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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

November 14, 1973

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

November 14, 1973

SELECTED DOMESTIC NONFINANCIAL DATA
AVAILABLE SINCE PRECEDING GREENBOOK
(Seasonally adjusted)

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Oct.	11/2	89.8	4.8	4.3	2.9
Unemployment rate	Oct.	11/2	4.5	4.8[1/]	4.7[1/]	5.5[1/]
Insured unemployment rate	Sept.	10/20	2.8	2.7[1/]	2.7[1/]	3.4[1/]
Nonfarm employment, payroll (mil.)	Oct.	11/2	76.3	4.8	4.2	3.7
Manufacturing	Oct.	11/2	20.0	6.3	3.6	4.0
Nonmanufacturing	Oct.	11/2	56.3	4.3	4.4	3.5
Private nonfarm:						
Average weekly hours (hours)	Oct.	11/2	37.0	37.2[1/]	37.2[1/]	37.3[1/]
Hourly earnings ($)	Oct.	11/2	3.98	9.1	7.2	6.7
Manufacturing:						
Average weekly hours (hours)	Oct.	11/2	40.6	40.8[1/]	40.7[1/]	40.7[1/]
Unit labor cost (1967=100)	Sept.	10/29	124.0	4.9	4.9	4.9
Industrial production (1967=100)	Oct.	11/15	127.8	6.6	3.5	7.2
Consumer goods	Oct.	11/15	133.3	14.6	1.5	5.0
Business equipment	Oct.	11/15	127.3	19.2	14.0	14.1
Defense & space equipment	Oct.	11/15	81.6	8.9	2.5	4.7
Materials	Oct.	11/15	131.7	-2.7	2.4	7.7
Consumer prices (1967=100)	Sept.	10/19	135.5	3.8	9.9	7.4
Food	Sept.	10/19	148.3	-1.6	26.1	18.8
Commodities except food	Sept.	10/19	124.3	1.0	2.6	3.3
Services 2/	Sept.	10/19	140.6	11.2	7.2	4.8
Wholesale prices (1967=100)	Oct.	11/7	140.2	-3.6	17.1	16.2
Industrial commodities	Oct.	11/7	129.7	13.7	8.8	9.1
Farm products & foods & feeds	Oct.	11/7	169.2	-39.1	37.8	35.3
Personal income ($ billion)[3/]	Sept.	10/17	1057.2	11.3	11.9	11.1
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Sept.	11/1	42.1	-1.4	-2.1	12.9
Capital goods industries:	Sept.	11/1	12.7	-1.2	-6.3	10.4
Nondefense	Sept.	11/1	11.1	0.6	-2.7	14.1
Defense	Sept.	11/1	1.6	-12.2	-25.1	-9.7
Inventories to sales ratio:						
Manufacturing and trade, total	Sept.	11/15	1.44	1.43[1/]	1.44[1/]	1.49[1/]
Manufacturing	Sept.	10/31	1.59	1.57[1/]	1.58[1/]	1.65[1/]
Trade	Sept.	11/15	1.29	1.28[1/]	1.30[1/]	1.34[1/]
Ratio: Mfrs.' durable goods inventories to unfilled orders	Sept.	11/1	.726	.733[1/]	.756[1/]	.873[1/]
Retail sales, total ($ bil.)	Oct.	11/9	43.4	2.1	1.3	10.9
GAF	Oct.	11/9	11.2	1.1	1.3	8.6
Auto sales, total (mil. units)[3/]	Oct.	11/5	10.2	-15.9	-13.8	-11.7
Domestic models	Oct.	11/5	8.7	-17.8	-13.1	-11.4
Foreign models	Oct.	11/5	1.5	-3.1	-17.5	-13.2
Plant & equipment expen. ($ bil.)[4/]						
All industries	1974	11/10	113.85	--	--	13.67
Manufacturing	1974	11/10	46.52	--	--	24.19
Housing starts, private (thous.)[3/]	Sept.	11/17	1,763	-14.7	-17.2	-27.3
Leading indicators (1967=100)	Sept.	10/29	166.7	-0.4	1.5	13.3

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ Planned--McGraw-Hill.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Aggregate output and employment have continued to expand appreciably, though less rapidly than earlier this year. Recent declines in prices of farm products and foods have tempered the rate of over-all price advances but non-food commodity prices have continued to rise rapidly. Capacity constraints continue to limit expansion in a number of important areas, and the fuel crisis is adding major uncertainties to prospects for output and prices.

In October, industrial production increased 0.6 per cent from a September level which has been revised slightly downward. Output of business equipment continued strongly expansive and output of consumer goods advanced further, but materials production showed little change, in part reflecting constraints imposed by available capacity.

The labor market recently has strengthened. In October, the unemployment rate dropped from 4.8 per cent to 4.5 per cent, the lowest level since the spring of 1970. Nonfarm payroll employment has shown a resurgence; the October rise amounted to 300,000, with manufacturing employment up for the first significant increase since June. Upward revisions for August and September have brought the rise in total nonfarm employment in the latest three months to an annual rate of over 3 million.

Revised data indicate that retail sales in the third quarter were notso sluggish as originally reported. In October, retail sales rose 2 per cent according to the advance report. Unit sales of new autos, however, were weak. Shortages of small models relative to demand may have contributed to the decline, as well as consumer dissatisfaction with some features of the new models.

Inventory investment has remained exceptionally moderate relative to activity levels; delays and/or inability to obtain desired stocks probably have been an important factor holding down inventory accumulation. Business plans to spend on plant and equipment are still strong, however, as evidenced by the recent McGraw-Hill survey. Although the rise in new orders for nondefense equipment has moderated, unfilled orders have mounted further even though output of business equipment has continued to increase rapidly.

Wage rates have continued to advance rapidly, with the hourly earnings index up about 7-1/2 per cent at an annual rate since March. In the nonfarm economy, productivity growth was at a relatively slow pace in the third quarter, and unit labor costs rose rapidly.

Wholesale prices of farm products and foods declined further from September to October, but were still 4-1/2 per cent above the June level, prior to the freeze. The rise in industrial prices accelerated in October--to 1.1 per cent for the month--with the index 9 per cent above a year earlier. Higher prices for petroleum products accounted for much of the October increase, but price advances were widespread. In September, the rise in the consumer price index had moderated because of lower prices for foods, but the index was about 7-1/2 per cent above a year earlier.

<u>Outlook</u>. The following staff assumptions are incorporated in the GNP projections: (1) Growth in M_1 will average about 5 per cent or so over the projection period. Under this assumption, short-term money market rates are expected to average close to current levels during 1974, but long-term rates are expected to move up somewhat further next year. (2) Federal defense expenditures in calendar 1974 have been raised $1.5 billion, reflecting replacement of military equipment going to Israel. (3) Price and wage controls will be continued beyond the April expiration date, but with further selective decontrol as the year unfolds. (4) Because of uncertainties as to the time period over which oil imports may be restricted, and as to probable allocation programs, no specific allowance has been made for the effects of an acute oil shortage on real economic activity.

Real GNP is now projected to rise at an annual rate of 3.8 per cent this quarter, rather than the 3.5 per cent indicated in the October Greenbook. Looking forward to 1974, the most important changes from the projection of five weeks ago are higher rates of real GNP growth and a somewhat faster rate of price increase. The unemployment rate is now projected to rise from a low of 4.6 per cent in the current quarter to 5.2 per cent in the fourth quarter of 1974.

The higher rate of growth in real GNP projected for 1974 reflects somewhat more strength in several demand sectors. Business outlays for fixed capital are now projected to increase over 12 per cent for the year. The upward revision reflects additional evidence of strong demands for new capacity and other purposes, and takes into account the recent McGraw-Hill Survey. The projected decline in housing starts and residential construction has been tempered because savings inflows have improved and are now expected to hold up better than earlier assumed. On the other hand, net exports of goods and services are expected to rise less in 1974 from a higher fourth quarter level than had been assumed previously. Growth in consumer spending has been raised relatively little despite a faster rise than projected earlier for wage rates and disposable income.

Nonfood commodity prices are now expected to increase somewhat more rapidly than appeared likely five weeks ago. The GNP private fixed weight deflator is projected to rise at an annual rate of 5 per cent in the second half of 1974, rather than 4-1/2 per cent projected previously. Underlying the present projection are expected higher unit labor costs, the pervasive effects of fuel and other materials shortages, and the effects of gradual and selective decontrol of wages and prices.

STAFF GNP PROJECTIONS

	Changes in nominal GNP $ billion		Per cent change annual rate: Real GNP		Per cent change annual rate: Gross private product fixed weighted price index		Unemployment rate	
	10/10/73	11/14/73	10/10/73	11/14/73	10/10/73	11/14/73	10/10/73	11/14/
1971 1/	78.3	78.3	3.2	3.2	4.6	4.6	5.9	5.9
1972 1/	99.7	99.7	6.1	6.1	3.2	3.2	5.6	5.6
1973	133.5	133.3	6.1	6.1	6.0	5.8	4.8	4.8
1974	108.1	115.2	2.5	2.9	5.7	5.9	5.2	4.9
1973-I 1/	43.3	43.3	8.7	8.7	7.0	7.0	5.0	5.0
II 1/	29.5	29.5	2.4	2.4	7.9	7.9	4.9	4.9
III 2/	32.2	32.0	3.7	3.6	7.1	7.1	4.8	4.8
IV	32.1	31.6	3.5	3.8	6.3	5.8	4.7	4.6
1974-I	27.2	29.7	2.5	3.0	5.9	6.2	4.9	4.7
II	25.0	26.3	2.3	2.5	5.2	5.4	5.1	4.8
III	19.2	24.1	1.0	2.0	4.6	5.0	5.3	5.0
IV	19.7	26.3	1.1	2.0	4.6	5.0	5.5	5.2
Change: 72-IV to 73-IV	137.1	136.4	4.5	4.6	7.1	6.9	-.6	-.7
73-IV to 74-IV	91.1	106.4	1.7	2.4	5.1	5.4	.8	.6

1/ Actual.
2/ Commerce preliminary for GNP.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarter figures at annual rates.)

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 II	1973 IIIp	1973 Proj. IV
Gross National Product	1155.2	1288.5	1166.5	1199.2	1242.5	1272.0	1304.0[1]	1335.6
Final purchases	1149.1	1282.4	1157.8	1191.0	1237.8	1267.5	1298.5[1]	1325.6
Private	894.1	1004.7	903.1	930.3	969.2	992.2	1018.9[1]	1038.5
Excluding net exports	898.7	1000.1	906.9	933.8	969.2	989.4	1012.0[1]	1029.7
Personal consumption expenditures	726.5	805.2	734.1	752.6	779.4	795.6	814.0[1]	831.6
Durable goods	117.4	132.1	120.2	122.9	132.2	132.8	132.0[1]	131.5
Nondurable goods	299.9	336.4	302.3	310.7	322.2	330.3	341.5[1]	351.6
Services	309.2	336.7	311.6	319.0	325.0	332.6	340.5	348.5
Gross private domestic investment	178.3	201.1	181.5	189.4	194.5	198.2	203.5[1]	208.1
Residential construction	54.0	58.2	54.5	56.9	59.0	59.6	59.3	54.8
Business fixed investment	118.2	136.8	118.3	124.3	130.9	134.1	138.7[1]	143.3
Change in business inventories	6.0	6.2	8.7	8.2	4.6	4.5	5.5[1]	10.0
Nonfarm	5.6	5.5	8.4	7.9	4.4	4.4	4.0[1]	9.0
Net exports of goods and services[1]	-4.6	4.6	-3.8	-3.5	0.0	2.8	6.9[1]	8.8
Exports	73.5	100.6	74.0	79.7	89.7	97.2	104.5[1]	110.9
Imports	78.1	96.0	77.7	83.2	89.7	94.4	97.6[1]	102.1
Gov't. purchases of goods and services	255.0	277.7	254.7	260.7	268.6	275.3	279.6[1]	287.1
Federal	104.4	107.4	102.3	102.7	105.5	107.3	107.1	109.7
Defense	74.4	74.3	71.9	72.4	74.3	74.2	73.6	75.1
Other	30.1	33.1	30.4	30.3	31.2	33.1	33.5	34.6
State & local	150.5	170.2	152.4	158.0	163.0	168.0	172.5[1]	177.4
Gross national product in constant (1958) dollars	790.7	838.7	796.7	812.3	829.3	834.3	841.6	849.5
GNP implicit deflator (1958 = 100)	146.1	153.6	146.4	147.6	149.8	152.5	154.9	157.2
Personal income	939.2	1034.3	943.7	976.1	996.6	1019.0	1046.7	1074.9
Wage and salary disbursements	627.8	691.6	632.7	648.7	666.7	682.6	698.9	718.0
Disposable income	797.0	881.6	800.9	828.7	851.5	869.7	890.9[1]	914.4
Personal saving	49.7	52.9	45.8	54.4	50.0	51.0	52.8[1]	57.8
Saving rate (per cent)	6.2	6.0	5.7	6.6	5.9	5.9	5.9[1]	6.3
Corporate profits before tax	98.0	126.4	98.4	106.1	119.6	128.9	128.0e	129.0
Corp. cash flow, net of div. (domestic)	105.0	109.2	91.9	97.7	104.9	110.3	110.4	111.1
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.7	264.9	229.6	236.9	253.6	262.4	268.9e	274.7
Expenditures	244.6	264.7	237.0	260.3	258.6	262.4	265.7	272.0
Surplus or deficit (-)	-15.9	0.2	-7.4	-23.4	-5.0	0.0	3.2e	2.7
High employment surplus or deficit (-)	0.4	-0.8	7.3	-10.9	-0.9	0.0	-1.5	-0.7
State and local government surplus or deficit (-), (N.I.A. basis)	13.1	10.7	9.5	19.6	13.9	11.5	9.8e	7.6
Total labor force (millions)	89.0	91.1	89.3	89.6	90.0	90.9	91.3	92.1
Armed forces "	2.5	2.3	2.4	2.4	2.4	2.3	2.3	2.3
Civilian labor force "	86.5	88.8	86.9	87.2	87.6	88.6	89.0	89.8
Unemployment rate (per cent)	5.6	4.8	5.6	5.3	5.0	4.9	4.8	4.6
Nonfarm payroll employment (millions)	72.8	75.5	73.0	73.8	74.6	75.3	75.7	76.4
Manufacturing	18.9	19.8	19.0	19.3	19.6	19.8	19.8	20.0
Industrial production (1967 = 100)	115.1	125.7	116.3	120.2	123.1	124.8	126.8	128.3
Capacity utilization, mfg. (per cent)	78.6	83.2	79.4	81.5	82.8	83.3	83.4	83.3
Major materials (per cent)	90.2	95.5	91.0	92.4	93.8	94.4	96.3	97.4
Housing starts, private (millions, A.R.)	2.38	2.10	2.37	2.40	2.40	2.22	2.01	1.78
Sales new autos (millions, A.R.)	10.94	11.63	11.52	11.69	12.23	11.73	11.74	10.85
Domestic models	9.32	9.87	9.91	9.90	10.27	9.87	10.11	9.25
Foreign models	1.61	1.76	1.61	1.79	1.96	1.86	1.63	1.60

1/ Estimates of revisions to be made in Commerce preliminary estimates because of revised and more complete underlying data.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarter figures at annual rates.)

