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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

November 16, 1973

By the Staff  
Board of Governors  
of the Federal Reserve System

SUPPLEMENTAL NOTES

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The Domestic Economy

Personal income. Personal income has been growing rapidly since mid-year and was up by \$9.2 billion (annual rate) in October. This was less than the average increase in the preceding three months as farm income remained unchanged, but considerably above the \$7.2 billion monthly rate in the first half of the year. Wage and salary disbursements continued rising by about \$6 billion in October, reflecting strong advances in employment and further increases in hourly earnings. Total wages and salaries were held up by a Federal pay increase, as the October rise in private payroll was somewhat less than in the preceding quarter. Manufacturing payrolls rose by about \$2 billion largely on the strength of a substantial gain in factory employment. Compared to a year ago, personal income was up by 10.4 percent and wage and salary disbursements gained 10.6 percent.

PERSONAL INCOME  
(Billions of dollars; seasonally adjusted, annual rate)

	1973		June 1973- Sept. 1973	Sept. 1973- Oct. 1973
	Sept.	Oct.		
			-Average monthly change-	
Total personal income	1058.5	1067.7	10.6	9.2
Wage and salary disbursements	706.0	712.3	5.9	6.3
Government	147.0	149.2	.9	2.2
Private	559.0	563.1	5.1	4.1
Manufacturing	200.8	202.7	1.3	1.9
Other	358.2	360.4	3.8	2.2
Farm income	28.3	28.3	1.2	.0
Other nonwage income	368.1	371.1	3.8	3.0
Less: Personal contributions for social insurance	43.9	44.0	.4	.1

Autos. Sales of new domestic-type cars in the first 10 days of November were at a seasonally adjusted annual rate of 8.4 million units, about unchanged from a month ago and down 11 percent from a year earlier. The sales rate in the month of October was 8.7 million.

Housing. Seasonally adjusted private housing starts dropped 8 percent further in October to an annual rate of 1.61 million. The decline--which was not expected owing to statistical measurement considerations--was mainly concentrated in multifamily units. Even allowing for some pickup in November, the reduced pace of permits in recent months and other indications now suggest that at best fourth quarter starts (SAAR) may average little more than 1.7 million units. This would be about the same as that currently projected for the first half of next year and would be nearly three-tenths below the peak in the first quarter of 1973.

PRIVATE HOUSING STARTS AND PERMITS

	October 1973 (Thousands of units) <u>1/</u>	Percent change from:	
		September 1973	October 1972
<u>Starts</u> <u>2/</u>	1,613	- 8	- 34
1-family	945	- 3	- 28
2- or more-family	668	- 15	- 41
Northeast	251	- 10	- 33
North Central	380	- 5	- 19
South	654	- 10	- 42
West	328	- 9	- 32
<u>Permits</u>	1,310	- 18	- 43
1-family	645	- 17	- 43
2- or more-family	665	- 19	- 44

1/ Seasonally adjusted annual rate; preliminary.

2/ Apart from starts, mobile home shipments for domestic use in September--the latest month for which data are available--were at a seasonally adjusted annual rate of 473 thousand units--down 13 percent further from the reduced rate a month earlier and 5 percent lower than in September 1972.

Home sales. Seasonally adjusted sales of new homes by merchant builders edged upward in September, but remained nearly three-tenths under the peak reached in October of 1972. While builders' stocks of new homes available for sale declined somewhat from their August peak, they still approximated a record 10 months' supply. The median price of existing homes sold tended lower in September, although, at \$33,000, it continued above the median price of homes not yet sold. The median price of existing homes sold in September was \$29,370, about 8 percent higher than a year earlier. Unlike developments in other months this year, sales of such units were down substantially, however.

SALES, STOCKS AND PRICES OF NEW SINGLE FAMILY HOMES

	Homes sold <u>1/</u> (Thousands of units)	Homes for sale <u>2/</u> (Thousands of units)	Months' supply	Median price of: 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>					
QII(r)	681	433	7.6	32.7	31.2
QIII(p)	570	455	9.6	33.5	32.1
July(r)	577	448	9.2	34.2	31.4
Aug. (r)	561	466	9.9	33.2	31.7
Sept. (p)	571	455	9.6	33.0	32.1

1/ SAAR.

2/ SA, end of period.

