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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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Content last modified 6/05/2009.

CONFIDENTIAL (FR)
CLASS II - FOMC

April 11, 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 sales in March declined 0.6 per cent from February, according to the advance report. Auto sales dropped substantially following the end of most rebate promotions. Excluding autos and nonconsumer items, sales rose 0.9 per cent for the third successive monthly gain. Expenditures for furniture and appliances increased 1.5 per cent and outlays for general merchandise rose moderately after a very strong showing in February. Sales of the food group were 1.8 per cent higher.

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

	1974	1975	1975		
	QIV	QI	Jan.	Feb.	Mar.
Total sales	- 3.2	3.1	2.5	1.9	- .6
Durable	-10.9	6.9	6.1	3.4	-3.8
Auto	-15.5	8.8	4.6	7.6	-6.7
Furniture and appliances	- 7.0	.6	1.8	1.8	1.5
Nondurable	.4	1.6	1.0	1.2	.9
Food	1.6	3.2	3.3	.0	1.8
General merchandise	- 1.5	.1	-1.5	3.7	.3
Gasoline	- 1.3	.8	1.9	- .5	.6
Total, less auto and nonconsumption items	- .1	1.7	1.3	1.2	.9
GAF	- 3.1	1.3	.1	3.3	.2
Real*	- 6.2	n.a.	1.9	1.4	n.a.

*Deflated by all commodities CPI, seasonally adjusted.

Merchant builder sales of new single-family homes were essentially unchanged in February from the very low January rate. At the end of February, builder backlogs of unsold homes remained quite high--representing 12½ months' supply at the current sales rate. The median price of the mix of new homes sold in February increased to $38,100--9 per cent above a year earlier and still above the rising median price of units for sale.

SALES, STOCKS AND PRICES OF NEW SINGLE-FAMILY HOMES

	Homes sold 1/	Homes for sale 2/	Months' supply	Median price of: Homes sold	Median price of: Homes for sale
	(thousands of units)			(thousands of dollars)	
1973					
QI	725	425	7.0	30.4	29.4
QII	662	437	7.9	32.7	31.2
QIII	565	453	9.6	33.5	32.1
QIV	503	448	10.7	34.0	32.9
1974					
QI	523	452	10.4	35.2	34.0
QII	549	436	9.5	35.6	35.0
QIII	490	414	10.1	36.2	35.7
QIV(r)	417	400	11.5	37.5	36.2
Dec.(r)	384	400	12.5	37.5	36.2
1975					
Jan.(r)	391	403	12.4	37.5	36.5
Feb.(p)	392	407	12.5	38.1	36.7

1/ Seasonally adjusted annual rate.
2/ Seasonally adjusted, end of period.

In contrast to new homes, sales of existing homes increased 12 per cent from January to February, according to a recently published seasonally adjusted index compiled by the National Association of Realtors. The index, which provides monthly data since the beginning of 1968, indicates that existing home sales had reached a four-year low in January 1975, but, in February, rose to 97 per cent of the 1972 average unit sales volume. The median price of used homes sold in February rose to $33,850--more than 10 per cent above a year earlier.

The Domestic Financial Situation

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

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

	1975 Highs	1975 Lows	March 17	April 10
Short-Term Rates				
Federal funds (wkly. avg.)	7.70 (1/8)	5.28 (4/9)	5.38 (3/19)	5.28 (4/9)
3-month				
Treasury bills (bid)	6.90 (1/2)	5.16 (2/21)	5.41	5.71
Comm. paper (90-119 day)	9.00 (1/2)	5.88 (3/26)	5.88	6.13
Bankers' acceptances	9.00 (1/1)	6.06 (3/26)	6.15	6.15
Euro-dollars	10.25 (1/3)	6.38 (3/19)	6.69	7.19
CD's (NYC) 90-119 day				
Most often quoted new	9.00 (1/1)	5.88 (4/2)	6.13 (3/12)	6.13 (4/9)
6-month				
Treasury bills (bid)	6.97 (1/2)	5.36 (2/18)	5.52	6.03
Comm. paper (4-6 mo.)	8.75 (1/2)	5.88 (3/26)	5.88	6.25
Federal agencies	7.67 (1/2)	5.75 (2/19)	6.07	n.a.
CD's (NYC) 180-269 day				
Most often quoted new	8.38 (1/1)	6.13 (4/2)	6.13 (3/12)	6.50 (4/9)
1-year				
Treasury bills (bid)	6.69 (1/2)	5.38 (2/5)	5.62	6.45
Federal agencies	7.60 (1/2)	6.03 (2/20)	6.25	n.a.
CD's (NYC)				
Most often quoted new	8.00 (1/1)	6.00 (3/12)	6.00 (3/12)	6.75 (4/9)
Prime municipals	4.35 (1/3)	3.40 (2/7)	3.50 (3/14)	4.25
Intermediate and Long-Term				
Treasury coupon issues				
5-years	8.06 (4/7)	6.93 (2/19)	7.32	n.a.
20-years	8.44 (4/7)	7.58 (2/21)	7.96	n.a.
Corporate				
Seasoned Aaa	8.94 (4/9)	8.57 (2/26)	8.65	8.94 (4/9)
Baa	10.63 (1/20)	8.28 (3/27)	10.28	10.32 (4/9)
New Issue Aaa Utility	9.80 (4/3)	8.89 (2/6)	9.60 (3/20)	9.65p
Municipal				
Bond Buyer Index	7.08 (1/2)	6.27 (2/13)	6.80 (3/20)	7.03
Mortgage--average yield				
in FNMA auction	9.37 (1/13)	8.78 (3/10)	8.78 (3/10)	8.98 (4/7)

