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CONFIDENTIAL (FR)

October 13, 1976

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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October 13, 1976

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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 Rate)						
Civilian labor force	Sept.	10-8-76	95.2	-3.6 ^{1/}	2.4 ^{1/}	2.2 ^{1/}
Unemployment rate (per cent)	Sept.	10-8-76	7.8	7.9 ^{1/}	7.5 ^{1/}	8.6 ^{1/}
Insured unemployment rate (%)	Sept.	10-8-76	5.0	4.8 ^{1/}	4.5 ^{1/}	6.1 ^{1/}
Nonfarm employment, payroll (mil.)	Sept.	10-8-76	79.6	3.7	3.1	2.9
Manufacturing	Sept.	10-8-76	19.1	9.2	3.4	3.8
Nonmanufacturing	Sept.	10-8-76	60.4	2.0	3.0	2.6
Private nonfarm:						
Average weekly hours (hours)	Sept.	10-8-76	36.0 ^{1/}	36.2 ^{1/}	36.1 ^{1/}	36.1 ^{1/}
Hourly earnings (\$)	Sept.	10-8-76	4.91 ^{1/}	4.89 ^{1/}	4.84 ^{1/}	4.60 ^{1/}
Manufacturing:						
Average weekly hours (hours)	Sept.	10-8-76	39.6	39.9 ^{1/}	40.2 ^{1/}	39.8 ^{1/}
Unit labor cost (1967=100)	Aug.	9-28-76	144.1	.0	2.5	2.3
Industrial production (1967=100)	Aug.	9-15-76	131.4	6.4	5.6	8.6
Consumer goods	Aug.	9-15-76	137.2	.0	-.6	7.6
Business equipment	Aug.	9-15-76	137.0	7.0	7.1	5.5
Defense & space equipment	Aug.	9-15-76	78.9	9.2	3.6	-2.1
Material	Aug.	9-15-76	133.2	10.9	8.0	11.9
Consumer prices (1967=100)	Aug.	9-21-76	171.8	6.3	5.9	5.5
Food	Aug.	9-21-76	181.8	4.0	2.7	2.4
Commodities except food	Aug.	9-21-76	157.9	7.6	6.7	4.8
Services	Aug.	9-21-76	182.0	6.6	7.2	8.6
Wholesale prices (1967=100)	Sept.	10-7-76	184.5	10.1	4.6	3.9
Industrial commodities	Sept.	10-7-76	184.7	11.1	9.3	6.8
Farm products & foods & feeds	Sept.	10-7-76	182.1	12.0	-11.5	-4.1
Personal income (\$ billion) ^{2/}	Aug.	9-16-76	1389.5	5.3	7.8	9.6
(Not at Annual Rates)						
Mfrs. new orders dur. goods (\$ bil.)	Aug.	10-1-76	48.0	-1.5	-3.2	13.7
Capital goods industries	Aug.	10-1-76	13.7	-3.9	.4	9.9
Nondefense	Aug.	10-1-76	11.8	-11.1	.9	13.3
Defense	Aug.	10-1-76	1.9	92.7	-2.3	-6.9
Inventories to sales ratio:						
Manufacturing and trade, total	July	10-12-76	1.48	1.46 ^{1/}	1.45 ^{1/}	1.56 ^{1/}
Manufacturing	Aug.	10-1-76	1.62	1.62 ^{1/}	1.58 ^{1/}	1.72 ^{1/}
Trade	July	10-12-76	1.34	1.32 ^{1/}	1.31 ^{1/}	1.35 ^{1/}
Ratio: Mfrs.' durable goods inventories to unfilled orders	Aug.	10-1-76	.837	.833 ^{1/}	.840 ^{1/}	.817 ^{1/}
Retail sales, total (\$ bil.)	Sept.	10-12-76	54.6	.1	1.1	10.0
GAP	Sept.	10-12-76	13.5	.0	2.3	8.0
Auto sales, total (mil. units) ^{2/}	Sept.	10-6-76	10.0	-4.1	-4.4	9.9
Domestic models	Sept.	10-6-76	8.2	-7.1	-9.9	10.9
Foreign models	Sept.	10-6-76	1.8	12.4	32.1	5.7
Housing starts, private (thous.) ^{2/}	Aug.	9-17-76	1,542	10.9	8.4	22.0
Leading indicators (1967=100)	Aug.	9-28-76	108.0	-1.5	.0	5.4

1/ Actual data. 2/ At Annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

There was relatively little strength evident in industrial production or employment in September, extending the recent lull. Nevertheless, many fundamental determinants of future economic growth remain favorable. The trend in outlays for capital goods is upward; consumer confidence appears to be increasing; and residential construction activity continues to rise.

Industrial production is tentatively estimated to have been about unchanged last month. The dampening effects of the Ford strike were partly offset by the resumption of production after strikes in the rubber and coal industries. After 18 months of recovery, the index in September was just below its pre-recession peak. The production of durable consumer goods fell over 1 per cent from August, mainly reflecting the loss of Ford's auto and small truck output during the latter half of September. Auto assemblies fell by about 1.0 million units, annual rate, to a 7.7 million rate last month. Excluding autos and utility vehicles, the production of durable consumer goods is estimated to have expanded somewhat in September, while nondurable consumer goods output appears to be little changed.

Production of business equipment is estimated to have risen slightly from its August level. Activity in this sector, which has been advancing irregularly, has increased about 9 per cent since the spring of 1975 but is still approximately 6 per cent below pre-recession

levels. Output of materials is tentatively estimated to have increased slightly in September. Production of tires and other rubber materials rebounded sharply from their strike-curtailed low, and output of chemicals probably increased further, while production of textile materials edged downward. Production of raw steel, paper and paperboard apparently declined somewhat last month.

The sluggish performance of production in September was accompanied by a modest growth of payroll jobs and a drop in the average workweek. Nonfarm payroll employment rose about 145,000 in September, after adjustment for strikes. Meanwhile, the August increase was revised downward from 200,000 to just over 100,000 on a strike adjusted basis. Last month's employment gains were widely scattered by industry. Two-thirds of the 172 industries surveyed for the BLS diffusion index reported job increases in September, a somewhat higher proportion than during the summer months, but still well below the ratio earlier in the year. The factory workweek, which was affected by the Ford strike, dropped from 39.9 to 39.6 hours, with the major decline--.5 hour--for industries producing durable goods.

Total household employment declined 160,000 in September, reflecting the loss of employment in agriculture. Nonagricultural employment, as measured in the household survey, was unchanged for the second successive month. Unemployment among young women moved lower,

CHANGES IN EMPLOYMENT
(Average monthly change in thousands;
based on seasonally adjusted data)

	June 75-* May 76	May 76- Sept. 76	July 76- Aug. 76	Aug. 76- Sept. 76
<u>Nonfarm Payroll Series</u>				
Total (Strike adjusted)	235 (241)	160 (136)	141 (106)	244 (144)
Construction	-1	-14	-29	-13
Manufacturing (Strike adjusted)	79 (86)	37 (19)	35 (11)	145 (80)
Durable	47	25	54	62
Nondurable	31	13	-19	83
Trade	51	51	44	30
Services and Finance	65	77	85	89
Total Government	35	6	45	-41
State and Local	36	-1	31	-57
<u>Household Series</u>				
Total	291	31	74	-162
Nonagricultural	293	41	-9	-24

* June 1975 was the cyclical low for total nonfarm payroll employment.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1975			1976			
	QII	QIII	QIV	QI	QII	QIII	Sept.
Total, 16 years and older	8.7	8.6	8.5	7.6	7.4	7.8	7.8
Men, 20 years and older	7.0	7.0	7.0	5.7	5.7	6.0	6.1
Women, 20 years and older	8.4	7.9	7.9	7.4	7.1	7.6	7.5
Teenagers	20.2	20.2	19.5	19.4	18.7	18.8	18.6
Household heads	6.0	5.9	5.9	5.0	4.9	5.3	5.4
Married men	5.5	5.4	5.1	4.1	4.1	4.4	4.6

Total, Alternative Seasonal Adjustment Methods							
All Additive Factors	8.7	8.5	8.3	7.9	7.3	7.7	7.7
1975 Factors	8.7	8.6	8.5	7.8	7.5	7.6	7.6

pulling the overall unemployment rate back down to 7.8 per cent, the same as in July. Jobless rates for demographic groups whose attachment to the labor force is more stable, such as household heads and married men, increased somewhat in September.

While still not growing strongly, consumer spending may be breaking out of its summer-long pause. Retail sales, excluding autos and building materials, increased 0.8 per cent, about equal to the downward revised August rise. In the third quarter these sales were up 1.7 per cent, somewhat better than the second quarter rise. Spending at GAF stores held at the greatly improved August level last month. The third quarter increase for this important GAF grouping is now estimated to be 3.3 per cent. Reports that consumer confidence has increased bode well for consumption spending. The Michigan Survey Research Center (confidential) reported that consumer attitudes in late August and early September had improved somewhat and thus were the most optimistic in nearly four years. On the other hand, a potentially retarding influence on consumer buying is the recent behavior of personal income. In August, the growth of wage and salary disbursements slowed to a 6.2 per cent annual rate. As a result, constant dollar payrolls declined slightly in August and were virtually the same as in April. In the 13 months from their trough in July 1975, real wage and salary disbursements had risen 5.4 per cent--well below their average growth in previous postwar recoveries. Income growth will be buttressed this month by the Federal pay raise.

