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.

Content last modified 6/05/2009.

CONFIDENTIAL (FR)
CLASS II - FOMC

August 13, 1976

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

The Domestic Nonfinancial Economy

Industrial production is estimated to have increased 0.2 per cent in July following rises of 0.4 in June and 0.9 in May. Most major sectors of production showed little change or small increases last month. Overall activity was also dampened somewhat in July by increased strike activity, notably in coal mining. At 130.4 per cent of the 1967 average, the index is now almost 17 per cent above the March 1975 trough.

Products. Output of consumer goods was apparently unchanged in July. After allowance for model changeover, auto assemblies edged off slightly from June; production schedules currently available indicate little change for the remainder of the third quarter. Production of other consumer durable goods was almost unchanged as small rises in furniture, carpeting and miscellaneous goods were offset by a decline in appliance production. After a substantial rise early this year, output of business equipment has shown only modest increases in recent months, rising by 0.3 per cent in both June and July. Production of construction supplies rose by 0.4 per cent in July.

Materials. Output of nondurable goods materials, which rebounded strongly in the early part of the recovery, has recently been sluggish. However, production of durable goods materials continued to advance strongly in July to a level approximately 25 per cent over the low in the second quarter of 1975 but still 6 per cent below the prerecession high. The materials capacity utilization rate was 81 per cent in July, still 13 per cent below the 1973 peak.

INDUSTRIAL PRODUCTION
(Seasonally adjusted)

Indexes, 1967=100	1976 Apr.	May	June (p)	July (e)	Per cent changes Month Ago	Year Ago	QI to QII
Total	128.4	129.6	130.1	130.4	.2	10.1	1.9
Products, total	128.0	128.8	129.1	129.4	.2	7.0	1.1
Final products	126.3	127.2	127.2	127.4	.2	6.4	1.4
Consumer goods	136.1	137.3	137.3	137.3	--	8.5	1.6
Durable goods	141.1	143.3	144.2	144.3	.1	14.0	3.8
Nondurable goods	134.0	134.8	134.6	134.5	-.1	6.2	.7
Business equipment	134.1	134.8	135.2	135.6	.3	6.5	1.7
Intermediate products	134.7	135.0	136.4	136.8	.3	9.4	.6
Construction supplies	128.0	130.1	131.4	131.9	.4	12.9	1.1
Materials	129.2	131.0	131.6	132.0	.3	15.3	2.9

p--preliminary   e--estimated

Wholesale prices increased 0.3 per cent (seasonally adjusted, not at an annual rate) from June to July as price increases for industrial commodities more than offset declines in prices of farm and food products.

Industrial commodities rose 0.7 per cent, owing mainly to higher prices for fuels and power, metals and metal products, and lumber and plywood. Excluding the fuels and power commodity groups, the increase was 0.6 per cent. Farm and food products fell 1 per cent, following three months of increases, with lower prices for livestock and meats accounting for most of the decline.

On a stage of processing basis, crude materials (excluding foods) rose sharply further with increases for scrap metals and crude petroleum largely responsible for the increase. Higher prices, mainly for nonferrous metals, lumber and plywood, textile products, fabricated metal products, and iron and steel, resulted in intermediate materials (excluding foods) advancing by 0.5 per cent, somewhat below the June rise. Increases, chiefly for gasoline, home heating oil, and apparel, moved consumer nonfood finished goods higher by 0.7 per cent, about at the June rate, as the index of consumer durable goods was unchanged. Advances for machinery and equipment and trucks accounted for most of the 0.5 per cent rise in producer finished goods.

WHOLESALE PRICES
(Per cent changes at annual rates; based on seasonally adjusted data) 1/

	Relative importance Dec. 75	Dec. 74 to Dec. 75	Dec. 75 to Mar. 76	Mar. 76 to June 76	June 76 to July 76
All commodities	100.0	4.2	-1.8	6.6	3.9
Farm and food products	22.8	- .3	-15.8	18.0	-11.5
Industrial commodities	77.2	6.0	3.2	3.6	8.6
Excluding fuels and related products and power	66.8	5.1	6.1	3.6	6.9
Materials, crude and intermediate 2/	48.1	5.5	3.5	4.3	8.8
Finished goods					
Consumer nonfoods	18.7	6.7	.5	2.3	9.0
Producer goods	11.9	8.2	6.8	3.3	5.6
Memo:					
Consumer foods	11.1	5.5	-20.5	16.8	-20.9

1/ Not compounded for one-month changes.
2/ Estimated series.

Inventories. Book value of retail trade inventories rose at $11.5 billion annual rate in June (p), following a $0.7 billion May increase. For the second quarter as a whole, retail inventories increased $6.3 billion (annual rate)--off slightly from the $8.0 billion first quarter rate of gain. The June increase was mainly in nondurables which rose at a $9.0 billion annual rate with most of the accumulation occurring in apparel and drug stores. The ratio of inventories to sales at retail stores edged down from 1.43 in May to 1.42 in June.

