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Part 2

November 9, 1977

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System

CONFIDENTIAL (FR)

November 9, 1977

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By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

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	Oct.	11-4-77	98.1	2.9	3.3	2.9
Unemployment rate (%) ^{1/}	Oct.	11-4-77	7.0	6.9	6.9	7.9
Insured unemployment rate (%) ^{1/}	Oct.	11-4-77	4.0	4.1	3.8	4.9
Nonfarm employment, payroll (mil.)	Oct.	11-4-77	82.9	1.7	2.7	3.9
Manufacturing	Oct.	11-4-77	19.6	- .9	- .2	3.7
Nonmanufacturing	Oct.	11-4-77	63.3	2.5	3.6	4.0
Private nonfarm:						
Average weekly hours (hr.) ^{1/}	Oct.	11-4-77	36.1	36.0	36.1	36.1
Hourly earnings (\$) ^{1/}	Oct.	11-4-77	5.38	5.31	5.27	4.95
Manufacturing:						
Average weekly hours (hr.) ^{1/}	Oct.	11-4-77	40.3	40.2	40.3	39.9
Unit labor cost (1967=100)	Sept.	10-28-77	154.6	4.7	.0	-1.3
Industrial production (1967=100)	Sept.	10-14-77	138.8	5.2	2.9	6.3
Consumer goods	Sept.	10-14-77	144.6	3.3	2.2	6.6
Business equipment	Sept.	10-14-77	151.3	3.2	3.2	10.4
Defense & space equipment	Sept.	10-14-77	81.4	4.4	5.5	4.9
Materials	Sept.	10-14-77	139.3	6.9	1.7	5.2
Consumer prices (1967=100)	Sept.	10-21-77	183.8	3.9	4.2	6.6
Food	Sept.	10-21-77	194.7	1.2	1.7	7.0
Commodities except food	Sept.	10-21-77	166.2	2.9	2.7	5.0
Services	Sept.	10-21-77	197.7	6.1	7.2	7.9
Wholesale prices (1967=100)	Oct.	11-3-77	196.4	9.8	5.7	6.0
Industrial commodities	Oct.	11-3-77	198.9	6.7	7.6	6.8
Farm products & foods & feeds	Oct.	11-3-77	184.7	15.8	-4.9	2.6
Personal income (\$ bil.) ^{2/}	Sept.	10-18-77	1558.8	9.2	9.1	11.2
				(Not at annual rates)		
Mfrs. new orders dur. goods (\$ bil.)	Sept.	11-3-77	58.8	.9	.7	17.4
Capital goods industries	Sept.	11-3-77	17.6	5.5	- .7	12.6
Nondefense	Sept.	11-3-77	16.0	8.7	2.7	18.4
Defense	Sept.	11-3-77	1.6	-17.8	-24.7	-23.7
Inventories to sales ratio: ^{1/}						
Manufacturing and trade, total	Aug.	11-3-77	1.48	1.49	1.46	1.51
Manufacturing	Sept.	11-3-77	1.58	1.57	1.57	1.68
Trade	Aug.	11-3-77	1.38	1.38	1.35	1.37
Ratio: Mfrs.' durable goods inventories to unfilled orders ^{1/}	Sept.	11-3-77	.641	.640	.631	.640
Retail sales, total (\$ bil.)	Sept.	10-12-77	59.0	-1.2	1.1	9.1
GAF	Sept.	10-12-77	14.6	-1.5	3.6	9.4
Auto sales, total (mil. units) ^{2/}	Oct.	11-7-77	10.9	5.0	.3	16.3
Domestic models	Oct.	11-7-77	9.1	8.1	4.0	19.2
Foreign models	Oct.	11-7-77	1.8	-8.5	-15.0	3.6
Housing starts, private (thous.) ^{2/}	Sept.	10-19-77	2,040	.3	7.5	15.4
Leading indicators (1967=100)	Sept.	10-28-77	132.4	.3	1.8	5.7

^{1/} Actual data used in lieu of per cent changes for earlier periods.

^{2/} At annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent indicators continue to be mixed but on balance suggest some pick-up in activity. Employment growth slowed somewhat in October and industrial production evidently expanded only moderately. However, retail sales appear to have recovered upward momentum in October, and housing starts remained at a high level through September. Current indicators of business investment also suggest continued near term advances while surveys of spending plans indicate more moderate increases in 1978 than this year. Increases in prices of goods at wholesale accelerated in October, suggesting that the moderate rate of increase of consumer goods prices in August and September may not be sustained in the final quarter of the year.