Domestic type auto sales were at a seasonally adjusted 8.2 million unit annual rate in September, down from the 8.9 million rate the previous month and the slowest pace since last December. The September weakness was concentrated in the final 10 days of the month, raising the possibility that it may be an aberration in the data. It has been suggested that reported sales were reduced by a program of rebates to dealers for 1976 models still in stock as of October 1. Additionally, there was probably some adverse impact from the Ford strike in September; it should be noted, though, that Ford inventories last month were ample, thus limiting the impact of the work stoppage on total sales.

Indicators of futures strength in business capital spending remain basically favorable. There is, however, evidence that caution continues to characterize business planning. A very preliminary tabulation of the Edie capital spending survey (confidential) taken in September indicates that businesses are anticipating an increase in capital outlays of 14 per cent next year. This estimate is based on responses from about two-thirds of the firms in the Edie sample. Since 1954, the full-sample survey has, on average, underestimated the growth in capital spending by 1.7 percentage points. However, in years of rapid growth, the underestimation has averaged almost 5 per cent. An initial and also very preliminary tabulation of the Rinfret capital spending survey (confidential) showed a somewhat smaller anticipated gain of 12 per cent in 1977.

PERSONAL INCOME

(Per cent change at compound annual rate; based on seasonally adjusted data)

	Nov. 73- July 75	July 75- Aug. 76	July 76- Aug. 76
<u>Current Dollars</u>			
Total Personal Income	8.3	10.1	5.4
Nonagricultural Income	9.0	10.5	8.7
Wage and Salary Disbursements	6.2	10.7	6.2
Nonwage Income	11.9	9.1	4.0
Transfer Payments	24.4	8.1	10.5
<u>Constant Dollars**</u>			
Total Personal Income	-1.9	4.4	-1.0
Nonagricultural Income	-1.3	4.8	2.1
Wage and Salary Disbursements	-3.9	5.0	-0.3

* November 1973 was the specific high and July 1975 was the specific low for the deflated wage and salary component.

** Deflated by the CPI, seasonally adjusted.

CYCLICAL CHANGES IN REAL PERSONAL INCOME,
REAL WAGES AND SALARIES*

(Cumulative per cent change; based on seasonally adjusted data)

	Duration (months)	Personal Income	Wage and Salary Disbursements
<u>Contractions**</u>			
12/48-06/49	6	-2.7	-3.3
05/53-06/54	13	-1.4	-3.1
03/57-04/58	13	-1.9	-5.7
07/60-12/60	5	-1.1	-1.9
10/69-11/70	13	.3	-2.1
11/73-07/75	20	-3.2	-6.3
<u>Expansions - 13 months after trough</u>			
06/49-07/50		9.5	9.5
06/54-07/55		9.9	10.6
04/58-05/59		8.1	10.7
12/60-01/62		5.0	6.4
11/70-12/71		4.6	5.3
07/75-08/76		4.8	5.4

* November 1973 was the specific high and July 1975 was the specific low for the deflated wage and salary component.

** Deflated by the CPI, seasonally adjusted.

RETAIL SALES
(Per cent change from previous period;
based on seasonally adjusted data)

	1976			1976			
	I	II	III	June	July	Aug.	Sept. ^a
<u>Total sales</u>	3.8	1.9	1.5	2.1	-.4	1.4	.1
(Real*)	3.4	1.0	n.a.	1.8	-.9	1.0	n.a.
Total, less auto and nonconsumption items	2.4	1.3	1.7	2.0	-.3	.9	.8
GAF	1.4	-.2	3.3	3.1	.1	2.2	.0
<u>Durable</u>	7.5	3.4	.9	2.2	-.6	2.4	-1.3
Auto	9.1	4.5	.1	2.7	-1.7	3.9	-3.2
Furniture and appliances	1.0	2.7	.0	1.6	-1.0	.1	-.2
<u>Nondurable</u>	2.0	1.2	1.7	2.1	-.3	1.0	.8
Apparel	2.5	-3.4	5.6	2.6	3.0	.8	-.5
Food	2.3	1.2	1.2	1.2	-1.3	1.1	1.2
General merchandise	1.2	-.1	3.6	3.7	-.4	3.2	.2
Gasoline	2.9	.0	2.8	3.0	.5	1.5	-.2

* Deflated by unpublished FRB price measure.

a Advance sample

AUTO SALES AND STOCKS
(seasonally adjusted)

	1976			1976			
	I	II	III	June	July	Aug.	Sept.
Total auto sales, millions	10.0	10.3	10.2	10.5	10.2	10.5	10.0
Imports	1.3	1.4	1.6	1.4	1.4	1.6	1.8
Domestic	8.7	8.9	8.6	9.1	8.7	8.9	8.2

COMMITMENTS DATA FOR BUSINESS FIXED INVESTMENT
(Percentage change from preceding period; based on seasonally adjusted data)

	1975		1976				Aug. 75	to	Aug. 76
	QIII	QIV	QI	QII	June	July	Aug.	Aug. 76	
<u>New Orders Received by Manufacturers</u>									
Total Durable Goods									
Current Dollars	7.3	1.0	7.0	8.3	.7	-2.4	-1.5	13.7	
1967 Dollars <u>1/</u>	6.7	-1.6	5.5	7.5	.3	-3.1	-2.0	6.8	
Nondefense Capital Goods									
Current Dollars	1.9	.6	1.6	9.3	1.5	11.9	-11.1	13.3	
1967 Dollars <u>1/</u>	.7	-1.0	.1	8.1	1.0	11.4	-11.3	7.1	
<u>Construction Contracts for Commercial and Manufacturing Buildings <u>2/</u></u>									
Total	-4.1	.6	-8.6	24.1	5.6	-2.5	-3.2	26.1	
Commercial	-4.0	4.9	.9	3.0	2.9	3.3	-11.6	3.9	
Manufacturing	-5.1	12.4	-13.4	25.9	5.6	-10.8	-15.1	27.2	
<u>Contracts and Orders for Plant & Equip. <u>3/</u></u>									
Current Dollars	.5	-7.3	11.7	3.1	15.3	1.1	-13.2	-6.7	
1967 Dollars <u>4/</u>	-.1	-7.8	8.9	2.5	12.6	1.8	-12.5	-9.1	

1/ FR deflation by appropriate WPI.

2/ Floor space data, millions of square feet; components are seasonally adjusted by FR and may not add to total which is seasonally adjusted by Census.

3/ Contracts and orders for plant and equipment (BCD Series No. 10) is constructed by adding new orders for nondefense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and new contracts awarded for private nonbuilding (e.g. electric utilities, pipelines, etc.).

4/ An experimental BCD series.

Despite wide fluctuations in July and August, new orders for nondefense capital goods still appear to be on an upward trend. The 11.9 per cent increase in July and the subsequent decline of 11.1 per cent in August reflect primarily the sharp fluctuations in orders for transportation equipment--especially in the lumpy railroad and shipbuilding grouping--and, to a lesser extent, in orders for non-electrical machinery. In constant dollars, new bookings for non-defense capital goods in August were up 7 per cent from a year earlier and over 14 per cent from their trough in March 1975. At the same time, contracts for commercial and industrial buildings (measured in floor space) declined in July and August, after recording good gains earlier this year.

The persistent caution that has characterized business planning throughout the recovery is also reflected in the apparent widespread desire to keep inventories relatively low and closely aligned with sales. The book value of manufacturers inventories rose at an \$11.1 billion annual rate in August, virtually unchanged from the July rate of rise and from the second quarter rate of increase. In August, as in July, most of the growth of inventories was at nondurable manufacturers. The inventory-sales ratio for manufacturers of soft goods rose somewhat in August and may have contributed to the lack of growth in nondurable production in September. The inventory-sales ratio for producers of hard goods edged down, and the ratios for both groupings of manufacturers

BUSINESS INVENTORIES
(Change at annual rates in seasonally
adjusted book values, \$ billions)

	1975			1976			
	II	III	IV	I	II	July	Aug.
Manufacturing and trade	-18.8	5.4	-1.3	19.5	26.4	20.3	n.a.
Manufacturing	-12.5	-6.6	.6	6.3	11.0	11.0	11.1
Durable	-4.3	-8.6	-3.5	1.8	5.7	2.5	2.3
Nondurable	-8.2	2.0	4.2	4.5	5.4	8.4	8.8
Trade, total	-6.3	11.9	-1.9	13.2	15.3	9.3	n.a.
Wholesale	-2.7	3.1	-2.0	5.1	9.0	1.9	5.3
Retail	-3.6	8.8	.1	8.0	6.3	7.4	n.a.
Auto	-1.7	5.5	.3	-.5	-.8	3.7	n.a.