	1974 Proj.	1974 Projected I	II	III	IV
Gross National Product	1403.7	1365.3	1391.6	1415.7	1442.0
Final purchases	1394.0	1353.8	1381.6	1406.7	1433.7
Private	1088.4	1059.4	1080.5	1098.3	1115.5
Excluding net exports	1079.2	1050.5	1070.9	1089.0	1106.3
Personal consumption expenditures	874.9	851.0	869.1	883.2	896.2
Durable goods	131.8	132.0	132.0	132.0	131.0
Nondurable goods	376.6	363.0	374.1	381.2	388.2
Services	366.5	356.0	363.0	370.0	377.0
Gross private domestic investment	214.0	211.0	211.8	214.8	218.4
Residential construction	50.7	51.2	49.3	50.3	52.1
Business fixed investment	153.6	148.3	152.5	155.5	158.0
Change in business inventories	9.7	11.5	10.0	9.0	8.3
Nonfarm	9.5	12.0	10.0	8.5	7.5
Net exports of goods and services 1/	9.3	8.9	9.6	9.3	9.3
Exports	119.7	115.7	119.0	120.8	123.1
Imports	110.4	106.8	109.4	111.6	113.8
Gov't. purchases of goods and services	305.5	294.4	301.1	308.4	318.1
Federal	114.7	111.7	113.3	115.0	118.7
Defense	77.4	75.5	76.3	77.5	80.3
Other	37.3	36.2	37.0	37.5	38.4
State & local	190.8	182.7	187.8	193.4	199.4
Gross national product in constant (1958) dollars	863.0	855.8	861.1	865.4	869.7
GNP implicit deflator (1958 = 100)	162.6	159.5	161.6	163.6	165.8
Personal income	1134.2	1102.4	1123.7	1144.3	1166.4
Wage and salary disbursement	758.3	734.6	750.0	765.6	782.9
Disposable income	965.7	938.4	958.0	973.8	992.5
Personal saving	63.7	61.6	62.2	63.1	68.0
Saving rate (per cent)	6.6	6.6	6.5	6.5	6.9
Corporate profits before tax	128.4	128.5	129.0	128.0	128.0
Corp. cash flow, net of div. (domestic)	113.5	111.9	113.1	113.6	115.4
Federal government receipts and expenditures, (N.I.A. basis)					
Receipts	288.3	282.4	286.6	290.1	294.1
Expenditures	292.6	285.7	290.0	293.9	300.7
Surplus or deficit (-)	-4.3	-3.3	-3.4	-3.8	-6.6
High employment surplus or deficit (-)	5.9	-1.4	4.3	9.7	11.0
State and local government surplus or deficit (-), (N.I.A. basis)	5.5	8.3	5.9	5.2	2.8
Total labor force (millions)	93.1	92.5	92.9	93.3	93.7
Armed forces "	2.3	2.3	2.3	2.3	2.3
Civilian labor force "	90.8	90.2	90.6	91.0	91.4
Unemployment rate (per cent)	4.9	4.7	4.8	5.0	5.2
Nonfarm payroll employment (millions)	77.1	76.7	77.0	77.3	77.5
Manufacturing	19.9	20.0	20.0	19.9	19.8
Industrial production (1967 = 100)	130.2	129.4	130.0	130.5	130.8
Capacity utilization, mfg. (per cent)	82.2	83.1	82.5	81.9	81.2
Major materials	97.5	98.0	97.7	97.2	96.9
Housing starts, private (millions, A.R.)	1.76	1.70	1.70	1.75	1.83
Sales new autos (millions, A.R.)	10.01	10.25	10.10	10.10	9.60
Domestic models	8.41	8.65	8.50	8.50	8.00
Foreign models	1.60	1.60	1.60	1.60	1.60

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972	1973 Proj.	1972		1973			Proj.
			III	IV	I	II	IIIp	IV
	-----	-----	-----	Billions of Dollars	-----	-----	-----	-----
Gross National Product	99.7	133.3	24.1	32.7	43.3	29.5	32.0	31.6
Inventory change	-0.1	0.2	3.2	-0.5	-3.6	-0.1	1.0 4/	4.5
Final purchases	99.7	133.3	20.9	33.2	46.8	29.7	31.0 4/	27.1
Private	79.0	110.6	20.4	27.2	38.9	23.0	26.7 4/	19.6
Net exports	-5.4	9.2	1.9	0.3	3.5	2.8	4.1 4/	1.9
Excluding net exports	84.4	101.4	18.5	26.9	35.4	20.2	22.6	17.7
Personal consumption expenditures	59.3	78.7	14.9	18.5	26.8	16.2	18.4 4/	17.6
Durable goods	13.8	14.7	5.1	2.7	9.3	0.6	-0.8 4/	-0.5
Nondurable goods	21.2	36.5	4.4	8.4	11.5	8.1	11.2 4/	10.1
Services	24.3	27.5	5.4	7.4	6.0	7.6	7.9	8.0
Residential structures	11.3	4.2	1.7	2.4	2.1	0.6	-0.3	-4.5
Nonresidential fixed investment	13.8	18.6	2.0	6.0	6.6	3.2	4.6	4.6
Government	20.7	22.7	0.5	6.0	7.9	6.7	4.3 4/	7.5
Federal	6.3	3.0	-4.4	0.4	2.8	1.8	-0.2	2.6
State and local	14.3	19.7	4.9	5.6	5.0	5.0	4.5 4/	4.9
GNP in constant (1958) dollars	45.3	48.0	11.1	15.6	17.0	5.0	7.3	7.9
Final purchases	46.0	47.9	8.7	16.0	20.0	5.0	6.8	3.4
Private	41.4	45.6	10.9	14.3	19.1	4.2	6.7	2.5
	-----	-----	-----	Per Cent Per Year 1/	-----	-----	-----	-----
Gross National Product	9.4	11.5	8.7	11.7	15.2	9.8	10.4	10.1
Final purchases	9.5	11.6	7.6	12.0	16.7	9.9	10.1	8.6
Private	9.7	12.4	9.6	12.6	17.8	9.8	11.2	7.9
Personal consumption expenditures	8.9	10.8	8.5	10.5	15.0	8.6	9.6	8.9
Durable goods	13.3	12.5	18.9	9.3	33.9	1.8	-2.4	-1.5
Nondurable goods	7.6	12.2	6.0	11.6	15.6	10.4	14.3	12.4
Services	8.5	8.9	7.2	9.8	7.7	9.7	9.8	9.7
Gross private domestic investment	16.4	12.8	16.5	18.6	11.2	7.8	11.1	9.4
Residential structures	26.5	7.8	13.5	18.8	15.6	4.1	-2.0	-27.1
Business fixed investment	13.2	15.7	7.1	21.9	23.0	10.1	14.4	13.9
Gov't. purchases of goods & services	8.8	8.9	0.8	9.8	12.7	10.4	6.3	11.2
Federal	6.4	2.9	-15.5	1.6	11.4	7.0	-0.7	10.1
Defense	3.9	-0.1	-22.4	2.8	10.9	-0.5	-3.2	8.4
Other	13.6	10.0	4.0	-1.3	12.4	26.7	4.9	13.8
State and local	10.5	13.1	14.0	15.5	13.3	12.8	11.2	11.9
GNP in constant (1958) dollars	6.1	6.1	5.8	8.1	8.6	2.4	3.5	3.8
Final purchases	6.2	6.1	4.5	8.4	10.3	2.4	3.3	1.7
Private	6.9	7.1	7.0	9.1	12.0	2.5	4.0	1.5
GNP implicit deflator	3.2	5.1	2.8	3.3	6.1	7.4	6.4	6.1 2/
Private GNP fixed weighted index 3/	3.2	5.8	3.1	4.1	7.0	7.9	7.0	5.8
Personal income	8.8	10.1	7.8	14.5	8.7	9.3	11.3	11.2
Wage and salary disbursements	9.5	10.2	7.7	10.5	11.6	9.9	9.9	11.4
Disposable income	6.8	10.6	8.1	14.6	11.5	8.8	10.1	11.0
Corporate profits before tax	15.2	29.0	16.1	35.2	61.5	34.9	-2.8	3.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	15.0	15.8	7.7	13.3	31.3	14.6	10.3	8.9
Expenditures	10.7	8.2	-11.6	45.5	-2.6	6.0	5.1	9.8
Nonfarm payroll employment	3.0	3.7	2.8	4.5	4.5	3.7	2.2	3.5
Manufacturing	2.2	4.8	2.6	7.1	5.4	4.7	1.2	3.1
Industrial production	7.9	9.1	9.2	13.8	10.1	5.8	6.3	4.9
Housing starts, private	14.1	-11.8	16.0	6.6	0.2	-27.1	-33.3	-38.1
Sales new autos	6.8	6.3	49.7	5.9	19.8	-15.4	0.2	-26.9
Domestic models	7.4	5.9	53.1	-0.5	16.0	-14.9	10.1	-29.9
Foreign models	3.3	9.3	30.9	52.0	42.3	-18.1	-41.7	-6.2

1/ Percentage rates of change are annual rates compounded quarterly.
2/ Excluding Federal pay increase, 5.9 per cent per year.
3/ Using expenditures in 1967 as weights.
4/ Reflects estimates of revision in net exports incorporated in Commerce figures.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974 Proj.	1974 Projection I	II	III	IV
	-----------Billions of Dollars-----------				
Gross National Product	115.2	29.7	26.3	24.1	26.3
Inventory change	3.5	1.5	-1.5	-1.0	-0.7
Final purchases	111.6	28.2	27.8	25.1	27.0
Private	83.7	20.9	21.1	17.8	17.2
Net exports	4.7	0.1	0.7	-0.3	0.0
Excluding net exports	79.1	20.8	20.4	18.1	17.3
Personal consumption expenditures	69.7	19.4	18.1	14.1	13.0
Durable goods	-0.3	0.5	0.0	0.0	-1.0
Nondurable goods	40.2	11.4	11.1	7.0	7.0
Services	29.8	7.5	7.0	7.0	7.0
Residential structures	-7.5	-3.6	-1.9	1.0	1.8
Nonresidential fixed investment	16.8	5.0	4.2	3.0	2.5
Government	27.8	7.3	6.7	7.3	9.7
Federal	7.3	2.0	1.6	1.7	3.7
State and local	20.6	5.3	5.1	5.6	6.0
GNP in constant (1958) dollars	24.3	6.3	5.3	4.3	4.3
Final purchases	20.3	4.6	6.4	5.0	4.7
Private	16.0	3.4	5.1	3.5	2.9
	-----------Per Cent Per Year 1/-----------				
Gross National Product	8.9	9.2	7.9	7.1	7.6
Final purchases	8.7	8.8	8.5	7.5	7.9
Private	8.3	8.3	8.2	6.8	6.4
Personal consumption expenditures	8.7	9.7	8.8	6.6	6.0
Durable goods	-0.2	1.5	0.0	0.0	-3.0
Nondurable goods	12.0	13.6	12.8	7.8	7.5
Services	8.9	8.9	8.1	7.9	7.8
Gross private domestic investment	6.4	5.7	1.5	5.8	6.9
Residential structures	-12.9	-23.8	-14.0	8.4	15.1
Nonresidential fixed investment	12.3	14.7	11.8	8.1	6.6
Gov't. purchases of goods & services	10.0	10.6	9.4	10.1	13.2
Federal	6.8	7.5	5.8	6.1	13.5
Defense	4.2	2.1	4.3	6.4	15.3
Other	12.7	19.8	9.1	5.5	10.0
State and local	12.1	12.5	11.6	12.5	13.0
GNP in constant (1958) dollars	2.9	3.0	2.5	2.0	2.0
Final purchases	2.4	2.2	3.0	2.4	2.2
Private	2.3	1.9	3.0	2.0	1.6
GNP implicit deflator	5.9	6.0 2/	5.3	5.0	5.5 3/
Private GNP fixed weighted index 4/	5.9	6.2	5.4	5.0	5.0
Personal income	9.7	10.6	8.0	7.5	8.0
Wage and salary disbursements	9.6	9.6	8.7	8.6	9.3
Disposable income	9.5	10.9	8.6	6.8	7.9
Corporate profits before tax	1.6	-1.5	1.6	-3.1	0.0
Federal government receipts and expenditures (N.I.A. basis)					
Receipts	8.8	11.7	6.1	5.0	5.6
Expenditures	10.5	21.7	6.2	5.5	9.6
Nonfarm payroll employment	2.1	1.6	1.6	1.6	1.0
Manufacturing	0.5	0.0	0.0	-2.0	-2.0
Industrial production	3.5	3.5	1.9	1.5	0.9
Housing starts, private	-16.1	-16.8	-0.0	12.3	19.6
Sales new autos	-13.9	-20.4	-5.7	0.0	-18.4
Domestic models	-14.8	-23.5	-6.8	0.0	-21.5
Foreign models	-9.1	0.0	0.0	0.0	0.0

1/ Percentage rates of change are annual rates compounded quarterly.

2/ Excluding Federal pay increase, 5.9 per cent annual rate.

3/ Excluding Federal pay increase, 5.0 per cent annual rate.

4/ Using expenditures in 1967 as weights.

Industrial production. Industrial production rose 0.6 per cent further in October, following a slightly downward revised September increase of 0.5 per cent. The October index at 127.8 per cent of the 1967 average was 7.2 per cent above a year ago. Over the month, output gains were widespread among consumer goods and business equipment but production of industrial materials changed little.

Auto assemblies rose 3-1/2 per cent further in October to an annual rate of 9.4 million units. November production schedules have been cut back from a 10.0 million unit rate to a 9.8 million rate. Output of some household goods and most nondurable consumer goods advanced in October and production of appliances and television sets remained at advanced levels. Output of business equipment increased a strong 1.6 per cent further with advances in most lines. Production of durable goods materials was unchanged at record levels, but output of nondurable goods materials was off slightly. For both types of materials, output has been pressing capacity limits for several months.

INDUSTRIAL PRODUCTION
1967=100, seasonally adjusted

	1972	1973			Per cent change from	
	Oct.	Aug.	Sept.	Oct.	Month ago	Year ago
Total index	119.2	126.5	127.1	127.8	.6	7.2
Consumer goods	127.0	131.1	131.7	133.3	1.2	5.0
Business equip.	111.6	123.9	125.3	127.3	1.6	14.1
Defense equip.	77.9	80.8	81.0	81.6	.7	4.7
Materials	122.3	131.5	132.0	131.7	- .2	7.7
Steel	118.4	119.2	121.5	122.0	.4	3.0
Autos*	9.2	8.0	9.1	9.4	3.6	3.0

* Seasonally adjusted annual rate, millions of units.

For release Thursday, November 15.

Retail sales. Recent data suggest more strength in consumer buying than had been indicated earlier. Total retail sales rose 2.1 per cent in October, according to the advance report, and sales for August and September were revised upward.

Durable goods sales in October increased in line with the total, largely as a result of strong sales of nonconsumer items and miscellaneous durable goods. Nondurable goods sales rose 2.0 per cent with sales at gasoline stations and food stores rising about 3 per cent.

With August and September figures revised upward, third quarter sales are now estimated to be 2.8 per cent (instead of 2.2 per cent) above the second quarter. The food group, with a rise of 4.7 per cent, was the strongest of the components. In real terms, sales edged up from the second to third quarter, but they were still more than 2 per cent below the first quarter.

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

	1973					
	I	II	III	Aug.	Sept.	Oct.
Total sales	5.7	.1	2.8	-1.0	.3	2.1
Durable	8.2	-2.0	1.7	.5	-1.9	2.1
Nondurable	4.4	1.3	3.4	-1.7	1.4	2.0
Food	3.7	2.2	4.7	-1.8	.4	3.0
General merchandise	6.3	.4	2.0	-1.8	1.0	1.2
Total, less auto and nonconsumption items	4.7	1.3	3.1	-1.4	1.3	2.0
GAF	6.9	- .5	2.1	-1.5	1.8	1.1
Real*	3.8	-2.5	.2	-3.4	.2	n.a.