There are indications of some resurgence of consumer spending following two quarters of lackluster growth. Weekly retail sales figures suggest an increase of more than 2 per cent in October--one of the sharpest monthly gains in several years--with large increases for furniture and appliances and most nondurable goods.

Activity in automotive markets also increased in October as unit sales rose to a 10.9 million annual rate. This is equal to the third quarter pace but somewhat below the selling rate of the first half. Sales of domestic-type autos were at a 9.1 million unit rate--up from the 8.4 million unit pace of September, which reportedly was constrained somewhat by shortages of some models. Sales of imported

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

	1977					
	QI	QII	QIII	Aug.	Sept.	Oct. ^{1/}
Total	3.7	1.5	.3	1.5	-1.2	2.6
(Real) ^{2/}	1.6	-.5	-.5	1.2	-1.4	n.a.
Total, less auto and nonconsumption items	1.8	1.8	.4	-.1	-.9	2.3
GAP ^{3/}	.1	2.2	3.6	-.5	-1.5	4.9
<u>Durable</u>	7.3	1.3	.6	5.0	-1.9	4.0
Auto	11.0	-.6	-.8	6.7	-2.9	2.8
Furniture and appliances	1.6	3.0	2.3	-1.2	-2.6	5.6
<u>Nondurable</u>	2.0	1.6	.2	-.3	-.8	1.9
Apparel	-.7	-1.7	3.2	2.1	-.4	8.1
Food	1.4	3.4	.2	-1.5	.2	2.2
General merchandise	-.1	3.0	4.1	-1.0	-1.5	3.9
Gasoline	2.7	1.4	-2.2	-.2	-.7	-.7

^{1/} Based on weekly data ending 10/29.

^{2/} Deflated by all commodities SA consumer price index.

^{3/} General merchandise, apparel, furniture and appliances.

AUTO SALES

(Millions of units; seasonally adjusted)

	1977							
	QI	QII	QIII	June	July	Aug.	Sept.	Oct.
Total	11.1	11.7	10.9	11.8	10.8	11.6	10.4	10.9p
Imports	1.8	2.4	2.0	2.2	2.1	2.1	1.9	1.8p
Domestic	9.3	9.3	8.9	9.6	8.7	9.5	8.4	9.1
Large	6.2	5.9	5.5	6.1	5.6	6.0	4.9	5.5
Small	3.1	3.3	3.4	3.5	3.2	3.5	3.4	3.7

autos edged down a bit more in October, apparently reflecting continued inventory problems for some popular models as well as more aggressive domestic competition.

Consistent with the pick-up in spending, the latest Conference Board Survey--conducted in October--showed consumer assessments of the present situation to be generally favorable. Assessments of the outlook for the next six months, however, are somewhat less optimistic than earlier in the year.

Reflecting in part the slower growth of consumption over the middle part of this year, industrial production is tentatively estimated to have increased one-quarter to one-half per cent in October--close to the average monthly rise during the third quarter but below the 0.6 per cent per month average rise over the first half of the year. Output of final products apparently registered further gains in October. Auto assemblies rose to a 9.6 million unit annual rate in October. Output of business equipment increased only slightly as aircraft and parts production was damped by strikes at Boeing and Lockheed. Gains in output of materials were moderate in October. Coal output rose sharply as a result of a resumption of production following recent wildcat strikes as well as stockpiling in anticipation of a UMW strike in December.

Capacity utilization in the manufacturing sector is estimated to have been essentially unchanged in October at about 83 per cent--close to the third quarter rate. There has been little change in utilization rates for either primary or advanced processing industries

since May. Materials producers also continued to operate near 83 per cent of capacity--about 10 percentage points below the high reached in 1973.

Hiring slowed in October, as total nonfarm payroll employment rose by 165,000 (strike-adjusted) following an upward revised September gain of 325,000. Jobs in service-producing industries increased at a slower pace in October. After allowance for strikes, manufacturing employment was up by 28,000 and the factory workweek rose 0.1 hour to 40.3 hours. Average monthly job increases at manufacturing establishments have slackened substantially since last spring with outright declines in the nondurables sector. Among hard goods producers, the fabricated metals and machinery industries continue to post gains but employment in primary metals has now dropped below its June level reflecting layoffs by steel producers.

The civilian labor force increased by 235,000 in October and with employment growth slow, the unemployment rate edged up to 7 per cent from 6.9 per cent a month earlier. The overall unemployment rate has shown little change since April.

