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CONFIDENTIAL (FR)
CLASS II - FOMC

May 16, 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

Private Housing Starts (seasonally adjusted) edged up slightly in April, while permits rose briskly. Starts of single family units were virtually unchanged at 754,000 (annual rate), but multifamily starts increased.

HOUSING STARTS AND PERMITS
(In thousands of units and seasonally adjusted annual rates)

	March	April	Per cent Change
Starts	974	990	2
Single Family	757	754	--
Multi-family	217	236	9
Permits	706	897	27
Single Family	523	610	17
Multi-family	183	287	57

Personal income rose $6.7 billion in April to $1,202.4 billion, seasonally adjusted--the largest gain since last October. The increase was largely in nonwage income. Wage and salary disbursements rose $1.3 billion in April--the second consecutive month of increase after four months of decline. In both March and April, the gain in wage and salary disbursements was concentrated in government; income of private sector employees was virtually unchanged. Compared to April 1974, private wage and salary disbursements were up only 2.6 per cent.

Total nonagricultural income rose $4.8 billion in April, and total agricultural income was up by $1.8 billion.

PERSONAL INCOME
(Billions of dollars; seasonally adjusted at annual rates)

	March 1975	April 1975	March 1975-April 1975
Total personal income	1195.7	1202.4	6.7
Wage and salary disbursements	766.0	767.3	1.3
Government	169.2	170.5	1.3
Private	596.8	596.8	0
Manufacturing	203.1	203.1	0
Other	393.7	393.7	0
Nonwage income	479.0	484.4	5.4
Less: Personal contributions for social insurance	49.3	49.3	0
Addenda:			
Total nonagricultural income	1166.2	1171.0	4.8
Total agricultural income	29.6	31.4	1.8

The Domestic Financial Situation

Mortgage market. Average interest rates on new commitments for conventional new- and existing-home mortgages rose 10 basis points during April after declining steadily since September of last year, according to the HUD (FHA) market opinion survey. These movements are consistent with the FHLMC series on primary market rates reported in the Greenbook.

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES
(HUD-FHA Field Office Opinion Survey)

End of Month	Primary market Conventional loans Level 2/ (per cent)	Spread 4/ (basis points)	Secondary market 1/ FHA-insured loans Level 3/ (per cent)	Spread 4/ (basis points)	Discounts (points)
1974-Low	8.55 (Feb.)	-66 (Sept.)	8.54 (Feb.)	- 8 (Sept.)	2.3 (Feb.)
High	9.80 (Sept.)	45 (Feb.)	10.38 (Sept.)	44 (Feb.)	6.3 (July, Sept.)
Sept.	9.80	-66	10.38	- 8	6.3
Oct.	9.70	-33	10.13	10	4.6
Nov.	9.55	-13	--	--	--
Dec.	9.45	n.a.	9.51	n.a.	3.8
1975-Jan.	9.15	15	8.99	- 1	3.3
Feb.	9.05	11	8.84	-10	2.6
Mar.	8.90	-70	8.69	-91	5.4
Apr.	9.00	-66	--	--	--

1/ Any gaps in data are due to periods of adjustment to changes in maximum permissible contract rates on FHA-insured loans.
2/ Average contract rate (excluding fees or points) on commitments for conventional first mortgage loans, rounded to the nearest 5 basis points.
3/ Average gross yield (before deducting servicing costs) to investors on 30-year minimum-downpayment FHA-insured first mortgages for immediate delivery in the private secondary market (excluding FNMA), assuming prepayment in 15 years.
4/ Average gross mortgage rate or yield minus average yield on new issues of Aaa utility bonds in the last week of the month.

The System's announcement of a cut in the discount rate to 6 per cent was not made until after the market closed on May 15, and, thus, the impact of this action is not reflected in the levels of key interest rates on May 15, 1975, presented in the table on the next page. In trading on May 16, the market's reaction to the discount rate action was quite mild. Some longer term Treasury bill rates edged down to some extent and prices on a number of Treasury coupon issues rose moderately, but the general state of credit market was not altered significantly.

