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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

February 19, 1975

MEMORANDUM FOR THE PRESIDENT

Subject: January Housing Starts

Seasonally adjusted housing starts rose by 13 percent from December to January. The annual rate of starts -- 987,000 units -- was about the same as in November of 1974. As indicated last month, the December starts figure may therefore well have been the lowest in the current housing cycle with housing starts expected to rise throughout this year. However, the level of new private housing units authorized, which dropped to a new low in January, suggests that the recovery may be halting and choppy for another month or two.

William Fellner
William J. Fellner
Member

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Supplementary Material

Excluding interest credited on passbook accounts savings and loan associations gained $2.9 billion of savings deposits in January, the best monthly gain since January 1973. The preliminary evidence for the first ten days of February is that inflows are continuing at a high rate. Some of the increased liquidity of the S&L's was used to reduce Federal Home Loan Bank advances outstanding from $21.8 billion in December 1974 to $20.3 billion on February 7, 1975.

Mortgage interest rates generally tend to decline within a few months after a turnaround in savings flows. Although the effective rate for conventional mortgage loans actually made on new homes in January held steady at 9.4 percent, four months commitments to purchase FHA/VA home mortgages have afforded yields of less than 9 percent in FNMA's latest auction held on February 10. Forward rates that are well below current rates are a sure sign that current rates will come down substantially in the coming months. On January 21 the FHA-VA ceiling rate was lowered from 9 to 8-1/2 percent. The following day the second $3 billion of below-market interest rate GNMA-Tandem commitments was released, with the mortgage interest rate set at 7-3/4 percent. The total authorization contained in the October 18, 1974 legislation was for $7.75 billion. All factors considered, the financial prerequisites for a sustained recovery in housing are falling into place.