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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

October 16, 1970

The Domestic Economy

Personal income. Personal income rose by $5.4 billion from August to a seasonally adjusted annual rate of $811.8 billion in September. Wage and salary disbursements rose by $3.4 billion. The bulk of the increase occurred in government payrolls, primarily reflecting payment of the retroactive portion of the postal pay raise, amounting to $2.0 billion. The slight boost in private industry payrolls resulted from wage increases; private employment and average weekly hours declined in September. Manufacturing payrolls were adversely affected by the General Motors strike and were up slightly in September. Payrolls in non-manufacturing activities were also up only slightly in September. Increased transfer payments accounted for nearly half of the rise in nonwage income, with much of the increase reflecting boosts in Civil Service and railroad retirement benefits.

PERSONAL INCOME
(Seasonally adjusted, billions of dollars)

	Average monthly change			
	Dec. 1969 to June 1970	June 1970 to July	July to August	August to September
Total personal income	4.0	5.1	3.1	5.4
Wages and salaries	1.7	3.4	1.7	3.4
Government	.8	.3	.7	2.8
Private	.9	3.1	1.0	.6
Manufacturing	-.4	.6	-.5	.3
Nonmanufacturing	1.3	2.5	1.5	.3
Other sources (net)	2.3	1.7	1.4	2.0

Auto sales and stocks. Unit sales of new domestic autos declined sharply in September and were at an annual rate of 7.2 million units, 15 per cent below August and 20 below a year ago. Sales in the first 10 days of October remained at the September level and were 15 per cent below a year earlier. Dealers' stocks decreased 5 per cent in September, but because of the decline in sales, stocks represented 63 days supply at the end of the month as compared with 56 days at the end of August and 54 days a year earlier.

The low selling rate in early October can be attributed mainly to the strike at General Motors.

DOMESTIC AUTO SALES
Per cent change 1st 10 dyas of October 1970 from a year earlier

	Per cent
General Motors	-34
Ford	- 1
Chrysler	17
American Motors	2

Seasonally adjusted private housing starts, which had declined by more than a tenth in August following the sharp July rise, advanced nearly 7 per cent in September. At 1.5 million units, the annual rate of starts in September was the second highest for any month in over a year, and brought the average for the third quarter as a whole to a 1.51 million unit annual rate, 17 per cent above the average in the second quarter of this year.

PRIVATE HOUSING STARTS AND PERMITS

	September 1970 (Thousands of units)1/	Per cent change from	
		August 1970	September 1969
Starts2/	1,504	+ 7	+ 2
1-family	884	+ 7	+ 7
2-or-more-family	620	+ 7	- 5
Northeast	199	+12	+42
North Central	267	- 9	-27
South	669	+ 5	+ 9
West	369	+23	+ 2
Permits	1,368	+ 3	+14
1-family	680	+ 3	+20
2-or-more-family	688	+ 4	+ 8

1/ Seasonally adjusted annual rates; preliminary.
2/ Apart from starts, mobile home shipments for domestic use in August--the latest month for which data are available--were at seasonally adjusted annual rate of 407,000, down 6 per cent from July, though virtually as high as in August 1969.

The rise in starts in September was widely based, both by type of structure and among most regions. Unlike recent months when the volatile movement of the multifamily sector overshadowed the changes in single-family units, both groups rose in equal proportions during September. Regionally, the advance was shared by all areas with the exception of the North Central States.

Seasonally adjusted building permits posted another modest advance in September. As in the case of starts, both single and multi-family units shared about equally in the rise.

With starts rising at a slightly more rapid rate than projected in the third quarter and with inflows to the thrift institutions holding up well, the possibility is suggested of a fourth quarter average slightly above the 1.53 million rate projected in the Greenbook.