CORRECTION:

Table II-T-1

Private nonfarm hourly earnings in April, 1975 were $4.45 (not 44.5)

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

	1975 Highs	1975 Lows	April 14	May 15
Short-Term Rates				
Federal funds (wkly. avg.)	7.70 (1/8)	5.20 (5/14)	5.44 (4/16)	5.20 (5/14)
3-month				
Treasury bills (bid)	6.90 (1/2)	4.94 (5/14)	5.53	5.05
Comm. paper (90-119 day)	9.00 (1/2)	5.75 (5/15)	6.25	5.75
Bankers' acceptances	9.00 (1/1)	5.75 (5/14)	6.15	5.80
Euro-dollars	10.25 (1/3)	5.94 (5/15)	7.00	5.94
CD's (NYC) 90-119 day				
Most often quoted new	9.00 (1/1)	5.75 (5/14)	6.13 (4/9)	5.75 (5/14)
6-month				
Treasury bills (bid)	6.97 (1/2)	5.36 (2/18)	5.86	5.57
Comm. paper (4-6 mo.)	8.75 (1/2)	5.88 (5/15)	6.25	5.88
Federal agencies	7.67 (1/2)	5.75 (2/19)	6.46	n.a.
CD's (NYC) 180-269 day				
Most often quoted new	8.38 (1/1)	6.13 (4/2)	6.50 (4/9)	6.25 (5/14)
1-year				
Treasury bills (bid)	6.69 (1/2)	5.37 (2/5)	6.30	5.87
Federal agencies	7.60 (1/2)	6.03 (2/20)	6.99	n.a.
CD's (NYC)				
Most often quoted new	8.00 (1/1)	6.00 (3/12)	6.75 (4/9)	6.75 (5/14)
Prime municipals	4.35 (1/3)	3.40 (2/7)	4.35 (4/11)	3.75 (5/16)
Intermediate and Long-Term				
Treasury coupon issues				
5-years	8.17 (4/28)	6.93 (2/19)	7.90	7.68
20-years	8.47 (4/28)	7.58 (2/21)	8.30	8.16
Corporate				
Seasoned Aaa	9.02 (4/30)	8.57 (2/26)	8.96	8.86
Baa	10.63 (1/20)	10.27 (4/3)	10.34	10.47
New Issue Aaa Utility	9.80 (4/3)	8.89 (2/6)	9.51 (4/16)	9.54p(5/14)
Municipal				
Bond Buyer Index	7.08 (1/2)	6.27 (2/13)	6.86 (4/16)	6.88 (5/14)
Mortgage--average yield in FNMA auction	9.47 (1/13)	8.78 (3/10)	8.98 (4/7)	9.29 (5/5)

SUPPLEMENTAL APPENDIX A*
AGRICULTURAL CREDIT CONDITIONS AT COMMERCIAL BANKS

Rural bankers report strong demand for farm operating loans, related to the large crop acreage being planted this spring.1/ Availability of loan funds at commercial banks was somewhat improved from the unusually tight situation reported in surveys last fall. Even so, banks have apparently expanded outstanding farm loan volume very little over that of last spring. In contrast, other principal farm lending institutions are reporting substantial increases. On April 1, outstanding farm loans at production credit associations and at Federal Land Banks were 22 and 24 per cent, respectively, above a year earlier.

Several factors help to explain these contrasting farm institutional lending trends:

(1) Though loan/deposit ratios at rural banks have decreased somewhat since last fall, they apparently remain considerably above usual levels of recent years. Reductions in demand deposits--reversing the previous rapid growth at rural banks--appear largely responsible for the continued relatively tight bank liquidity condition. Reduced demand deposit holdings are in turn undoubtedly related to the decreases of 8 and 53 per cent, respectively, in gross and net farm income between the last quarter of 1973 and the first quarter of 1975.