Gross national product. GNP in the third quarter rose \$32.5 billion to \$1304.5 billion, seasonally adjusted annual rate, according to Commerce Department final estimates. This increase is \$.5 billion more than had been indicated by the preliminary estimates of a month ago. The new estimates indicate that real GNP rose at a 3.4 percent annual rate, instead of 3.6 percent, with gross private nonfarm product (GPNFP) rising at a 4.4 percent annual rate. In the second quarter real GNP had risen at a 2.4 percent annual rate and GPNFP at a 4.0 percent annual rate. Price increases are shown to have been larger than indicated by the preliminary third quarter figures and only slightly less than in the second quarter. The rise in the GNP implicit price deflator is now placed at a 7.0 percent annual rate and the gross private product (GPP) fixed weighted price index at a 7.6 percent annual rate.

The increase in final purchases was about the same as the rise in total GNP, as the change in business inventories was little different from that in the second quarter; accumulation by nonfarm businesses, at \$3.2 billion annual rate, was somewhat less than in the preceding quarter.

Personal consumption rose by \$20.4 billion, annual rate basis, with expenditures for nondurable goods and for services up sharply. A relatively sharp rise in net exports of goods and services also contributed importantly to the large rise in total final purchases. Net exports rose to \$7.6 billion annual rate, from \$2.8 billion in the second quarter, with

a large rise in exports of goods and services, nearly as large as in the second quarter--and a considerably smaller rise in imports of goods and services--also considerably smaller than in the preceding quarter.

Personal income and disposable personal income both rose rather sharply, and more than in the second quarter. But the very large rise in consumption expenditures resulted in a little change in personal saving from the second quarter and a decline in the saving rate.

**GROSS NATIONAL PRODUCT AND RELATED ITEMS**  
 (Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarterly figures at annual rates.)

	1973-II		1973-III		
	Amount	Change from 73-I	Commerce Estimates		
			Preliminary 10/17/73 Change from 73-II	Final 11/16/73 Amount	Change from 73-II
<u>Gross National Product</u>	1272.0	29.5	32.0	1304.5	32.5
Final purchases	1267.5	29.7	27.8	1299.8	32.3
Private	992.2	23.0	23.2	1020.8	28.6
Excluding net exports	989.4	20.2	22.0	1013.2	23.8
Personal consumption expenditures	795.6	16.2	17.8	816.0	20.4
Durable	132.8	0.6	-0.7	132.8	0.0
Nondurable	330.3	8.1	10.5	341.6	11.3
Services	332.6	7.6	7.9	341.6	9.0
Gross private domestic investment	198.2	3.7	8.5	202.0	3.8
Residential construction	59.6	0.6	-0.3	59.2	-0.4
Business fixed investment	134.1	3.2	4.6	138.0	3.9
Change in business inventories	4.5	-0.1	4.2	4.7	0.2
Nonfarm	4.4	0.0	2.8	3.2	-1.2
Net exports of goods and services	2.8	2.8	1.2	7.6	4.8
Exports	97.2	7.5	5.5	104.5	7.3
Imports	94.4	4.7	4.4	97.0	2.6
Gov't. purchases of goods and services	275.3	6.7	4.6	279.0	3.7
Federal	107.3	1.8	-0.2	106.8	-0.5
Defense	74.2	-0.1	-0.6	74.2	0.0
Other	33.1	1.9	0.4	32.7	-0.4
State & local	168.0	5.0	4.8	172.2	4.2
GNP in '58 \$	834.3	5.0	7.3	841.3	7.0
GNP implicit deflator (1958 = 100)	152.5	--	--	155.1	--
Personal income	1019.0	22.4	27.7	1047.1	28.1
Wage and salary disbursements	682.6	15.9	16.3	699.3	16.7
Disposable income	869.7	18.2	21.2	891.1	20.4
Personal saving	51.0	1.0	2.4 <sup>1/</sup>	51.1	0.1
Saving rate (per cent)	5.9	--	6.0 <sup>1/</sup>	5.7	--
Corporate profits before tax	128.9	9.3	n.a.	129.4	0.5
	-----Per Cent Change at Annual Rates <sup>2/</sup> -----				
<u>Gross National Product</u>	9.9	--	10.4	10.6	--
GNP in constant '58 \$	2.4	--	3.6	3.4	--
Gross Private Product, '58 \$	2.5	--	3.8	3.6	--
Gross Private Nonfarm Product '58 \$	4.0	--	4.5	4.4	--
GNP implicit price deflator	7.3	--	6.7	7.0	--
GNP fixed weighted price index <sup>3/</sup>	7.6	--	6.8	7.3	--
GPP fixed weighted price index <sup>3/</sup>	7.9	--	7.0	7.6	--

<sup>1/</sup> Actual rate.

<sup>2/</sup> At compound rates.

<sup>3/</sup> Using expenditures in 1967 as weights.

The Domestic Financial Situation

Nonbank financial institutions. Flows into nonbank thrift institutions have increased sharply in early November. During the first five business days, a sample of 17 large New York City mutual savings banks registered a \$50 million net inflow--the largest net gain in any first five business days period since March 1972. During the comparable period in October, these institutions experienced deposit losses of \$117 million.