*Deflated by all commodities CPI, seasonally adjusted.

Unit sales of consumer durables. October sales of new domestic-type autos were at an 8.7 million unit annual rate down nearly a fifth from September and over a tenth from a year earlier. Primarily as a result of this reduced selling rate, auto stocks at the end of October rose to a 58 day supply, up 40 per cent from September and up 30 per cent from a year earlier.

Preliminary estimates place foreign auto sales in October at a 1.5 million unit rate, slightly below September and 13 per cent below a year earlier as imports continued the steady decline from their February peak. On a seasonally adjusted basis, the import share of the market was 14.5 per cent as compared with 12.5 per cent in September and 14.7 per cent last October.

Incomplete data for October indicate that factory unit sales of major appliances, TVs and radios were down 7 per cent from September.

UNIT SALES OF SELECTED CONSUMER DURABLES
Seasonally adjusted 1/

	1972	1973			Per cent change from	
	Oct.	Aug.	Sept.	Oct.	Month ago	Year ago
	Annual Rate, millions of units					
Auto sales	11.5	11.3	12.1	10.2	-16	-13
Domestic	9.8	9.7	10.6	8.7	-18	-11
Foreign	1.7	1.6	1.5	1.5	0	-13
	Indexes, 1967=100					
Home goods factory unit sales	140	154	161	150e	- 7	7
TVs 2/	154	154	167	156e	- 6	1
Radios 2/	103	93	183	71e	-60	-30
Major appliances	133	158	155	149e	- 4	12

1/ Series revised 11/1/73.
2/ Includes domestic and foreign label imports.
e/ Estimated on the basis of data through the first four weeks of October.

Construction and real estate. Seasonally adjusted value of new construction activity, which was revised downward for September, declined further in October to an annual rate of $132.9 billion. The private residential construction sector accounted for all of the October decline, but private nonresidential and public construction also remained below earlier peaks.

The Census composite index of construction costs held in October at about 153 per cent of the 1967 average, 8 per cent above a year earlier.

NEW CONSTRUCTION PUT IN PLACE
(Seasonally adjusted annual rates, in billions of dollars)

	1973			Per cent change in October from	
	QI	QIII(r)	Oct. 1/	Sept. 1973	Oct. 1972
Total - current dollars	136.5	137.2	132.9	-2	+ 3
Private	103.3	106.1	101.7	-2	+ 6
Residential	60.5	59.7	56.2	-4	--
Nonresidential	42.8	46.4	45.6	--	+14
Public	33.2	31.1	31.2	+1	- 4
State and local	28.0	26.4	26.4	--	- 5
Federal	5.2	4.6	4.8	+9	+ 8
Total - 1967 dollars	94.0	89.9	86.3	-2	- 5

1/ Data for October 1973 are confidential Census Bureau extrapolations. In no case should public reference be made to them.
-- Means change of less than 1 per cent.

Seasonally adjusted private housing starts dropped sharply further in September to an annual rate of 1.76 million, the lowest since February of 1971. Including upward revisions for July and August, the third quarter average slightly exceeded a 2 million unit annual rate; however, it was a sixth below the near-record first quarter. For technical statistical reasons, starts may have risen in October, but building permits and other indications point to a further drop over the quarter as a whole.

Mobile home shipments, which also have been declining since the first quarter, dropped sharply further in the third quarter to a seasonally adjusted annual rate of 529,000 units, slightly below a year earlier.

Completions of conventionally built homes have slowed but some increase is indicated for the period ahead given the large backlog of units under construction.

Vacancy rates for rental residences in the third quarter averaged 5.8 per cent of total units available for use. While still well below earlier highs, this rate equaled the high level of the previous quarter as well as of the third quarter of 1972. Vacancy rates for home-owner properties, moreover, increased to an average of 1.1 per cent in the third quarter--the highest since 1970. The increase was particularly marked in the West.

PRIVATE HOUSING PERMITS, STARTS, AND COMPLETIONS
(Seasonally adjusted annual rates, in millions of units)

	1973				Per cent change in September from:	
	QI	QIII(p)	Aug.(r)	Sept.(p)	Month ago	Year ago
Permits	2.19	1.71	1.75	1.60	- 8	-32
Starts	2.40	2.01	2.07	1.76	-15	-27
1-family	1.35	1.12	1.12	.98	-12	-29
2- or more-family	1.05	.89	.95	.78	-18	-26
Completions	2.11	1.88	1.83	1.85	+ 1	- 6
MEMO:						
Mobile home shipments	.68	.53	.57	.47	-13	- 5

p/ Preliminary.

RESIDENTIAL VACANCY RATES
(Per cent)

	Average for the third quarter				
	1965	1970	1971	1972	1973
Rental units	7.8	5.3	5.6	5.8	5.8
Northeast	5.0	3.1	3.0	3.2	3.9
North Central	6.8	5.9	5.6	6.2	6.1
South	8.7	7.1	7.4	7.3	7.2
West	11.3	5.2	6.5	6.7	6.2
Homeowner units	1.6	1.1	1.0	.9	1.1
Northeast	.9	.7	.7	.5	.6
North Central	1.3	1.0	1.0	1.0	.9
South	2.0	1.2	1.1	1.0	1.2
West	2.0	1.1	1.2	1.0	1.5

<u>Anticipated plant and equipment spending</u>. In the fall survey of 1974 capital spending intentions, McGraw-Hill found that businesses plan to spend 14 per cent more than in 1973. Manufacturers reported a prospective gain of 24 per cent, whereas non-manufacturing industries planned a 7 per cent increase. Within manufacturing, exceptional strength (expected annual gains of 35 per cent or greater) was reported for iron and steel, nonferrous metals, nonelectrical machinery, paper, and stone, and clay and glass.

The intentions of businesses reported by McGraw-Hill are not significantly different from the findings reported last month by Lionel D. Edie and Co. and Rinfret-Boston Associates.

EXPENDITURES FOR NEW PLANT AND EQUIPMENT BY U.S. BUSINESS
(Per cent change from prior year)

	1971	1972	1973 Commerce September Survey	1974 Rinfret-Boston 1/	1974 Lionel D. Edie 1/	1974 McGraw-Hill
			--------------Anticipated------------			
All industries	1.9	8.9	13.2	15	12	14
Manufacturing	-6.1	4.5	19.4	24	19	24
Durable goods	-10.4	10.5	21.9	23	21	26
Nondurable goods	-1.9	- .8	16.9	24	17	22
Nonmanufacturing 2/	7.2	11.5	9.9	10	7	7
Railroads	-6.0	7.8	11.7	10	20	10
Air & other transportation	-23.5	20.3	-1.0	-8	-9	-11
Electric utilities	20.8	12.6	12.4	16	14	14
Gas utilities	-2.0	3.3	22.2	11	10	5
Communications	6.6	10.4	11.4	14	5	5
Commercial	8.8	11.2	6.8	8	4	4

1/ Confidential.
2/ Includes industries not shown separately.

Manufacturers orders and shipments. New orders for durable goods declined 1.4 per cent in September (p), following no change in August and a 0.7 per cent drop in July. Excluding defense, new orders were off almost one per cent in September but nondefense capital goods orders rose 0.6 per cent. Orders at blast furnaces and steel mills were down sharply--reflecting in part capacity problems.

For the third quarter as a whole, new orders for durable goods were only slightly above the second quarter level, according to the preliminary estimate; excluding defense the rise was a bit more. The rise of 1.8 per cent in nondefense capital goods orders was considerably slower than the gains of about 6 per cent reported in the first and second quarters.

Unfilled orders for durable goods rose at a 7.3 per cent annual rate in the third quarter--off somewhat from the 11 per cent rate of the second quarter. In the third quarter, unfilled orders were about one-third higher than in the third quarter of 1972 and 44 per cent above their level in the fourth quarter of 1970 (the cyclical trough). Backlogs are particularly high in blast furnaces and steel mills, motor vehicles and parts and for nondefense capital goods.

Shipments of durable goods were up 0.9 per cent in September following a 2.8 per cent drop in August. Backlogs of unfilled orders continued to increase rapidly.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
(Per cent changes)

	1973			
	QII from QI	QIII from QII (p)	August from July	Sept. from August (p)
Durable goods, total	5.7	.5	.0	-1.4
Excluding defense	5.4	1.6	-1.6	- .9
Primary metals	13.8	-3.2	7.4	-12.7
Motor vehicles and parts	-1.8	6.8	-3.7	1.9
Household durables	3.6	.3	-5.0	1.5
Nondefense capital goods	6.5	1.8	-3.3	.6
Defense capital goods	11.2	-21.6	54.7	-12.2
Construction & other durables	4.7	1.8	-2.8	2.4

Inventories. Book value of manufacturing and trade inventories rose at a $15 billion annual rate in September (p), down rather sharply from May-August rates. For the third quarter as a whole, the rate was $18.6 billion, more than $4 billion below the second quarter--reflecting in part a slower rate of increase in prices. On a GNP basis, the rate of accumulation in the third quarter may be about the same as in the second quarter.

Book value of manufacturers' inventories rose at an annual rate of $10.6 billion in September (p)--off a bit from the August rate. By stage of fabrication, inventories of materials and supplies and of work in process were down sharply from August rates while stocks of finished goods rose after declining in August. Wholesale trade inventories increased at an annual rate of $3.9 billion in September (p). Retail trade inventories showed almost no change between August and September (p) as auto inventories declined sharply and growth in nondurable stocks slowed appreciably.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
(Seasonally adjusted annual rate, $ billions)

	1973				
	Q I	Q II	Q III (Prel.)	Aug. (Rev.)	Sept. (Prel.)
Manufacturing and trade	21.5	22.9	18.6	22.3	14.7
Manufacturing, total	9.8	11.4	11.1	12.0	10.6
Durable	6.6	7.7	8.8	11.2	9.5
Nondurable	3.2	3.7	2.3	.7	1.1
Trade, total	11.7	11.5	7.5	10.3	4.0
Wholesale	6.1	3.6	4.6	3.7	3.9
Retail	5.6	7.9	2.9	6.6	.2

NOTE: Detail may not add to totals because of rounding.

The overall manufacturing and trade ratio rose slightly to 1.44 in September--still a relatively low level. The inventory-shipments ratio for all manufacturing edged up to 1.59. In wholesale trade, the inventory-sales ratio also increased slightly in September, while the retail inventory-sales ratio declined slightly. The ratio of inventories to unfilled orders in durable manufacturing continued to decline.

INVENTORY RATIOS

	1972		1973	
	Aug.	Sept.	Aug. (Rev.)	Sept. (Prel.)
Inventories to sales:				
Manufacturing and trade	1.49	1.49	1.43	1.44
Manufacturing, total	1.66	1.65	1.57	1.59
Durable	1.98	1.95	1.90	1.90
Nondurable	1.28	1.27	1.19	1.21
Trade, total	1.32	1.34	1.28	1.29
Wholesale	1.20	1.21	1.14	1.16
Retail	1.40	1.42	1.39	1.38
Inventories to unfilled orders:				
Durable manufacturing	.893	.873	.733	.726

Cyclical indicators. The Census composite index of leading indicators declined 0.4 per cent in September (p)--only the second drop since September 1970. The coincident, deflated coincident, and lagging indicators all rose.

CHANGES IN COMPOSITE CYCLICAL INDICATORS
(Per cent change from prior month)

	1973					
	Apr.	May	June	July	Aug.	Sept. (p)
12 Leading, trend adjusted	-1.1	1.9	.9	.9	1.0	- .4
12 Leading, prior to trend adjustment	-1.4	1.6	.5	.5	.6	- .7
5 Coincident	.6	.9	.9	1.2	.3	.9
5 Coincident, deflated	.1	.4	.3	1.5	-1.0	.9
6 Lagging	2.4	1.7	2.8	2.8	2.4	.7

Of the eight leading series available, series increasing in September were the average workweek in manufacturing, initial claims for unemployment insurance (inverted) and common stock prices. Series declining included new orders for durable goods, contracts and orders for plant and equipment, housing permits, the ratio of price to unit labor cost in manufacturing and industrial materials prices.

In October, stock prices increased while the average workweek in manufacturing declined.

Labor market. The labor market has shown increased strength in recent months--employment has been expanding at a rapid rate and unemployment is down. Along with employment, the labor force has grown rapidly, with about three-fourths of the increase among those seeking full-time jobs. The October drop of 0.3 percentage points in unemployment brought the rate to 4-1/2 per cent for the first time since the spring of 1970. The decline was concentrated among teenagers and young adults (20-24 years old). Unemployment rates for adults 25 and over and for most experienced worker categories, however, have been on a plateau for several months; although down from a year ago, they still remain above the 1966 to 1969 average.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1966-1969	1972	1973	
	average	October	June	October
Total	3.7	5.5	4.8	4.5
Both sexes:				
16-19 years	12.7	15.4	13.3	13.9
20-24 years	5.6	9.2	7.7	6.6
Men 25 years and over	1.9	3.1	2.5	2.4
Women 25 years and over	3.4	4.5	4.2	3.7
Household heads	2.0	3.4	2.9	2.7
State insured	2.3	3.2	2.8	2.7
White	3.3	5.0	4.3	4.1
Negro and other races	7.0	10.0	8.5	8.3

Revised nonfarm payroll employment data now show impressive gains in the past three months, with a rise of 300,000 in October. About one-third of the October advance was in manufacturing, where there had been virtually no growth from June to September; factory gains were strongest in the metal-using industries.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(In thousands, seasonally adjusted)

	Oct. 1970-Oct. 1971*	Oct. 1971-Oct. 1972*	Oct. 1972-June 1973	June 1973-Oct. 1973
	Annual rate			
Total	814	2,740	2,913	2,253
Goods-producing	-234	911	1,140	507
Manufacturing	-145	724	969	375
Construction	146	98	140	132
Service-producing	972	1,829	1,773	1,746
Trade	312	587	635	618
Services	254	500	554	699
Federal government	316	-32	-39	-15
State and local govt.	301	506	419	126

*Changes from year earlier based on data which are not seasonally adjusted.

Earnings. Wages are still moving up at a rapid pace. The index of average hourly earnings for the private nonfarm economy rose at a 6.1 per cent annual rate in October, and at a 7.4 per cent rate since March. An acceleration of wage rate increases has been evident in most industries since the first quarter. However, real spendable earnings have been declining; they were about unchanged in September (the latest month for which consumer price data are available) and down at a 2 per cent rate from March.

AVERAGE PRODUCTION WORKER EARNINGS
(Seasonally adjusted; per cent change at annual rates)

	Jan. 1971-Jan. 1972	Jan. 1972-Mar. 1973	Mar. 1973-Oct. 1973
Hourly earnings index			
Total private nonfarm	6.8	5.6	7.4
Manufacturing	6.3	5.4	7.2
Construction	8.2	5.5	7.2
Transportation	9.9	9.2	8.7
Services	6.5	4.7	7.2
Real spendable weekly earnings (worker with 3 dependents, 1967 dollars)	3.9	.5	-2.0 1/

1/ Change shown is March 1973 to September 1973, the latest month for which data are available.

Productivity and costs. Output per manhour in the private nonfarm sector rose by 1.9 per cent (annual rate) in the third quarter, according to preliminary figures, compared with no change in the preceding quarter.

Compensation per manhour increased at a faster rate in the third quarter, rising at a 7.9 per cent annual rate, with an increase of over 9 per cent in the manufacturing sector. Since hourly compensation was up considerably more than productivity, unit labor costs rose rapidly--6.7 per cent in the private economy and 5.9 per cent in the nonfarm sector. This is the third consecutive quarter of substantial unit labor cost increases--an average of 5.8 per cent (annual rate) for private nonfarm since the start of the year, compared with a rise of under 3 per cent during 1972.