(2) Rural bankers are cautious about loan expansion, although it is difficult to ascertain to what degree this caution stems from their present liquidity position as opposed to concern over farm economic developments. The latter concerns include instability in farm output prices, reduced farm income, potential vulnerability of farmers financing abnormally large holdings of

*Prepared by Emanuel Melichar, Senior Economist, Mortgage, Agricultural, and Consumer Finance Section, Division of Research and Statistics.

1/ Detailed credit conditions surveys covering a large number of rural banks were made on April 1 by the Federal Reserve Banks of Chicago and Minneapolis. These data were supplemented early in May with telephone conversations between Reserve Bank staff and a small number of agricultural bankers in each of six additional Federal Reserve Districts.

cotton, grain, and beef calves while seeking additional financing for new crop production, and recent adverse livestock loan experiences. Urban banks are reportedly exhibiting particularly cautious and conservative attitudes toward farm lending at present.

(3) Relatively few banks have reduced farm loan interest rates significantly from the peaks reached last fall. Most banks report their rates as stable rather than declining over the last six months; thus banks have given up very little of the sharp rate increase posted between April and October in 1974. In contrast, rates charged by production credit associations--which are based mainly on the average cost of outstanding funds raised in money markets--fell significantly in the first quarter and on April 1 averaged only slightly above a year earlier.

(4) Increasing numbers of farmers--primarily those whose financial condition has deteriorated because of past livestock and cotton price developments or local drought conditions--are being categorized by bankers as marginal credit risks and referred to the Farmers Home Administration, which reports historically high farm loan demand.

(5) Short-term loans are increasingly being refinanced into mortgage loans, particularly at the Federal Land Banks where such activity accounted for 12 per cent of money loaned during the first quarter of 1975, compared with 7 per cent a year earlier.

(6) While over-all farm loan demand is apparently being dominated by the exceptional strength in crop operating loan requests, bankers report that other farm loan categories are either weak (livestock, dairy, and mortgage loans) or, in the case of crop storage and machinery loans, weakening from their unusual strength of the past two years. In addition, operating loan demand has been reduced in areas where significant acreage is being shifted from cotton to crops entailing lower production expenses; here, however, financing of large farm stocks of cotton is tending to hold up total farm loan volume. Production credit associations experienced some pick-up in livestock loan demand in March as cattle feeding became profitable.

Rural bankers also generally report that loan repayments are slower and renewal requests higher than last spring. At production credit associations, an unusually low repayment rate, abetted by some increase in renewals, has been responsible for a considerable proportion of the growth in outstanding loans during the past few months.

In periods of financial uncertainty and stress, farm debtors and creditors both look to farm real estate (representing 72 per cent of farm assets) as a foundation of value. On this score, current reports describe farm land prices as "flat" or "stalled." Preliminary tabulations of the Department of Agriculture's March 1 survey (confidential until publication in June) indicate that the national index of farm real estate prices rose by another 4 per cent between November 1 and March 1, putting it 14 per cent above a year earlier. However, prices showed little or no increase in a number of states and small declines in several southern and southwestern states. The continued strength occurred in areas, such as the Dakotas and the far west, where livestock production is less important and where crop income was particularly favorable last year.

SUPPLEMENTAL APPENDIX B*
BANK CREDIT REVISION

Seasonally adjusted bank credit data (last-Wednesday-of month series) have been revised for the period July 1974 through March 1975 on the basis of the December 31, 1974, Call Report. The revised data have been used in the current Greenbook tables.

According to the December Call Report data, growth in total commercial bank credit was at a somewhat faster pace in the second half of 1974 than the partially estimated data had indicated. The annual rate of growth in total loans and investments in the second half of 1974 had been estimated to be 1.4 per cent but has now been revised to 3.1 per cent, as shown in Table I. Some upward adjustment occurred in both the 3rd and 4th quarters. The new higher level of bank credit in December was reflected in larger than estimated holdings ot total loans and "other" (than U.S. Treasury) securities, but estimates of holdings of U.S. Treasury securities were virtually unchanged, as shown in Table II.

