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[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).

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CONFIDENTIAL (FR)
CLASS II - FOMC

August 15, 1975

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

The Domestic Nonfinancial Economy

Retail trade inventories rose in June in book value terms at a $2.1 billion annual rate. Stocks of automotive goods declined further, while stocks at other stores, on balance, rose. The June rise in total inventories follows five months of steady decline: liquidation occurred at an annual rate of $2.9 billion in the second quarter (the April-May rate was $5.4 billion) and $10.4 billion in the first quarter of the year.

Total manufacturing and trade inventories declined in June at a 7.7 billion rate in book value terms, down sharply from the $31.3 billion rate in May. The second quarter liquidation of manufacturing and trade inventories is now indicated at a $19.0 billion annual rate; in the first quarter liquidation was at a $11.4 billion annual rate.

Merchant builder sales of new single-family homes, which had been rising steadily since last December, declined 6 per cent in June to a seasonally adjusted annual rate of 556,000 units. For the second quarter as a whole, sales averaged more than a third above the first quarter rate reflecting in part the 5 per cent tax credit enacted in late March, as well as improvements in the availability of mortgage credit.

The stock of unsold new homes edged down further in June and by the end of the month represented about 8 month's supply at the current sales rate. The median price on the mix of units sold declined to $37,800--slightly above the rising median price of unsold units.

Sales of existing homes continued to advance during June, and although only 1 per cent above May, the June level was less than 3 per cent below the peak in early 1973. The median price of used homes sold rose to $36,200--a tenth above a year earlier.

HOME SALES

	New Home Sales and Stocks			Sales Indexes of Unit Volume (1972=100, seasonally adjusted)		Median Prices of Homes Sold	
	Homes sold 1/ (thousands of units)	Homes for sale 2/	Months' supply	New homes 3/	Existing homes	New homes (thou. of dol.)	Existing homes
1974							
QI	523	452	10.4	72	106	35.2	30.9
QII	550	436	9.5	76	105	35.6	32.2
QIII	490	414	10.1	68	99	36.2	32.8
QIV	417	400	11.5	58	99	37.3	32.2
1975							
QI	426	396	11.2	59	95	38.1	33.8
QII (p)	572	376	7.9	79	108	39.0	35.4
Jan.	404	404	12.0	56	87	37.2	33.2
Feb.	411	409	11.9	57	97	37.9	33.9
Mar.	463	396	10.3	64	100	38.8	34.2
Apr. (r)	567	388	8.2	79	106	39.1	34.9
May (r)	592	382	7.7	82	108	39.5	35.2
June (p)	556	376	8.1	77	109	37.8	36.2

1/ Seasonally adjusted annual rate.
2/ Seasonally adjusted, end of period.
3/ Converted to 1972 index for comparison with existing home sales, which are not available on any other basis.

The Domestic Financial Situation

Mortgage market. According to the HUD (FHA) opinion survey, average interest rates on new commitments for conventional new- and existing-home mortgages remained unchanged in July at levels of 9.00 and 9.05 per cent, respectively. In the private secondary market, yields on FHA-insured new-home mortgages averaged 9.13 per cent at the end of July--7 basis points above the yield at the end of June. Recent movements in these series are generally consistent with the FHLMC series on primary market rates and the FNMA secondary market yields cited in the Greenbook.

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES
(HUD-FHA Field Office Opinion Survey)

End of Month	Primary market: Conventional loans: Level 2/ (per cent)	Primary market: Conventional loans: Spread 4/ (basis points)	Secondary market 1/: FHA-insured loans: Level 3/ (per cent)	Secondary market 1/: FHA-insured loans: Spread 4/ (basis points)	Secondary market 1/: Discounts (points)
1974					
Low	8.55 (Feb.)	-66 (Sept.)	8.54 (Feb.)	- 8 (Sept.)	2.3 (Feb.)
High	9.80 (Sept.)	45 (Feb.)	10.38 (Sept.)	44 (Feb.)	6.3 (July, Sept.)
1975					
Jan.	9.15	15	8.99	- 1	3.8
Feb.	9.05	11	8.84	-10	2.6
Mar.	8.90	-70	8.69	-91	5.4
Apr.	9.00	-66	--	--	--
May	9.05	-57	9.16	-46	5.0
June	9.00	-37	9.06	-31	4.3
July	9.00	-25	9.13	-12	4.8

1/ Any gaps in data are due to periods of adjustment to changes in maximum permissible contract rates on FHA-insured loans.

2/ Average contract rates (excluding fees or points) on commitments for conventional first mortgage loans, rounded to the nearest 5 basis points.

3/ Average gross yield (before deducting servicing costs) to investors on 30-year minimum-downpayment FHA-insured first mortgages for immediate delivery in the private secondary market (excluding FNMA), assuming prepayment in 15 years.

4/ Average gross mortgage rate or yield minus average yield on new issues of Aaa utility bonds in the last week of the month.

New York City financing and municipal market developments. Once again, New York City narrowly averted defaulting on debt maturing in the latter part of August. By late July, it had become evident that unless the city took some substantial and visible steps to restore investor confidence, the Municipal Assistance Corporation (MAC) would be unable to raise the necessary funds. Prices on the MAC bonds issued in early July had fallen sharply upon release from syndicate price restrictions, the 15-year bond yielding nearly 11 per cent up from its offering yield of 9.5 per cent. Moreover, little interest in MAC bonds had been shown by investors outside the New York City area.

In an effort to convince investors that the city's financial house was being put in order, MAC, the city, and the city labor unions came to an agreement in late July on a number of reform measures, the most significant being a freeze on wages of city workers at the pre-July 1 level. In addition, the City agreed to limit increases in certain budget items and to raise transit fares. At the same time, a financing package to meet the City's obligations was put together by MAC and the NYC banks. If $275 million of MAC bonds could be sold to the public, the banks agreed to purchase $350 million bonds at 6 per cent, the New York State and city pension funds would purchase $215 million bonds, and the state would advance the city $120 million.