Consumer prices. The rise in consumer prices slowed in September to an annual rate of about 4 per cent, seasonally adjusted, as food prices retreated somewhat from their very advanced August levels. As in August, prices were about 7-1/2 per cent above the same month a year earlier. Nonfood commodity prices, little affected as yet by upward price readjustments permitted by Phase IV, were up at only a one per cent rate, but the rise in service costs accelerated markedly.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Relative importance Dec. 1972	Nov. 1971 to Jan. 1973	Jan. 1973 to June	June 1973 to Sept.	Aug. 1973 to Sept.
		(14 months)	(5 months)	(3 months)	(1 month)
All items	100.0	3.6	8.3	10.3	3.9
Food	22.5	6.5	20.3	28.8	-1.6
Commodities less food	40.1	2.4	5.2	2.6	1.0
Services 1/	37.4	3.5	4.3	7.4	11.8
Addendum:					
All items less mortgage costs 2/	96.3	3.7	8.7	9.4	1.8
Services less home finance 1/2/3/	30.9	3.3	4.6	4.8	6.4
Commodities less food, used cars, home purchase 3/	31.8	2.1	6.1	2.3	1.0

1/ Not seasonally adjusted.
2/ Home financial costs excluded from services reflect property taxes and insurance rates as well as mortgage costs, which in turn move with mortgage interest rates and house prices.
3/ Confidential.

Prices of fresh vegetables and poultry dropped sharply and declines for pork and eggs also helped to more than offset the effect of other large increases, particularly for cereal and bakery products, dairy products and restaurant meals and snacks. Since the early-September pricing dates for food in the CPI, prices at wholesale of pork, broilers and eggs have declined further. However, their effect on retail food prices in the next month or two may be offset by the substantial increases posted at wholesale in October for fresh and processed fruits and vergetables, fats and oils, and dairy, cereal and bakery products.

Consumers have benefited relatively little from sharp drops in farm prices since August. Price increases authorized after the relaxation of controls, combined with the reversal in farm prices, appear to have widened considerably the "spread" between the retail cost and the farm value of the USDA's market basket, according to preliminary estimates (confidential for October). This spread--which covers all non-farm costs as well as profit margins of processors and distributors--has increased about 15 per cent since the first quarter of this year, suggesting that any overall squeeze on profits from rising costs has probably been eliminated.

FARM-RETAIL SPREADS
(Indexes, 1967=100)

	1971	1972	1973					
			QI	QII	July	Aug.	Sept.	Oct.p 1/
Market basket	117	119	121	126	126	123	134	140
Beef	123	140	141	145	134	121	179	190
Pork	117	109	106	118	77	99	153	145

1/ Confidential.

The spread for meats (over one-fifth of the total) appears particularly high, especially on beef. Retailers may anticipate a rebound in wholesale beef prices, and thus be slow to adjust their prices down in line with recent declines. In the case of pork, the spread had been depressed since last year, but it was high for beef during most of this and last year. If the spread on beef were at 1972 levels, retail prices would have been over 10 cents less in September, and near 15 cents less in October.

A temporary drop in gasoline prices helped to offset increases for other nonfood commodities, particularly household durables. However, substantial advances have since been authorized for gasoline, starting in late September, and COLC regulations permit cent-for-cent pass-through of the large recent and expected further increases in crude oil and refined petroleum product prices. Retail prices in coming months will also reflect the large wholesale advances in October for apparel and other textile products, furniture and tires. However, the delay in authorizing automobile price increases should result in a seasonally adjusted decline in October for new cars, as in the WPI.

The near-12 per cent rate of rise for services reflects the influence of sharply rising mortgage costs. However, the index excluding these costs also rose faster than in previous months.

Wholesale prices. Wholesale prices declined between September and October at a seasonally adjusted annual rate of 3.5 per cent as prices of farm and food products dropped sharply for the second consecutive month and more than offset widespread price increases for industrial commodities.

WHOLESALE PRICES
(Per cent changes at seasonally adjusted annual rates)

	October 1972 to October 1973	1973 Dec.1972 to June	Freeze June to July	July to Aug.	Phase IV August to Oct.	Phase IV Sept. to Oct.
All commodities	16.3	22.3	-15.5	106.4	-10.4	-3.5
Farm products	35.3	47.5	-43.0	735.2	-40.5	-32.8
Industrial commodities	9.1	12.5	.7	4.8	11.3	14.6
Crude materials	23.1	23.3	15.1	15.8	40.9	35.1
Intermediate materials	9.2	13.3	- .9	8.7	8.1	9.6
Finished goods	7.2	10.0	-1.0	3.6	9.8	17.4
Producer	4.5	5.7	1.0	7.0	4.4	4.9
Consumer	8.6	12.2	-2.0	2.0	12.5	24.0
Nondurable, excl. foods	11.8	17.0	-2.9	1.0	20.3	40.7
Durable	3.5	5.0	2.1	5.3	-4.5	-10.7
Consumer finished foods	25.6	28.3	-9.5	243.7	-8.4	3.1

Note: Farm products include farm products and processed foods and feeds.

Prices of farm and food products fell at a seasonally adjusted annual rate of 32.8 per cent (monthly decline of 3.3 per cent) as prices of livestock, meat, and poultry declined markedly. Sharply lower prices for soybeans were also reported and were a major factor in the decline in both the farm and food price index and the overall WPI. However, prices of a number of agriculturally-based commodities increased, including those for potatoes, processed fruits and vegetables, milk, eggs, sugar, and vegetable oils.

The October index of prices of industrial commodities rose at an annual rate of 14.6 per cent (monthly increase of 1.1 per cent). Major influences in the rise were increases for refined petroleum products, metals and metal products, textile products and apparel, chemicals and allied products, and paper and paper products. Although prices of passenger cars rose in October, the increase was less than expected seasonally and this was the chief factor in the decline in the index of consumer durables.

Higher prices for fuels had a major impact on the WPI for October as increased prices of gasoline and fuel oil boosted the index of refined petroleum products to a level about 40 per cent above a year earlier. Prices of crude petroleum although unchanged in the October WPI, were about a sixth above a year earlier.

Recently, further increases for refined petroleum products were announced by some major producers with advances ranging from about 1 to 4 cents a gallon for gasoline and 2 to 3 cents for fuel oil. Additional increases are expected as most observers expect domestic prices of crude oil to rise substantially further. The WPI for October did not reflect the above-ceiling prices permitted by the Cost-of-Living Council on some crude oil. That is, as an incentive to increase production, companies which produce crude oil in excess of last year's production may sell such "new" crude oil at above-ceiling prices. They may also sell at above-ceiling prices an additional amount of crude oil equal to the "new" production.

WHOLESALE PRICES OF REFINED PETROLEUM PRODUCTS
(Percentage changes for selected periods)

	Dec. 1971 to June 1972 (6 months)	June 1972 to Dec. 1972 (6 months)	Dec. 1972 to June 1973 (6 months)	June 1973 to Oct. 1973 (4 months)
Refined petroleum products	2.3	3.2	30.9	6.8
Gasoline	2.3	4.4	33.2	3.4
Light distillates[1/]	.9	4.0	40.5	14.3
Middle distillates[2/]	.9	2.9	38.8	11.8
Residual fuels	3.4	- .5	15.4	20.3

1/ Largely Kerosene, for space heating, and jet fuel.
2/ Home heating fuel and disel oil.

Agriculture. Prices received by farmers fell 4 per cent in the month ending October 15, for a total decline of 11 per cent since the mid-August peak. The average, however, was still 42 per cent above a year ago. Cattle, broiler, and egg prices continued downward through early November but wheat, corn, and soybean prices firmed.

Clear harvesting weather and expected good yields per acre were responsible for the earlier weakness in crop prices. Wheat, corn, and soybean crops are expected to be 12, 2 and 23 per cent larger, respectively, than in 1972. But usage will increase and wheat stocks may fall to the lowest level since 1947.

Livestock prices fell in response to larger marketings as October red meat and poultry productionrose 6 per cent from September. Larger broiler marketings appear sustainable through winter since egg settings are up. But numbers and weights of cattle on feed indicates that the current bulge in marketings is a result of previous withholding and that slaughter will drop by early next year.

Since July, pork production has been about 10 per cent below 1972 levels and farmers indicate no plans for expansion despite profitable feeding margins. Hog raisers who grow corn apparently intend to sell their grain at high prices rather than enlarge their feeding operations.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data Period	Level	Net change from Month ago	Three months ago	Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		October	35.0p	31.7	11.2	10.4
Reserves available (RPD's)		October	32.7p	14.9	12.5	12.2
Money supply						
M1		October	264.4p	4.6	0.2	5.1
M2		October	557.3p	10.9	7.1	7.9
M3		October	873.6p	10.0	4.6	8.5
Time and savings deposits (Less CDs)		October	292.9p	16.6	13.6	10.6
CDs (dollar change in billions)		October	63.4p	-3.4	-1.1	23.4
Savings flows (S&Ls + MSBs)		October	318.3p	6.4	3.0	9.5
Bank credit (end of month)		October	626.3p	6.7	9.2	15.4
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	11/7/73	9.71	1.01	0.86	-4.46
Treasury bill (90 day)	"	11/7/73	7.84	0.54	-0.64	3.13
Commercial paper (90-119 day)	"	11/7/73	8.78	-0.75	-1.30	3.65
New utility issue Aaa	"	11/9/73	7.99	0.03	-0.53	--
Municipal bonds (Bond Buyer)	1 day	11/8/73	5.17	0.20	-0.41	0.09
FNMA auction yield (FHA/VA)		11/12/73	8.87	-0.10	+0.16	1.15
Dividends/price ratio (Common stocks)	wk. endg.	10/31/73	3.10	0.06	-0.07	0.35
NYSE index (12/31/65=50)	end of day	11/12/73	55.96	-4.29	0.73	-6.44

Credit demands		Net change or gross offerings: Current month 1973	Current month 1972	Year to date 1973	Year to date 1972
Business loans at commercial banks	October	--	2.1	27.6	10.2
Consumer instalment credit outstanding	September	1.4	1.3	16.2	11.0
Mortgage debt outst. (major holders)	August	5.6	5.5	42.7	35.6
Corporate bonds (public offerings)	August	0.8	1.5	7.9	13.2
Municipal long-term bonds (gross offerings)	August	1.5	2.0	15.2	16.1
Federally sponsored Agcy. (net borrowing)	November	-0.2e	0.6	15.9e	3.3
U.S. Treasury (net cash borrowing)	November	2.6e	5.3	5.3e	13.2
Total of above credits		11.7	18.3	130.8	102.6

e - Estimated

DOMESTIC FINANCIAL SITUATION

A marked turnaround in short-term interest rates occurred late in October as market participants abandoned the view that the Federal funds rate would continue to decline. Most private short-term rates have increased 1/2 to 1 percentage point, but at current levels remain well below the highs reached in mid-September. Shorter-term Treasury bill rates, however, have risen considerably more than other rates. The bill market has been subject to special pressures arising from sales or redemptions of U.S. Government securities by foreign central banks resulting from movements of funds out of foreign currencies into dollars. The total volume of foreign central bank sales and redemptions has amounted to nearly $3 billion over the past three weeks, and to replace part of these funds the Treasury issued a $1.1 billion bill strip early this month.

In bond markets, interest rates have moved up somewhat under the pressure of rising short-term rates and increased supplies of bonds. The volume of new publicly offered corporate bonds rose in October to about twice the average volume of the earlier months of 1973, and the higher pace of new offerings continued into November. State and local government bond issues also rose in October, although by a much smaller amount than in the corporate market, while the Treasury issued $300 million of a 20-year bond and $2 billion of a 6-year note as part of its November refunding.

Bank loan growth in October fell far short of the pace recorded earlier in the year, as business loans showed no net expansion. With business loans weak, inflows of demand deposits and consumer-type time deposits strengthened, and costs of CD's augmented by the September increase in marginal reserve requirements, banks allowed large CD's to run off in volume and reduced their reliance on nondeposit sources of funds. However, this decline in bank demands on short-term markets was replaced by sharply increased business borrowing in the commercial paper market. The combined growth in business borrowing from banks and the commercial paper market in October was about as rapid as the average for the first 9 months of the year.

Savings and loan associations experienced a considerable inflow of funds in October and cut back their borrowings from the FHLBB. Mutual savings banks, on the other hand, experienced further outflows of deposits, although fragmentary data indicate small inflows for early November. With the improved flow of deposits at S&L's, average rates on new mortgage commitments in the primary and secondary markets have declined somewhat in recent weeks.

Outlook. Interest rates in private markets are likely to be under upward pressure between now and year-end reflecting seasonal pressures on short-term markets and the prospective strong demands in capital markets. The energy crisis and the potential for further large reflows of funds from abroad make the overall interest rate outlook more than usually uncertain. Under these circumstances, any significant rise in the Federal funds rate is likely to accentuate upward adjustment in interest rates generally.

The Treasury may have to raise $2-1/2--$4 billion of new cash in early December (assuming enactment of debt ceiling legislation). The high end of this range would help provide some cash balance cushion to meet further redemptions of special issues by foreign official institutions.

Borrowing by Federal agencies is expected to moderate if interest rates do not move sharply higher, in view of the sizable amount of liquidity already built up by these agencies. But S&L's will be especially vulnerable in the year-end reinvestment period and in early 1974 because of a bunching of certificate maturities, and saving outflows could be quite large especially if interest rates rose substantially. In that event, S&L's probably would step up their borrowing from FHL Banks, and this would generate additional market borrowing demands by the latter.

Even if market rates did not rise significantly further, the recent decline in mortgage rates is not likely to be extended, given the most recent upturn in short-term rates. Any further significant tightening of the money market would likely lead to a renewed rise in mortgage rates.

Credit demands by the business sector are likely to continue at advanced rates, given projected investment expenditures and availability of internal funds. Demands on capital markets are expected to remain large, adjusting for seasonal slack around year-end, but significantly higher long-term rates and lower equity prices would lead some firms to shift demands to short-term markets. Even without this prospect, banks will likely face increased credit demands by businesses because of the recent and prospective rise in the commercial paper rate relative to the prime rate. As a result, banks can be expected to resume issuance of large CD's to supplement other deposit sources of funds.

Monetary aggregates. Growth in the monetary aggregates picked up in October. After two months of decline, preliminary data indicate that M_1 expanded at a 4.6 per cent seasonally adjusted annual rate in October, probably reflecting the effect on money demand of the continuing strong expansion in nominal GNP. October inflows of consumer-type time deposits also were more rapid at both commercial banks and nonbank thrift institutions, contributing to faster growth in M_2 and M_3.

Some of the October increase in consumer-type interest bearing deposits at both banks and thrift institutions probably reflected a shift to deposits from market securities, as yields on debt instruments declined and stock prices fell. At large commercial banks, the growth in consumer-type time deposits was accounted for entirely by the four-year deposits on which the new 7.25 per cent rate ceiling did not become effective until November 1.

With other deposit inflows strong, loan demands moderating, and CD costs higher as a result of the September increase in marginal reserve requirements, banks allowed their outstanding CD's to decline by $3.4 billion in October, and the decline continued in early November. Along with the runoff of CD's, banks also reduced their borrowings in Euro-dollar and commercial paper markets.