The December 1974 Call Report data reveal three sources of error in the original monthly estimates of commercial bank credit:

(1) Nonmember bank figures for both loans and "other" securities were initially estimated too low. These estimates were derived by applying nonmember/country member bank June Call ratios to loan and investment levels reported monthly by country member banks. The December Call ratios were higher than those for June, reflecting more rapid growth in credit at nonmember banks than at country banks. In addition, the December Call indicated that the country bank base figures used for nonmember estimates were reported too

* Prepared by Mary Jane Harrington, Economist, Banking Section, Division of Research and Statistics.

low.[1/] The resulting revision of nonmember estimates added $1.9 billion to the December level of loans, and $1.1 billion to "other securities."

(2) Member bank credit data incorporated in the original December estimates were also lower than data reported in the December Call. Loans and "other" securities were found to be low for reserve city banks as well as for country banks, resulting in upward revisions of $0.5 billion in loans and $0.6 billion in other securities. The all-commercial-bank estimate of U.S. Tresaury security holdings was close to the Call figure. In this case, country member banks reported larger holdings of U.S. Treasury securities on the December monthly series date than they reported on the Call and correspondingly, estimated nonmember data were too high. However, these errors were about offset by underreporting of U.S. Treasury security holdings at reserve city banks.

(3) Domestic commercial interbank loans were initially estimated too high. The nonmember/country member bank ratio was higher in June than December and accordingly the estimated nonmember bank figure was too high. In addition, interbank loans at all member banks were reported higher in the monthly series than on the Call and, on balance, estimated interbank loans were $1.7 billion higher than the actual figure. Interbank loans are subtracted from total loans to derive "loans adjusted" used in the Board's seasonally adjusted bank credit series. As a result, the basic series errors due to ratio and reporting problems noted above were increased from $2.4 billion for total loans and $4.2 billion for total loans and investments to $4.1 billion and $5.9 billion respectively.

Business and real estate loans were both moderately higher on the December Call date than had been estimated. There are no all member reports for these items but data are available from large commercial weekly reporting banks. Estimates for other commercial banks are made largely on the basis of the movement of total loans at the smaller banks, the trend of business and real estate loans as indicated by the most recent Call Report, and patterns for previous years established in the

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1/ It is rare that the report date for the last-Wednesday-of-month series coincides with a Call date, making such report comparisons possible. When such reporting dates do not coincide, an estimate of the difference between the last-Wednesday and the Call date levels (termed "window-dressing") is incorporated into the original estimates. Since the last-Wednesday of December was also the Call date in 1974, there is no "window-dressing" error in the current revision, and it is possible to determine the amount of error in the monthly member bank reports.

monthly benchmarking of the series. Over the second half of the year, business loans increased at an annual rate of 9.5 per cent and real estate loans at a rate of 6.7 per cent, compared with estimated rates of 7.3 per cent and 5.6 per cent respectively. Consumer loans-which are part of consumer credit reports-were not affected by the benchmark revision. Loans to nonbank financial institutions were somewhat lower on the Call than estimated, but security loans were considerably higher ($1.0 billion) than estimated. In recent years, security loans at banks other than weekly reporting banks have shown relatively small changes between Call dates. But in the second half of 1974, the smaller banks were much more active in this area and their holdings of Federal funds sold and securities purchased under agreements to resell with brokers and dealers increased sharply; other loans to brokers and dealers also increased slightly.

In the January-March period, the new higher ratios established from the December Call Report were used to derive revised estimates for nonmember banks and the estimated level of the commercial bank credit series was raised accordingly. No information is available on the extent of error in member bank reporting after December. Over the first quarter, total loans and investments were estimated to have increased at an annual rate of 4.4 per cent compared with 5.8 per cent indicated earlier. Growth in both total loans and "other" securities was at a slightly slower pace on the revised basis. Growth rates in other credit items were close to earlier figures. All data subsequent to December 31, 1974, are subject to further revision when the June 1975 Call Report becomes available.

