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CONFIDENTIAL (FR)
CLASS II - FOMC

September 12, 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

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The Domestic Nonfinancial Economy

Retail sales in August were 0.8 per cent lower than July, according to the advance report. Much of the drop from the sharply improved July level was attributable to lower sales of the automotive group and food stores. Spending at automotive outlets was off 1 per cent and outlays for food consumed at home were down 2.4 per cent.

It is common for a strong month such as July to be followed by some loss in sales in the following month, and total sales in August are a substantial 3.5 per cent above the second quarter average. (This is the same gain reported in the second quarter over the first). Spending for the automotive group was 8.7 per cent higher than the second quarter and outlays for food stores were up 2.3 per cent. Sales of the combined general merchandise, apparel, and furniture and appliance stores (GAF) were 2 per cent higher than the second quarter.

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

	IV-I	I-II	II-Aug.	June	July	Aug.
Total sales	2.7	3.5	3.5	1.4	2.4	- .8
Durable	5.3	4.5	5.6	3.5	2.9	-1.8
Auto	7.2	4.5	8.7	5.3	4.4	-1.0
Furniture and appliance	- .7	5.1	1.8**	1.4	.3	.6**
Nondurable	1.6	3.1	2.6	.4	2.2	- .7
Food Stores	2.9	1.2	2.3	1.4	2.9	-2.4
General merchandise	.3	5.5	1.5	.2	-1.0	1.0
Gasoline Stations	1.2	2.7	4.7	1.4	3.2	.1
Total, less auto and nonconsumption items	1.6	3.1	2.7	.6	2.0	- .5
GAF	1.0	5.0	2.0	.5	- .4	1.0
Real*	.9	2.2	n.a.	.6	.9	n.a.

*Deflated by all commodities CPI, seasonally adjusted.
**Incorporates revision by Census in advance report.

Merchant builder sales of new single-family homes declined 8 per cent further in July to a seasonally adjusted annual rate of 521,000 units. Although more than a third above the low last December, the July sales rate was nearly a tenth below the second quarter average, which reflected, in part, the initial impact of the 5 per cent tax credit enacted in late March.

The stock of unsold new homes rose in July and by the end of the month represented nearly 9 months' supply at the current sales rate. The median price on the mix of units sold rose to $39,200--about $2,000 above the rising median price of unsold units.

Sales of existing homes edged down in July. This was the first month-to-month decline since January and the July figure was only 6 per cent below the peak rate in early 1973. The median price of used homes sold declined to $35,850--9 per cent above a year earlier.

HOME SALES

	New Home Sales and Stocks			Sales Indexes of Unit Volume (1972=100, seasonally adjusted)		Median Prices of Homes Sold (thous. 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	73	106	35.2	30.9
QII	550	436	9.5	77	105	35.6	32.2
QIII	490	414	10.1	68	99	36.2	32.8
QIV	417	400	11.5	58	93	37.3	32.2
1975							
QI	426	396	11.2	59	95	38.1	33.8
QII (r)	576	377	7.9	80	108	39.0	35.4
Jan.	404	404	12.0	56	87	37.2	33.2
Feb.	411	409	11.9	57	97	37.9	33.9
Mar.	463	396	10.3	64	100	38.8	34.2
Apr. (r)	570	388	8.2	79	106	39.2	34.9
May (r)	593	382	7.7	83	108	39.6	35.2
June (r)	565	377	8.0	79	109	38.1	36.2
July (p)	521	381	8.8	73	105	39.2	35.9

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

New York City situation. Yields in the municipal securities market, already at record levels, rose still further this past week. The Bond Buyer 20-bond Index reached a new record level of 7.40 per cent, 6 basis points above the week earlier level. Earlier in the week yields had fallen as it became apparent that the New York State legislature would pass a financing package that would tide the City over until mid-December. Following the announcement of increased Treasury borrowing over the next four months and the relatively slow investor response to the longest maturity included in New York State's $755 million note offering--despite tax free returns ranging to 8.00 per cent--yields on other municipal securities once again moved up.

Of the $755 million raised by the New York State offering, $250 million is to be used to purchase MAC notes to aid the City. Later, New York State will provide an additional $500 million to the City, $250 million in the form of purchases of MAC bonds and $250 million through a loan secured by mortgages on City-owned housing. In addition to this State aid, the City will receive $1,550 million dollars from prepayment of real estate taxes, from purchases of MAC bonds by banks, City and State pension funds, and City sinking funds, and from roll-overs of City notes held by the 11 NYC clearing house banks.

The new legislation also establishes an Emergency Financial Control Board (EFCB), dominated by the Governor, which will assume almost complete control of New York City's fiscal affairs. The EFCB will make revenue estimates for each month for the next three years. These estimates will form the basis for an expenditure plan drawn up by the City, which will reduce the City's deficit over the three year period. This plan must be completed by the end of October, and the EFCB will have control of all City revenues to insure subsequent City compliance. Penalties for any failure of City officials to comply with the plan include fines and imprisonment.

Despite the new plan, the City still appears to face an uncertain future. Most important, even after the plan's provisions are fully implemented, the City will need to raise $1.8 billion outside the plan to cover financing requirements in the latter half of December and January.

