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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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SUPPLEMENTAL NOTES

The Domestic Nonfinancial Economy

Retail sales. More complete data indicate that sales in December were \$300 million higher than the preliminary estimate, raising the gain from November to an exceptional 3.4 per cent instead of 2.8 per cent. The preliminary level for January is estimated almost the same as the advance count, but the higher December base increases the decline in January to 0.9 per cent from the advance estimate of 0.3 per cent.

The advance release for February reports that sales last month increased 1.6 per cent from January, a strong addition but smaller than implied by the weekly data reported in the Greenbook. The automotive group with a 5.5 per cent increase in sales contributed importantly to the February increase; sales in February excluding autos and mainly nonconsumer items, were up 0.6 per cent. On the basis of these new figures, sales of furniture and appliances, beginning with December, now look substantially weaker than before.

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

	1975			1976		1975 IV-
	III	IV	Dec.	Jan.	Feb.	Feb.
<u>Total sales</u>	3.9	2.2	3.4	- .9	1.6	3.0
(Real*)	(1.5)	(1.0)	(3.0)	(1.1)	(n.a.)	(n.a.)
Total, less auto and nonconsumption items	3.1	1.6	1.6	- .6	.6	1.4
GAF	2.3	2.8	2.1	-3.4	3.4	2.5
<u>Durable</u>	5.8	4.4	7.1	-1.4	3.5	6.7
Auto	7.4	4.9	13.3	-3.5	5.5	9.4
Furniture and appliances	2.3	5.1	- .5	-2.7	.2	-1.3
<u>Nondurable</u>	3.0	1.2	1.7	- .7	.7	1.3
Apparel	3.0	.7	3.7	- .1	4.4	7.3
Food	2.8	1.0	.5	.7	-1.3	- .5
General merchandise	2.0	2.7	2.4	-4.5	4.0	2.3
Gasoline stations	6.6	-1.2	4.6	- .6	.2	2.2

*Deflated by an unpublished Bureau of Economic Affairs price measure.

Merchant builder sales of new single-family homes dropped 16 per cent in January to a seasonally adjusted annual rate of 552,000 units. The sharpness of the decline may have been due, in part, to the year-end 1975 expiration of the 5 per cent tax credit, as sales had been very strong in both November and December.

The stock of unsold new homes edged up and by the end of the month represented 8.3 months' supply at the January sales rate.

Sales of existing homes, which had been extremely strong throughout late 1975, also slowed in January. The seasonally adjusted index of unit sales was 116 (1972=100)--11 per cent below the record in December, but still the fourth highest figure for this series which dates from 1968.

HOME SALES

	New Home Sales and Stocks			Sales Indexes of Unit Volume		Median Prices of Homes Sold	
	Homes Sold <u>1/</u> (thousands of units)	Homes for sale <u>2/</u>	Months' supply	New homes <u>3/</u>	Existing homes	New homes	Existing homes
<u>1975</u>							
II (r)	438	395	10.8	61	93	38.1	33.8
QII (r)	554	379	8.2	77	105	39.0	35.4
QIII(r)	564	384	8.2	79	111	38.8	36.1
QIV (r)	640	378	7.1	89	126	41.3	35.6
Oct. (r)	610	389	7.7	85	122	40.7	35.4
Nov. (r)	655	382	7.0	91	126	41.1	35.7
Dec. (r)	655	378	6.9	91	131	42.1	35.8
<u>1976</u>							
Jan. (p)	552	384	8.3	77	116	41.9	36.3

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 Joint Economic Committee's Report on the Budget. The JEC has recommended a target for Federal outlays of between \$412-\$418 billion, and it expects that receipts will total \$352-\$357 billion in the next fiscal year. Under these assumptions the deficit would reach approximately \$60 billion. A comparison of alternative budget forecasts is presented in Table I.

Table I
COMPARISON OF ALTERNATIVE BUDGET ESTIMATES
(billions of dollars)

	Administration ^{1/}	Fiscal Year 1977 ^{2/} FRB	JEC ^{3/}
Outlays	\$394.2	\$410.0	\$412 - 418
Receipts	351.3	356.5	352 - 357
Deficit	42.9	53.5	60 - 61 ^{4/}

1/ Estimates contained in the Administration FY'77 Budget.