Initial investor response to the $275 million public offering, however, was poor, despite yields ranging between 9.50 and 10.25 per cent being offered on bonds maturing between 5 and 8 years. By August 13, only about $150 million of orders had been placed, more than half of those from one insurance company. In order to complete the package a group of banks and broker-dealers had to agree to purchase any unsold bonds and the issue had to be repriced with bonds coming due in eight years carrying a yield of 11 per cent.

The prolonged New York City crisis continues to affect the ability of other governmental units to raise funds in the municipal securities market, especially those located in New York State. The New York State Housing Finance Agency paid 10.85 per cent on a reduced offering of $92 million of notes, almost 2 percentage points above a similar offering in mid-July. The Massachusetts Housing Finance Agency also refused an unacceptably high bid of 8.6 to 9 per cent on $63 million of notes. Notes offered by this agency in late July carried rates nearly 3 percentage points lower.

CORRECTIONS:

Part II - Section II, page 18, Table - Federal Budget and Federal Sector in National Income Accounts - The figure should be corrected as follows:

	Fisal Year 1975		Fiscal Year 1976	
National Income Sector	Original	Corrected	Original	Corrected
Surplus/deficit	- 47.0 5/	- 47.6 5/	- 65.6 5/	- 66.5 5/
Receipts	282.4 5/	281.8 5/	310.2 5/	309.3 5/

Part II - Section III, page 13, Table - Consumer Instalment Credit - "outstandings (SAAR)" in table heading should read "change in outstandings (SAAR)".

INTEREST RATES
(One day quotes - in per cent)

	1975			
	Highs	Lows	July 14	Aug. 14
Short-Term Rates				
Federal funds (wkly. avg.)	7.70(1/8)	5.13(5/21)	5.93(7/16)	6.08(8/13)
3-month				
Treasury bills (bid)	6.90(1/2)	4.88(6/16)	6.03	6.45
Comm. paper (90-119 day)	9.00(1/2)	5.38(6/2)	6.25	6.63
Bankers' acceptances	9.00(1/1)	5.40(5/30)	6.30	6.80
Euro-dollars	10.25(1/3)	5.69(5/21)	7.25	6.94
CD's (NYC) 90-119 day				
Most often quoted new	9.00(1/1)	5.38(6/11)	6.13(7/9)	6.63(8/13)
6-month				
Treasury bills (bid)	6.97(1/2)	5.18(5/11)	6.35	6.97
Comm. paper (4-6 mo.)	8.75(1/2)	5.38(5/23)	6.38	6.63
Federal agencies	7.67(1/2)	5.68(6/12)	6.81	7.42p(8/13)
CD's (NYC) 180-269 day				
Most often quoted new	8.38(1/1)	5.75(6/18)	6.63(7/9)	7.00(8/13)
1-year				
Treasury bills (bid)	6.69(1/2)	5.37(2/5)	6.45	7.24
Federal agencies	8.00(8/13)	6.03(2/20)	7.25	8.00p(8/13)
CD's (NYC)				
Most often quoted new	8.00(1/1)	6.00(3/12)	6.63(7/9)	7.00(8/13)
Prime municipals	4.35(8/15)	3.40(2/7)	4.00(7/11)	4.35(8/15)
Intermediate and Long-Term				
Treasury coupon issues				
5-years	8.40(8/7)	6.93(2/19)	7.77	8.33(8/13)
20-years	8.54(8/7)	7.58(2/21)	8.12	8.49(8/13)
Corporate				
Seasoned Aaa	9.02(4/30)	8.57(2/26)	8.82	8.94(8/13)
Baa	10.63(1/20)	10.27(4/3)	10.34	10.35(8/13)
New Issue Aaa Utility	9.80(4/3)	8.89(2/6)	9.53(7/16)	9.43p(8/13)
Municipal				
Bond Buyer Index	7.22(7/23)	6.27(2/13)	7.09(7/16)	7.17(8/13)
Mortgage--average yield				
in FNMA auction	9.47(1/13)	8.78(3/10)	9.10	9.32(8/11)

The International Developments

Monetary policy announcements in Germany and the Netherlands. At its meeting of August 14, the Central Bank Council of the Deutsche Bundesbank announced that the bank's discount and lombard rates would be further reduced, with effect from Friday, August 15. The discount rate was decreased by 0.5 percentage point to a new level of 4 per cent, and the lombard rate was cut by the same amount to a new level of 5 per cent. These reductions mark the sixth time since last October that the Bundesbank has cut its discount rate, and the seventh time it has decreased the lombard rate.

The Bundesbank also announced on August 14 that it had reached an agreement with the Finance Ministry to abolish the authorization requirement for the payment of interest by German banks on credit balances on accounts held by non-residents. This requirement, one of several measures taken at various times to discourage capital inflows into Germany, was one of the few such measures not dismantled early in 1974. The approval of the German cabinet will be required before this regulation is actually lifted, but this is expected to be forthcoming.

Following the Central Bank Council meeting, Bundesbank officials indicated that the authorities were willing to accept such additional capital outflows as might result from the decrease in rates, in view of the highly liquid condition of the German banking system. Partly in response to such outflows, the Bundesbank in late July entered the market forcefully to support prices of public authority debt issues.

The Netherlands Bank on August 14 also announced rate decreases with effect from August 15. Authorities reduced the bank rate from 6 per cent to a new level of 5.5 per cent, and indicated that the bank's other major rates would likewise be cut by 0.5 percentage point each.