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CONFIDENTIAL (FR) July 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. The most recent data indicate that sales in second quarter were substantially stronger than earlier estimates. More complete sample counts resulted in an unusually large $217 million upward revision in the final estimate of sales for April and a $435 million increase in the preliminary report of sales for May. The advance estimate for June gives a 0.7 per cent increase, instead of the no change suggested by the weekly data. These changes expand the gain in second quarter to 3.1 per cent; the estimate from the less complete earlier data was 2.0 per cent.

Probably reflecting the tax cut and rebate, much of the strength in the second quarter is among the more postponeable type of goods. Outlays for autos in the quarter were up 6.0 per cent and spending on general merchandise, apparel, and furniture and appliances (GAF) rose 4.8 per cent; expenditures for food away from home increased 2.6 per cent.

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

	1975 QI	1975 QII	Apr.	May	June
Total sales	2.7	3.1	1.7	2.7	.7
Durable	5.3	4.2	5.3	3.7	3.6
Auto	7.2	6.0	6.3	5.4	6.3
Furniture and appliance	- .7	4.5	4.2	- .2	1.2
Nondurable	1.6	2.6	.2	2.2	- .6
Food at home	2.9	.5	-1.9	2.2	.2
Food & drink away from home	3.4	2.6	2.0	.1	.8
General merchandise	.3	1.8	.5	4.5	.4
Gasoline	1.2	5.5	1.0	.5	- .4
Total, less auto and nonconsumption items	1.6	2.6	.4	2.1	- .5
GAF	1.0	4.8	1.7	3.3	- .1
Real*	.9	n.a.	1.2	2.2	n.a.

*Deflated by all commodities CPI, seasonally adjusted.

Merchant builder sales of new single-family homes, which had risen sharply in March and April, increased 2 per cent further in May to a seasonally adjusted annual rate of 585,000 units--more than one-half above last December's low. The continued high level of new-home sales in May was undoubtedly supported by the 5 per cent tax credit enacted in late March, as well as by additional improvement in the availability of mortgage credit and in consumer confidence.

The stock of unsold new homes edged down somewhat further in May, and by the end of the month represented less than an 8-month supply at the current sales rate. The median price of the mix of unit sales rose to $39,900--$3,000 above the rising median price of unsold new units.

In the existing-home market which had slumped much less last year than the new-home market, sales advanced during May for the fourth consecutive month, rising by 2 per cent to a level less than 4 per cent below the peak in early 1973. The median price of used homes sold was slightly to $35,210. Data Confidential until released.

HOME SALES

	New Home Sales and Stocks			Sales Indexes of Unit Volume (1972=100, seasonally adjusted)		Median Prices of Homes Sold (thou. of dol.)	
	Homes sold 1/ (thousands of units)	Homes for sale 2/ (thousands of units)	Months' supply	New homes 3/	Existing homes	New homes	Existing homes
1974							
QI	523	452	10.4	72	106	35.2	30.9
QII	550	436	9.5	76	105	35.6	32.2
QIII	490	414	10.1	68	99	36.2	32.8
QIV	417	400	11.5	58	99	37.3	32.2
1975							
QI (r)	426	396	11.2	59	95	37.9	33.8
Jan. (r)	404	404	12.0	56	87	37.2	33.2
Feb. (r)	411	409	11.9	57	97	37.9	33.9
Mar. (r)	463	396	10.3	64	100	38.9	34.2
Apr. (r)	574	388	8.1	79	106	39.2	34.9
May (p)	585	382	7.8	81	108	39.9	35.2

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 Domestic Financial Situation

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

CORRECTIONS:

The first sentence in the second paragraph on page III-13 of the July 9 Greenbook (Part 2) is incorrect and should be deleted. Repayments of consumer instalment credit did not reach a new high during May.

INTEREST RATES
(One day quotes - in per cent)

	1975 Highs	1975 Lows	June 16	July 10
Short-Term Rates				
Federal funds (wkly. avg.)	7.70(1/8)	5.13(5/21)	5.31(6/18)	6.06(7/9)
3-month				
Treasury bills (bid)	6.90(1/2)	4.88(6/16)	4.88	6.04
Comm. paper (90-119 day)	9.00(1/2)	5.38(6/12)	5.63	6.25
Bankers' acceptances	9.00(1/1)	5.40(5/30)	5.50	6.40
Euro-dollars	10.25(1/3)	5.69(5/21)	5.81	7.19
CD's (NYC) 90-119 day				
Most often quoted new	9.00(1/1)	5.38(6/11)	5.38(6/11)	6.13(7/9)
6-month				
Treasury bills (bid)	6.97(1/2)	5.18(6/11)	5.21	6.38
Comm. paper (4-6 mo.)	8.75(1/2)	5.38(5/23)	5.63	6.50
Federal agencies	7.67(1/2)	5.68(6/12)	5.72	6.89p
CD's (NYC) 180-269 day				
Most often quoted new	8.38(1/1)	5.75(6/18)	5.88(6/11)	6.63(7/9)
1-year				
Treasury bills (bid)	6.69(1/2)	5.37(2/5)	5.43	6.51
Federal agencies	7.60(1/2)	6.03(2/20)	6.18	7.29p
CD's (NYC)				
Most often quoted new	8.00(1/1)	6.00(3/12)	6.50(6/11)	6.63(7/9)
Prime municipals	4.35(1/3)	3.40(2/7)	3.25(6/13)	4.00(7/11)
Intermediate and Long-Term				
Treasury coupon issues				
5-years	8.17(4/28)	6.93(2/19)	7.21	7.92
20-years	8.47(4/28)	7.58(2/21)	7.94	8.17
Corporate				
Seasoned Aaa	9.02(4/30)	8.57(2/26)	8.72	8.84
Baa	10.63(1/20)	10.27(4/3)	10.39	10.35
New Issue Aaa Utility	9.80(4/3)	8.89(2/6)	9.07(6/18)	9.38p
Municipal				
Bond Buyer Index	7.09(5/28)	6.27(2/13)	6.93(6/18)	6.98
Mortgage--average yield in FNMA auction	9.47(1/13)	8.78(3/10)	9.06(6/16)	9.07(6/30)

