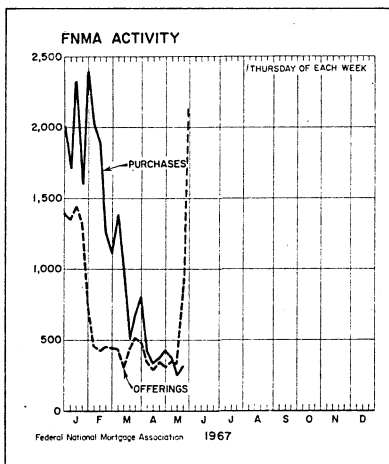


NOTES ON HOUSING AND ECONOMIC SCENE

June 1967

The home building industry, all too swiftly, is again confronted with a tightening mortgage market. This development, indicated in the May "News Notes," has occurred with startling speed.

Prices of FHA-VA mortgages in the past two weeks declined from par or 99 to a 96-95 level, and offerings of mortgages to FNMA increased three-fold (Chart 1). Financial institutions, in many cases, stopped making long-term future commitments. Interest rates, which had been dropping, firmed. Construction money and conventional mortgages, in some areas, have become difficult to obtain.



For how long and to what extent this tightening will continue finds no clear-cut unanimity of opinion among many private and government economists.

A special survey of builders and metropolitan housing forecasters indicates that to date the tightening of money has been felt only slightly in many local areas. FHA-VA points have risen on the average close to two points and the conventional interest rate by nearly $\frac{1}{4}\%$. These new rates do not yet exceed the February-March levels. Nationally long term interest rates and yields have shown a more substantial increase.

At a recent round-table of economists, some foresaw the nation's slowing economic growth and the record flow of funds into savings institutions as precluding a repeat of last year's situation and that the current situation is only temporary.

In any case, much of the corporate borrowing in the first quarter—which has upset the mortgage sector—was anticipatory of a late-year squeeze and the result of postponed borrowing from last year.

Indications are that borrowing on the part of business will be lower during the second and third quarters. Already this is apparent in the decline of offerings in the June bond market. However, the government will be getting into the market soon to raise some \$40 billion through short-term borrowing.

WHAT HAPPENED IN MONEY MARKETS

1. HEAVY CORPORATE BORROWING

First quarter figures show \$5.4 billion in new corporate securities were offered by business for cash sales, up substantially from \$4 billion in the fourth quarter of 1966. Over \$5 billion of this was in the bond market. About 46% of the issues offered was for manufacturing, a strong increase over previous periods. More than 70% of the net proceeds in the first quarter of 1967 has been earmarked for plant and equipment, slightly up from about 69% of the total offerings (\$17.8 billion) raised in corporate securities in 1966.

The increase in plant and equipment investment last year was partially responsible for the heavy demand for loanable funds. This aggravated the money market in general, and the mortgage markets in particular.