Money supply. Estimated growth in the money supply for the month of September has been revised to a 1.7 per cent annual rate of advance from the -.6 per cent annual rate of decline that was indicated in the Greenbook. An upward revision in the estimated volume of private demand deposits was responsible for this change. With the higher September estimate, the third quarter pace of advance is now estimated to have been at a 5.3 per cent annual rate rather than the 4.5 per cent annual rate that was indicated in the Greenbook.

Savings and loan associations. Complete data for the September-October reinvestment period confirm earlier indications that savings and loan associations were enjoying a favorable deposit flow. For the reinvestment period as a whole, associations gained net new deposits (i.e., excluding interest credited) in an amount nearly as large as in the most favorable recent similar period, which was in 1968. West coast S&Ls not only shared in the generally favorable experience, they improved relative to their flows in 1968.

SAVINGS AND LOAN ASSOCIATIONS
SEPTEMBER - OCTOBER REINVESTMENT PERIOD[1/]
DEPOSIT FLOWS EXCLUDING INTEREST CREDITED
(Millions of dollars)

	All U.S.	San Francisco District	U.S. except San Francisco
October 3-9[2/]			
1967	297	97	200
1968	324	68	256
1969	68	-30	38
1970	570	95	475
Total reinvestment period[3/]			
1966	-618	-366	-252
1967	260	84	176
1968	389	- 92	481
1969	-646	-243	-403
1970	366	64	302

1/ Universe estimates based on a FHLB sample of 480 associations.
2/ Dates are for 1970. Covers 5 business days in each year shown.
3/ Covers the last three business days in September plus the first ten calendar days, generally, in October.

Although complete data are still unavailable, a tentative sample run by the FHLB suggests that during September S&L mortgage lending volume and commitments may have increased somewhat, on a seasonally adjusted basis. The sample also suggested very little change in S&L's liquid positions.

Mortgage market. Reflecting in part the improved inflows at the thrift institutions and as a further sign of some easing in the market for residential home loans, yields in both the primary and secondary mortgage markets declined in September, as reported by the FHA. In the primary market, the average contract rate on conventional first mortgage new-home loans declined for the first time in almost two years, and at 8.50 per cent the average was at its lowest level in nine months. Regionally, the reduction in the conventional home loan rate was most pronounced in the West where thrift institutions inflows have improved considerably more than in other areas since April. Smaller conventional loan rate declines were registered in the Northeast, Southeast and the Southwest.

AVERAGE RATES AND YIELDS ON NEW HOME MORTGAGES
(Per cent)

	Conventional loans	FHA-insured loans
1969		
Low	7.55 (Jan.)	7.85e (Jan.)
1970		
High	8.60 (July, Aug.)	9.29 (Feb.)
July	8.60	9.11
August	8.60	9.07
September 1/	8.50	9.01

Note: FHA data; interest rates on conventional first mortgages (excluding additional fees and charges) are rounded to the nearest 5 basis points.
e/ Estimated.
1/ DATA FOR SEPTEMBER IS STRICTLY CONFIDENTIAL UNTIL PUBLIC RELEASE ON OCTOBER 20.

In the secondary market for FHA-insured home loans, the average rate continued to edge lower in September, and has now declined 15 basis points in the past three months. The level of the discount associated with the FHA secondary market yield now has fallen to less than four points for the first time since February of last year. As a result of the relatively low discount, the FHA-insured market should be more attractive to both builders of new homes and sellers of existing units. However, if as some trade sources expect, the FHA and VA rate ceilings are reduced in the near term, discounts may again be forced back to a level which could restrict the government-underwritten segment of the residential mortgage market.

It should be noted that all September data are STRICTLY CONFIDENTIAL until October 20.

Bond markets. The continuing large volume of offerings led to a sharp rise in yields on new corporate bonds during the week of October 16; the new issue yield series rose almost 20 basis points and at 8.53 per cent is about the same as at the time of the last Committee meeting. While tax exempt yields edged lower this week, they remain somewhat above their September high.

