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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

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### The Domestic Nonfinancial Economy

Industrial production is estimated to have advanced 0.7 per cent in April reflecting widespread increases in output. Upward revised increases of 1.1 and 0.8 per cent in February and March respectively now indicate a much stronger first quarter. Major upward revisions occurred in durable consumer goods, equipment parts, and some other materials. The April index at 122.5 per cent of the 1967 average was 11-1/2 per cent above a year earlier but about 4 per cent below the 1973 high.

Final products. Among consumer goods, auto assemblies rose sharply to an 8.6 million unit annual rate and are scheduled to increase over 3 per cent further in May. Production of other consumer durable goods continued to advance strongly in April and production of consumer staples and clothing rose somewhat further. Output of business equipment increased further following gains in February and March. Output of construction products continued to expand moderately.

Materials. Production of durable materials advanced strongly reflecting increases in output of metals, equipment parts, and consumer durable parts. Nondurable goods materials rose somewhat further.

INDUSTRIAL PRODUCTION  
(Seasonally adjusted)

Indexes, 1967=100	1976				Per cent changes		
	Jan.	Feb.	Mar. (p)	Apr. (e)	Month ago	Year ago	QIV to QI
Total	119.5	120.8	121.7	122.5	.7	11.5	2.6
Products, total	120.2	121.3	121.6	122.4	.7	8.3	2.5
Final products	119.6	120.8	121.1	121.9	.7	8.3	2.1
Consumer goods	130.9	132.1	132.6	133.5	.7	11.5	2.5
Durable goods	120.9	123.6	125.6	126.5	.7	17.3	3.9
Nondurable goods	134.6	135.2	135.2	136.0	.6	9.7	1.9
Business equipment	118.4	120.5	121.0	122.0	.8	5.7	2.7
Intermediate products	122.4	123.4	123.5	124.1	.5	9.4	3.8
Construction products	116.9	117.6	118.0	118.6	.5	7.7	3.9
Materials	118.3	120.2	121.9	122.7	.7	16.6	2.9

p--preliminary.

e--estimated.

Book value of retail inventories rose at an \$8.9 billion annual rate in March, following an \$8.8 billion rate of increase in February. For the first quarter as a whole, retail stocks were up \$8.0 billion (annual rate) from the fourth quarter when there was virtually no change. Durable stocks were up at a \$5.2 billion rate in March with all categories showing gains. Stocks of nondurable retailers were up \$3.8 billion, annual rate, as increases at apparel and general merchandise stores more than offset declines at food and drug stores. The ratio of inventories to sales in retail trade was unchanged at 1.41 in March.

Book value of total manufacturing and trade inventories rose at an \$18.7 billion annual rate in March, following a \$20.3 billion increase in February. For the first quarter as a whole, such inventories rose at a \$19.1 billion annual rate--up sharply from the \$1.3 billion rate of decline in the preceding quarter. The ratio of inventories to sales for all business edged down from 1.47 to 1.45 in March.

**BUSINESS INVENTORIES**  
(Change at annual rates in seasonally  
adjusted book values, \$ billions)

	<u>1975</u>	<u>1976</u>	<u>1976</u>		
	IV	I	Jan.	Feb.	Mar.
Manufacturing & trade	-1.3	19.1	18.2	20.3	18.7
Manufacturing	.6	6.1	5.5	3.6	9.1
Durable	-3.5	1.1	- 1.1	.4	4.1
Nondurable	4.2	4.9	6.6	3.2	5.0
Trade, total	-1.9	13.0	12.7	16.8	9.6
Wholesale	-2.0	5.0	6.4	7.9	.6
Retail	.1	8.0	6.3	8.8	8.9
Auto	.3	- .5	- 1.8	- 1.2	1.5

**INVENTORY RATIOS**

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1976</u>		
	I	I	I	Jan.	Feb.	Mar.
<u>Inventory to sales:</u>						
Manufacturing & trade	1.49	1.66	1.48	1.49	1.47	1.45
Manufacturing total	1.63	1.92	1.63	1.65	1.62	1.60
Durable	2.05	2.50	2.09	2.15	2.09	2.02
Nondurable	1.18	1.32	1.15	1.15	1.14	1.15
Trade, total	1.35	1.42	1.33	1.33	1.32	1.31
Wholesale	1.12	1.25	1.20	1.20	1.19	1.18
Retail	1.55	1.53	1.43	1.43	1.42	1.41
<u>Inventories to unfilled orders</u>						
Durable manufacturing	.699	.803	.842	.838	.842	.842