The sharp decline in CD's and nondeposit sources of funds in October offset in large part the increased inflows of other deposits. Consequently, total inflows of bank funds, as measured by the daily average member bank credit proxy, increased at only a 2.2 per cent annual rate in October, the slowest pace since May of 1970.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1973					
	QI	Q II	Q III	Aug.	Sept.	Oct.p
			Per cent at annual rates			
M_1 (Currency plus private demand deposits)	1.7	10.3	.3	-1.8	-2.3	4.6
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	5.7	9.5	5.1	6.4	3.9	10.9
M_3 (M_2 plus time and savings deposits at mutual savings banks and S&L's)	8.6	9.4	4.4	4.2	3.2	9.4
Adjusted bank credit proxy	15.0	12.2	10.5	17.0	5.4	2.2
Time and savings deposits at commercial banks						
a. Total	23.1	16.0	13.4	20.4	6.8	2.4
b. Other than large CD's	9.5	8.7	9.8	14.0	9.6	16.6
			Billions of dollars 1/			
Memoranda:						
a. U. S. Government demand deposits	.3	.8	--	.8	.9	1.5
b. Negotiable CD's	3.9	2.4	1.6	2.5	- .2	-3.4
c. Nondeposit sources of funds	.2	.2	.5	.6	.1	- .4

p - Preliminary and partially estimated.

1/ Month-to-month change in levels or monthly averages of last-month-in-quarter to last-month-in-quarter changes, not annualized.

Bank credit. Total credit at all commercial banks (last Wednesday of the month series, seasonally adjusted) also increased at a modest pace in October--an annual rate of 6.6 per cent. This rise was slightly faster than in September, reflecting a sizeable increase in bank holdings of securities other than U.S. governments--primarily Federal agency issues. However, banks continued to liquidate Treasury securities, and growth in total loans, which had moderated noticeably in September, slackened further in October. Almost all categories of loans showed some slowing, but business loans were especially weak, not increasing at all from the end of September to the end of October, on a seasonally adjusted basis.

COMMERCIAL BANK CREDIT ADJUSTED FOR LOANS SOLD TO AFFILIATES1/
(Seasonally adjusted changes at annual percentage rates)

	1973					
	QI	QII	QIII	Aug.	Sept.(r)	Oct.
Total loans and investments2/	19.9	12.7	11.4	16.7	4.1	6.7
U.S. Treasury securities	-9.7	7.9	-34.4	-38.3	-29.1	-29.8
Other securities	2.4	9.2	12.3	16.8	7.8	29.1
Total loans2/	30.1	14.5	17.8	24.2	7.4	5.2
Business loans2/	37.7	18.4	17.3	19.5	3.1	0.0
Real estate loans	20.4	20.2	17.0	18.6	16.2	14.9
Consumer loans	17.6	14.1	14.7	18.7	10.7	10.6

1/ Last-Wednesday-of-month series.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
r/ Revised.

While some of the moderation in bank loan expansion may reflect more restrictive bank lending policies,[1/] the recent weakness in business borrowing from commercial banks since mid-August appears to be associated primarily with the relatively high cost of bank loans. Although banks lowered their prime rate in October from 10 to 9.75 per cent (and to 9.50 per cent at a few banks), commercial paper rates fell more than 150 basis points to around 8-1/2 per cent on dealer-placed paper late in the month. As a result, many business firms shifted their credit demands from banks to the commercial paper market, reversing the shift from commercial paper to bank financing that had prevailed earlier in the year, when commercial paper rates had exceeded the bank prime rate. Indicative of the continued strength of credit demands, total short-term business credit, as measured by the sum of bank loans plus dealer-placed commercial paper, increased at a 19.5 per cent annual rate in October--about equal to the average for the first 9 months of the year.

Consumer credit expansion at banks slowed in both September and October, probably reflecting in part the recent weakness in sales of new model automobiles. Growth in real estate loans also moderated further from the rapid pace earlier in the year. In addition, there was a large decline in loans to nonbank financial institutions as both finance companies and other nonbank financial institutions reduced their borrowings. The reduction in finance company borrowing apparently reflects mainly the recent substantial volume of financing by these companies in the capital markets.

1/ A detailed discussion of bank loan commitments is presented in the Greenbook Supplement.

CHANGES IN BUSINESS LOANS AND COMMERCIAL PAPER[1/]
(Amounts in billions of dollars, seasonally adjusted monthly changes)

	Business Loans at all Commercial Banks[2/]	Dealer Placed Commercial Paper	Total	Annual Percentage Rate of Change in Totals[3/]
		Average Monthly Changes		
1973 -- QI	4.1	-1.3	2.8	23.7
QII	2.2	.2	2.4	18.7
QIII	2.2	.1	2.3	15.6
January	3.6	- .3	3.3	28.7
February	5.2	-1.9	3.3	27.0
March	3.6	-1.7	1.9	15.2
April	2.4	- .1	2.3	18.2
May	2.8	--	2.8	21.8
June	1.4	.6	2.0	15.3
July	3.6	--	3.6	27.2
August	2.5	- .5	2.0	14.8
September	.4	.9	1.3	9.6
October	--	2.6	2.6	19.5

1/ Changes are based on last-Wednesday-of-month data.
2/ Adjusted for outstanding amounts of loans sold to affiliates.
3/ Measured from end-of-month to end-of-month.

<u>Nonbank financial institutions</u>. According to estimates by the FHLBB, S&L's experienced a deposit inflow in October of about $1 billion, in marked contrast to outflows of $1.2 billion and $250 million in August and September, respectively. The annual rate of expansion in October was about 9.0 per cent, seasonally adjusted.

Mutual savings banks apparently had a moderate outflow during the month. After seasonal adjustment, the growth rate is estimated at about 1.5 per cent--slightly lower than in September. The bulk of the outflow occurred early in the month at large New York City institutions, and coincided with increased investor interest in equity markets as well as with a sizeable volume of funds collected for Israel. Reports from a sample of large NYC MSB's indicate a moderate inflow in the first five days of November.

Reflecting the improved deposit performance at S&L's, FHLB advances during October totaled $490 million--down from $785 million in September and $1.1 billion in August. In early November, outstanding advances increased little. Under the new FHLBB $2.5 billion forward commitment program, whereby member S&L's obtain commitments to be taken down 6 months to 1 year later, the FHLBB had issued $1.5 billion of commitments and received applications for an additional $160 million as of early November. Despite the 8-1/2 per cent rate on the loans to be made under the commitments, member S&L's appear to find them an attractive hedge against possible further deposit outflows given the low (1/4 per cent) commitment fee and prevailing rates on mortgage loans.

Policy loan activity at life insurance companies in September remained near the record high level of August. At 15 large companies holding 64 per cent of all policy loans outstanding, the September net increase was $219 million. Scattered reports from individual life companies indicate that demands for policy loans moderated in October, although recent increases in market rates of interest could generate a pick-up in such loans. Nevertheless, available information suggests that life companies continued to have a relatively comfortable liquidity position.

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)

	Mutual Savings Banks	Savings and Loan Associations	Both
1972 - QI	13.6	22.5	19.7
QII	10.7	15.9	14.3
QIII	11.6	18.2	16.2
QIV	11.0	14.2	13.2
1973 - QI	8.1	16.0	13.6
QII	6.8	10.4	9.2
QIII p/	- .4	3.1	2.1
1973 - Aug.	-1.5	-1.2	-1.3
Sept. p/	2.5	7.5	6.0
Oct. e/	1.5	9.0	6.7

p/ Preliminary.
e/ Estimated on the basis of sample data.

Consumer credit. Growth in total consumer credit outstanding dropped sharply to a seasonally adjusted annual rate of $14.8 billion in September, following four months of growth at rates in excess of $24 billion. Instalment credit outstanding advanced $16.3 billion in September, SAAR, compared with $22.7 billion in August.

The major factor in the slackened rate of instalment credit growth was a decline in the rate of credit extensions for automobiles and other consumer goods. The decline in extensions was particularly pronounced for retail outlets and bank credit cards.

New car interest rates, which remained relatively stable during the first half of the year and advanced only modestly during July and August, rose more sharply in September. During September, rates rose 19 basis points on direct loans at commercial banks and 15 basis points on purchased loans at finance companies. Following the advance, both rates were roughly 40 basis points above year-earlier levels.

Commercial paper outstanding. In October, commercial paper outstanding expanded an estimated $2.4 billion on a seasonally adjusted basis. This matched the largest monthly increase on record, and was attributable to a surge in dealer placed paper reflecting the reduced cost of paper issuance in relation to borrowing at banks. At the end of October, outstanding dealer placed paper was only marginally below the level reached at the end of 1972, just before businesses began switching in volume from commercial paper to bank credit.

Nonbank directly placed paper increased an estimated $200 million in October. The raising of funds through long-term debt and the slower pace of retail automotive sales apparently reduced short-term funds requirements of some large finance companies. Bank-related commercial paper dropped an estimated $400 million--the first decline in this category in a year.

COMMERCIAL PAPER OUTSTANDING
(Seasonally adjusted, billions of dollars)1/

	Estimated Oct. 31 1973	Estimated change in outstanding during period: 1973 Oct.	Q III	Q II	Q I
Total commercial paper outstanding	41.1	2.4	2.5	2.2	-1.5
Bank-related	4.9	- .4	.9	.8	.8
Nonbank-related	36.2	2.8	1.5	1.4	-2.4
Dealer	11.6	2.6	.4	.6	-3.9
Direct	24.6	.2	1.2	.8	1.6

1/ Seasonally adjusted figures are unavailable for bank related paper. The unadjusted data for bank-related paper are combined with seasonally adjusted nonbank-related data to obtain the total for commercial paper outstanding.

Note: Components may not add to total due to rounding.

Short-term rates. Following the last Committee meeting, short-term interest rates declined substantially further; but, since late October, they have turned up sharply, particularly on U.S. Treasury bills. The recent advance has carried bill yields substantially above levels prevailing at the time of the Committee meeting, as the table shows, and erased most or all of the post-meeting reductions in other short-term rates.

SELECTED SHORT-TERM INTEREST RATES
(per cent)

	Daily rates				
	Mid-Sept. highs	Oct. FCMC Meeting (Oct. 16)	Recent lows (October 24-31)	Nov. 7	Nov. 13
Treasury bills					
3-months	9.04	7.28	7.02	8.20	8.62
6-months	9.00	7.30	7.01	8.00	8.41
1-year	8.50	7.30	6.78	7.47	7.68
Commercial paper					
90-119 days	10.50	9.25	8.38	8.88	9.13
4-6 months	10.50	9.13	8.13	8.75	9.00
Large negot. CD's 1/	11.00	9.25	8.13	9.00	9.25
3-months	11.00	9.25	8.13	9.00	9.25
6-months	10.65	8.50	7.50	8.38	8.50
Federal agencies					
1-year	9.11	7.81	7.56	7.86	7.96
Bankers' acceptances	11.00	9.25	8.75	9.00	9.25
Bank prime rate	10.00	10.00	9.75	9.50-9.75	9.50-9.75
	Statement week ended				
	Oct. 17	Oct. 24	Oct. 31	Nov. 7	Nov. 14 2/
Federal funds (weekly average)	10.07	9.98	9.90	9.71	9.81

1/ Highest quoted new issues.
2/ Average for first 6 days of the week.

Perhaps the most important factor contributing to the recent turnaround in rates was a shift in market expectations as to the future course of monetary policy. From mid-September through late October, a consensus among market participants was that Federal Reserve policy was likely to move persistently in the direction of ease in future months, and this provided much of the impetus for the sharp fall in rates over that period. But, as the Federal funds rate showed no tendency to drop significantly below 10 per cent from early October on and emerging data indicated a substantial pickup in growth of the aggregates, the market lost its conviction as to the likelihood that monetary policy would shift further in the direction of ease, at least over the near-term future.

In the Treasury bill market, rate changes prompted by the shift in underlying market expectations were strongly accentuated when foreign central banks liquidated Treasury security holdings in volume to obtain needed dollar exchange. Since the last week in October, foreign central banks have sold about $1.0 billion of bills directly in the market or to the Federal Reserve and also have redeemed about $1.9 billion of special issues. In addition to the direct impact of these sales on the market supply of bills, the redemptions of special issues required the Treasury unexpectedly to seek new funds in the market in early November and increased the possibility of market borrowing in coming months. So far this additional borrowing has taken the form of a $1.1 billion auction of a bill strip on November 9 and the addition of $100 million to the weekly auction on November 12.

Looking ahead, the Treasury will have to raise new cash in early December. The size of the offering is in some doubt and will depend on the extent of cash loss from redemptions of Treasury specials by foreigners and on the availability of borrowing authority from the Federal Reserve (currently lapsed). At the moment it would appear that borrowing would be in the $2.5 to $4.0 billion range, and possibly would take the form of tax bills.

In the Agency market, the Federal Home Loan Banks have a reduced need to borrow because inflows into savings and loan associations have been better than expected. As a result, it presently appears that Agency borrowing during November and December may amount to about $1.8 billion, rather than the $2.9 billion projected earlier. With the recent backup in rates, however, the outlook for Agency borrowing is more uncertain than usual.

Treasury coupon market. Yields on Treasury coupon issues also have risen significantly since early October, offsetting about one-third to two-fifths of the reductions recorded in most maturity areas over August and September. The backup reflected, in part, the sharp rise in short-term rates, a build-up in the calendar of new issues scheduled to be sold in related markets, and the impact of the recent Treasury refunding which was accentuated when the offering of strip bills was announced before dealers had made much progress in distributi- issues required in the refunding.

YIELDS ON TREASURY COUPON ISSUES
(Daily rates, at constant maturity, in per cent)

	1973 highs (Aug. 7)	Intermediate lows (Oct. 9-12)	Oct. FOMC meeting (Oct. 16)	Oct. 30	Nov. 7	Nov. 13
3-years	8.34	6.73	6.81	6.78	7.15	7.26
5-years	8.13	6.68	6.80	6.75	6.98	7.15
7-years	7.82	6.69	6.79	6.78	6.94	7.03
10-years	7.58	6.75	6.81	6.72	6.76	6.77
20-years	7.83	7.05	7.19	7.26	7.33	7.37

In its November refunding operation, the Treasury sold $3.8 billion of securities. These included $1.5 billion of 25-month notes and $2 billion of 6-year notes, both with a 7 per cent coupon, auctioned at average yields of 6.91 per cent and 6.82 per cent, respectively. Also, $300 million of a reopened 20-year bond carrying a 7-1/2 per cent coupon--first auctioned last August--were sold in a Dutch auction at an issuing yield of 7.35 per cent. Yields on the two notes have since moved up significantly in when-issued trading, while the current yield on the bond remains at about its auction average.

Dealers took large positions of about $1.2 billion in these issues, but sizable sales to the public have enabled them to reduce their holdings. As of November 12, dealer net positions in all coupon issues maturing in more than a year were down to about $650 million.

<u>Long-term security markets</u>. The bond market rally that began early in August faded in early October. Since then long-term rates have risen somewhat, although they are still about 30 to 50 basis points below their August peaks. The rise apparently reflected a relatively heavy volume of current and prospective new issues, and uncertainty about the strength of the economy and the future course of monetary policy, which previously had been interpreted as easing.

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa utility bonds 1/	Recently offered Aaa utility bonds 1/	Long-term State and local bonds 2/	U. S. Government bonds (10-year constant maturity)
1971 - High	8.26 (7/30)	8.19 (1/2)	6.23 (6/24)	6.89 (7/20)
Low	7.02 (2/5)	7.14 (12/31)	4.97 (10/21)	5.87 (1/14)
1972 - High	7.60 (4/21)	7.46 (4/21)	5.54 (4/13)	6.58 (9/27)
Low	6.99 (11/24)	7.21 (12/1)	4.96 (12/7)	5.87 (1/14)
1973 - High	8.52 (8/10)	8.32 (8/10)	5.59 (8/3)	7.55 (8/10)
Low	7.29 (1/12)	7.28 (1/5)	4.99 (10/11)	6.42 (1/3)
Oct. 12	7.96	7.88	4.99	6.77
19	8.05	7.98	5.05	6.80
26	7.97	7.98	5.12	6.75
Nov. 2	7.76	7.96	5.17	6.72
9	7.99p	8.05p	5.19	6.75p

1/ FRB series.
2/ Bond Buyer.
p/ Preliminary.