Savings and loan associations also experienced a substantial net deposit flow during the early part of the month. The Federal Home Loan Bank Board estimates that S&L's received a net inflow of about \$700 million during the first 10 days of November--substantially above the \$400 million inflow in the comparable October period. The light activity in FHLB advances underlines this favorable deposit experience at S&L's. On several days this month repayments exceeded advances; and as of November 13th, advances outstanding had increased by only \$9 million from the end of October level.

Mortgage rates. In October, average interest rates on new commitments for conventional new-home loans, which had advanced particularly sharply since mid-year, declined by 15 basis points to 8.80 percent, according to the HUD(FHA) field office opinion survey. The corresponding average for loans on existing homes also declined--by 10 basis points--to 8.85 percent. Private secondary market yields on 8-1/2 percent FHA-insured mortgages on new homes averaged 8.97 percent in October--21 basis points below the September level.

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
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
July	8.40	39	8.19	18	9.4
Aug	8.85	49	--	--	--
Sept	8.95	107	9.18	130	5.2
Oct	8.80	88	8.97	105	3.6

NOTE: HUD series: interest rates on conventional first mortgages (excluding additional fees and charges) are rounded by FHA to the nearest 5 basis points. On FHA loans carrying the 7 percent ceiling rate in effect from mid-February 1971 until July 1, 1973, a change of 1 point in discount is associated with a change of 12 to 14 basis points in yield. FHA rate was raised to 7-3/4 percent in July 1973. Reliable data on FHA secondary market yield not available for August 1973 because rate changed to 8-1/2 percent on August 25. Gross yield spread is average mortgage return, before deducting servicing costs, minus average yield on new Aaa utility bonds.  
e/ Estimated.

The volume of offerings in the November 12 FNMA bi-weekly auction for forward purchase commitments of FHA-VA home mortgages remained limited, and the average yield declined 7 basis points further. At 8.87 percent the yield on such commitments was 50 basis points below the mid-September peak.

FNMA PURCHASE AUCTIONS  
(FHA/VA HOME MORTGAGES)

	Offerings		Percent of offers accepted	Yield to FNMA <u>1/</u> (percent)
	Received (millions of dollars)	Accepted		
1972 - High	365 (5/1)	336 (5/1)	92 (5/1, 7/24)	7.74 (10/30)
Low	61 (11/27)	37 (11/27)	42 (3/20)	7.53 (3/20)
1973 - High	551 (9/4)	289 (9/4)	88 (4/16)	9.37 (9/17)
Low	25 (10/15)	17 (10/15)	43 (8/20)	7.69 (1/8)
July 9	539	245	46	8.38
23	351	181	52	8.54
Aug. 6	459	202	44	8.71
20	525	224	43	8.95
Sept. 4	551	289	52	9.27
17	138	108	79	9.37
Oct. 1	33	25	76	9.11
15	25	17	68	8.97
30	28	22	79	8.94
Nov. 12	29	23	79	8.87

1/ Data show gross yield to FNMA on 4-month commitments, before deduction of 38 basis point fee paid for mortgage servicing, assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA charges for commitment fees and stock purchase and holding requirements.

Corporate profits. The Commerce Department preliminary estimate of third quarter corporate profits, \$129.4 billion, is little changed from the second quarter level.

The largest yearly increase occurred in book profits of nondurable goods manufacturers where petroleum refiners had year-to-year increases in sales of 28 per cent and in profits of 58 per cent. Other nondurable manufacturing groups also showed increases in sales and in profit margins with respect to both last year and the previous quarter.

Durable goods manufacturing profits, though nearly 40 per cent above a year ago, are 15 per cent below the second quarter. This decline reflects some weakness in the motor vehicles component which is the only manufacturing group with a year over year increase in profits (11 per cent) less than the increase in sales (22 per cent); furthermore, third quarter profit margins were down more than seasonally. Primary metals manufacturers, on the other hand, had substantially improved sales and profit margins, and indeed may soon encounter some restraint from the Phase IV margin ceiling.

Earnings of regulated industries are much improved, especially with respect to the second quarter. Other nonfinancial corporations--primarily those in trade and construction--showed improvement over a year ago, but a decline from the second quarter.

Some of the apparent decline in third quarter earnings can be attributed to a reduction in the inventory profit component. The IVA is still substantial, however, and year over year rates of increase in book profits are substantially above those in profits adjusted for inventory valuation.