Table 1
Commercial Bank Credit 1/
Comparison of Old and Revised Rates of Growth
(Seasonally adjusted changes at annual percentage rates)

	Total loans & investments 2/		U.S. Treasury securities		Other securities		Total loans 2/		Business loans 2/		Real estate loans	
	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised
1974--Year	8.3	9.2	-7.6	-7.8	6.5	7.9	10.6	11.5	16.2	17.4	9.8	10.4
2nd Half	1.4	3.1	-27.0	-27.3	3.2	5.9	4.1	5.8	7.3	9.5	5.6	6.7
3rd Qtr.	5.6	7.3	-29.8	-29.1	--	2.3	11.2	12.8	14.0	15.3	6.0	7.3
4th Qtr.	-2.8	-1.1	-26.1	-27.5	6.5	9.3	-2.9	-1.2	0.4	3.5	5.0	5.9
1975--1st Qtr.	5.8	4.4	82.0	82.1	1.2	-1.4	-0.3	-1.5	-4.8	-4.5	3.4	3.7
1974--July	16.0	17.6	-12.8	-13.0	-0.9	1.8	24.0	25.2	22.3	23.0	7.6	8.6
August	9.4	11.1	-10.8	-12.9	--	2.6	14.2	16.1	19.2	20.6	6.6	7.5
Sept.	-8.6	-6.9	-67.3	-65.1	0.9	2.6	-4.7	-3.1	--	2.0	3.8	5.6
Oct.	--	1.4	-57.5	-57.4	11.4	14.0	2.9	4.0	11.1	11.7	2.8	4.7
Nov.	4.5	5.0	-9.7	-16.9	7.8	9.5	5.0	5.9	5.8	9.7	4.7	6.5
Dec.	-12.8	-9.6	-12.2	-9.8	--	4.3	-16.4	-13.5	-15.5	-10.9	7.5	6.5
1975--Jan. p	8.2	3.6	2.5	2.5	5.2	-2.6	9.6	5.5	7.2	8.4	5.6	5.5
Feb. p	3.0	2.8	110.4	110.7	4.3	2.6	-7.9	-7.6	-11.7	-11.6	1.8	2.7
Mar. p	6.6	6.7	121.3	121.6	-4.3	-4.3	-2.6	-2.4	-10.5	-10.4	2.8	2.7

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank) and nonconsolidated non-bank subsidiaries of holding companies.
NOTE: Data revised to reflect adjustment to December 31, 1974, Call Report benchmarks.
p - Preliminary.

Table II
Seasonally Adjusted Bank Credit[1]
Comparison of Old and Revised Levels
(In billions of Dollars)

	Total loans & investments[2]		U.S. Treasury securities		Other securities		Total loans[2]		Business loans[2]		Real estate loans	
	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised
1974--July	692.0	692.9	55.8	55.9	136.5	136.8	499.7	500.2	180.0	180.9	127.1	127.2
August	697.3	699.2	55.3	55.3	136.5	137.1	505.5	506.8	183.6	183.9	127.8	128.0
September	692.3	695.2	52.2	52.3	136.6	137.4	503.5	505.5	183.6	184.2	128.2	128.6
October	692.3	696.0	49.7	49.8	137.9	139.0	504.7	507.2	185.3	186.0	128.5	129.1
November	693.4	697.4	49.3	49.1	138.3	139.6	505.8	508.7	185.7	187.0	128.7	129.5
December	686.0	691.8	48.8	48.7	138.3	140.1	498.9	503.0	183.3	185.3	129.5	130.2
1975--January p	690.7	693.9	48.9	48.8	138.9	139.8	502.9	505.3	184.4	186.6	130.1	130.8
February p	692.2	695.5	53.4	53.3	139.2	140.1	499.6	502.1	182.7	184.8	130.3	131.1
March p	696.0	699.4	58.8	58.7	138.7	139.6	498.5	501.1	181.1	183.2	130.6	131.4

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank) and nonconsolidated non-bank subsidiaries of holding companies.
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