Stock prices declined appreciably from late October into early November apparently reflecting investor concern about rising interest rates, the energy crisis, and domestic and international political uncertainties. The decline erased about one-half of the gains recorded during the rally throughout most of September and early October. Price-earnings ratios remain historically low; for example, based on third quarter earnings the ratio for the Dow-Jones industrial average is presently about 12, in contrast to a long-term average around 17.1/

Continued sizable additions to the calendar of corporate security offerings have resulted in upward revisions in the already large volume of offerings forecast in the October Greenbook. Corporate public bond offerings in October are now estimated to have totalled $1.7 billion and the November forecast is $1.9 billion, about twice the average monthly volume during the first three quarters of 1973. In December, corporate public bond offerings are expected to decline from these levels, mainly for seasonal reasons. Stock offerings in November also are projected to be somewhat higher than earlier forecasts, bolstered by the announcement of a $500 million preferred offering by A.T.& T.

The increased corporate security financing reflects large capital expenditure plans, the desire to fund short-term debt, and a general view that long-term rates probably will not fall much further in the immediate future. However, corporate demands for capital market financing appear especially volatile since corporations still have considerable financial flexibility and could easily postpone financing if rates rose to levels that appeared unattractive.

1/ Preliminary national income estimates of third quarter profits for all non-financial corporations indicate little change from the second quarter. The Greenbook Supplement will provide an analysis of profit developments in the third quarter.

CORPORATE AND MUNICIPAL LONG-TERM SECURITY OFFERINGS
(Monthly or monthly averages, in millions of dollars)

	1973				
	1st 3 Qts. e/	Sept. e/	Oct. e/	Nov. f/	Dec. f/
Corporate securities -					
Total	2,552	1,925	3,400	4,300	3,200
Public bonds	946	575	1,700	1,900	1,300
Privately placed bonds	717	800	800	900	1,200
Stock	889	550	900	1,500	700
State and local government securities	1,867	1,625	2,200	1,750	1,350

e/ Estimated.
f/ Forecast.

Long-term municipal financing in October is estimated at $2.2 billion, about $.2 billion higher than expected earlier. Most of this increase consists of industrial revenue bonds and other types of special revenue bond issues. Looking ahead, State and local financing is expected to return to a level more in line with that in the first nine months of 1973--about $1.75 billion in November and a seasonal drop to $1.35 billion in December.

Mortgage market. Preliminary data suggest that the volume of new mortgage commitments at savings and loan associations in October rose somewhat above the sharply reduced September level. The backlog of outstanding mortgage commitments remained little changed, however, at about 23 per cent below the February high.

In the primary market the decline in average contract interest rates on new commitments for 80 per cent conventional home loans which began in early October slackened considerably in early November, judging from the weekly FHLMC survey of 120 S&L's. On November 9 the rate was 8.59 per cent--26 basis points below the late September peak. With yields on new issues of high-grade corporate bonds up appreciably over this period, the spread favoring such mortgages declined 44 points.

Secondary market yields on 8-1/2 per cent FHA/VA mortgages also have declined, primarily because originations of such mortgages have been limited and pressure on mortgage companies to complete their mortgage pools in time to meet earlier commitments for GNMA-guaranteed securities has increased. Partly reflecting these developments, offerings to FNMA in each of the October auctions for short-term commitments to purchase Government-underwritten home mortgages were relatively limited.

Net expansion of total mortgage debt in the third quarter dipped to a seasonally adjusted annual rate of $70 billion--down $7 billion from the peak in the first half of 1973. This decline was due largely to slower growth in the residential sector, even though advances to S&L's from the Federal Home Loan Banks were in record volume and Federal agencies operating in the secondary market stepped up their purchases of residential mortgages. Altogether, if GNMA pass-throughs and net FHLB advances are included, Federal agencies accounted for almost half of the net change in outstanding residential debt during the quarter.

CONVENTIONAL HOME MORTGAGES
At 120 S&L's

End of Period		Average going rate on 80% loans (per cent)	Basis point change from month or week earlier	Spread 1/ (basis points)	Number of Federal Home Loan Bank districts with funds in short supply
1973					
April		7.56	+ 7	11	4
May		7.70	+14	9	3
June		7.76	+ 6	3	4
July		8.18	+42	15	7
Aug.		8.66	+48	n.a.	12
Sept.		8.85	+19	104	11
Oct.		8.68	-17	71	10
Sept.	7	8.77	+11	83	12
	14	8.81	+ 4	107	11
	21	8.83	+ 2	80	10
	28	8.85	+ 2	104	11
Oct.	5	8.82	- 3	107	11
	12	8.83	+ 1	87	11
	19	8.75	- 8	70	10
	26	8.68	- 7	71	10
Nov.	2	8.62	- 6	86	10
	9	8.59	- 3	60	10

1/ Gross yield spread is average mortgage return before deducting servicing costs minus average yield on new issues of Aaa utility bonds with 5-year call protection.

Agricultural finance. Demand for farm loans remained strong through the third quarter. In September, for instance, outstanding loans at production credit associations rose contraseasonally, as they also had in August. In both months, new loans exceeded collections, which also is unusual at that time of the year. Higher production expenses basically explain the strong credit demand, along with such contributing factors as a sharply reduced level of pre-harvest Government farm program payments, a continued large volume of farm equipment purchases, the withholding of cattle from market during the price freeze, and the postponement of grain marketing for several reasons--price anticipations, transportation difficulties, and to minimize income taxes.

FARM INCOME AND EXPENSES IN 1973

	Percentage change from--					
	1969-71 average			1972		
	QIII	QIV	Year 1973	QIII	QIV	Year 1973
Gross income	58	76	54	33	42	29
Production expenses....	59	79	54	33	46	30
Realized net income....	56	68	56	32	31	29

Source: U.S. Department of Agriculture. Data for 1973 are preliminary.

However, October 1 surveys of rural banks in the Seventh and Ninth Federal Reserve Districts indicate that farm loan demand may be easing in the fourth quarter; in fact, the proportion of bankers expecting reduced demand for farm production loans set a record high in both quarterly surveys. Clearly, bankers expect significant farm loan repayments to result from this fall's extraordinary net farm income. As a partial offset, demand for grain storage and farm equipment loans will remain at high levels.

Fewer loan renewals and large post-harvest deposit gains should combine to produce a more liquid position at many rural banks this winter. But during the third quarter, the availability of loan funds at some rural banks deteriorated. On the October 1 Survey date, for instance, fewer Ninth District banks were actively seeking new loan accounts than three months earlier, and more had refused loan requests because of a shortage of funds. In the Seventh District, an increased number of banks regarded their loan/deposit ratios as too high. Such series reflecting credit availability, however, were still far from the levels they exhibited in 1970.

During the third quarter, interest rates rose sharply at all major farm lender groups. In contrast, during the first half of the year, rates had increased significantly only at lenders with close ties to short-term money markets--the production credit associations and the larger banks--while rising only slightly at rural banks and remaining unchanged at the Federal Land Banks.

AVERAGE INTEREST RATES ON FARM LOANS 1973
(Per cent)

	January 1	April 1	July 1	October 1
Rural commercial banks				
Seventh District:				
Feeder cattle loans....................	7.52	7.55	7.69	8.27
Real estate loans......................	7.67	7.71	7.81	8.35
Ninth District:				
Short-term loans	8.06	8.08	8.18	8.55
Intermediate-term loans................	8.20	8.20	8.26	8.67
Long-term loans........................	7.92	7.95	8.05	8.43
Commercial banks reporting for G.10 release:				
Feeder cattle loans......................	7.74	8.03	8.61	9.43[a]
Other production loans...................	7.89	8.01	8.35	9.17[a]
Farm finance subsidiary of a large bank....	7.25	7.68[b]	8.61[b]	10.87[b]
Production credit associations[c]............	7.43	7.71	8.16	8.98
Federal Land Banks[c]........................	7.35	7.35	7.35	7.75

a/ First week of September (data for October are not yet available).
b/ As of two weeks before the date indicated.
c/ Simple averages estimated by Board staff.

Federal finance. With fiscal 1974 budget outlays now forecast at \$272.0 billion and receipts at \$269.0 billion, our estimate of the deficit for the current fiscal year has grown to \$3.0 billion. This compares with revised Administration figures of \$270.6 billion for budget outlays and \$270.0 billion for budget receipts.*

Federal outlays so far this fiscal year have been lower than projected, especially for grants-in-aid. Nonetheless, our fiscal 1974 outlays forecast has been raised \$0.7 billion since the October Greenbook, for two principal reasons. The first is that we project a "catch-up" in grants-in-aid later this fiscal year as a result of recent court decisions that may require the release of a large amount of impounded funds. The second is the President's request for supplemental appropriations for defense to replace equipment going to Israel. We have estimated this program to cost \$.4 billion in fiscal 1974 and \$1.5 billion for calendar 1974.

In contrast with official forecasts of a 5.9 per cent social security benefit increase in July 1974, the staff projection calls for a 5.9 per cent increase in January 1974. While our estimate is close to the amount enacted by the Senate, the increase that is finally enacted might be somewhat larger. The House Ways and Means Committee has approved a 7 per cent benefit increase payable in April 1974, with a further 4 per cent increase to follow in July.

* The "Administration" figure of \$270.6 billion for outlays is not an official published figure but rather is the sum of the official \$270.0 billion estimate of October 18 and the Budget Scorekeeping estimate of \$.6 billion for Mid-East related defense expenditures.

Our fiscal 1974 receipts forecast has been reduced $.6 billion since the October Greenbook due entirely to revised income assumptions. However, withheld taxes in recent months have been lower than projected, possibly indicating that an adjustment to over-withholding finally may be materializing, that is, that wage earners are increasing their claimed exemptions. Another uncertainty arises from the House Ways and Means Committee's social security bill that includes a larger wage base increase than currently scheduled and, if passed, could significantly raise receipts in the second half of calendar 1974. As yet, however, we have not responded to these developments in our forecasts.

The Senate Finance Committee now has the House-enacted bill raising the Federal debt ceiling to $475.7 billion. This amount is $4.3 billion below the Administration's request. Nonetheless, staff estimates indicate that it should be sufficient to finance Treasury operations through fiscal 1974.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Oct.	Nov.	Dec.	Jan.
Total net borrowing	1.5	2.5	4.0	0.0
Weekly and monthly bills	1.8	1.2	--	--
Tax bills	--	2.0	4.0	--
Coupon issues	--	3.8	--	--
As yet unspecified new borrowing	--	--	--	--
Special foreign series	-0.4	-1.4	--	--
Agency transactions, debt repayment, etc.	0.1	-3.1	--	--
Plus: Other net financial sources a/	1.9 b/	-0.4	-0.5	1.6
Plus: Budget surplus or deficit (-)	-6.0	-2.3	-0.1	-1.5
Equals: Change in cash balance	-2.6 c/	-0.2	3.4	0.1
Memoranda: Level of cash balance, end of period	5.7 c/	5.5	8.9	9.0
Derivation of budget surplus or deficit:				
Budget receipts	17.3	19.8	21.7	22.5
Budget outlays	23.3	22.1	21.8	24.0
Maturing coupon issues held by public	--	3.6 d/	--	--
Sales of financial assets	0.1	0.1	0.7	0.2
Budget agency borrowing	*	0.3	--	0.2
Net borrowing by government-sponsored agencies	2.9	-0.2	0.9	1.0

a/ Checks issued less checks paid and other accrual items.
b/ Includes $1.2 billion in receipts resulting from the monetization of gold.
c/ Actual.
d/ In the November refinancing, $3.8 billion of notes and bonds were sold to provide funds for refunding the $3.6 billion of publicly-held bonds maturing on November 15.
* Less than $50 million.

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	Fiscal Year 1973 *	Fiscal 1974 e/ Adm. Est. 10-19-73 1/	Fiscal 1974 e/ F.R. Board	Calendar Years F.R. Estimates 1973	Calendar Years F.R. Estimates 1974	F.R.B. Staff Estimates Calendar Quarters 1973 III*	1973 IV	1974 I	1974 II	1974 III	1974 IV
Federal Budget						Unadjusted data					
Surplus/deficit	-14.4	-0.6	-3.0	-11.4	-2.8	-1.1	-8.4	-6.0	12.5	-2.1	-7.2
Receipts	232.2	270.0	269.0	249.3	284.4	64.4	58.8	63.2	82.6	72.7	65.9
Outlays	246.6	270.6	272.0	260.8	287.2	65.5	67.2	69.2	70.1	74.8	73.1
Means of financing:											
Net borrowing from the public	19.3	n.a.	-2.2	9.2	-2.8	-0.7	8.0	2.3	-11.8	2.6	4.1
Decrease in cash operating balance	-2.5	n.a.	3.7	2.2	2.6	4.3	-0.6	0.2	-0.2	0.5	2.1
Other 2/	-2.4	n.a.	1.4	0.0	3.0	-2.5	1.0	3.5	-0.5	-1.0	1.0
Cash operating balance, end of period	12.6	n.a.	8.9	8.9	6.3	8.3	8.9	8.7	8.9	8.4	6.3
Memo 3/: Sales of financial assets 4/	4.8	n.a.	3.4	3.5	n.e.	-0.3	0.9	1.3	1.5	n.e.	n.e.
Budget agency borrowing 5/	0.4	n.a.	1.4	0.1	n.e.	0.4	0.3	0.5	0.3	n.e.	n.e.
Sponsored agency borrowing 6/	8.7	n.a.	15.0	16.8	n.e.	6.1	3.6	2.5	2.7	n.e.	n.e.
National Income Sector						Seasonally adjusted, annual rates					
Surplus/deficit	-12.1	n.a.	-0.2 7/	0.2	-4.3	3.2	2.7	-3.3	-3.4	3.8	-6.6
Receipts	242.9	n.a.	278.2	264.9	288.3	268.9	274.7	282.4	286.6	290.1	294.1
Expenditures	255.0	n.a.	278.4	264.7	292.6	265.7	272.0	285.7	290.0	293.9	300.7
High Employment surplus/deficit (NIA basis) 8/	n.a.	n.a.	0.2	-0.8	5.9	-1.5	-0.7	-1.4	4.3	9.7	-11.0

* Actual e--projected n.e.--not estimated n.a.--not available

Footnotes continued

1/ The Administration's estimate, presented at the October 18th hearings on the debt ceiling, was $270 billion for both receipts and outlays. Since that time, as a result of increased aid to Israel, the Administration has requested additional funds for defense which would add about $0.6 billion to fiscal year 1974 outlays.

2/ Includes such items as deposit fund accounts and clearing accounts.

3/ The sum of sponsored and budget agency debt issues and financial asset sales does not necessarily reflect the volume of debt absorbed by the public, since both the sponsored and budget agencies acquire a portion of these issues.

4/ Includes net sales of loans held by the Commodity Credit Corporation, Farmers Home Adm., Government National Mortgage Assn., Federal Housing Adm., and Veterans Adm. Receipts from these sales are netted against Federal Budget Outlays shown above.

5/ Includes, for example, debt issued by the U.S. Postal Service, Export-Import Bank, and Tennessee Valley Authority, which is included in the Net Treasury Borrowing from the Public shown above.