**CORPORATE PROFITS BEFORE TAX**  
(Seasonally adjusted annual rates)

	Book Profits			Profits + IVA		
	1973-III \$ Bill.	Per cent 1972-III	change from 1973-II	1973-III \$ Bill.	Per cent 1972-III	change from 1973-II
All industries	129.4	31.5	0.4	112.4	22.8	4.2
Rest of the world	7.5	19.0	- 2.6	7.5	19.0	- 2.6
Federal Reserve Banks	4.8	41.2	9.1	4.8	41.2	9.1
Other financial institutions	17.5	23.2	2.9	17.5	23.2	2.9
Domestic nonfinancial	99.6	33.5	- 0.3	82.6	22.0	4.8
Manufacturing	60.5	42.4	- 1.5	52.9	32.6	1.0
Durable	28.8	39.1	-14.6	26.3	34.9	- 7.7
Nondurable	31.8	45.9	14.8	26.6	30.4	11.3
Transportation communication, and public utilities	10.9	7.9	16.0	10.1	3.1	18.8
Other	28.2	28.8	- 3.1	19.5	9.6	8.9

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Source: Bureau of Economic Analysis. Detail on domestic nonfinancial is confidential.

INTEREST RATES

	1973			
	Highs	Lows	October 15	November 15
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	10.79(9/5)	5.61(1/3)	9.87(10/10)	10.03(11/14)
3-month				
Treasury bills (bid)	9.05(8.14)	5.12(1/4)	7.19	7.53
Comm. paper (90-119 day)	10.50(9/13)	5.63(1/12)	9.25	9.25
Bankers' acceptances	11.00(9/13)	5.75(1/11)	9.25	9.25
Euro-dollars	11.88(9/17)	5.81(1/5)	9.75	9.94
CD's (prime NYC) 60-89 day				
Most often quoted new	10.50(9/12)	5.38(1/3)	9.50(10/10)	9.00(11/14)
6-month				
Treasury bills (bid)	9.00(9/13)	5.38(1/4)	7.36	8.22
Comm. paper (4-6 mo.)	10.50(9/13)	5.63(1/12)	8.88	9.25
Federal agencies	9.83(9/12)	5.64(1/3)	8.30	8.49
CD's (prime NYC) 180-269 day				
Most often quoted new	9.38(8/15)	5.63(1/3)	7.50(10/10)	8.00(11/14)
1-year				
Treasury bills (bid)	8.50(9/13)	5.40(1/4)	7.27	7.63
Federal agencies	9.49(8/13)	5.86(1/2)	7.74	7.97
CD's (prime NYC)				
Most often quoted new	8.50(9/12)	5.75(1/3)	7.50(10/10)	7.50(11/14)
Prime municipals	6.00(8/8)	3.20(1/3)	4.20(10/12)	4.50(11/16)
<u>Intermediate and Long-term</u>				
Treasury coupon issues				
5-years	8.13(8/7)	6.23(1/4)	6.75	7.10
20-years	7.83(8/7)	6.04(1/3)	7.14	7.34
Corporate				
Seasoned Aaa	7.77(8/24)	7.10(1/2)	7.55	7.69
Baa	8.68(8/30)	7.88(1/12)	8.40	8.42
New Issue Aaa Utility	8.52(8/8)	7.29(1/10)	7.96(10/10)	7.98(11/14)
Municipal				
Bond Buyer Index	5.59(8/1)	4.99(10/10)	4.99(10/11)	5.27(11/15)
Mortgage--average yield				
in FNMA auction	9.37(9/17)	7.69(1/8)	9.11(10/1)	8.87(11/12)

### International Developments

The Norwegian krone was revalued by 5 percent, effective November 16, vis-a-vis the currencies of the other six countries in the European band--France, Germany, the Netherlands, Belgium, Denmark and Sweden. It had been thought that Sweden and Denmark, the two countries most directly affected by the Norwegian move, might immediately respond by revaluing their currencies. However, thus far neither country has acted, and neither the Danish krone nor the Swedish krona is reported to be under pressure.

The overriding purpose of the revaluation was to help slow inflation. Consumer prices in Norway have been rising at an annual rate of almost 10 percent in recent months, and the government predicted that without revaluation prices would have continued to climb at about that rate in 1974. According to government estimates, the revaluation should cut the inflation rate to about 7-1/2 percent.

Raising the value of the krone was clearly not dictated by Norway's balance of payments position. The basic balance is now roughly in equilibrium, with a large and widening current account deficit being offset by heavy and rising capital inflows.

Norway's action represents the third time in the last five months that a European band currency has been revalued primarily as an anti-inflationary measure. The German mark was revalued by 5-1/2 percent at the end of June, and the Netherlands guilder by 5 percent in mid-September.