2/ March 10, 1976 Greenbook.

3/ Report of the Joint Economic Committee on the February 1976 Economic Report of the President, March 1976.

4/ The JEC states that the combination of a \$418 billion outlay total and a revenue total of \$357 billion should be enough to prevent the budget from moving in a restrictive direction. If outlays were to total \$412, a larger tax cut would be needed to sustain a neutral fiscal policy.

More specifically, the Committee recommended that:

1. the January 1, 1977 tax rate increases proposed by the administration for the social security and the

unemployment-insurance trust funds should not be adopted at this time;

2. the tax reduction provided by the Revenue Adjustment Act of 1975 scheduled to expire on June 30, 1976, should be extended through FY'77, with possible further tax cuts if the real growth in GNP falls below a 7 per cent annual rate;
3. Congress should expand the public service employment program and pass a revised public works bill in order to create an additional 650,000 jobs;
4. the President should establish a voluntary program designed to insure that price increases are held to a necessary minimum during 1976 and that real wage increases are kept in line with productivity gains; and
5. the Federal Reserve should conduct monetary policy "so as to avoid any substantial rise in short-term interest rates and to encourage reductions in long-term rates."

The Domestic Financial Economy

No textual addendums to the Greenbook were required, but the usual updating of interest rate developments is contained in the table on page 6.

INTEREST RATES
(One day quotes--in per cent)

	1975		1976	
	Highs	Lows	Feb. 17	Mar. 11
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	7.70(1/8)	5.13(5/21)	4.70(2/18)	4.86(3/10)
3-month				
Treasury bills (bid)	6.90(1/2)	4.88(6/16)	4.88	4.99
Comm. paper (90-119 day)	9.00(1/2)	5.38(6/2)	5.25	5.25
Bankers' acceptances	9.00(1/1)	5.40(5/30)	5.05	5.20
Euro-dollars	10.25(1/3)	5.69(5/21)	5.56	5.63
CD's (NYC) 90-119 day				
Most often quoted new	9.00(1/1)	5.38(6/11)	5.13(2/11)	5.25(3/10)
6-month				
Treasury bills (bid)	7.05(8/25)	5.18(6/11)	5.21	5.50
Comm. paper (4-6 mo.)	8.75(1/2)	5.38(5/23)	5.25	5.38
Federal agencies	7.67(1/2)	5.68(6/12)	5.51	5.87p
CD's (NYC) 180-269 day				
Most often quoted new	8.38(1/1)	5.75(6/18)	5.50(2/11)	5.75(3/10)
1-year				
Treasury bills (bid)	7.35(8/21)	5.37(2/5)	5.56	5.91
Federal agencies	8.00(8/25)	6.03(2/20)	6.04	6.43p
CD's (NYC)				
Most often quoted new	8.00(1/1)	6.00(3/12)	6.00(2/11)	6.25(3/10)
Prime municipals	4.35(8/15)	3.40(2/7)	3.15(2/13)	3.25(3/12)
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	8.56(9/16)	6.93(2/19)	7.44	7.56
20-years	8.71(9/16)	7.58(2/21)	8.04	8.01
Corporate				
Seasoned Aaa	9.02(4/30)	8.57(2/26)	8.57	8.55(3/10)
Baa	10.63(1/20)	10.27(4/3)	10.09	10.02(3/10)
New Issue Aaa Utility	9.80(4/3)	8.89(2/6)	--	8.64p(3/10)
Municipal				
Bond Buyer Index	7.67(10/2)	6.27(2/13)	6.95(2/13)	6.98(3/11)
Mortgage--average yield in				
FNMA auction	9.95(10/6)	8.78(3/10)	9.07(2/9)	9.06(3/9)

ERRATA:

Part II:

Page II - 8: Manufacturing and trade inventories, Dec. 1975, should be \$-15.5 billion. The minus sign had been dropped.

Page III - 16, line 2: sentence should read "Estimated new mortgage commitments at these institutions increased in January and outstanding commitments remained at \$18.2 billion--the highest level since mid-1973."