SUPPLEMENTAL APPENDIX A*
RECENT GOVERNMENT ACTIONS TO AID HOUSING

The President recently took two related actions intended to bolster housing. On June 24, he released the remaining $2 billion in authority provided under the Emergency Home Purchase Assistance Act of 1974 for GNMA to make commitments to purchase below-market-rate mortgages. On July 2, he signed the Emergency Housing Act of 1975. The new Act contains two major features:

(a) Extension until mid-1976 of GNMA's authority to commit to purchase below-market-rate conventional and Government-underwritten residential mortgages. An additional $10 billion is authorized by the new legislation, but--unlike the 1974 Act--the Administration can release funds only after the Congress has appropriated them. The new authority also broadens coverage to include conventional mortgages on multifamily structures and individual condominium and cooperative units. The maximum contract interest rate on eligible mortgages is set at 7-1/2 per cent. Under the previous Act, eligible mortgages carried a contract rate tied to the average yield on certain marketable U.S. Government bonds at time of commitment.

(b) Enactment of a new program giving HUD standby authority until mid-1976 to provide foreclosure relief on home mortgages which become delinquent for at least 3 months due to involuntary unemployment or underemployment of the homeowner. Amounts of up to $250 per month for as long as 24 months may be provided to homeowners either through HUD-insured loans or advances of credit made by financial institutions or through direct emergency payments from HUD to homeowners. In either case, the relief payments are repayable by the homeowner. While the Act authorizes HUD to insure loans and advances totaling $1.5 billion, direct emergency payments by HUD would require additional appropriations (not to exceed $500 million).

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* Prepared by David Seiders and Albert Teplin, Economists, Mortgage, Agricultural, and Consumer Finance Section, Division of Research and Statistics.

The foreclosure relief provisions of the new legislation could provide some stimulus to mortgage lending over the coming year by assuring more stable repayment flows to private mortgage lenders. However, it seems unlikely that the provision will be invoked by the President. While delinquency rates on home mortgages have been rising recently, national foreclosure rates have as yet shown little change (MBA series) as real property values have generally remained firm or increased. In fact, trade reports indicate that lenders generally have been granting borrowers forbearance in cases where delinquencies are due to unemployment, and have been working out programs to delay or stretch out scheduled mortgage payments. Moreover, if general economic conditions improve as expected, delinquency rates should rise only moderately further before stabilizing or turning down.

The $2 billion released on June 24--which will be administered under the provisions of the Emergency Housing Act of 1975--and the additional $10 billion authorized the Act signed on July 2 could together potentially finance GNMA purchases of mortgages on nearly 400,000 dwelling units--expected to be directed primarily toward new units. Given the current and prospective structure of mortgage market rates, demands for GNMA's below-market-rate loan purchase commitments are expected to be strong throughout the life of the program. With a contract rate of 7-1/2 per cent and total fees and charges to be limited by regulation to 4 points, the interest rate subsidy amounts to about one percentage point in today's market. This subsidy is approximately 25 basis points larger than was available during the latter stages of the previous program when the demand for GNMA's commitments far exceeded the supply.1/ Furthermore, use of a fixed rate--rather than a market formula to determine the rate--will help to stabilize the demand for GNMA's commitments by eliminating uncertainty about the future level of subsidized rates.

To the extent that builders utilize the GNMA rate subsidy program to reduce their inventories of unsold new homes and

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1/ This subsidy is about 75 basis points larger than during the initial stage of the previous program when fees and charges were excessive and market reaction was limited.

condominums--currently about 480,000 units--the lag between commitment and mortgage purchase could be very short, and funds could thus be injected quickly through GNMA into the mortgage market; and indirect effect of this inventory adjustment would be to lay the foundation for new housing construction. If builders arrange for GNMA commitments prior to the start of new dwellings, there could be an immediate effect on both mortgage lending and housing starts. Assurance of long-term financing at below-market rates through GNMA would, in effect, provide the backstop that builders often need to obtain short-term construction funds from private lenders. In this case, funds will actually be disbursed by GNMA only after such new dwellings have been completed and sold. Currently, the lag between start and completion of new single-family houses averages close to 6 months.

Even assuming that the President requests, and the Congress appropriates all of the additional $10 billion authorized by the new legislation, the net effect of the GNMA program on total mortgage lending and housing starts over the Greenbook projection period may be relatively limited. 1/ It is likely that a large proportion of the GNMA-subsidized loans will simply substitute for higher cost loans made through nominal market channels at a time when private credit flows available for housing finance appear to have become ample and housing demand is strengthening. 2/

1/ Allowance for some net stimulus to housing starts resulting from release of the additional $10 billion was incorporated in the July Greenbook projection.

2/ Other considerations include the extent to which Treasury borrowing to finance the purchase of mortgages and GNMA resale of mortgages reduce the supply of mortgage funds at private lenders. Mortgages not retained by GNMA could be sold either to the Federal Financing Bank or through auctions of GNMA-guaranteed mortgage-backed securities. The probable net effect of the GNMA program has been incorporated in July Greenbook projections of Federal budget outlays.