Treasury financing plans. On September 10, the Treasury released a new, higher, estimate of its borrowing needs for the remainder of 1975, and detailed some of its plans to raise the required new cash. The announcement had a negative impact on the yields of all government securities, especially intermediate-term coupon issues where the greatest increases in supply are slated. Yields on some of these issues have increased by as much as 30 basis points in the last few days. Corporate and municipal markets also weakened in response to the Treasury's announcement. In the latter market, yield increases were accentuated by the poor reception accorded the longer-term issues offered as part of the $755 million financial package of New York State brought to market on Wednesday.

The Treasury now expects to need $44.0 to $47.0 billion of new cash in the second half of 1975--$3 to $6 billion above its previous estimate. About $22 billion of this total has been raised to date. Details of the remaining $22 to $25 billion yet to be raised are shown in the table on the next page.

The staff has revised its third and fourth quarter projections of Treasury borrowing to conform to the new pattern of Treasury financing and to reflect the Treasury's intention to finish the year with a higher cash balance than had been anticipated. Third quarter borrowing has been raised from $20.9 to $22.3 billion to include the note and bill auctions now scheduled for September. Fourth quarter borrowing has been left unchanged at $24.7 billion. The half year borrowing total is at the upper end of the Treasury's estimate.

Outline of Treasury Financing Plans

Type of Issue	Auction Date	Due Date	Amount	New Money
2-year note	September 16	September 30	$3.0	$1.0
1-year bill	September 17	September 23	1.9	1.0
29-month note	September 24	October 7	2.0	2.0
2-year note	2 or 3rd week of October	October 31	3.0	3.0
Intermediate-term note	2 or 3rd week of October	Early November	2.5	2.5
Other:				
Note issues	End of October to mid-December		1.5-4.0	1.5-4.0
Bills: (additions to weekly bill auctions and cash management bills)	Over 4th Quarter			7.0-10.0

CORRECTIONS:

Part II - Section IV, page 2, lines 16-18, U. S. banks' gross liabilities to their own foreign branches rose by $300 million in the four weeks ended September 3.

INTEREST RATES
(One day quotes - in per cent)

	1975 Highs	1975 Lows	Aug. 18	Sept. 11
Short-Term Rates				
Federal funds (wkly. avg.)	7.70(1/8)	5.13(5/21)	6.15(8/20)	6.15(9/10)
3-month				
Treasury bills (bid)	6.90(1/2)	4.88(6/16)	6.42	6.46
Comm. paper (90-119 day)	9.00(1/2)	5.38(6/2)	6.63	6.75
Bankers' acceptances	9.00(1/1)	5.40(5/30)	6.75	6.90
Euro-dollars	10.25(1/3)	5.69(5/21)	7.13	7.31
CD's (NYC) 90-119 day				
Most often quoted new	9.00(1/1)	5.38(6/11)	6.63(8/13)	6.88(9/10)
6-month				
Treasury bills (bid)	7.05(8/25)	5.18(6/11)	6.97	6.91
Comm. paper (4-6 mo.)	8.75(1/2)	5.38(5/23)	6.75	6.75
Federal agencies	7.67(1/2)	5.68(6/12)	7.61	7.42(9/10)
CD's (NYC) 180-269 day				
Most often quoted new	8.38(1/1)	5.75(6/18)	7.00(8/13)	7.80(9/10)
1-year				
Treasury bills (bid)	7.35(8/21)	5.37(2/5)	7.22	7.23
Federal agencies	8.00(8/25)	6.03(2/20)	7.99	7.81(9/10)
CD's (NYC)				
Most often quoted new	8.00(1/1)	6.00(3/12)	7.00(8/13)	7.75(9/10)
Prime municipals	4.35(8/15)	3.40(2/7)	4.35(8/15)	4.10(9/12)
Intermediate and Long-Term				
Treasury coupon issues				
5-years	8.52(9/11)	6.93(2/19)	8.40	8.52
20-years	8.66(9/11)	7.58(2/21)	8.55	8.66
Corporate				
Seasoned Aaa	9.02(4/30)	8.57(2/26)	8.96	8.93
Baa	10.63(1/20)	10.27(4/3)	10.36	10.37
New Issue Aaa Utility	9.80(4/3)	8.89(2/6)	9.53(8/20)	9.63p
Municipal				
Bond Buyer Index	7.40(9/10)	6.27(2/13)	7.18(8/20)	7.40
Mortgage--average yield				
in FNMA auction	9.70(9/8)	8.78(3/10)	9.32(8/11)	9.70

The International Developments

Additional monetary policy measures. At its meeting of September 11, the Central Bank Council of the German Bundesbank announced further reductions in the bank's discount and Lombard rates. Effective September 12, these rates were lowered by 0.5 percentage points, to 3 and 4.5 per cent respectively. These reductions follow similar 0.5 percentage point cuts in mid-August, and mark the seventh time since last October that the Bundesbank has reduced the discount rate and the eighth time it has reduced the Lombard rate. The Bundesbank also announced an increase of DM 3 billion in credit institutes' rediscount quotas, effective October 1. In commenting on the monetary policy moves, Bundesbank President Karl Klasen noted that these actions were aimed at easing the level of costs for German industry and were needed to provide further stimulation to the German economy.

The Netherlands Bank on September 12, announced a 1 percentage point reduction in its bank rate to 4½ per cent effective September 15. The Bank of Italy on September 12 announced a 1 percentage point reduction in its bank rate to 6 per cent effective September 15.