INVENTORY RATIOS

	1973	1974	1975	1976			
	III	III	III	I	II	July	Aug.
<u>Inventory to sales</u>							
Manufacturing and trade	1.49	1.52	1.54	1.48	1.47	1.48	n.a.
Manufacturing	1.62	1.68	1.73	1.63	1.60	1.62	1.62
Durable	1.96	2.10	2.28	2.09	2.03	2.05	2.03
Nondurable	1.21	1.23	1.17	1.15	1.16	1.17	1.19
Trade, total	1.36	1.36	1.37	1.33	1.34	1.34	n.a.
Wholesale	1.19	1.15	1.23	1.20	1.22	1.20	1.22
Retail	1.49	1.54	1.47	1.43	1.43	1.44	n.a.
<u>Inventories to unfilled orders:</u>							
Durable manufacturing	.726	.674	.819	.846	.838	.833	.837

remained low by historical standards. Book value of wholesale trade inventories rose \$5.3 billion, annual rate, in August, about half the average pace in the second quarter.

A considerable inflow of funds to thrift institutions continues to support the modest but sustained expansion of housing activity. Private housing starts have now increased for six consecutive quarters--longer than the usual cyclical expansion, although the total remains well below the pre-recession level. Starts rebounded 11 per cent in August to a seasonally adjusted annual rate of 1.54 million units. For the third quarter as a whole, starts are expected to be up 2 per cent from the second quarter and half again above their trough level in 1975:Q1.

The August starts increase was broadly based as multifamily units showed a recovery from the sharp downturn of the previous month. Single-family starts rose 6 per cent to 1.2 million units. Moreover, issuance of residential building permits--a less volatile indicator of the underlying trend in home building activity than starts--rose 7 per cent further in August to the highest rate in nearly 2-1/2 years.

Mortgage commitment activity increased further through August. Continued strength is reported in home purchases--especially for existing dwellings. However, in the market for multifamily housing the volume of completions remains depressed despite vacancy rates which are historically quite low. Gains in this market continue to be tempered by investor caution concerning the over-all profitability of rental and condominium units.

NEW PRIVATE HOUSING UNITS
(Seasonally adjusted annual rates, millions of units)

							Per cent change in Aug. from:	
	QIII	QIV	QI	QII(r)	July(r)	Aug.(p)	Month ago	Year ago
All units								
Permits	1.03	1.11	1.17	1.13	1.22	1.30	+ 7	+30
Starts	1.26	1.37	1.40	1.43	1.39	1.54	+11	+22
Under construction <u>1/</u>	1.03	1.04	1.06	1.07	1.07	n.a.	-- *	+ 3 *
Completions	1.28	1.28	1.30	1.33	1.25	n.a.	- 8 *	- 1 *
Single-family								
Permits	.73	.81	.87	.81	.87	.90	+ 4	+24
Starts	.95	1.03	1.12	1.09	1.13	1.20	+ 6	+22
Under construction <u>1/</u>	.53	.56	.59	.61	.62	n.a.	+ 1 *	+19 *
Completions	.91	.91	.97	.99	.99	n.a.	- 5 *	-12 *
Multifamily								
Permits	.30	.30	.30	.32	.35	.40	+15	+45
Starts	.31	.33	.28	.35	.26	.35	+33	+22
Under construction <u>1/</u>	.51	.48	.46	.46	.45	n.a.	- 1 *	-13 *
Completions	.37	.37	.33	.34	.26	n.a.	-19 *	-32 *
MEMO:								
Mobile home shipments	.22	.23	.27	.24	.22	.24	+ 9	+ 8

* Per cent changes based on July data.
1/ Seasonally adjusted, end of period.

NOTE: Per cent changes are based on unrounded data. A change of less than 1 per cent is indicated by --.

The recent weakness in final demand may well have been exacerbated to some extent by the behavior of the government sector. There was a substantial shortfall in Federal spending from expected levels on a unified budget basis during the third quarter (see discussion in Part I), and there are indications of slackness in spending at the State and local level.

States' and localities' expenditures on social services grew less than anticipated during the third quarter. In addition, State and local governments still are being quite conservative about capital outlays. The value of construction put-in-place remained relatively depressed in August. But the preliminary August and revised July figures are a full \$2 billion below June's level, according to the new survey technique instituted in January. If there is no pick-up in the final months of this year, construction for 1976 in current dollars will fall well below the level in 1975.

The rate of increase of the Consumer Price Index was about 6 per cent over the 5 months ending in August--a high rate historically but well below that of last year. Food price increases have been small in recent months as declines in meat and poultry prices have partially offset increases elsewhere. Peaks in the production cycles of both cattle and hogs are presently being reflected in the low meat prices. Futures contracts suggest that cattle prices will bottom out before the end of the year while declines for pork prices are expected to continue at least into the first

quarter of next year. However, current heavy slaughter rates of cows and heifers indicate a reduced breeding herd and also suggest higher beef prices during 1977.

Energy prices continue to contribute to the current rate of inflation as gasoline and motor oil rose at close to a 20 per cent annual rate for the third straight month. Fuel oil prices have increased similarly following removal of FEA regulations. However, the increase in natural gas and electricity rates slowed in August from double digit rates to about a 6 per cent rate.

Wholesale prices rose in September at an 11 per cent annual rate. Farm and food prices increased somewhat faster than the total after two months of sizable declines. These prices now stand 4 per cent below their level a year earlier. Industrial prices, which account for more than three-fourths of the WPI, rose at an 11 per cent annual rate--higher than the nearly 8 per cent average rate over the preceding three months and well above the 3.4 per cent rate of the first half of the year. Prices of natural gas and refined petroleum products, which are reported with a one- to two-month lag, rose as did nonferrous metal prices. Increases in prices of machinery and equipment and of metal products are, in part, reflections of steel price rises announced earlier in the year.

CONSUMER PRICES

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

	Relative impor- tance Dec. 75	Dec. 74 to Dec. 75	Dec. 75 to Mar. 76	Mar. 76 to June 76	June 76 to July 76	July 76 to Aug. 76
All items	100.0	7.0	2.9	6.1	5.6	6.3
Foods	24.7	6.5	-7.9	7.2	1.3	4.0
Commodities (nonfood)	38.7	6.2	2.9	5.6	6.9	7.6
Services	36.6	8.1	10.6	6.2	7.3	6.6
Memo:						
All items less food and energy <u>2/3/</u>	68.1	6.7	7.7	5.5	8.0	7.2
Petroleum products <u>2/</u>	4.5	10.1	-15.7	9.3	14.8	18.4
Gas and electricity	2.7	14.2	6.4	12.1	17.3	6.3

1/ Not compounded for one-month changes.

2/ Estimated series.

3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, and gas and electricity.

WHOLESALE PRICES

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

	Relative impor- tance Dec. 75	Dec. 74 to Dec. 75	Dec. 75 to Mar. 76	Mar. 76 to June 76	June 76 to Sept. 76	Aug. 76 to Sept. 76
All commodities	100.0	4.2	-1.8	6.6	4.7	11.1
Farm and food products	22.8	-0.3	-15.8	18.0	-11.0	12.0
Industrial commodities	77.2	6.0	3.2	3.6	9.6	11.1
Excluding fuels and related products and power	66.8	5.1	6.1	3.6	7.6	9.6
Materials, crude and intermediate <u>2/</u>	48.1	5.5	3.5	4.3	9.5	10.5
Finished goods						
Consumer nonfoods	18.7	6.7	0.5	2.3	10.1	13.3
Producer goods	11.9	8.2	6.8	3.3	5.7	9.0
Memo:						
Consumer foods	11.1	5.5	-20.5	16.8	-12.2	8.8

1/ Not compounded for one-month changes.

2/ Estimated series.

Although fuel prices generally are likely to continue to increase, the fundamental determinants of industrial prices remain, on the whole, favorable. Some of the nonferrous metal price increases have been reversed and there are signs of some temporary slackening of gasoline prices recently. Rates of capacity utilization remain quite moderate, and no serious bottlenecks are foreseen for 1977. Profit margins and the profit share have regained pre-recession highs. The primary impetus to further inflation is likely to come from growing energy and labor costs. A further increase in the price of imported oil is expected when the OPEC countries convene in December. By itself, a 10 to 15 per cent price increase on imported oil will likely have a relatively moderate effect on the over-all domestic price level. But domestic crude oil as well as natural gas continue to be regulated at below free market prices, and their gradual deregulation combined with an OPEC price increase will exert continued upward pressure on the general price level.

Although wage rate increases over the past year continue to be high by historical standards, they have been quite moderate relative to 1973-75. The Ford settlement provides wage increases of 3 per cent per year in addition to a 20 cents per hour first year raise--a 6.5 per cent gain during the first year for the typical assembly worker. In addition, workers will receive six paid days off in the second contract year and seven paid days in the third year. This settlement will serve as a model for the rest of the auto industry as well as negotiations in the agricultural implement industry.