6/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

7/ Calculated by averaging appropriate quarters. Official fiscal year estimates are adjusted for spreading of wage base and refund effect over calendar year.

8/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

U.S. Balance of Payments
(In millions of dollars; seasonally adjusted)

	1972	1 9 7 3p/			
	Year	Q-I	Q-II	Q-III	Sept.*
Goods and services, net 1/	-4,609	150	616	1,800	
Trade balance 2/	-6,912	-960	-230	783	745
Exports 2/	-48,769	15,320	16,747	18,220	6,372
Imports 2/	-55,681	-16,280	-16,977	-17,437	-5,627
Service balance	2,303	1,110	846	1,017	
Remittances and pensions	-1,570	-397	-381		
Govt. grants & capital, net	-3,513	-681	-455		
U.S. private capital (- = outflow)	-8,534	-6,133	-1,930		
Direct investment abroad	-3,404	-2,025	-1,158		
Foreign securities	-614	51	-128	-189	-25
Bank-reported claims -- liquid	-742	-1,296	870	-358	157
" " " other	-2,764	-2,052	-1,746	420	229
Nonbank-reported claims -- liquid	-492	-615	-87	+52	n.a.
" " " other	-517	-168	228	n.a.	n.a.
Foreign capital (excl. reserve trans.)	10,287	483	2,297		
Direct investment in U.S.	160	273	455		
U.S. corporate stocks	2,268	1,301	151	870	213
New U.S. direct investment issues	2,003	384	274	193	
Other U.S. securities (excl. U.S. Treas.)	64	61	87	170	
Liquid liabilities to:	4,776	-1,899	1,122	1,395	621
Commercial banks abroad	3,862	-1,916	696	879	--
Of which liab. to branches 3/	(178)	(-579)	(586)	(110)	(-288)
Other private foreign	810	7	361	164	163
Intl. & regional organizations	104	10	65	352	458
Other nonliquid liabilities	1,016	364	162		
Liab. to foreign official reserve agencies	10,308	10,279	-373	-2,133	
U.S. monetary reserves (increase, -)	742	220	17	-13	-4
Gold stock	547	--	--	--	--
Special drawing rights 4/	7	--	9	--	--
IMF gold tranche	153	-13	8	-13	-4
Convertible currencies	35	233	--	--	--
Errors and omissions	-3,112	-3,921	229		
BALANCES (deficit -) 4/					
Official settlements, S.A.		-10,499	356	2,146	
" " , N.S.A.	-11,050	-9,995	784	921	
Net liquidity, S.A.		-6,689	-1,549	1,057	
" " , N.S.A.	-14,592	-6,314	-1,951	126	
Liquidity, S.A. 5/		-8,600	-766	751	
" , N.S.A.	-15,826	-8,162	-1,172	-328	
Basic balance, S.A.		-947	-732		
" " , N.S.A.	-9 843				

* Monthly, only exports and imports are seasonally adjusted.
1/ Equals "net exports" in the GNP, except for latest revisions.
2/ Balance of payments basis which differs a little from Census basis.
3/ Not seasonally adjusted.
4/ Excludes allocation of $710 million SDRs on 1/1/72.
5/ Measured by changes in U.S. monetary reserves, all liabilities to foreign official reserve agencies and liquid liabilities to commercial banks and other foreigners.

INTERNATIONAL DEVELOPMENTS

Summary and Outlook. Preliminary data (to be released on November 15) show a dramatic improvement in the U.S. balance of payments during the third quarter. There was an official settlements surplus for the quarter of $8.6 billion (seasonally adjusted annual rate), following a surplus of $1.4 billion in the second quarter, and in August and September the dollar appreciated on average against other major currencies, reversing most of the July depreciation. Another large official settlements surplus developed in mid-October, cumulating to nearly $2.0 billion by November 7, and the dollar has appreciated sharply further in recent weeks, to about its May level.

The data now available indicate that the third-quarter improvement occurred in the components of the basic balance -- the current account and long-term capital flows. Both the trade balance and the balance on long-term private capital shifted from second-quarter deficits to substantial surpluses.

It is likely that the basic balance will continue to be in surplus, but unlikely that the rate of surplus will remain so high as in the third quarter. Net purchases of U.S. stocks by foreigners reached an annual rate of $3.5 billion in the third quarter, but October inflows are expected to be down very sharply. The balance on other long-term private capital flows will probably also turn less favorable than the unusually high third-quarter net inflow. Further increases in the merchandise trade surplus, while not unlikely, would have to be substantial to offset the probable decline in the surplus on long-term capital flows.

The Arab cutback in oil production, if sustained, would have a lesser impact in the United States than in countries heavily dependent on oil imports for industrial uses, including Japan and a number of European countries. The rapid rise in the price of oil implies a larger oil import bill for this and other countries, in spite of the production cutbacks, but a substantial portion of the increased earnings of the oil producers will probably be spent or invested in this country, either directly or indirectly. Considerations such as these, together with the large September trade surplus, have brought the dollar under strong upward pressure against other major currencies in recent weeks.

Most major foreign countries are continuing on a course of monetary restraint, with high or rising interest rates, and with sharp drops in the growth of national money stocks (M1) shown by the data through September. Following the announcement of a sharp deterioration in the trade balance of the United Kingdom for September, on November 13 the Bank of England raised its minimum lending rate by 1-3/4 percentage points to a record 13 percent and issued a call for additional special deposits by the banking system equal to 2 percent of liabilities.

Foreign exchange markets. The major development in the exchange markets in recent weeks has been, of course, the explosion of demand for dollars against European and Japanese currencies consequent upon the release of U.S. trade figures for September, showing a whopping surplus, and the subsequent evolution of the oil crisis. The dollar has risen, in a little over two weeks, by 6 to 9 per cent against the European snake currencies, 5 per cent against the Japanese yen and the Swiss franc, and lesser amounts against Sterling, the lira, and the Canadian dollar. Only massive amounts of dollar intervention by the Bank of Japan prevented the appreciation against the yen from being substantially greater.

While a substantial part of the dollar's appreciation followed directly upon the release of the trade figures, much the larger part of the rise was, seemingly, associated with the subsequent development of the oil crisis, which was interpreted by the market to portend a worsening of European and Japanese industrial capabilities and balances of payments relative to those of the United States. While the System took the opportunity of the favorable market reaction to the U.S. trade figures to clean up its outstanding swap debt in marks, and Germany simultaneously sold dollars it had purchased in September, during the past week or so, despite often hectic activity in the markets, there was only token central bank intervention in European currencies. As the dollar moved up against the snake, the various currencies in the snake changed positions, but no significant strains on the band developed. The mark, which together with the guilder suffered the largest losses against the dollar, moved to the bottom of the snake, but the Bundesbank sold only nominal amounts of Danish kroner, the currency at the top.

In contrast to European central banks, the Bank of Japan intervened massively to supply dollars to the market. From October 26 to November 14, the Bank of Japan sold $1.9 billion. The market seemed to expect that Japan's balance of payments would be the hardest hit of any major country by the recent oil price hikes and its economy most affected by an oil production cutback. The Japanese authorities took some administrative actions on November 13 to curb the demand for dollars, but these actions would appear unlikely to have significant impact.

Sterling declined against the dollar by the smallest amount, 2 per cent, of any of the European currencies. On November 13, however, the U.K. released trade figures for October, showing a record monthly trade deficit of £298 million. Simultaneously with release of the trade figures, and partly to blunt the expected market reaction to those figures, the U.K. announced a 1-3/4 per cent increase (to 13 per cent) in the Bank of England's minimum lending rate and issued a call for additional special deposits (cash reserves) of the banking system equal to 2 per cent of liabilities. The U.K. also declared a national state of emergency over the oil crisis. In response to this variety of actions, exchange market activity wound down abruptly, and the dollar's rise against sterling came to an, at least temporary, halt.

In the gold market, prices tended to decline with the strengthening of the dollar and the apparent success of the Mid-East cease fire. By November 13 the price had fallen to $96.75. On November 14, in response to the announcement of the ending of the March, 1968 gold agreement, which had prohibited signatory central banks from selling gold on the private market, the gold price plunged to $90.00 in rather heavy trading.

Euro-dollar market. Euro-dollar interest rates have shown net declines over the past four weeks. Changes in Euro-dollar rates over this period have generally followed, both in timing and magnitude, changes in U.S. money market rates, declining throughout October then firming slightly in early November. The surge in demand for dollars which developed on exchange markets at the end of October has had little impact on Euro-dollar rates. This shift in demand has been reflected, however, in decreased forward premiums or increased forward discounts on major foreign currencies and increased Euro-currency interest rates on these currencies.

The overnight Euro-dollar rate averaged nearly 9-1/2 per cent in the week ended November 14, a decrease of 1/4 percentage point from the week of October 17. The average Federal funds rate also declined by 1/4 percentage point over this period and remained approximately 1/3 percentage point above the overnight Euro-dollar rate. In contrast, overnight Euro-dollar borrowing subject to the 8 per cent marginal reserve requirement has remained more expensive than borrowing in the Federal funds market throughout the period. Three-month Euro-deposits were bid at an average rate of 9.6 per cent in the week ended November 14, down from the 10 per cent level of four weeks previous. The three-month CD rate has remained below the three-month Euro-dollar rate by over 1/2 percentage point throughout the period.

U.S. banks' liabilities to their foreign branches averaged $1,893 million in the week ended November 7, a decline of $98 million from the week of October 10. U.S. agencies and branches of foreign banks increased their foreign liabilities by slightly over $1 billion during this same period.

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES

Average for month or week ending Wednesday	(1) Over-night Euro-$ 1/	(2) Federal Funds 2/	(3) Differ-ential (1)-(2)(*)	(4) 3-month Euro-$ Deposit 1/	(5) 60-89 day CD rate 3/	(6) Differ-ential (4)-(5)(*)
1973-Feb.	9.03	6.58	2.45 (4.71)	7.46	6.16	1.30 (2.85)
Mar.	9.19	7.09	2.10 (4.40)	8.53	6.84	1.69 (3.46)
Apr.	7.43	7.12	0.31 (2.17)	8.15	7.10	1.05 (2.72)
May	7.74	7.84	-0.10 (0.90)	8.45	7.30	1.15 (1.87)
June	8.19	8.49	-0.30 (0.41)	8.81	7.94	0.87 (1.01)
July	9.75	10.40	-0.65 (0.20)	10.40	9.06	1.34 (1.45)
Aug.	10.70	10.50	0.20 (1.13)	11.49	10.20	1.29 (1.40)
Sept.	10.85	10.79	0.06 (1.00)	11.16	10.30	0.86 (0.81)
Oct.	10.04	10.01	0.03 (0.90)	9.96	9.16	0.80 (0.54)
1973-Oct. 3	12.25	10.72	1.53 (2.60)	10.38	9.63	0.75 (0.46)
10	10.65	9.87	0.78 (1.71)	10.65	9.50	1.15 (0.91)
17	9.68	10.07	-0.39 (0.45)	10.08	9.35	0.73 (0.45)
24	9.74	9.98	-0.24 (0.61)	9.60	9.00	0.60 (0.32)
31	9.61	9.90	-0.29 (0.55)	9.27	8.50	0.77 (0.55)
Nov. 7	9.23	9.70	-0.47 (0.33)	9.39	8.75	0.64 (0.38)
14 p/	9.47	9.81	-0.34 (0.48)	9.63	8.75	0.88 (0.64)

1/ All Euro-dollar rates are noon bid rates in the London market; overnight rate adjusted for technical factors to reflect the effective cost of funds to U.S. banks.
2/ Effective rates.
3/ Offer rates (median, as of Wednesday) on large denomination CD's by prime banks in New York City.
*/ Differentials in parentheses are adjusted for the cost of required reserves.
p/ Preliminary.

U.S. balance of payments. Preliminary data show an official settlements surplus of $0.9 billion (not seasonally adjusted) during the third quarter, while the dollar appreciated against most other major currencies after dropping in early July. Seasonally adjusted, the official settlements surplus was $2.1 billion for the quarter, following a deficit of $10.1 billion during the first half of the year. Since mid-October the official settlements surplus has risen sharply as countries intervened to moderate the continuing appreciation of the dollar, which in mid-November recovered its average level for the second quarter.

The basic balance for the third quarter may have moved into a surplus of more than $6 billion at a seasonally-adjusted annual rate, compared with a second-quarter deficit rate of $3 billion and a 1972 deficit of nearly $10 billion. Among major components of the basic balance, the merchandise trade balance improved by $4 billion (annual rate) during the third quarter, while the long-term private capital account appears to have shifted to a substantial surplus. A very tentative estimate shows a small increase in the surplus on military transactions and services, but outflows of government grants and credits, which were abnormally low in the second quarter, increased considerably.

Incomplete data suggest that the third-quarter inflow of foreign private long-term capital was about twice as great as the

$4.1 billion (annual rate) inflow during the second quarter. With renewed optimism about stock prices and the value of the dollar on the currency exchanges, foreign net purchases of U.S. stocks increased to an annual rate of $3.5 billion, compared with $0.6 billion during the second quarter and $2.3 billion during 1972. These net purchases declined toward the end of the quarter, however, and appear to have dropped sharply in October. Third-quarter data are not yet available on foreign direct investment in the United States, but several large acquisitions occurred that probably raised the inflow substantially beyond the record-breaking second-quarter level of $1.8 billion (annual rate).

Outflows for U.S. private long-term investment abroad are estimated to have declined sharply during the third quarter. U.S. direct investment abroad probably dropped substantially after the very high rate of outflows in the first half of the year. In addition, banks reduced their long-term claims on foreigners in the third quarter, reversing outflows during the first two quarters.

Recorded flows of short-term capital showed a reduction in bank-reported non-liquid claims on foreigners during the third quarter, compared with large outflows in the first two quarters. Preliminary third-quarter data also show a continued large net inflow of liquid private capital.

U.S. foreign trade. The U.S. merchandise trade balance for September showed a surplus of $8.9 billion (seasonally-adjusted annual rate, balance of payments basis), raising the third quarter trade surplus to a $3.1 billion rate, compared with a second-quarter deficit rate of $0.9 billion and a 1972 deficit of $6.9 billion. Improvements in U.S. bilateral trade balances from the second to the third quarter were widely spread around the world.

Agricultural exports in the third quarter, which provided just over one-fourth of total export sales, fell in volume by 5 percent (not an annual rate) from their second quarter level, while increasing in price (unit-values) by almost 20 percent. On a month-to-month basis, the volume of agricultural exports has been declining fairly steadily since March. Nevertheless, third-quarter volume was more than 20 percent higher this year than in 1972.

Exports of non-agricultural commodities grew in volume by 4 percent in the third quarter, while their unit values increased by roughly 3 percent. Since third-quarter 1972, volume has grown by 23 percent and unit values have risen 10 percent.

The value of imports rose by roughly 3 percent between the second and third quarters. On the basis of preliminary data, import volume fell for the second quarter in a row, averaging an 11 percent annual rate of decline since the first quarter. This decline is notable, since it occurred at a time of fairly rapid U.S. business expansion.

Some weakness in import volumes may be due to the pressure of demand abroad, but the cumulating effect of the increase in import prices, due in part to the depreciation of the dollar, is also a strong influence. During the third quarter the unit value of imports rose further by 4-1/2 percent.

Among major end-use categories of imports, both capital goods and fuels grew in volume in the third quarter, by 10 percent and 5 percent, respectively. Imports in almost all other categories have declined in volume for at least two successive quarters. Third-quarter unit values were above second-quarter levels for all major end-use categories except automotive imports from Canada and capital goods, for which the indices declined by roughly 3 and 1 percent, respectively.

