

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

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).

² A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

July 14, 1972

By the Staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

Industrial production. Industrial production has been revised back to January 1970 and the new index levels are a little higher than the unrevised ones, especially since late 1971. In May the revised level is 0.7 per cent above the unrevised level.

Industrial production rose 0.3 per cent further in June, following an increase of 0.3 per cent in May, instead of 0.5 per cent as reported earlier. The level in June was 112.7 per cent (1967=100), 4.9 per cent above a year earlier and 0.7 per cent above the 1969 high of 111.9. The total index on the revised basis first surpassed the old 1969 peak in April when the index was 112.1 per cent.

The June output gains were in business equipment, which rose 0.5 per cent further, and in materials, as most consumer goods changed little. There were, however, some declines in both consumer durable and nondurable goods. Auto assemblies declined about 3 per cent and were at an annual rate of 8.5 million units compared to 8.8 million units in May.

Among materials, production of nonferrous metals, construction products, and the textile, paper, and chemical group rose. Output of steel, however, changed little. (Confidential until release July 17.)

INDUSTRIAL PRODUCTION
(1967=100, seasonally adjusted)

	1971 May	April	1972 pMay	eJune	Per cent change May to June
Total index	107.4	112.1	112.4	112.7	.3
Consumer goods	115.4	121.4	121.8	121.4	-.3
Business equipment	95.1	101.2	101.0	101.5	.5
Defense equipment	78.2	76.6	76.4	76.5	.1
Materials	109.4	114.4	114.8	115.6	.7
Steel	112.8	105.5	107.3	107.6	.3
Autos*	8.6	9.0	8.8	8.5	-2.1

* Seasonally adjusted annual rate, millions of cars.

Note: The index has been revised back to January 1970. The revision has raised the level of the total index and the May 1972 index was revised up by .7 per cent.

(Confidential until release, Monday p.m., July 17.)

Auto sales. Sales of new domestic-type autos in the first 10 days of July were at an annual rate of 8.5 million units, up 21 per cent from a year earlier but below the month of June sales rate of 9.0 million. However, sales in early July were affected by the fact that Ford completed several sales incentive contests at the end of last month.

New home sales. Sales of new single-family homes by merchant builders rose 3 per cent in May to a seasonally adjusted annual rate of 711 thousands units--somewhat above the record first quarter rate. Although the number of unsold homes rose to another new high, it continued to represent less than a 6-month supply. The median price of new homes sold was virtually unchanged in May.

NEW SINGLE-FAMILY HOMES SOLD AND FOR SALE

	Homes	Homes	Median price of:	
	sold <u>1/</u>	for sale <u>2/</u>	Homes sold	Homes for sale
	(Thousands of units)		(Thousands of dollars)	
<u>1971</u>				
QIII	666	265	25.3	26.1
QIV	682	284	25.5	25.9
<u>1972</u>				
QI	698	317	26.2	26.1
March (r)	644	317	27.4	26.1
April (r)	689	320	26.8	26.4
May (p)	711	333	26.7	26.4

1/ SAAR.

2/ SA, end of period.

The Domestic Financial Situation

Home mortgage rates. The average return on home mortgages remained virtually unchanged in June, according to the FHA. In the primary market, the average contract rate on conventional new home loans remained at 7.60 per cent for the third consecutive month. In the secondary market, the average yield on FHA-insured new home loans edged up 1 basis point to 7.54 per cent. (Confidential until July 18.)

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES

	Primary market: Conventional loans		Secondary market: FHA-insured loans		
	Level (per cent)	Spread (basis points)	Level (per cent)	Spread (basis points)	Discounts (points)
1971 - Low	7.55	-36	7.32	-36	2.5e
High	7.95	71	7.97	56e	7.8
1972 - Jan.	7.60	53	7.49	42	4.0
Feb.	7.60	44	7.46	30	3.8
Mar.	7.55	33	7.45	23	3.7
Apr.	7.60	29	7.50	19	4.1
May	7.60	39	7.53	32	4.3
June	7.60	30	7.54	24	4.4

NOTE: FHA series: interest rates on conventional first mortgages (excluding additional initial fees and charges) are rounded by FHA 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.

e/ Estimated.