The Domestic Financial Economy

Mortgage market. According to the HUD (FHA) opinion survey, average interest rates on new commitments for conventional new- and existing-home mortgages declined by 5 basis points during April. Yields on FHA-insured new-home mortgages for immediate delivery in the private secondary market declined to 8.82 per cent--implying discounts of only 2-1/2 points on 8-1/2 per cent FHA mortgages at the end of April. However, since secondary market rates have come under upward pressure since late April, a further cut in the ceiling rate on Government-underwritten home loans is unlikely.

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

End of Month	Primary market		Secondary market 1/		
	Conventional loans		FHA-insured loans		
	Level 2/ (per cent)	Spread 4/ (basis points)	Level 3/ (per cent)	Spread 4/ (basis points)	Discounts (points)
1975-Low	8.90 (Mar.)	-70 (Mar.)	8.69 (Mar.)	-91 (Mar.)	2.4 (Dec.)
High	9.25 (Sept., Oct.)	+15 (Jan.)	9.74 (Sept.)	+31 (Oct.)	6.2 (Aug.)
1976-Jan.	9.05	+39	9.06	+40	2.4
Feb.	9.00	+42	9.04	+46	2.2
Mar.	8.95	+42	n.a.	n.a.	n.a.
Apr.	8.90	+32	8.82	+29	2.5

- 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.



INTEREST RATES  
(One day quotes - in per cent)

	1976			
	Highs	Lows	April 19	May 13
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	5.12(1/7)	4.70(2/18)	4.78(4/21)	5.02(5/12)
3-month				
Treasury bills (bid)	5.25(3/2)	4.68(1/29)	4.77	5.10
Comm. paper (90-119 day)	5.38(5/13)	5.00(4/29)	5.00	5.38
Bankers' acceptances	5.53(1/5)	4.80(4/21)	4.95	5.43(5/13)
Euro-dollars	5.94(5/13)	5.25(1/30)	5.31(4/15)	5.94(5/13)
CD's (NYC) 90-day				
Most often quoted new	5.38(3/3)	4.88(4/21)	4.88(4/14)	5.25(5/12)
6-month				
Treasury bills(bid)	5.69(3/4)	4.97(1/29)	5.08	5.53
Comm. paper (4-6 mo.)	5.50(5/13)	5.13(4/29)	5.13	5.50
Federal agencies	5.96(3/5)	5.31(2/2)	5.44	5.72p(5/11)
CD's (NYC) 180-day				
Most often quoted new	5.88(3/17)	5.38(4/21)	5.38(4/14)	5.75(5/12)
1-year				
Treasury bills(bid)	6.05(3/4)	5.27(1/2)	5.42	5.91
Federal agencies	6.56(3/5)	5.82(4/14)	5.85	6.23p(5/11)
CD's (NYC)				
Most often quoted new	6.25(5/12)	6.00(4/28)	6.00(4/14)	6.25(5/12)
Prime municipals	3.50(5/13)	3.00(1/30)	3.05(4/15)	3.50(5/13)
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	7.61(3/4)	7.12(4/21)	7.18	7.53(5/13)
20-years	8.17(5/12)	7.77(4/14)	7.83	8.16(5/13)
Corporate				
Seasoned Aaa	8.66(1/2)	8.34(4/15)	8.36	8.58(5/13)
Baa	10.34(1/2)	9.74(5/7)	9.83	9.76(5/13)
New Issue Aaa Utility	8.88(1/9)	8.38(4/22)	8.42(4/16)	8.82p(5/14)
Municipal				
Bond Buyer Index	7.13(1/8)	6.54(4/15)	6.54(4/15)	6.83
Mortgage--average yield				
in FNMA auction	9.13(1/12)	8.83(4/19)	8.94(4/5)	8.94(5/3)