The September increase in the often volatile private nonfarm average hourly earnings index eased to only a 1.1 per cent annual rate. However, the average increase for the third quarter was at a 6.8 per cent annual rate. This represents a small acceleration relative to the first half of the year. Over the past nine months the index has risen at an annual rate of 6.4 per cent--significantly below the 7.9 per cent rate of 1975 and the 9.4 per cent rate of 1974. Even before a typical gain in fringe benefits is included, it is clear that labor costs are still running well above the long-term trend in output per hour and, therefore, continue to exert substantial upward pressure on the price level.

HOURLY EARNINGS INDEX

(Per cent change from preceding period, compound annual rate;
based on seasonally adjusted data)

	1975		1976			Dec. 75-	Aug. 76- <u>1/</u>
	QIII	QIV	QI	QII	QIII	Sept. 76	Sept. 76
Private Nonfarm	8.6	8.3	6.4	6.6	6.8	6.4	1.1
Construction	6.6	4.4	4.9	8.0	5.9	4.7	-8.0
Manufacturing	8.6	8.3	6.8	6.5	9.2	7.9	9.4
Trade	8.7	6.4	4.8	5.6	6.0	5.8	2.5
Services	7.3	10.6	8.3	6.5	3.7	5.2	-4.7
Transportation and Public Utilities	12.9	11.7	8.1	8.7	6.6	7.6	-2.7

* Excludes the effects of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

1/ Monthly change at an annual rate, not compounded.

III-T-1
 SELECTED DOMESTIC FINANCIAL DATA
 (Dollar amounts in billions)

Indicator	Latest data		Net change from			
	Period	Level	Month ago	Three months ago	Year ago	
<u>Monetary and credit aggregates</u>			<u>SAAR (per cent)</u>			
Total reserves	September	34.36	-5.7	.3	-.2	
Nonborrowed reserves	September	34.30	-4.4	1.1	.8	
Money supply						
M1	September	306.2	-.4	4.1	4.3	
M2	September	719.5	10.3	11.0	10.2	
M3	September	1198.2	13.5	13.5	12.2	
Time and savings deposits (Less CDs)	September	413.2	18.0	16.0	15.0	
CDs (dollar change in billions)	September	62.4	-2.0	-8.2	-16.7	
Savings flows (S&Ls + MSBs + credit unions)	September	478.7	18.3	17.3	15.3	
Bank credit (end of month)	September	756.4	5.9	7.0	5.5	
<u>Market yields and stock prices</u>			<u>Percentage or index points</u>			
Federal funds	wk. endg.	10/6/76	5.17	-.08	-.20	-.
Treasury bill (90 day)	"	10/6/76	5.07	-.03	-.31	-1.25
Commercial paper (90-119 day)	"	10/6/76	5.25	-.13	-.50	-1.58
utility issue Aaa	"	10/8/76	8.26	-.02	-.34	-1.34
Municipal bonds (Bond Buyer)	1 day	10/7/76	6.33	-.19	-.32	-1.15
FNMA auction yield (FHA/VA)		10/4/76	8.80	-.04	-.25	-1.15
Dividends/price ratio (Common stocks)	wk. endg.	10/6/76	3.81	.10	.19	-1.68
NYSE index (12/31/65=50)	end of day	10/12/76	54.85	-.48	-.87	46.67
<u>Credit demands</u>			<u>Net change or gross offerings</u>			
			<u>Current month</u>	<u>Year to date</u>		
			1976	1975	1976	1975
Business loans at commercial banks	September		1.0	-1.1	-2.8	-7.8
Consumer instalment credit outstanding	August		1.4	.8	10.6	2.2
Mortgage debt outst. (major holders)	July		5.1	3.8	31.4	20.9
Corporate bonds (public offerings)	September		1.9e	1.4	19.6e	26.8
Municipal long-term bonds (gross offerings)	September		2.6e	2.2	25.2e	23.8
Federally sponsored Agcy. (net borrowing)	September		.4	.2	2.6	.5
U.S. Treasury (net cash borrowing)	October		3.4	11.7	54.7	71.3
Total of above credits			15.8	19.0	141.3	137.7

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

The total volume of funds raised in domestic financial markets during the third quarter was only slightly above the second quarter rate and the sectoral pattern of credit demands, on balance, was little changed. In recent weeks, the mixed indications apparent in the incoming economic data, together with the recent flatness in the narrowly defined money stock and the edging down of the Federal funds rate, appear to have reversed earlier expectations of a rise in rates over the near term.

Against this background, most short and long-term market interest rates have declined 5 to 20 basis points since the September FOMC meeting, and intermediate-term rates have declined somewhat more. With Treasury yields remaining close to or falling below Regulation Q ceilings, time and savings deposit flows to banks and thrift institutions have been maintained at historically high levels. Savings and loan associations have responded to these inflows by acquiring record amounts of mortgages without significantly eroding their comfortable liquidity positions. At commercial banks, the August survey of bank lending practices (to be discussed in detail in the Supplement) suggests that banks have eased nonprice terms of lending somewhat further, and since the last FOMC meeting they also cut the prime rate to 6-3/4 per cent. However, with nonfinancial corporations still restructuring balance sheets, albeit at a reduced pace, and with the

SELECTED FINANCIAL MARKET QUOTATIONS
(One day quotes--in per cent)

	Sept.'75 FOMC Sept. 16	July'76 FOMC July 20	Aug.'76 FOMC Aug. 17	Sept.'76 FOMC Sept. 21	Sept. 28	Oct. 5	Oct. 12
<u>Short-term</u>							
Federal funds ^{1/}	6.28	5.30	5.29	5.21	5.32	5.17	5.04 ^{5/}
Treasury bills							
3-month	6.54	5.24	5.15	5.03	5.06	5.10	4.89
6-month	7.04	5.57	5.40	5.23	5.31	5.24	5.03
1-year	7.38	5.85	5.62	5.38	5.50	5.40	5.14
Commercial paper							
1-month	6.63	5.25	5.13	5.00	5.00	5.13	5.00
3-month	6.88	5.50	5.38	5.25	5.25	5.25	5.13
Large neg. CD's ^{2/}							
3-months	7.05	5.45	5.30	5.25	5.25	5.20	5.00
6-months	7.85	5.80	5.65	5.45	5.50	5.50	5.20
Federal agencies							
1-year	7.99	6.43	6.09	5.95	6.00	5.91p	n.a.
Bank prime rate	8.00	7.25	7.00	7.00	7.00	6.75	6.75
<u>Long-term</u>							
Corporate ^{1/}							
New AAA ^{1/}	9.64	8.53	8.49	8.28	8.23	8.29	8.26p
Recently offered ^{3/}	9.50	8.55	8.49	8.30	8.29	8.29	8.24p
Municipal							
(Bond Buyer) ^{4/}	7.40	6.78	6.60	6.50	6.52	6.47	6.33
U.S. Treasury							
(20-year constant maturity)	8.71	8.05	7.88	7.71	7.78	7.72	7.63
<u>Stock prices</u>							
Dow-Jones Industrial	795.13	988.29	999.34	1014.79	1013.13	966.76	932.35
N.Y.S.E. Composite	43.59	55.42	55.98	57.51	56.59	55.20	53.87
AMEX	82.21	104.42	103.74	104.15	102.73	100.56	97.96
Keefe Bank Stock	481	617	609	589	592	582	571

^{1/} Weekly average.

^{2/} Highest quoted new issues.

^{3/} One day quotes for preceding Friday.

^{4/} One day quotes for preceding Thursday.

^{5/} Average for first 6 days of statement week ending October 13.

n.a.--not available.

p--preliminary.

need for external funds remaining relatively modest, the total of outstanding business loans at banks and nonfinancial commercial paper declined in September, offsetting the July-August increases.

Monetary aggregates. M_1 was essentially unchanged in September and grew at about a 4 per cent annual rate during the third quarter (measured on a quarterly average basis). In September, the weekly data for this aggregate displayed unusual volatility, first rising and then falling by record amounts, reflecting in part the very large swings in the Treasury's cash balance. However, for the month as a whole, the average level of Treasury deposits (on a seasonally adjusted basis) showed little change, and thus does not appear to account for the weakness in M_1 .^{1/}

Moreover, the slow rate of growth in M_1 relative to economic activity, which has been observable for some time, probably cannot be explained to any significant degree by the growth in such obvious demand deposit substitutes as NOW accounts and demand deposits at New York State mutual savings banks. Available data suggest that such accounts together are expanding only about \$150 million per month. However, the growth in savings deposits held by businesses and govern-

^{1/} The staff believes that the seasonal factor employed to adjust the September figure for Treasury deposits may be inappropriate and may understate the average level of these deposits. However, even if some allowance is made for this problem and some reasonable assumptions about the probable impact on M_1 are made, faulty seasonals can account for little of the weakness in the money stock in September.