INTEREST RATES

	1972			
	Highs	Lows	June 12	July 13
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	4.62 (7/12)	3.18 (3/1)	4.46 (6/14)	4.62 (7/12)
3-month				
Treasury bills (bid)	4.14 (7/3)	2.99 (2/11)	3.92	4.04
Comm. paper (90-119 day)	4.88 (7/13)	3.75 (2/29)	4.50	4.88
Bankers' acceptances	4.75 (7/13)	3.38 (2/23)	4.50	4.75
Euro-dollars	5.94 (3/27)	4.62 (3/8)	4.81	5.50
CD's (prime NYC)				
Most often quoted new	4.85 (7/12)	3.50 (2/23)	4.50 (6/14)	4.85 (7/12)
Secondary market	4.94 (7/12)	3.50 (2/16)	4.60 (6/14)	4.94 (7/12)
6-month				
Treasury bills (bid)	4.68 (7/3)	3.35 (1/10)	4.35	4.54
Comm. paper (4-6 mo.)	4.88 (7/13)	3.88 (3/3)	4.62	4.88
Federal agencies	5.05 (7/5)	3.75 (2/17)	4.80	5.00
CD's (prime NYC)				
Most often quoted new	5.00 (7/12)	3.88 (2/23)	4.62 (6/14)	5.00 (7/12)
Secondary market	5.30 (7/5)	3.70 (2/2)	4.95 (6/14)	5.12 (7/12)
1-year				
Treasury bills (bid)	5.09 (6/30)	3.57 (1/8)	4.62	4.90
Federal agencies	5.38 (7/10)	4.32 (1/17)	5.07	5.34
CD's (prime NYC)				
Most often quoted new	5.38 (7/12)	4.62 (1/19)	5.12 (6/14)	5.38 (7/12)
Prime municipals	3.15 (4/13)	2.35 (1/12)	3.00 (6/14)	3.05 (7/12)
<u>Intermediate and Long-Term</u>				
Treasury coupon issues				
5-years	6.28 (4/13)	5.47 (1/13)	5.88	5.96
20-years	6.22 (4/14)	5.95 (1/14)	6.00	6.01
Corporate				
Seasoned Aaa	7.37 (4/24)	7.14 (1/17)	7.23	7.19
Baa	8.29 (1/3)	8.17 (1/19)	8.19	8.21
New Issue Aaa	7.42 (4/14)	6.86 (1/14)	7.26 (6/16)	7.34
Municipal				
Bond Buyer Index	5.54 (4/13)	4.99 (1/13)	5.36 (6/14)	5.44
Moody's Aaa	5.25 (7/13)	4.65 (1/13)	5.10 (6/15)	5.25
Mortgage--implicit yield				
in FNMMA auction <u>1/</u>	7.63 (5/15)	7.54 (3/20)	7.62 (6/12)	7.62 (7/10)

1/ Yield on short-term forward commitment after allowance for commitment fee and required purchase and holding of FNMMA stock. Assumes discount on 30-year loan amortized over 15 years.

International Developments

Foreign exchange markets. The dollar was heavily sold on major European exchange markets on July 13 and 14. Available figures indicate that in these two days major central banks purchased a total of \$2.6 billion. About 3/4 of this intervention was done by Germany (\$1.3 billion) and Switzerland (\$0.7 billion). This brings the net total of central bank intervention from June 15 through July 14 to roughly \$5.8 billion. The current pressure on the dollar has been generally attributed to speculation on a joint EC float against the dollar. The EC finance ministers meet on July 17 to discuss a European position on monetary reform, and the market, despite official denials, is apprehensive that the ministers may decide on a joint float by the EC at that time.

On both July 13 and 14 Euro-dollar rates rose moderately, though perhaps by less than might be expected from demands created by the exchange market situation.

Actions by central banks. The Bundesbank announced on July 13 that reserve requirements on the domestic liabilities of commercial banks would be raised by 10 per cent effective August 1. A 20 per cent increase which took effect July 1 had already boosted reserve requirements to levels high by historical standards. The Bundesbank estimates that the new 10 per cent rise will absorb DM 3.5 to 4 billion in liquidity.

Pursuing its efforts to slow capital inflows, the Bundesbank announced on July 12 that it had asked the commercial banks not to sell to non-residents portfolios claims against residents and DM-denominated claims on non-residents, nor interests in mutual funds and real estate funds. At the end of June, the sale to non-residents of both new and existing bonds issued by residents was prohibited without permission of the Bundesbank. New issues of bonds floated by non-residents may still be sold to non-residents.

The Bundesbank also requested the commercial banks not to help arrange loans of less than DM500,000 from foreign sources to German nonbank enterprises. Under the Bardepot law, 50 per cent of the proceeds from loans of more than DM500,000 from non-residents to nonbanks must be deposited, interest free, with the Bundesbank.

The Bank of France on July 13 raised all reserve requirements of commercial banks by 2 percentage points as part of its effort to soak up liquidity created by speculative capital inflows in the last several weeks.

CORRECTIONS: Page III-4 - Paragraph 2, line 9, the period should be June 28 to July 12.