Imports of crude petroleum and fuel oil grew in quantity by 4-1/2 percent in the third quarter, to a level more than 40 percent higher than in third quarter 1972. The unit value of these imports rose in the third quarter by 10 percent, to a level nearly 25 percent higher than in third-quarter 1972.

Unfilled export orders for durable goods (excluding motor vehicles and aircraft) increased in September (seasonally adjusted) for the ninth consecutive month. New export orders for these goods (seasonally adjusted) fell sharply in September after an equally-sharp increase in August.

Monetary Conditions and Monetary Policy in Major Industrial Countries. Though the rapid rate of real economic growth in major industrial countries that began in 1972 and continued through early 1973 has apparently been slackening for several months, high rates of price inflation persist. Consequently, monetary authorities almost everywhere in the industrialized world have been pursuing policies intended to slow the growth of bank credit and money. Efforts to curb inflation through damping aggregate demand have placed prime reliance on monetary restraint, with the exception of Germany, where strong anti-inflationary fiscal measures have been enacted to supplement restrictive monetary policy.

Initiation of tight money policies generally dates back at least to mid-1973 and, in the case of Germany and Japan, to the end of 1972. Reflecting the tightness of monetary conditions, short-term interest rates rose very steeply this year, peaking in the late summer or early fall. Long-term rates likewise climbed, though much less sharply. In several countries, expansion of monetary aggregates--as is illustrated by the data on M1 and M2 in Table 1--has decelerated this year following very rapid growth in 1971 and 1972.

In some instances, efforts have been made--in Canada and Italy, for example--not only to curtail growth of the money supply and total credit, but to channel bank credit into certain sectors and to smaller enterprises.

TABLE 1
PERCENTAGE GROWTH RATES IN MONEY SUPPLY
FOR SELECTED INDUSTRIAL COUNTRIES
(Seasonally Adjusted - Annual Rates)

		Average Annual Changes			Average Monthly Changes			
		1964-70	1971	1972	Latest 12 mos.	Latest 6 mos.	Latest 3 mos.	Latest Month
U.K.								
	M1	4.7	15.1	13.0	8.0	7.4	-0.4	September
	M3	7.3	14.2	27.8	25.1	25.6	35.2	
Germany								
	M1	6.8	13.0	12.9	0.6	-6.2	-16.8	September
	M2	9.5	14.4	17.0	15.8	14.2	10.0	
France								
	M1	6.5	10.9	14.4	9.4	6.6	-2.0	August
	M2	11.1	17.6	18.4	16.8	15.2	10.8	
Canada								
	M1	6.2	17.4	13.2	14.5	14.7	13.0	September
	M2	10.0	14.9	15.9	12.4	12.3	15.8	
Japan								
	M1	16.2	29.8	24.7	25.2	15.6	3.7	August
	M2	16.6	24.2	24.7	20.4	16.8	11.5	
U.S.								
	M1	5.1	5.9	6.6	5.1	5.0	0.0	September
	M2	7.4	8.4	11.4	7.5	7.2	4.8	

Note: Changes shown are end-of-period to end-of-period. For each country M2 includes M1 plus private time and savings deposits, with the following exceptions: Germany: time deposits of over 4 years maturity and all savings deposits are excluded; Japan: public sector deposits are included, as are contract shares in mutual savings and loan associations; United States: negotiable CD's in amounts greater than $100,000 are excluded.

In the U.K. the Bank of England's series on M2 has been discontinued. The M3 series has been used. This includes, in addition to M1, all sterling and non-sterling deposits in the U.K. banking sector held by both public and private U.K. residents. All money supply data are from national sources.

One of the consequences of the effort to control and allocate credit has been an inversion of the normal term structure of interest rates, as occurred in the United States. In several markets short-term rates have been appreciably above long-term rates since mid-year.

A second consequence of rising interest rates has been the strong growth of time deposits in several of the industrial countries. Spiraling short-term rates have attracted substantial funds into time and savings deposits while, as stringent credit policies take hold, the growth of M1 has slowed drastically. In some countries, in fact, M1 has actually declined in recent months.

In Germany, the authorities have been pursuing a tight monetary policy for over a year. The Bundesbank has raised its discount rate six times, from 4 to 9 per cent, since the beginning of October 1972 and, more important, has taken a variety of steps this year to more directly limit the banking system's capacity to expand credit. These steps have included cuts in rediscount quotas, virtual elimination of the banks' Lombard borrowing privilege, increases in reserve requirements on resident deposits, and reductions in the base above which the 90 to 100 per cent reserve requirements on non-resident deposits apply.

The Bundesbank's most recent restrictive actions were taken in early October, to offset the domestic impact of the heavy capital inflows resulting from the flight from the French franc in the wake of

TABLE 2
INTEREST RATES FOR MAJOR COUNTRIES
(Per cent per annum, at or near end of month)

	Short-term Rates					Long-term Rates				
	Annual Avgs. 1971	Annual Avgs. 1972	June	Sept.	Latest	Annual Avgs. 1971	Annual Avgs. 1972	June	Sept.	Latest
U.K.	6.20	6.65	8.38	13.38	12.2 (11/9)	9.01	9.21	10.33	11.45	11.29 (11/2)
Germany	7.10	5.54	13.75	13.75	14.0 (11/9)	8.00	7.91	9.91	9.73	9.57 (10/31)
France	5.75	5.04	8.50	11.80	11.25 (11/2)	7.74	8.00	8.75	9.29	9.28 (10/19)
Italy	5.86	5.34	6.00	8.50	8.50 (*)	8.02	7.28	7.37	7.22	7.22 (**)
Belgium	5.00	3.83	5.70	7.45	7.60 (11/7)	7.28	7.04	7.21	7.62	7.62 (10/15)
Netherlands	3.02	1.89	5.03	7.50	7.70 (11/2)	7.20	6.68	7.83	8.01	7.49 (11/2)
Switzerland	3.10	1.92	2.50	4.50	4.50 (11/2)	5.26	4.97	5.36	5.79	5.77 (10/19)
Japan	6.33	4.65	6.75	9.00	8.75 (11/2)	7.76	6.74	7.55	8.15	8.15 (**)
Canada	4.54	5.63	7.00	8.75	9.00 (11/9)	6.95	7.23	7.74	7.72	7.60 (10/31)
U.S.	4.20	4.49	7.29	6.94	8.01 (11/9)	6.23	6.23	6.93	6.95	6.72 (11/2)

*September **August

Notes:

Short-term rates: U.K. - 90-day local authority deposits; Germany - 3-month interbank loan rate; France - call money rate against private paper; Italy - interbank deposits of up to one-month maturity; Belgium - tap rate on 3-month Treasury bills; Netherlands - call money rate; Switzerland - 3-5 month deposit rate; Japan - call money rate, unconditional; Canada - Canadian finance company paper; U.S. - U.S. Treasury bill.

Long-term rates: U.K. - 3-1/2% war loan; Germany - 6% public authority bond yield; France - public sector bonds; Italy - composite yield on all bonds except Treasury bonds (monthly average); Belgium - long-term government bonds, composite yield; Netherlands - average of three 4-1/4 - 4-1/2% government loans; Switzerland - Swiss government composite yield; Japan - 7-year industrial bonds; Canada - Government long-term average yield; U.S. - Government 10-year constant maturity bond yield.

the guilder revaluation in mid-September. Reserve requirements on domestic deposits were increased by 3 per cent, rediscount quotas were cut by about 8 per cent for medium-sized banks and by 25 per cent for large banks, and the base above which the stiff marginal reserve requirement on foreign deposits are imposed was lowered by 15 per cent.

The Bundesbank's restrictive measures have been reflected in the movement of monetary aggregates this year. Bank lending to domestic non-banks, for example, rose at a seasonally adjusted annual rate of about 10 per cent from the end of February through the end of August. In the year ending in February, the increase had been 17 per cent. There has also been a deceleration in the growth of the money supply. The growth of M2 in the six months through September was down to a seasonally adjusted annual rate of about 11 per cent, compared to a rise of 17 per cent in 1972 and of over 20 per cent in the year ending in March. M1 has experienced a substantial net decline since March, reflecting large-scale switching out of sight deposits into time deposits, interest rates on which have risen very sharply. Efforts to control the growth in the money supply have been complicated, even since the initiation of the EC joint float in March, by heavy speculative capital inflows, first in June--leading to the revaluation of the DM at the end of that month--and again in September. Also contributing to the rise in M2 has been the movement out of savings deposits into short-term time deposits. Increases in yields on the former have failed to keep pace with the upsurge in yields on the latter.

The Bundesbank's tight money policy has produced a general rise in interest rates this year. Short-term rates have climbed much more steeply than long-term yields, which are now lower than many key short-term rates. Long-term rates have shown a softening tendency in recent months, apparently reflecting, in part, expectations that the authorities might ease their present restrictive policy stance. But both the government and the monetary authorities continue to maintain that inflationary pressures remain too strong to permit any relaxation of restraint at this time. In contrast to several other countries, the government has reinforced a tight-money policy with restrictive fiscal measures, notably steps to curtail government spending and discourage private-sector investment.

Monetary policy in France continues to tighten. The pattern of rising discount and bank lending rates evident elsewhere was also followed in France in recent months, though apparently with a slight lag behind U.K. and German moves. From July to September, the Bank of France raised the discount rate up 3-1/2 points to 11 per cent, prompting banks to raise their base lending rates correspondingly. By September short-term rates had edged slightly higher than long-term yields.

Recent French policy has been strongly influenced by exchange market uncertainty which followed the September 17 revaluation of the Dutch guilder. In early August French controls on tourist expenditures and private transfers were relaxed, but in September measures were taken to encourage capital inflows. Then, in contrast to its continued tightening of general monetary policy, the Bank of France in October removed the 100 per cent marginal reserve requirement on non-resident franc accounts and authorized resumption of interest payments on such accounts. Furthermore, though raising reserve requirements for resident accounts from 12 to 14 per cent, the Bank of France lowered requirements for non-resident accounts from 6 to 5 per cent.

French monetary authorities have also progressively tightened direct quota controls to constrain the expansion of bank credit. Year-to-year credit growth limits of 13-14 per cent are in effect for the remainder of 1973, and are being strictly enforced. This panoply of measures has helped to significantly reduce the growth rate of M2 this year from the near 18 per cent levels of 1971 and 1972. M1 has been essentially flat since May, as recent growth of the total money supply has been concentrated in interest-bearing time deposits.

In Italy, a strong economic upswing is now in progress. Until recently Italian authorities continued to pursue an expansionary monetary policy to stimulate recovery from the 1970 slowdown. Until early 1973, in fact, interest rates tended to decline, and monetary policy continued easy. Signs of a gradual tightening first appeared in July, when inter-bank loan rates and overdraft rates on the commercial banks began to climb rapidly toward levels already reached elsewhere. In July overall credit ceilings were also imposed, with strict ceilings on lending to large borrowers from the banks and with preferences for smaller borrowers. In mid-September the Bank of Italy raised the basic discount rate 2-1/2 points to 6-1/2 per cent, and the rates on advances also rose to 6-1/2 per cent.

In October the rediscounting of loans to smaller borrowers was exempted from the 3 per cent penalty rates imposed by the Bank of Italy to discourage repeated discounting.

To avoid inhibiting the recovery in productive investment, measures have also been taken to hold down long-term rates. Italian banks have been required to buy large quantities of securities, and long-term rates have recently fallen below short-term levels.

Further tightening of monetary policy is possible, although the authorities may be willing to accept higher inflation rates in Italy than elsewhere, rather than risk inhibiting recovery when considerable slack capacity still exists.

Money supply figures are not available beyond May. In 1971 and 1972 both M1 and M2 increased in the 18 to 19 per cent range, but after December 1972 the growth of M1 slowed somewhat.

Monetary policy was sharply tightened in the United Kingdom this week, with the Bank of England on November 13 raising its minimum lending rate from 11-1/4 to 13 per cent and increasing the special deposits requirement from 4 to 6 per cent. The two percentage point increment will be implemented through four 1/2-points rises between the end of November and the beginning of next January. Special deposits are interest-bearing deposits that British banks can be required to maintain at the Bank of England. Changes in special deposit requirements are used to vary the required reserve rate for British banks above their base liquid reserve requirement of 12-1/2 per cent.

The immediate causes of the Bank of England's action this week were a worsening in Britain's balance of payments deficit--the October trade deficit was the largest ever recorded--and a level of demand for credit deemed to be excessive. Credit--along with other monetary aggregates such as the broadly defined money supply--has in fact been expanding at a very rapid rate this year.

The special deposits requirement had been raised earlier this year, in July, from 3 to 4 per cent. In the same month, the Bank of England's minimum lending rate was raised from 7-1/2 to 11-1/2 per cent. By August the base landing rate of the clearing banks had risen from 8 to 10 per cent. Government bond sales also helped to push up long-term rates.

One effect of the sharp upswing in British rates was to encourage extensive switching from sight to time deposits, and especially to large denomination sterling CD's. Some bank customers utilized their overdraft facilities to invest in these CD's, the effect of which was to exaggerate the underlying growth trend in M3.

There was some easing of both short- and long-term rates in September and October. However, the Bank of England's latest action clearly will reverse the downward trend.

In Japan, monetary policy--which, as in most countries, has played the major role this year in efforts to restrain domestic demand--has become increasingly restrictive since the end of 1972. From January through October the authorities have slowly increased reserve requirements on time deposits for the large banks from 0.5 to 1.75 per cent, and on sight deposits from 1.5 to 3.75 per cent, while raising the discount rate to 7 per cent, an historically high level for Japan. The prime and rediscount rates have climbed apace, and in October the rate for the rediscounting of short-term bills due after January 1, 1974, reached 9.75 per cent.

The authorities have also intensified measures introduced in the early months of the year to restrain the growth of consumer credit and to reduce the rate of expansion of bank credit. Quarterly ceilings applied to the loan expansion of the city banks have been progressively lowered through the year. This action has had the effect of reducing the annual rate of bank credit expansion from around 25 per cent in the last half of 1972 to about 14 per cent since May of this year.

Growth in the money supply has also slowed this year. While M1 rose at an average annual rate of 16 per cent in the 1964-70 period, the rise in the money supply accelerated to 30 per cent in 1971 and declined only slightly, to 25 per cent, in 1972. This year, however, growth slowed very substantially, and M1 actually declined from July to August. In recent months, M2 has risen considerably faster than M1--reflecting the interest sensitivity of Japanese funds--but the increase in M2 has also slowed markedly.

The pace of monetary tightening in Canada has been steady and gradual this year, following an expansionary stance which lasted through 1971 and 1972. Beginning in April, the Bank of Canada discount rate - which had remained at 4-3/4 per cent since October, 1971 - was raised in a series of half-point steps to 7-1/4 per cent on September 13. There was a concomitant rise in the chartered banks' prime lending rates, from 6 per cent in April to 9 per cent in mid-September.

Canadian authorities have also encouraged the banks to avoid discrimination against borrowers in the small business and farm sectors. This objective is being pursued through a dual lending rate structure set up by the chartered banks in May.

The chartered banks have raised deposit rates somewhat, including the rates for term deposits under the "Winnipeg Agreement," which provides for ceiling rates on term deposits of less than one year. As in other countries, yields on long-term bonds have increased, but less than those for short-term instruments, and as a result, the term structure is similar to that elsewhere.

Because of the Canadian concern with high unemployment, efforts to slow the growth of the money supply were more cautious than those in the European countries. As can be seen in Table 1, the growth of Canadian M1 appears to be keeping up with increases in M2, with both expanding at about a 15 per cent annual rate. Monetary policy might be tightened further, but only moderately, as the rate of growth of Canadian GNP is expected to slow somewhat next year.