MONETARY AGGREGATES^{1/}
(Seasonally adjusted changes)

	1975	1976					Twelve months ending Sept 76 ^P
	HII	HI	QI	QII	QIII	Sept ^P	Sept 76 ^P
	Per cent at annual rates						
M ₁ (currency plus demand deposits)	4.7	5.5	2.6	8.4	4.1	-0.4	4.3
M ₂ (M ₁ plus time deposits at commercial banks other than large CDs)	8.3	10.8	10.1	11.3	9.8	10.3	10.2
M ₃ (M ₂ plus deposits at thrift institutions)	11.5	12.1	11.4	12.4	12.0	13.5	12.2
Adjusted bank credit proxy	3.7	2.4	2.3	2.4	3.7	1.6	3.5
Total time and savings deposits at CBs	7.3	7.1	7.8	6.3	8.0	10.4	8.5
a. Other than large negotiable CDs	11.4	15.1	15.9	13.7	14.1	18.0	15.0
1. Savings deposits	17.0	25.8	28.3	21.7	13.4	22.8	21.7
2. Time deposits	7.4	6.9	6.7	7.0	14.9	14.0	10.1
Deposits at nonbank thrift institutions							
a. Savings and loans	18.2	15.5	15.0	15.4	16.5	20.4	16.8
b. Mutual savings banks	11.9	9.7	9.1	10.1	12.0	13.9	10.8
c. Credit unions	18.6	16.6	16.8	15.8	15.8 ^e	18.1 ^e	17.5 ^e

Billions of dollars

(Based on seasonally adjusted monthly data, not annualized)

Memoranda:

a. Total US Government deposits	0.3	0.4	1.1	-0.4	1.1	-0.8	0.5
b. Negotiable CDs	-0.2	-2.1	-3.3	-0.8	-2.7	-2.0	-1.4
c. Nondeposit sources of funds	0.2	--	-0.1	0.1	-0.1	-0.7	0.1

^{1/} Half-year and quarterly growth rates are based on quarterly average data.

p -- Preliminary

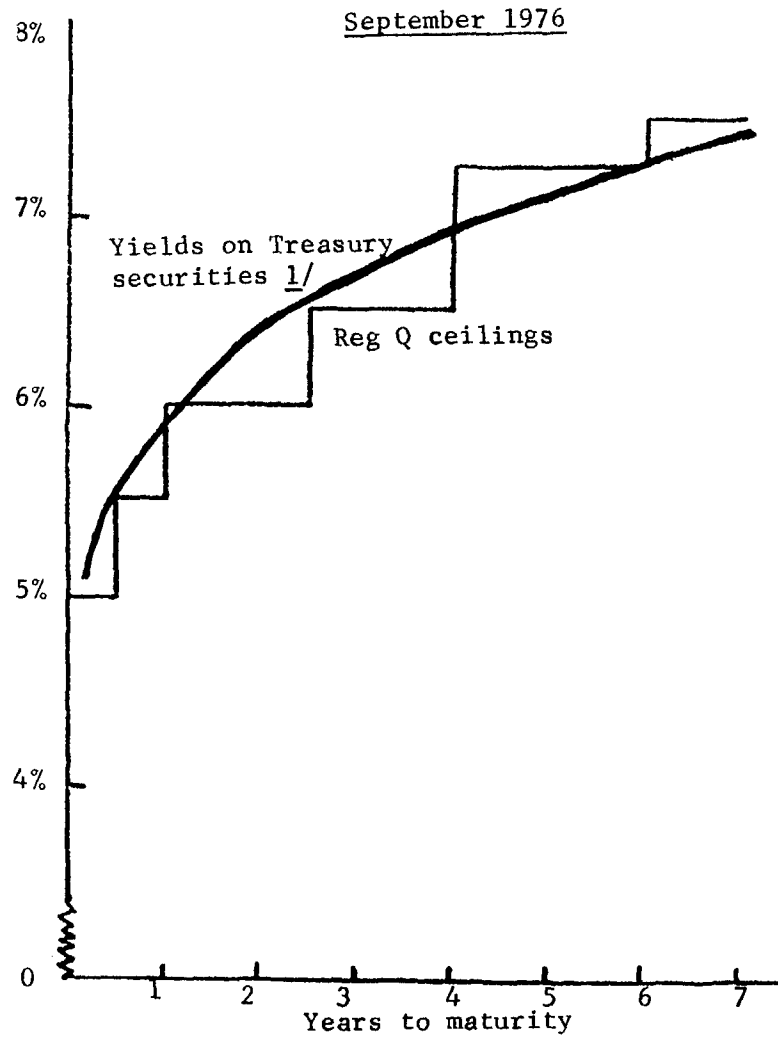
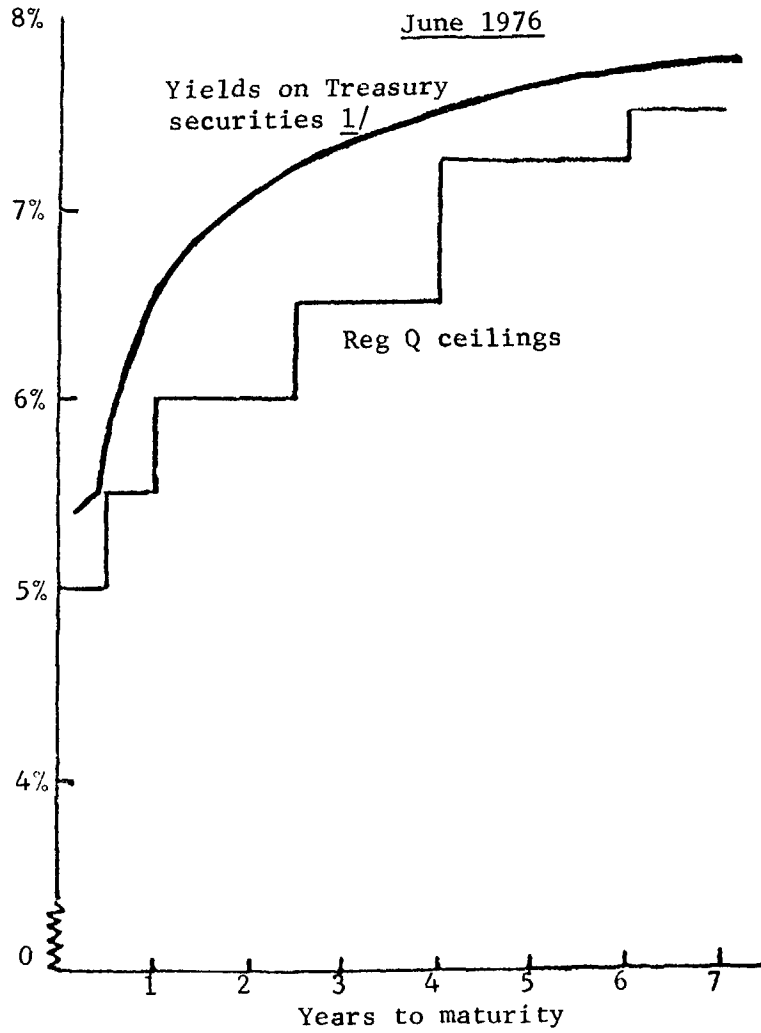
e -- Estimated

mental units, mainly State and local (discussed below), which may also be relatively close substitutes for M_1 , could help explain a portion of the weakness in M_1 , as well as the comparative strength in M_2 .

Despite the slowdown in M_1 , growth in the broader monetary aggregates-- M_2 and M_3 --remained strong in September and for the third quarter as a whole, as inflows of time and savings deposits (other than negotiable CDs) to banks and thrift institutions were well sustained. At banks, savings deposits have continued to grow at a rapid pace, and the recent flattening of the Treasury yield curve relative to Regulation Q ceilings, as shown in the following chart, has again made consumer-type time deposits an attractive asset.

Since the November 1975 regulatory change that permitted businesses to hold savings deposits up to \$150,000, their holdings have accounted for a significant part of the overall growth in savings deposits at commercial banks. Moreover, State and local government savings deposits--which banks were first permitted to offer in November 1974--also have grown appreciably since year end. If deposits of businesses and governmental units are subtracted from total savings deposits at commercial banks, the growth of the residual--principally savings deposits of individuals--over the year to date seems to be roughly in line with the historical relationship between these flows and the spread between the 90-day Treasury bill rate and the Regulation

TREASURY SECURITY YIELDS AND REGULATION Q CEILINGS AT COMMERCIAL BANKS



Q ceiling on savings accounts (see chart). Thus, while the continuing strength in total savings deposits could reflect some precautionary savings on the part of consumers, more important factors may be the normal portfolio shifts induced by relative interest rate relationships and the special effects of the growth in business and government deposits. In dollar terms, savings deposits held by businesses and governmental units are estimated to have totaled about \$10 billion at the end of the third quarter, compared to only \$3 billion at the end of 1975.

