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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

October 15, 1971

By the Staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

New homes sold by speculative builders, although down from the peak reached in July, were at a very advanced rate in August, as much as three-tenths above a year earlier. While the number of homes being held by speculative builders for sale increased somewhat further in August, it remained quite low relative to sales. Continuing an apparent shift in the mix of sales toward smaller and less expensive units, the median price of new homes actually sold moved down further in August--to \$24,900. This was more than \$1,000 under the recent high in June and the lowest since March. (CONFIDENTIAL UNTIL MONDAY AFTERNOON October 18.)

NEW SINGLE FAMILY HOMES SOLD AND FOR SALE

	Homes Sold ^{1/} (Thousands of units)	Homes for Sale ^{2/} (Thousands of units)	Median price of:	
			Homes Sold (Thousands of dollars)	Homes for Sale (Thousands of dollars)
<u>1969</u>	448	228	25.6	27.0
<u>1970</u>	485	227	23.4	26.2
IIQ	457	219	24.4	27.0
IIIQ	518	215	23.0	27.1
IVQ	571	227	22.6	26.2
<u>1971</u>				
IQ	661	220	24.3	26.1
IIQ	626 (r)	245	25.8	26.4
<u>1971</u>				
May	596 (r)	233 (r)	25.5	26.5
June	621 (r)	245	26.0 (r)	26.4
July	722 (r)	250	25.3 (r)	26.7
Aug ^{3/}	672	259	24.9	26.4

^{1/} SAAR.

^{2/} SA, end of period.

^{3/} August figures and revisions are confidential until Monday afternoon.

The Domestic Financial Situation

Mortgage market. Interest rates on conventional new-home mortgages remained at an average of 7.85 per cent during September, according to FHA data, reflecting mixed regional changes. Average yields in the more sensitive secondary market for Federally underwritten home mortgages continued downward for the second consecutive month, as discounts declined below 7 points. Gross yield spreads of home mortgages over new issues of high-grade corporate bonds improved to 40 basis points, the widest margin since early this year, but offering little, if any, net investment incentive to diversified lenders after allowance is made for the higher servicing costs on mortgages.

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES

	Primary market: Conventional loans		Secondary market: FHA-insured loans		
	Level (per cent)	Yield spread (basis points)	Level (per cent)	Yield spread (basis points)	Discount (points)
<u>1970</u>					
Low	8.30 (Dec)	-56 (June)	8.40	1 (May)	3.1 (Nov)
High	8.60 (July, Aug)	50 (Dec)	9.29	99 (Feb)	6.0 (Feb)
<u>1971</u>					
April	7.55	- 2	7.37	-20	3.1
May	7.65	-36	7.75	-36	6.1
June	7.70	-20	7.89	- 1	7.2
July	7.80	-16	7.97	1	7.8
Aug	7.85	20	7.92	27	7.4
Sept	7.85	41	7.84	40	6.8

NOTE: FHA series; interest rates on conventional first mortgages (excluding additional fees and charges) are rounded to the nearest 5 basis points. On FHA loans carrying the 7 per cent ceiling rate in effect since mid-February 1971, a change of 1.0 points in discount is associated with a change of 12 to 14 basis points in yield. Gross yield spread is average mortgage return, before deducting servicing costs, minus average yield on new issues of high grade corporate bonds with 5-year call protection.

September data confidential until released.

INTEREST RATES

	1971				
	Highs	Lows	Aug. 13	Sept. 20	Oct. 14
<u>Short-Term Rates</u>					
Federal funds (wkly. avg.)	5.59(9/15)	3.29(3/10)	5.59(8/11)	5.59(9/15)	5.29(10/13)
3-month					
Treasury bills (bid)	5.53(7/19)	3.22(3/11)	5.15	4.72	4.43
Bankers' acceptances	5.62(8/23)	3.88(3/10)	5.62	5.50	5.00
Euro-dollars	10.00(8/17)	4.94(3/17)	7.89	8.21	6.69
Federal agencies	5.70(7/30)	3.27(2/24)	5.58	5.23(9/17)	4.68
Finance paper	5.62(8/16)	3.62(3/15)	5.50	5.38	5.25
CD's (prime NYC)					
Most often quoted new	5.75(8/11)	3.62(3/24)	5.75	5.62	5.25
Secondary market	6.05(8/18)	3.80(3/17)	5.88(8/11)	5.68(9/15)	5.34
6-month					
Treasury bills (bid)	5.84(7/24)	3.35(3/11)	5.51	5.00	4.55
Bankers' acceptances	5.75(8/23)	4.00(3/10)	5.75(e)	5.62(e)	5.12(e)
Commercial paper (4-6 mo.)	5.88(8/18)	4.00(3/29)	5.88	5.75	5.62
Federal agencies	6.02(7/30)	3.53(3/10)	5.83	5.24(9/17)	4.80
CD's (prime NYC)					
Most often quoted new	6.00(8/11)	4.00(3/24)	6.00	5.75	5.38
Secondary market	6.40(8/18)	3.70(3/3)	6.25(8/11)	6.00(9/15)	5.50
1-year					
Treasury bills (bid)	6.01(7/28)	3.45(3/11)	5.85	5.19	4.72
CD's (prime NYC)					
Most often quoted new	6.25(8/11)	4.38(3/3)	6.25	5.75	5.62
Prime municipals	3.60(8/12)	2.15(3/24)	3.60	3.10	2.70
<u>Intermediate and Long-Term</u>					
Treasury coupon issues					
5-years	7.03(8/10)	4.74(3/22)	6.78	6.16	5.87
20-years	6.56(6/15)	5.69(3/23)	6.32	6.07	5.92
Corporate					
Seasoned Aaa					
	7.71(8/13)	7.05(2/16)	7.71	7.42	7.39
Baa					
	8.93(1/5)	8.33(2/25)	8.87	8.66	8.48
New Issue Aaa					
	8.23(5/20)	6.76(1/29)	7.97	7.56(9/17)	7.22
Municipal					
Bond Buyer Index					
	6.23(6/24)	5.00(3/18)	6.03	5.38(9/17)	4.99
Moody's Aaa					
	5.90(6/30)	4.75(2/11)	5.80	5.10(9/15)	4.65
Mortgage--implicit yield					
in FNMA auction <u>1/</u>	8.07(7/26)	7.32(4/12)	--	7.88(9/8)	7.85(10/4)

1/ Yield on 3-month forward commitment after allowance for commitment fee and required purchase and holding of FNMA stock. Assumes discount on 30-year loan amortized over 15 years. e--estimated.

International Developments

On October 14 the Bank of Italy followed the lead of the Bundesbank (p. IV-16) and announced reductions, effective immediately, in its discount rate from 5 to 4-1/2 per cent and in its rate on advances from 5 to 4 per cent. In London many market participants had expected a Bank of England rate change on Thursday, but this did not occur.

CORRECTIONS:

Page II-5, line 6. The industrial production index figure should have been 105.1 for August as shown on page I-T-1. (However, this is subject to revision when the September index is released, October 18.)

Page II-4A. Gross National Product and Related Items - the high employment surplus or deficit should be -\$4.9 billion in QII 1972, not +\$4.9 billion, as shown.

Page III-8. Table footnote should include: "Beginning July 26, auctions are only for 3-month commitments."

Last paragraph should begin: "During the third quarter,..."