CORRECTIONS:

Page I-9: Change in Industrial Production in 1974-III is -.3 per cent per year, and in 1974-IV, -12.2 per cent per year.

Page II--T-1: Private nonfarm average hourly earnings in March were $4.42.

SUPPLEMENTAL APPENDIX A*
RESIDENTIAL CONSTRUCTION LOAN COMMITMENTS AT COMMERCIAL BANKS

A special Federal Reserve survey of 129 commercial banks conducted during the last week of March and the first week of April suggests that demands for residential construction loan commitments by builders will increase somewhat more than seasonally during the second quarter. However, the survey also indicates that demands for these commitments remain extremely low. And banks generally described their commitment policies on new residential construction as unchanged or more restrictive than last fall. Only about a fifth of the banks surveyed expect an easing in such policies this spring.[1/]

If commercial banks were the only major source of residential construction finance, the survey results by themselves would suggest lower housing starts during the next two quarters than are now projected by the staff. However, since savings and loan associations--whose fund inflows have been extremely large in recent months--are also major lenders in the residential construction market, the commercial bank survey results regarding demand and supply factors appear to be consistent with the view that housing starts will pick-up significantly over the period ahead, but that the level of multi-family starts will remain quite low.

The special survey results indicate that compared with last fall, demands for loan commitments for 1-to 4-family properties

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*Prepared by Albert M. Teplin, Economist, Mortgage, Agricultural, and Consumer Finance Section, Division of Research and Statistics.

1/ It should be noted that most of this survey was completed before Congress enacted the new housing tax credit. For this reason, the survey probably reflects very little of the possible influence of this act on bank policies and builders demands.

had improved--in some cases quite sharply--at nearly a third of the banks.[1] However, an almost equal proportion had experienced a reduction in such demands, and only a few banks noted increases in demands for multifamily construction loan commitments. In fact, nearly half of the respondents reported that demands for multifamily commitments had fallen off even further.

In general, the respondents did not foresee any further deterioration in builder demands between the time of the survey and the end of June. More than three-fifths of the respondents expected at least a moderate pick-up of builder interest in 1-to 4-family construction loan commitments. For multifamily properties, on the other hand, most lenders queried expected little change from current reduced levels, although nearly a third saw a chance for some improvement in demand in that sector and a few looked for further declines.

Despite the current slack demand for residential construction loans and other business loans at most commercial banks, nearly 80 per cent of the banks surveyed characterized their residential construction loan commitment policies for all types of properties as "as restrictive as,"or in many cases"more restrictive than,"last fall. So far as the second quarter is concerned, a majority of respondents reported that they expected no change from their current policies. However, for those that did specify some degree of change--about a fourth of those surveyed--most anticipated an easing rather than a tightening in policy.

The most common reason given for current or anticipated restrictive policies was the overhang of dwelling units still unsold or not rented in the banks' marketing areas. Only a few banks mentioned delinquencies and foreclosures as a problem. Several banks, which labeled their present policies as unchanged or more restrictive, however, did not consider their commitment policies the overriding factor contributing to the dampened residential construction lending.

1/ In the fcurth quarter 1974, new commitment volume at commercial banks was three-fifths below its year earlier level and only a third of what it had been in the fourth quarter of 1972. The drop in new construction loan commitments was greatest for multifamily properties, although new commitments for 1-to 4-family construction loans were also down sharply.

Rather, they emphasized the low level of builder demand, due not only to the unsold inventories of new homes, but also to the reduced profitability of apartment developments--resulting from the high costs of construction and maintenance relative to anticipated rents--and to increased local restrictions associated with environmental problems.