Bank credit. Total bank credit increased at about a 6 per cent annual rate in September and a 7 per cent rate for the third quarter as a whole. In contrast to the declines registered in earlier quarters this year, business loans expanded at about a 3-1/2 per cent annual rate in the third quarter. In part, however, this increase reflected large acquisitions of bankers' acceptances in September for statement date purposes by large money center banks. Bank holdings of municipal and other securities increased significantly in the third quarter, after declining on balance in the first half, while holdings of Treasury securities, which had dominated bank credit growth in five of the preceding six quarters, showed little further change. With the growth in time and savings deposits (other than large CDs) continuing large in September and over the third quarter as a whole,

U.S. International Transactions
(In millions of dollars, seasonally adjusted^{1/})

October 13, 1976

IV - T - 1

	1975			1976		
	Year	Q4	Q1	Q2	July	Aug.
1. Merchandise exports	107,088	27,657	26,836	28,450	9,952	9,804
2. Merchandise imports	98,058	25,437	28,510	29,735	10,996	10,614
3. <u>Trade Balance</u>	9,030	2,220	-1,674	-1,285	-1,044	-810
4. <u>Bank-reported private capital flows</u>	-12,840	-4,657	-2,907	-1,079	322	-1,088
5. Claims on foreigners (increase -)	-13,487	-5,348	-3,582	-4,665	-1,453	912
6. Long-term	-2,373	-943	-250	-338	-170	-575
7. Short-term	-11,114	-4,405	-3,332	-4,327	-1,313	1,487
8. (of which on commercial banks in offshore centers ^{2/})	(-7,212)	(-2,206)	(-3,575)	(-2,421)	(-1,456)	(1,455)
9. Liabilities to foreigners (increase +)	647	691	675	3,586	1,865	-2,000
10. Long-term	-300	146	-91	23	64	23
11. Short-term	947	545	766	3,563	1,801	-2,023
12. to commercial banks abroad	-666	-1,050	1,074	2,232	2,107	-1,937
13. (of which to commercial banks in offshore centers ^{3/})	(1,798)	(709)	(-230)	(983)	(1,959)	(-1,909)
14. to other private foreigners	1,549	750	156	476	289	284
15. to int'l and regional organizations	64	845	-464	855	-595	-370
16. <u>Foreign private net purchases (+) of U.S. Treasury securities</u>	2,667	213	453	-586	1,415	780
17. <u>Other private securities transactions (net)</u>	-3,701	-1,323	-1,495	-1,318	-1,795	-444
18. Foreign net purchases (+) of U.S. corp. securities	2,505	1,038	1,030	130	68	45
19. (of which stocks)	(3,054)	(818)	(943)	(100)	(17)	(-5)
20. U.S. net purchases (-) of foreign securities	-6,206	-2,361	-2,525	-1,448	-1,863	-489
21. (new foreign issues of bonds and notes)	(-7,168)	(-2,573)	(-2,830)	(-1,622)	(-2,015)	(-492)
22. <u>Change in foreign official assets in the U.S. ^{4/}</u>	5,211	2,277	2,466	3,155	902	957
23. OPEC countries (increase +)	5,940	1,713	2,231	2,737	571	1,112
24. (of which U.S. corporate stocks)	(1,643)	(638)	(555)	(591)	(216)	(93)
25. Other countries (increase +)	-729	564	235	418	331	-155
26. <u>Change in U.S. reserve assets (increase -)</u>	-607	89	-773	-1,578	236	-320
27. <u>Other transactions and statistical discrepancy (net payments (-))</u>	240	1,181	3,930	2,691	-96	925
28. Other current account items	2,667	886	1,614	1,987		
29. Military transactions, net	-883	12	-5	-13		
30. Receipt of income on U.S. assets abroad	18,219	4,709	5,495	5,462		
31. Payment of income on foreign assets in U.S.	-12,212	-3,039	-3,216	-3,305		
32. Other services, net	2,163	455	458	715		
33. Remittances and pensions	-1,727	-433	-483	-441		
34. U.S. Gov't. grants	-2,893	-818	-635	-431		
35. Other capital account items	-6,952	-1,958	-2,414	-282		
36. U.S. Gov't. capital, net claims (increase -)	-1,731	-453	798	-234		
37. U.S. direct investment abroad (increase -)	-6,307	-1,694	-1,757	463		
38. Foreign direct investment in U.S. (increase +)	2,437	1,229	-728	547		
39. Nonbank-reported capital, net claims (increase -)	-1,351	-1,040	-727	-1,058		
40. Statistical discrepancy	4,525	2,253	4,730	986		
MEMO:						
41. Current account balance	11,697	3,106	-60	702	n.a.	n.a.
42. Official settlements balance	-4,604	-2,366	-1,693	-1,577	-1,138	-637
43. O/S bal. excluding OPEC	1,336	-653	538	1,160	-567	475

NOTES:

^{1/} Only trade and services, U.S. Govt. grants and U.S. Govt. capital are seasonally adjusted.

^{2/} Offshore centers are United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda)

^{3/} Represents mainly liabilities of U.S. banks to their foreign branches in offshore centers which are the United Kingdom, Bahamas, Panama and other Latin America (mainly Cayman Islands and Bermuda).

^{4/} Excludes prepayments for military purchases.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. Since mid-September the dollar has increased by 1/2 per cent on a weighted average basis

The pound has made the largest movement against the dollar over the past 4 weeks, showing an erratic decline of nearly 5 per cent.

. Specific events and announcements were less important to the pound's decline than a general concern over the Labor government's ability to curb U.K. monetary growth and government spending. The September 29 announcement that the U.K. would apply to the IMF for credits totaling \$3.9 billion gave the sterling exchange rate only a temporary boost.

The Italian lira was also under strong selling pressure during the last two weeks in September. Here too, concern over the general position of the Italian economy, rather than specific events, seemed to lie behind the pressure.

. On October 1 the Italian authorities announced new economic measures aimed at tightening monetary and fiscal policy and, in an effort to provide

temporary exchange market respite to the lira, imposed a 10 per cent tax on foreign currency purchases for a period of 2 weeks. As a result of these measures -- especially the tax -- the spot lira immediately moved back up to its mid-September level, where it has remained since,

. The forward lira exchange rate has continued to weaken, however, suggesting that strong selling pressure on the spot lira may well resume on Monday when the foreign currency purchase tax is scheduled to lapse.

The French franc has been under downward pressure over the past 4 weeks.

. Prime Minister Barre's September 22 announcement of a new package of anti-inflation measures had little discernible exchange market impact.

The European fixed exchange rate snake arrangement came under severe pressure at the end of September.

. When events proved the speculation of a mark revaluation incorrect -- or at least premature -- this pressure abated,

. Since mid-September the snake currencies have risen by 2 per cent against the dollar.

. On September 20 the System and Treasury announced that the United States was making available up to \$600 million in short-term credits to the Bank of Mexico, in anticipation of Mexican drawings from the IMF. (Mexico has applied to the Fund for credits totaling just under \$1 billion.)

On September 22 the System repaid \$25 million equivalent of its Belgian franc swap debt, using balances purchased from the National Bank of Belgium that day. Throughout the period the System continued to purchase small amounts of Belgian francs in the New York market, mainly on a one-month forward basis, and will repay on November 12 the final \$27 million equivalent of its outstanding Belgian franc swap debt. In other operations during the last 4 weeks, the System purchased \$2 million equivalent of Swiss francs and made net sales of \$1 million equivalent of marks.

The gold price has remained relatively stable since mid-September, fluctuating around \$115.

U.S. International Transactions. The merchandise trade deficit for July-August was \$11.1 billion at an annual rate, roughly twice the deficit rate recorded for the first half of the year. Sharp increases in both fuel and nonfuel import volumes in recent months have outpaced the growth of export volumes, while import and export prices have advanced slowly.

U.S. Merchandise Trade*
(billions of dollars, seasonally adjusted annual rates)

	1975	1976				
	Year	1Q	2Q	July-Aug.	July	Aug.
<u>EXPORTS</u>	<u>107.1</u>	<u>107.3^r</u>	<u>113.8^r</u>	<u>118.5</u>	<u>119.4</u>	<u>117.6</u>
Agric.	22.2	21.3	23.5 ^r	25.4	25.4	25.5
Nonagric.	84.8	86.1 ^r	90.3 ^r	93.1	94.0	92.2
<u>IMPORTS</u>	<u>98.1</u>	<u>114.0</u>	<u>118.9^r</u>	<u>129.7</u>	<u>132.0</u>	<u>127.3</u>
Fuels	28.5	31.8 ^r	36.5 ^r	40.3	40.3	40.3
Nonfuels	69.5 ^r	82.3 ^r	82.5 ^r	89.3	91.6	87.0
<u>BALANCE</u>	<u>9.0</u>	<u>-6.7^r</u>	<u>-5.1^r</u>	<u>-11.1</u>	<u>-12.5</u>	<u>-9.7</u>

Trade Volume
(1974 = 100)

<u>EXPORTS</u>	<u>97.4</u>	<u>95.7</u>	<u>100.4</u>	<u>104.0</u>	<u>105.0</u>	<u>103.1</u>
Agric.	101.5	103.6	115.3	122.2	122.0	122.4
Nonagric.	96.3	93.7	97.0	99.8	101.0	98.6
<u>IMPORTS</u>	<u>87.6</u>	<u>100.9</u>	<u>103.3</u>	<u>111.3</u>	<u>113.5</u>	<u>109.0</u>
Fuels	100.2	106.8	121.7	133.9	134.2	133.6
Nonfuels	82.5	99.3	97.3	104.0	106.9	101.1

* International accounts basis. Details may not add to totals because of rounding.