Book value of total manufacturing and trade inventories increased at a $39.8 billion annual rate in June following a $23.3 billion rate of gain in May; the June increase was the largest since December 1974. Nevertheless, the ratio of book value inventories to sales for all business remains unchanged at 1.46 in June. For the second quarter as a whole, business inventories rose at a $24.9 billion annual rate; the first quarter increase was $19.5 billion. This second quarter increase implies little, if any, revision in the preliminary GNP figure.

The Domestic Financial Economy

Mortgage market. According to the HUD(FHA) opinion survey, average interest rates on new commitments for conventional new- and existing-home mortgages remained unchanged in July at levels of 9.05 and 9.10 per cent, respectively. Yields on FHA-insured new-home mortgages for immediate delivery in the private secondary market declined by 6 basis points to 8.99 per cent.

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

End of Month	Primary market: Conventional loans		Secondary market 1/: FHA-insured loans		
	Level 2/ (per cent)	Spread 4/ (basis points)	Level 3/ (per cent)	Spread 4/ (basis points)	Discounts (points)
1975-Low	8.90 (Mar.)	-70 (Mar.)	8.69 (Mar.)	-91 (Mar.)	2.4 (Dec.)
High	9.25 (Sept., Oct.)	+15 (Jan.)	9.74 (Sept.)	+31 (Oct.)	6.2 (Aug.)
1976-Jan.	9.05	+39	9.06	+40	2.4
Feb.	9.00	+42	9.04	+46	2.2
Mar.	8.95	+42	n.a.	n.a.	n.a.
Apr.	8.90	+32	8.82	+24	2.5
May	9.00	+ 5	9.03	+ 8	4.1
June	9.05	+35	9.05	+35	4.2
July	9.05	+33	8.99	+27	3.8

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 rates (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.

INTEREST RATES
(One day quotes - in per cent)

	1976			
	Highs	Lows	July 19	Aug. 12
Short-Term Rates				
Federal funds (wkly. avg.)	5.58(6/30)	4.70(2/18)	5.30(7/21)	5.25(8/11)
3-month				
Treasury bills (bid)	5.57(6/2)	4.68(1/29)	5.23	5.16
Comm. paper (90-119 day)	6.00(6/15)	5.00(4/29)	5.50	5.38
Bankers' acceptances	5.95(6/2)	4.80(4/21)	5.45	5.33
Euro-dollars	6.81(6/1)	5.19(4/22)	5.75	5.75
CD's (NYC) 90 days				
Most often quoted new	5.75(6/16)	4.88(4/21)	5.38(7/14)	5.35(8/11)
6-month				
Treasury bills (bid)	5.96(5/27)	4.95(1/29)	5.52	5.42
Comm. paper (4-6 mo.)	6.00(6/22)	5.13(4/29)	5.75	5.50
Federal agencies	6.42(5/27)	5.31(2/2)	5.93	5.84p(8/10)
CD's (NYC) 180 day				
Most often quoted new	6.50(6/2)	5.38(4/21)	5.75(7/14)	5.75(8/11)
1-year				
Treasury bills (bid)	6.39(5/27)	5.27(1/29)	5.82	5.66
Federal agencies	6.86(5/28)	5.82(4/14)	6.39	6.24p(8/10)
CD's (NYC)				
Most often quoted new	6.75(6/16)	5.38(2/4)	6.13(7/14)	6.25(8/11)
Prime municipals	3.70(5/28)	3.00(1/30)	3.25(7/16)	3.20(8/13)
Intermediate and Long-Term				
Treasury coupon issues				
5-years	7.82(5/27)	7.12(4/21)	7.47	7.35
20-years	8.20(5/21)	7.77(4/14)	8.00	7.92
Corporate				
Seasoned Aaa	8.66(1/2)	8.34(4/15)	8.55	8.48(8/11)
Baa	10.34(1/2)	9.50(8/11)	9.59	9.50(8/11)
New Issue Aaa Utility	8.95(5/28)	8.38(4/22)	8.66(7/23)	8.50
Municipal				
Bond Buyer Index	7.13(1/8)	6.54(4/15)	6.77(7/22)	6.60
Mortgage--average yield in FNMA auction	9.20(6/1)	8.83(4/19)	9.05(7/12)	9.01(8/9)

ERRATAS:

Part II:

Page II-19 Federal Sector Accounts Table: The decrease in cash operating balance for Fiscal Year 1977 (F.R. Board Staff Estimate) is $0.9 billion, not $5.8 billion.

Page III-12: The August 9 figure for "yields on GNMA guaranteed mortgage backed securities for immediate delivery", in the "Secondary Home Mortgage Market Activity" table, should be 8.37, not 8.32.