

Central Files

THE PRESIDENT HAS SEEN *d.s.*

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

November 18, 1974

MEMORANDUM FOR THE PRESIDENT

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Subject: October Housing Starts

As from August to September, seasonally adjusted housing starts changed little from September to October. The annual rate of private starts -- 1,124,000 units -- thus continues depressed and no significant recovery is expected before the end of the year. Because of the abnormally low level of building permits issued in October, a temporary dip in starts cannot be ruled out in November or December. Still, housing starts are clearly bottoming out this quarter

The decline in short-term interest rates since August and the return of savings to the savings and loan associations in October indicate that housing will begin a sustained counter-cyclical rise in the Spring of next year as the rest of the economy continues weak. Optional reading is attached.

William J. Fellner

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Acting Chairman



Supplementary Material

Excluding interest credited, savings and loan associations gained \$0.3 billion of savings deposits in October, while mutual savings banks still had reduced outflows of about the same amount. After losing close to \$2 billion of deposits both in August and September, the thrift institutions thus held their own in October and the rate of inflow is expected to grow. For the present purpose we have not corrected these figures for seasonal variations.

While interest rates on mortgages actually made have yet to decline, rates on commitments to lend 4 months from now already have declined perceptibly. For instance, the average yeild on offers accepted in FNMA's November 4 auction of commitments to purchase FHS-VA home mortgages has fallen to 9.9 percent from 10.6 percent only two months before. Higher savings flows and gradually weakening interest rates should begin to raise both single-family and multi-family starts early next year as the cost of construction financing and mortgage credit falls and the availability of loans improves.

The 3 billion conventional Tandem program authorized on October 18 had already generated almost \$700 million of mortgage commitments at 8-1/2 percent interest by November 15. At this rate, the program will come close to being used up during the balance of this year, when it is most needed. There will be little need for special measures to fuel the upturn in starts which is firmly expected for next year.