BOND YIELDS
(Per cent)

		New Aaa Corporate Bonds 1/	Long-term State and Local Bonds 2/
1969			
Low		6.90 (2/21)	4.82 (2/23)
High		8.85 (12/5)	6.90 (12/18)
1970			
Low		8.20 (2/27)	5.95 (3/12)
High		9.30 (6/18)	7.12 (5/28)
Week of:			
September	4	8.40	6.16
	11	8.52	6.30
	18	8.50	6.26
	25	8.35	6.28
October	2	8.37	6.39
	9	8.35	6.38
	16	8.53	6.35

1/ With call protection (includes some issues with 10-year protection).
2/ Bond Buyer (mixed qualities).

INTEREST RATES

	1970 Highs	1970 Lows	Sept. 14	Oct. 15
Short-Term Rates				
Federal funds (weekly averages)	9.39 (2/18)	6.34 (8/26)	6.64 (9/9)	6.21 (10/14)
3-months				
Treasury bills (bid)	7.93 (1/6)	5.71 (9/23)	6.33	5.91
Bankers' acceptances	8.75 (1/13)	6.50 (10/15)	7.13	6.50
Euro-dollars	10.50 (1/9)	7.69 (9/2)	8.13	8.14
Federal agencies	8.30 (1/9)	6.17 (10/9)	6.70 (9/11)	6.24
Finance paper	8.25 (2/1)	7.12 (10/15)	7.50	7.12
CD's (prime NYC)				
Most often quoted new issue	6.75	6.00 (1/16)	6.75 (9/9)	6.75 (10/14)
Secondary market	9.25 (1/23)	6.75 (10/15)	7.44 (9/9)	6.75 (10/14)
6-month				
Treasury bills (bid)	7.99 (1/5)	6.12 (10/15)	6.55	6.12
Bankers' acceptances	8.88 (1/13)	6.62 (10/15)	7.25 (e)	6.62 (e)
Commercial paper (4-6 months)	9.13 (1/8)	6.88 (10/15)	7.38	6.88
Federal agencies	8.50 (1/28)	6.41 (10/9)	7.03 (9/11)	6.60
CD's (prime NYC)				
Most often quoted new issue	7.00	6.25 (1/16)	7.00 (9/9)	6.75 (10/14)
Secondary market	9.38 (1/23)	7.00 (10/15)	7.47 (9/9)	7.00 (10/14)
1-year				
Treasury bills (bid)	7.62 (1/30)	6.19 (9/23)	6.48	6.21
CD's (prime NYC)				
Most often quoted new issue	7.50	6.25 (1/16)	7.50 (9/9)	7.00 (10/14)
Prime municipals	5.60 (1/9)	3.75 (10/15)	4.10 (9/11)	3.75
Intermediate and Long-Term				
Treasury coupon issues				
5-years	8.30 (1/7)	7.05 (3/25)	7.38	7.10
20-years	7.73 (5/26)	6.55 (2/27)	6.96	6.85
Corporate				
Seasoned Aaa	8.60 (6/24)	7.78 (3/10)	8.12	8.00
Baa	9.45 (7/8)	8.57 (3/10)	9.43	9.34
New Issue Aaa	9.29 (6/17)	8.20 (2/27)	8.52 (9/11)	8.53
Municipal				
Bond Buyer Index	7.12 (5/28)	5.95 (3/12)	6.30 (9/11)	6.35
Moody's Aaa	6.95 (6/18)	5.75 (3/12)	6.00 (9/11)	6.10
Mortgage--implicit yield in FNMA auction 1/	9.36 (1/2)	9.03 (8/26)	9.04 (9/8)	8.92 (10/5)

1/ Yield on 6-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.

Corrections:

Section I, page 3, paragraph 2, line 2, should read: "to second quarter 1971 is now estimated to be somewhat smaller than projected in the preceding Greenbook."

Table II, page 6a. Footnote 2/ relates to the projected GNP implicit deflator for QI 1971.

Section IV, page 1. Second paragraph, line 8, should read: "in July-August there was an inflow of $375 million (roughly seasonally adjusted.)".