TABLE 1

BUILDER DEMANDS FOR SHORT-TERM RESIDENTIAL CONSTRUCTION LOAN COMMITMENTS

1. Since last fall 1/:

	1-to 4-family properties	Multifamily properties
	(Per cent reporting)	
a. Up sharply	5	0
b. Up moderately	27	6
c. Essentially unchanged	35	51
d. Down moderately	17	22
e. Down sharply	16	21

2. Anticipated change through June 1/:

	1-to 4-family properties	Multifamily properties
	(Per cent reporting)	
a. Up sharply	5	1
b. Up moderately	56	29
c. Essentially unchanged	36	64
d. Down moderately	2	4
e. Down sharply	1	2

NOTE: Totals may not add to 100 due to rounding. Survey included 129 commercial banks active in residential construction lending and distributed about evenly among the 12 FR Districts.

1/ Apart from normal seasonal influences.

SUPPLEMENTAL APPENDIX B*
INVENTORY READJUSTMENTS AND INDUSTRIAL PRODUCTION MEASURES

In the present economic recession both personal consumption and fixed investment have been curtailed in real terms, but a major factor in the readjustment has been the shift in output for business inventory purposes. This has gone from an accumulation of $8.7 billion in 1974, according to the GNP 1958 dollar series, to an indicated liquidation rate in early 1975 which could equal or exceed that amount. As a proportion of the goods output component of 1958 dollar GNP, these figures are equal to an accumulation rate of about 2 per cent and perhaps, a similar percentage rate of liquidation, or a net shift of 4 per cent. Excluding farm and distribution activities, the equivalent swing in the industrial sector is about one-half again as much.

Industrial production (IP) supplies some unique data on these cyclical movements because separate measures are compiled for (1) total products that can be compared with deflated retail sales and other final sales data and (2) industrial materials which show more volatile changes than total products or than final sales of goods. Moreover, the physical IP measures are free of current valuation problems which have been accentuated by the sharp price rises since 1972.

The large reductions in IP since last September have reflected cutbacks in consumer goods, equipment, construction products, and general business supplies and even sharper curtailments in output of the many industrial materials used to produce those products. The major factors contributing to the severity of these readjustments have been:

(1) the rapid disappearance of delivery delays which, in conjunction with protective buying against earlier shortages and further price rises, had previously resulted in large increases in business inventories;

(2) reduced real wages and consumption and developing consumer and business concerns about future developments; and

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* Prepared by Clayton Gehman, Chief, Business Conditions Section, Division of Research and Statistics.

(3) the large shift from a net import to an export balance for industrial materials between 1973 and early 1974 and a swing back to imports since then. These changes in foreign trade during and after the Federal price control period contributed greatly to the earlier shortages and the recent excess of many materials.

Also contributing to the intensity of the present business inventory readjustments was the long period of accumulation since the early 1960's, which was interrupted by a reduced rate of accumulation in the book value data only in 1967 and 1970.[1/]

It is not possible to assess quantitatively the volume of excessive inventories. It is evident, however, that since there has been a considerable accumulation, it is not likely to be substantially corrected by only a few months of sharp curtailments in output. By historical standards these reductions in output have usually ranged from 6 to 9 months.

The attached chart provides a comparative view of the adjustments in production of materials and of products during four time periods following sharp price increases and the development of inventory excesses.[2/] A fifth panel for the 1919-22 period could also have been provided but the pattern is similar to that exhibited during the 1936-39 period.

Each of the panels compares monthly movements in the IP series for industrial materials and total products separately, with a different two-year average comparison base for each panel. Products represent about three-fifths of total IP and materials two-fifths. If a third line were plotted for the GNP series for final sales of goods in constant dollars, it would show less curtailment than IP products which in turn show less reduction than IP materials.

1/ In 1970 the figures ranged between \$2 and \$6 billion (s.a.a.r.) and in 1967, between \$4 and \$10 billion. Considering the slowdowns and outright declines in production, the deflated reported inventory figures are not very credible. Some fairly comprehensive measures of physical stocks compiled by the Business Conditions Section show s.a.a.r. curtailments of about \$8 billion in two quarters of each of those two years. After 1970, however, these stock data showed larger accumulations until the 1974-75 period.

