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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

Book value of retail trade inventories fell at a \$3.0 billion annual rate in November, following a \$2.3 billion October rate of fall and an average rate of accumulation of \$9.9 billion in the third quarter. Nondurable stocks fell at a \$5.0 billion annual rate in November compared with a \$1.4 billion rate of accumulation in October and an average rate of accumulation of \$2.1 billion in the third quarter. Nonautomotive durable stocks rose at a \$1.2 billion annual rate in November, somewhat below both the October rate of increase of \$2.0 billion and the \$3.1 billion third quarter average rate of increase. Automotive stocks rose at a \$0.7 billion annual rate in November, following the strike induced \$5.6 billion October rate of decumulation, but still much below the \$4.8 billion third quarter average annual rate of accumulation.

The rate of growth of manufacturing and trade inventories was only \$3.7 billion in November, the slowest rate of growth in 1976, much below both the \$21.4 billion October rate of rise and the \$29.6 billion third quarter average annual rate of increase. The manufacturing and trade inventory-sales ratio fell to 1.52 in November from 1.55 in October.

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

	1975	1976				
	IV	I	II	III	Oct.	Nov.
Manufacturing and trade	-.4	23.1	31.5	29.6	21.4	3.7
Manufacturing	.6	7.5	14.2	15.4	20.5	2.9
Durable	-4.4	1.7	6.8	6.8	17.7	5.1
Nondurable	5.0	5.8	7.5	8.6	2.8	-2.2
Trade, total	-1.0	15.6	17.3	14.2	.9	.8
Wholesale	-2.0	5.1	9.0	4.3	1.5	3.8
Retail	1.0	10.5	8.3	9.9	-2.3	-3.0
Auto	-.9	1.1	.1	4.8	-5.6	.7

The Domestic Financial Economy

Mortgage market. Average interest rates on new commitments for conventional new- and existing-home mortgages in the primary market declined 5 basis points in December, according to the HUD(FHA) field office opinion survey. In the private secondary market for FHA-insured new-home loans, yields declined by 20 basis points during December to the lowest level in three years. These movements are generally consistent with the primary and secondary mortgage market rates reported in the Greenbook.

While the average discount on FHA-insured mortgages traded in the secondary market declined to two points by the end of December, a further cut in the ceiling rate for Government-underwritten mortgages seems unlikely in the near future, in view of the sharp back-up in secondary market yields in early January.

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

End of Month	Primary market Conventional loans		Secondary market <u>1/</u> FHA-insured loans		
	Level <u>2/</u> (per cent)	Spread <u>4/</u> (basis points)	Level <u>3/</u> (per cent)	Spread <u>4/</u> (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.
April	8.90	+32	8.82	+24	2.5
May	9.00	+ 5	9.03	+ 8	4.1
June	9.05	+35	9.05	+35	4.2
July	9.05	+33	8.99	+27	3.8
Aug.	9.05	+58	8.93	+46	3.3
Sept.	9.00	+77	8.82	+59	2.5
Oct.	9.00	+71	8.55	+26	4.3
Nov.	8.95	+90	8.45	+40	3.6
Dec.	8.90	n.a.	8.25	n.a.	2.0

- 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 mortgage rate 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		1977	
	Highs	Lows	Dec. 20	Jan. 13
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	5.58(6/30)	4.63(12/22)	4.63(12/22)	4.55(1/12)
3-month				
Treasury bills (bid)	5.57(6/2)	4.24(12/20)	4.24	4.52
Comm. paper (90-119 days)	6.00(6/15)	4.63(12/31)	4.63	4.75
Bankers' acceptances	5.95(6/2)	4.58(12/20)	4.55	4.78
Euro-dollars	6.81(6/1)	4.81(12/8)	5.00	5.19
CD's (NYC) 90 days				
Most often quoted new	5.75(6/16)	4.50(12/29)	4.50(12/15)	4.70(1/12)
6-month				
Treasury bills (bid)	5.96(5/27)	4.47(12/23)	4.47	4.72
Comm. paper (4-6 mos)	6.00(6/22)	4.63(12/31)	4.63	4.75
Federal agencies	6.42(5/27)	4.72(12/22)	4.72	4.84(1/7)
CD's (NYC) 180 days				
Most often quoted new	6.50(6/2)	4.60(12/29)	4.60(12/15)	4.88(1/12)
1-year				
Treasury bills (bid)	6.39(5/27)	4.59(12/27)	4.59	4.87
Federal agencies	6.86(5/28)	5.00(12/27)	5.03	5.20(1/7)
CD's (NYC)				
Most often quoted new	6.75(6/16)	4.80(12/15)	4.80(12/15)	5.13(1/12)
Prime municipals	3.70(5/28)	2.50(12/31)	2.60(12/17)	2.80(1/14)
<u>Intermediate and Long-Term</u>				
Treasury (constant maturity)				
5-year	7.82(5/27)	5.99(11/26)	6.08	6.50
20-year	8.20(5/21)	7.17(12/31)	7.28	7.46
Corporate				
Seasoned Aaa	8.66(1/2)	7.97(12/20)	7.97	7.96(1/12)
Baa	10.34(1/2)	9.08(12/17)	9.09	9.07(1/12)
New Issue Aaa Utility	8.95(5/28)	7.93(12/10)	7.95(12/13)	8.05p(1/14)
Municipal				
Bond Buyer Index	7.13(1/8)	5.83(12/30)	5.93(12/22)	5.89
Mortgage--average yield				
in FNMA auction	9.20(6/1)	8.39(12/27)	8.51(12/13)	8.46(1/10)

Erratum: Part-I

The following correction should be made in the High Employment Budget surplus data, as estimated by the Federal Reserve, on pp. I-8, I-10, and I-12.

	Years			Quarterly					
	FY1977	CY1976	CY1977	1976		1977			
				3	4	1	2	3	4
High Employment Budget Surplus(+)/Deficit(-) (NIA Basis)	-23.6	-11.9	-26.3	-9.9	-11.1	-7.7	-54.8	-21.0	-21.6