Agricultural exports in July-August were 6 per cent larger in volume than in the second quarter, and 2 per cent higher in unit value. Relative to a year earlier, the July-August data show increases of roughly 15 per cent in both the value and volume of agricultural exports, as the large increase in corn shipments associated with the European drought has outbalanced declines in exports of wheat and soybeans.

Nonagricultural exports increased by nearly 3 per cent in volume between the second quarter and July-August while remaining roughly unchanged in unit value. Most of the volume growth reflected increased sales of capital goods; machinery exports expanded nearly 2 per cent in volume and aircraft more than 25 per cent, while automotive exports remained unchanged and other consumer-good exports declined nearly 3 per cent. New export orders for machinery increased sharply in July and remained at nearly the July rate in August, averaging roughly 25 per cent higher for the two months than in the second quarter, according to both value and volume estimates.

Fuel imports in July-August averaged about 8.3 million barrels per day (mbd), compared with 6.7 and 7.6 mbd in the first and second quarters, respectively. The increase reflects both continuing growth in final demand for petroleum and early attempts to build oil stockpiles in anticipation of a sizable OPEC price hike that is expected to be announced in December and to become effective on January 1.

Nonfuel imports also grew strongly in July-August to a level nearly 7 per cent higher in volume than in the second quarter, while unit values rose slightly. All major categories of imports shared in this volume growth with the exception of non-Canadian automobiles, which fell by nearly 7 per cent, following three quarters of stock-building.

Bank-reported private capital flows show a net outflow of \$1.1 billion in August and \$0.7 billion for July-August combined--less than the first half rate. A net short-term outflow of \$0.5 billion in August reversed a net inflow of like amount in July, as several large inflows were more than offset by outflows associated with the unwinding of weekend transactions at the beginning of August. Acceptance claims on Japan fell by \$0.4 billion as Japanese banks turned to the Eurodollar market during August. This reduction in acceptance claims may also reflect the beginning of a shift toward yen funding and away from dollar funding as a means of financing Japanese trade. A shift to yen financing can be predicted on the basis of both the improved liquidity of Japanese corporations and certain encouragements which Japanese authorities have provided in hopes of reducing the upward pressure on the yen.

It can be inferred from July-August data that the demand for funds by customary borrowers of Eurodollars was even more sluggish than the demand for funds in the U.S. domestic market. In consequence,

head offices of U.S. banks turned increasingly to their overseas branches as sources of funds. Excluding Friday borrowings, which reflect weekend transactions, the daily average of outstanding borrowings from own foreign branches rose from about \$2.6 billion at the end of May to about \$4.4 billion at the end of August, and had declined only slightly to \$4.2 billion at the beginning of October.

Long-term net outflows reported by banks were \$0.6 billion in August, which is accounted for by transfers of existing term loans from the Caribbean branch to the head office of a major U.S. bank, offset by a short-term inflow. Such transfers are usually motivated by tax incentives, and similar reallocations are expected during the remainder of the year, after which reversals may occur.

Data on private securities transactions other than U.S. Treasury obligations show a net outflow of \$0.4 billion in August, largely reflecting a drop in U.S. purchases of new foreign bond issues, which were substantially below record levels reached earlier in the year. Foreign private net purchases of U.S. corporate stocks, which dropped off sharply after the first quarter, turned into small net sales during August, and net official purchases of U.S. corporate stocks by OPEC countries also declined.

Foreign official assets in the United States increased by \$1.0 billion in August. Assets of OPEC countries increased by \$1.1 billion and Japanese official assets increased by \$0.3 billion.

Recently-released data on second-quarter transactions show no major changes from the first quarter in current-account items other than merchandise trade. The current account was in surplus at an annual rate of \$2.8 billion, up from a small deficit rate of \$0.2 billion in the first quarter. Direct investment transactions shifted inward by \$3.5 billion between the first and second quarters. U.S. direct investments abroad swung from net outflows of \$1.8 billion to an unusual net inflow of \$0.5 billion, while foreign direct investments in the United States shifted from net outflows of \$0.7 billion, largely reflecting oil-company transactions, to net inflows of \$0.5 billion. Liquidations of foreign affiliates accounted for part of the unusual U.S. direct investment inflows. Much of the remainder resulted from a drawing down of U.S. parent firms' net dollar receivables from foreign affiliates, perhaps reflecting some substitution of local-currency financing by the affiliates in attempts to denominate debt in currencies that were expected to depreciate against the dollar.

International Monetary Fund and World Bank 1976 Annual Meetings.

The Annual Meetings in Manila were dominated by discussions of the world economic outlook and the balance-of-payments adjustment process. There was general endorsement, particularly by the representatives of the industrial countries, of the view that priority should be given to the further reduction of inflation and that it was essential to do so in order to achieve a reduction in unemployment and sustained economic growth.

Aggregate demand policies received primary emphasis in discussions of the adjustment process. Views on the appropriate role of exchange rate in the adjustment process under present circumstances were more diverse. In the face of prospective large drawings on the IMF by The United Kingdom and Italy, activation of the General Arrangements to Borrow was viewed as likely in the near future. Even with the activation of the G.A.B. The financial resources of the IMF may be under considerable strain at least until the quota increase becomes effective. It was also generally recognized that drawings on the IMF would increasingly take on more conditional forms -- i.e., from the Extended Fund Facility or the upper credit tranches. Given the resources now available to the IMF, this situation was seen as inevitable by the representatives of most countries, and the representatives of the major industrial countries also saw such a development as desirable.

The IMF Interim Committee reelected Willy De Clercq of Belgium as its Chairman and placed exchange-rate surveillance and international

liquidity on the tentative agenda for its next meeting on April 28 and 29. The IMF/IBRD Development Committee elected Ceasar Virata of the Philippines as its new Chairman and Richard King of The United Kingdom as its new Executive Secretary. The Group of Ten Ministers and Central Bank Governors agreed that Denis Héaley of The United Kingdom would take over as Chairman at their next meeting, which will probably be in late November or early December, and ratified the choice of Jacques de Larosiere of France to be the new Chairman of the G-10 Deputies, replacing Rinaldo Ossola of Italy.

Monetary conditions in major foreign industrial countries. A

large number of restrictive monetary policy actions have been taken in major foreign industrial countries in the past several months. Authorities in virtually all countries remain concerned about both high unemployment and inflation. Despite their concern about unemployment, however, authorities in those countries facing downward pressure on the exchange value of their currencies (France, Italy, the United Kingdom, and the small countries in the E.C. snake) have responded by permitting and even reinforcing a tightening of domestic monetary conditions. Other countries (Germany, Japan, and Switzerland) have tried to offset the expansionary impact on domestic monetary conditions of their foreign-exchange-market intervention directed at resisting appreciation. As a result of the asymmetry in these policy responses abroad, foreign interest rates have, on balance, risen relative to rates on dollar-denominated assets since the end of June.

There was a greater-than-anticipated slowdown in the growth of real GNP in most countries in the second quarter of this year, following sharp gains in the first quarter. Although expansion abroad is now expected to accelerate again in the second half of this year and to continue into 1977, the rate of expansion is expected to be only moderate -- on average somewhat below the rate being projected for the United States -- and continuing high levels of unemployment remain a source of concern to foreign authorities.

At the same time, although a number of countries have slowed the pace of price inflation somewhat since 1974-1975, inflation rates in most countries (except in Switzerland) remain uncomfortably high. Substantial divergences exist, however, with rates of increase of consumer

prices ranging this year from 1 per cent in Switzerland and about 4-1/2 per cent in Germany to 12 per cent in the United Kingdom and 18 per cent in Italy (all rates calculated as the average of monthly increases thus far this year at annual rates). The prospect of a continued divergence in inflation rates has generated major pressures in foreign-exchange markets.

As noted, these exchange-market pressures and the policy responses to them have resulted in generally higher short-term interest rates abroad (see table). Since the end of June, while short-term rates in the United States have declined slightly, interest rates in most foreign countries have risen, in some cases only slightly, but in others (Belgium, France, the Netherlands and the United Kingdom) very sharply. Two exceptions are Italy, where interest rates in the third quarter were falling back from exceptionally high levels (but this month have risen again), and Japan, where interest rates usually remain fairly stable. Yields on long-term bonds have risen since June in France, Belgium, the Netherlands, and (sharply) in the United Kingdom, but have declined slightly elsewhere.

Available data on the money stock in various countries are shown in the table below. The growth of M_1 in Canada has been erratic, but the trend growth rate this year seems to be in line with the target range of 8 to 12 per cent; in Germany and Switzerland, on the other hand, the monetary targets for 1976 (8 per cent growth of "central bank money" and 6 per cent growth of M_1 , respectively) are likely to be exceeded. Monetary growth in France has decelerated markedly in recent months; the growth of the British money stock accelerated in July and August (and preliminary reports suggest a further large rise in September).

