05 percent, the highest level since December 1970 and 50 basis points above the recent low in March 1972. The corresponding rate for conventional existing-home mortgages also increased by 10 basis points to 8.10 percent. The average yield on FHA/VA mortgages in the private secondary market (including loans that were eligible for GNMA discount subsidy before the program suspension but excluding loans in the FNMA auction) increased 10 basis points to 7.89 percent--44 basis points above the low in March 1972.

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES

	Primary market: Conventional loans		Secondary market: FHA-insured loans		
	Level (percent)	Spread (basis points)	Level (percent)	Spread (basis points)	Discounts (points)
1971 - Low	7.55	-36	7.32	-27	2.5e
High	7.95	52	7.97	31	7.8
1972 - Low	7.55	15	7.45	5	3.7
High	7.70	61	7.57	48	4.7
Dec.	7.70	55	7.56	41	4.6
1973 - Jan.	7.70	32	7.55	17	4.5
Feb.	7.75	35	7.56	16	4.6
Mar.	7.80	31	7.63	14	5.2
Apr.	7.90	44	7.73	27	5.9
May	7.95	44	7.79	28	6.4
June	8.05	41	7.89	25	7.2

NOTE: FHA series: interest rates on conventional first mortgages (excluding additional initial fees and charges) are rounded by FHA 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 Aaa utility bonds.

e/ Estimated.

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CORRECTIONS

Section I - page 2 - line 3: Delete "almost".

Section II - present page 5 should be page 6 and present page 6 should be page 5.

Section II - page 12 - Table: QII 1973 should be 6.5 percent for MSB's and 8.5 percent for Both.

INTEREST RATES

	1973			
	Highs	Lows	June 18	July 12
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	13.00 (7/4)	5.61 (1/3)	8.17 (6/13)	9.52(7/11)
3-month				
Treasury bills (bid)	7.98 (7/4)	5.12 (1/4)	7.20	7.63
Comm. paper (90-119 day)	9.00 (7/12)	5.63 (1/12)	8.00	9.00
Bankers' acceptances	9.50 (7/12)	5.75 (1/11)	8.13	9.50
Euro-dollars	9.94 (7/9)	5.81 (1/5)	8.75	9.75
CD's (prime NYC) 60-89 day				
Most often quoted new	9.00 (7/11)	5.38 (1/3)	7.88 (6/13)	9.00(7/11)
6-month				
Treasury bills (bid)	7.99 (7/2)	5.38 (1/4)	7.23	7.76
Comm. paper (4-6 mo.)	8.88 (7/12)	5.63 (1/12)	8.00	8.88
Federal agencies	8.65 (7/12)	5.64 (1/3)	7.63	8.65
CD's (prime NYC) 180-269 day				
Most often quoted new	8.75 (7/11)	5.63 (1/3)	7.63 (6/13)	8.75(7/11)
1-year				
Treasury bills (bid)	7.87 (7/2)	5.40 (1/4)	6.99	7.58
Federal agencies	8.56 (7/10)	5.86 (1/2)	7.59	8.48
CD's (prime NYC)				
Most often quoted new	7.90 (7/11)	5.75 (1/3)	7.25 (6/13)	7.90(7/11)
Prime municipals	4.90 (7/11)	3.20 (1/3)	4.00 (6/13)	4.90(7/11)
<u>Intermediate and Long-term</u>				
Treasury coupon issues				
5-years	7.18 (7/9)	6.23 (1/4)	6.65	7.12
20-years	7.19 (7/12)	6.04 (1/3)	7.05	7.19
Corporate				
Seasoned Aaa	7.44 (7/12)	7.10 (1/2)	7.37	7.44
Baa	8.22 (7/12)	7.88 (1/12)	8.14	8.22
New Issue Aaa Utility	7.95 (7/11)	7.29 (1/10)	7.59 (6/13)	7.95p(7/11)
Municipal				
Bond Buyer Index	5.40 (7/11)	5.00 (1/17)	5.13 (6/13)	5.40 (7/11)
Mortgage--implicit yield				
in FNMA auction <u>1/</u>	8.38 (7/9)	7.69 (1/8)	8.04 (6/11)	8.38 (7/9)

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.