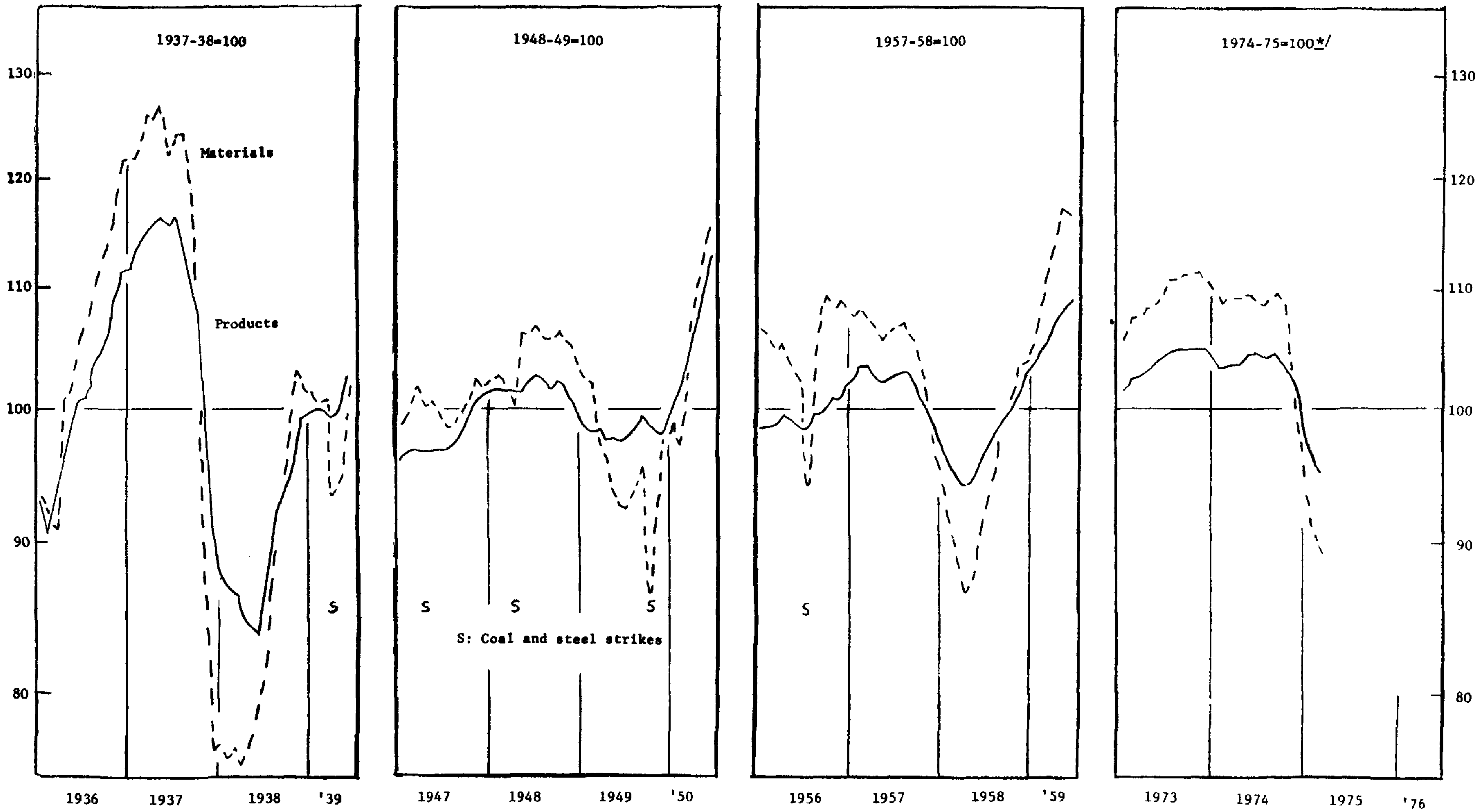
2/ The data are seasonally adjusted indexes plotted on a ratio scale; the latest data are preliminary estimates for March 1975.

Broadly speaking, the main short-run differences in movements between the IP series for materials and products represent movements in inventories of materials or, at least, the amounts that output of materials (and employment, incomes, and other factors in production) are fluctuating relative to changes in the major industries producing final and intermediate products. Likewise, short-run differences between IP products and GNP final sales data would reflect mainly changes in business inventories of consumer goods and other products. Thus, average differences in movements between the sum of IP materials and IP products represent, broadly, short-run changes in total nonfarm inventories. Various purely statistical and other influences are also involved in these fluctuations[1], but they generally represent the buildup of imbalances in the economy and the subsequent restoration to more sustainable relationships.

Even though some of these fluctuations cannot be related to measurable changes in reported inventories, however valued, they do provide independently valid and useful reference points for comparing changes in employment and other factors in important volatile sectors of the economy. The severity and range of these short-range changes have recently been strikingly illustrated in nondurable manufacturing industries. For instance, production of man-made fibers at chemical plants reached a level in 1974 of 260 (1967=100) with the ending of scarcities of petrochemical materials, and then fell 55 per cent by early 1975. Meanwhile, output of man-made fabrics fell 35 per cent and clothing production about 20 per cent.

1/ No allowances, for example, are made for changes in foreign trade supplies. Also, while a number of the detailed IP movements may be exaggerated by monthly aberrations in data and the effects of major coal and steel strikes noted in the chart, the deflated sales and inventory series available for comparison have large nominal components.

INDUSTRIAL PRODUCTION BY STAGE OF PROCESSING



*/1975 largely estimated