3-MONTH AND LONG-TERM INTEREST RATES
IN SELECTED INDUSTRIAL COUNTRIES
(Per cent per annum or percentage points)

<u>3-MONTH RATES^{1/}</u>	Level end-1975	Change during period:				Total change in 1976 (to date)	Latest Level
		1976 Q1	1976 Q2	1976 Q3	October (to date)		
Belgium	6.25	4.00	-1.25	4.38	0.62	7.75	14.00(10/13)
Canada	9.25	1.13	-0.88	0	-0.12	0.13	9.38(10/12)
France	6.50	1.13	0.37	1.63	0.75	3.88	10.38(10/13)
Germany	4.20	-0.50	0.80	0.10	0.20	0.60	4.80(10/13)
Italy	7.63	10.62	2.63	-3.00	0.62	10.87	18.50(10/13)
Japan	8.25	-0.50	0	-0.25	0	-0.75	7.50(10/13)
Netherlands	5.50	-2.37	5.62	5.00	-2.25	5.00	10.50(10/13)
Switzerland	2.75	-1.50	-0.37	1.37	-0.50	-1.00	1.75(10/13)
United Kingdom	10.81	-2.06	2.44	1.62	1.82	3.82	14.63(10/12)
United States	5.25	-0.25	0.50	-0.25	-0.05	-0.05	5:20(10/6)
 <u>LONG-TERM GOV'T BOND YIELDS^{2/}</u>							
Belgium	8.72	0.28	-0.06	0.27	n.a.	0.49	9.21(8/31)
Canada	9.51	-0.03	-0.16	-0.16	0	-0.35	9.16(10/6)
France	9.91	0.07	0.08	0.37	0.01	0.53	10.44(10/1)
Germany	7.74	-1.22	0.61	-0.13	0.14	-0.60	7.14(10/6)
Italy	11.37	1.00	1.13	0.08	n.a.	2.21	13.58(9/30)
Japan	9.02	-0.31	0.06	-0.05	n.a.	-0.30	8.72(8/31)
Netherlands	7.36	-0.16	1.59	0.97	n.a.	2.40	9.76(9/24)
Switzerland	6.00	-0.86	-0.02	-0.23	n.a.	-1.11	4.89(9/24)
United Kingdom	14.48	-0.73	-0.07	1.08	0.52	0.80	15.28(10/7)
United States	8.03	-0.14	0.13	-0.15	-0.14	-0.40	7.63(10/12)

^{1/} 3-month interbank rates, except: Belgium-time deposit rate; Canada-finance company rate; U.S.-CD rate; Japan - rate on paper of 2-month or greater maturity.

^{2/} The long-term rates quoted are all government bond yields (mostly composite yields). For the United States, the 20-year constant maturity bond yield is quoted.

GROWTH OF THE MONEY STOCK
IN SELECTED INDUSTRIAL COUNTRIES
(Percentage change; SAAR)

	<u>Average Change in latest 3 months</u>	<u>Average change in previous 3 months</u>	<u>Latest 3 months from same period year earlier</u>	<u>Latest Month</u>
Canada M ₁	15.2	-6.0	10.0	July
M ₂	15.6	19.2	18.8	July
France M ₁	8.4	12.8	17.6	July
M ₂	9.2	16.0	19.4	July
Germany M ₁	6.4	6.3	11.5	Aug.
M ₂	12.4	3.6	7.9	Aug.
CM ^{1/}	10.4	2.4	9.4	Aug.
Japan M ₁	14.4	11.6	14.1	July
M ₂	14.8	12.8	15.8	July
Switzerland M ₁ ^{2/}	2.0	3.6	8.5	July
United Kingdom M ₁	16.4	10.3	14.5	Aug.
M ₃	15.6	9.6	10.0	Aug.
United States M ₁	4.1	6.8	4.4	Sept. (F)
M ₂	10.9	9.8	9.7	Sept. (C)

^{1/} "Central Bank Money," which approximately equals a weighted sum of the components of M₃.

^{2/} Swiss data are seasonally adjusted.

The United Kingdom, Italy, and -- to a lesser extent -- France are the countries that have diverged -- and may continue to diverge -- most persistently from the general trend of inflation in the industrial world, and have suffered serious exchange-market pressures. Authorities in these countries have responded to these pressures with a vast array of monetary and other policy actions. In July, the British announced a plan to reduce by about £2 billion the public sector deficit in the fiscal year beginning April 1977; in August an agreement with the unions to limit wage increases significantly took effect; and, in an attempt to keep the growth of the money stock under control, a number of restrictive monetary actions have been taken, culminating on October 7 in an increase in the Minimum Lending Rate to a record-high 15 per cent and a further call for special deposits (which is equivalent to an increase of about 10 per cent in the required reserve ratio). The Italian Government is in the process of formulating an economic program designed to reduce the public sector deficit and to limit the wage-indexation mechanism. So far this year, the Bank of Italy has been able to restrict domestic liquidity substantially by raising reserve requirements and imposing an import deposit scheme; but the scheduled unwinding of the import deposit scheme and the continued large government deficit may make it difficult to maintain relatively tight monetary conditions. A major anti-inflation program in France, announced in September, has been complemented by measures to limit the growth of bank credit.

The following is a chronology of monetary policy measures taken in the United Kingdom, Italy, and France since the end of June:

- United Kingdom
- Sept. 10 Bank of England raises Minimum Lending Rate from 11.5 to 13%.
- Sept. 16 Bank of England announces a call for special deposits of 1%, bringing the total rate of special deposits to 4%. The additional deposits are to be made in equal installments on September 20 and October 6.
- Oct. 7 Bank of England raises Minimum Lending Rate from 13% to a record high 15%. An additional increase in special deposits is announced, equal to 2% of eligible liabilities, to be paid in equal installments on November 2 and November 15; special deposits will total 6%.
- Italy
- Aug. 3 Government extends for 3 months the 50% import deposit scheme first imposed on May 6, 1976.
- Sept. 29 Government announces that import-deposit scheme will be phased out in 5 stages, starting on October 15 and ending on April 15, 1977. In addition, banks will be required to deposit with the Bank of Italy an amount equal to 0.5% of their total deposits as of the end of June; the requirement an increases in deposits remains unchanged at 15.75%.
- Oct. 1 Bank of Italy raises discount rate from 12% to all-time high of 15%.
- France
- July 22 Bank of France raises discount rate from 8 to 9.5%.
- Sept. 23 Bank of France raises discount rate from 9.5 to 10.5%. Foreign exchange controls are tightened.
- Sept. 29 All banks will be obliged to place in interest-free deposits at the Bank of France an amount equal to 0.5% of outstanding and new loans (effective October 21). Ceiling for the expansion of credit in 1977 is set at 5% for large banks (compared with 9.7% in 1976:12) and at 8% for small banks (compared with 11% in 1976:12).

Authorities in Belgium, the Netherlands, Denmark, Norway, and Sweden -- i.e., the countries associated with Germany in the European snake -- also have tightened domestic monetary conditions severely in order to keep the exchange values of their currencies within 2-1/4 per cent of their Deutsche-mark parity. Some tightening of monetary conditions in these countries might have been appropriate in any case, given expected inflation rates in the range of 8 to 10 per cent. But the severe tightening of monetary conditions -- especially in Belgium and the Netherlands -- was necessitated by the desire to keep the snake intact in the face of persistent expectations of a DM revaluation; this expectation reflects Germany's relatively low inflation rates more than unusually high inflation rates in the other snake countries.

The following is a chronology of monetary policy measures taken in the snake countries (other than Germany) since the end of June:

<u>Sweden</u>	July 1	Riksbank effectively increases required reserves (by widening the range of obligations which are to be included in the calculation of bank liquidity ratios).
<u>Belgium</u>	July 26	National Bank raises discount rate from 7 to 8%, and reduces banks' rediscount ceilings.
<u>Netherlands</u>	Aug. 2	Netherlands Bank raises discount rate from 5 to 5.5%.
<u>Belgium</u>	Aug. 13	National Bank raises discount rate from 8 to 9%.
<u>Netherlands</u>	Aug. 16	Netherlands Bank raises discount rate from 5.5 to 6.5%.
<u>Netherlands</u>	Aug. 20	Netherlands Bank raises discount rate from 6.5 to 7%.
<u>Norway</u>	Sept. 6	Bank of Norway raises discount rate from 5 to 6%.

<u>Norway</u>	Sept. 17	Bank of Norway raises reserve requirements for banks in Southern Norway from 3.5 to 4.5% of total assets.
<u>Sweden</u>	Oct. 4	Riksbank raises discount rate from 6 to 8%.
<u>Denmark</u>	Oct. 5	National Bank raises discount rate from 8.5 to 11%.

In contrast to the situation in the countries discussed above, the basic stance of policy in Canada, Germany, Japan, and Switzerland has remained essentially unchanged; it can best be described as cautious. The authorities in Switzerland have acted to offset the liquidity-creating effects of their intervention purchases of foreign exchange -- as the Bundesbank did earlier this year -- but have not been entirely successful; monetary growth targets in both Germany and Switzerland are likely to be exceeded this year. The Bank of Canada announced a lower monetary growth target on August 25 -- with the growth rate of M_1 to be in the range of 8 to 12 per cent until further notice -- but the new target implies little change in the trend of monetary growth so far this year. The Japanese authorities also have maintained a cautious stance; the ceilings recently announced for credit expansion in the fourth quarter are designed to accomodate expected weak credit demands.