Growth of personal income was slow between the second and third quarters in part because of declining farm income and slower growth of wage and salary disbursements: labor market data suggest a more moderate rise in October. Although growth of nominal income slowed, favorable price developments permitted real personal income to advance

AVERAGE MONTHLY CHANGES IN EMPLOYMENT
(Thousands of jobs; seasonally adjusted)

	Average Monthly Change			Recent Months	
	Dec. 75	Dec. 76	June 77	Aug.	Sept.
	to Dec. 76	to June 77	to Oct. 77	to Sept.	to Oct.
<u>Nonfarm payroll employment</u>	194	296	201	327	119
(Strike adjusted)	191	303	218	325	165
Manufacturing	45	88	4	44	-15
(Strike adjusted)	45	90	18	52	28
Durable	37	56	18	41	-16
Nondurable	8	32	-14	3	1
Construction	3	45	16	7	44
Trade	53	58	46	62	4
Services and finance	68	66	88	36	69
State and local government	18	25	42	116	17
<u>Total employment</u> ^{1/}	250	373	138	324	135
Nonagricultural	250	360	154	361	78

^{1/} Household survey data.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1976			1977			
	QIII	QIV	QI	QII	QIII	Sept.	Oct.
Total, 16 years and older	7.8	7.9	7.4	7.0	7.0	6.9	7.0
Men, 20 years and older	6.0	6.2	5.6	5.1	5.1	4.9	5.3
Women, 20 years and older	7.7	7.6	7.1	6.9	7.0	7.0	6.8
Teenagers	18.8	19.1	18.6	18.1	17.7	18.1	17.3
Household heads	5.3	5.3	4.8	4.4	4.5	4.5	4.6
Married men	4.4	4.4	3.9	3.5	3.4	3.4	3.7
Fulltime workers	7.4	7.5	6.8	6.5	6.6	6.5	6.6
White	7.1	7.2	6.7	6.3	6.1	6.1	6.1
Black and other	13.1	13.4	12.8	12.8	13.6	13.1	13.9

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

	1976				1977			
	QI	QII	QIII	QIV	QI	QII	QIII	Aug. to Sept. <u>1/</u>
Current dollars								
Total personal income	10.8	8.9	8.2	11.5	13.1	11.4	8.5	9.2
Nonagricultural income	13.0	8.4	10.0	11.4	12.0	11.9	9.7	9.6
Wage and salary disbursements	13.4	10.1	8.3	10.7	12.7	13.0	6.8	8.9
Private	16.2	11.2	8.9	10.9	14.9	15.1	6.7	9.1
Manufacturing	21.4	11.2	6.0	8.4	17.9	17.5	5.5	8.0
Government	3.6	5.8	6.2	9.5	4.9	5.0	7.1	8.4
Nonwage income	7.6	6.7	7.9	12.3	14.5	8.5	11.0	9.4
Transfer payments	11.5	-3.1	12.4	7.6	11.6	-1.0	11.5	8.1
Dividends	14.2	17.7	11.9	29.5	1.0	20.1	21.4	5.7
<u>Constant dollars</u> <u>2/</u>								
Total personal income	5.4	3.8	2.4	6.8	4.3	2.4	3.0	5.3
Nonagricultural income	7.4	3.4	4.1	6.8	3.3	2.9	4.3	5.6
Wage and salary disbursements	7.8	5.0	2.4	6.0	4.0	3.9	1.5	5.0

Memorandum:								
Real disposable per capita income	4.5	2.3	0.5	4.1	2.4	6.4	2.1	

1/ Per cent change at annual rate, not compounded.

2/ Deflated by CPI, seasonally adjusted.

at a 3.0 per cent annual rate for the third quarter, almost the same pace as the first half of the year. In September, wage and salary growth was at about a 9.0 per cent annual rate and the latest labor market data suggest further growth in October.

Residential construction activity has continued to be robust. Total private housing starts were virtually unchanged in September at an annual rate of 2.04 million units. The third quarter average of just over 2 million total starts was almost 8 per cent above the previous quarter and the highest rate since 1973. Starts of single family units, which edged up 2 per cent in September, averaged 1.46 million units in the third quarter, the highest rate since the Census Bureau began publishing the series in 1959. In the more volatile multi-family sector, there was a 5 per cent decline in starts in September. However, the third quarter average was up by more than a fifth from the second quarter as such starts were spurred by increased activity under Federal rental assistance programs; starts under HUD's main rent subsidy program accounted for over a fourth of all private multi-family units.

Sales of houses rose further in September to very high levels for both new and existing single family units and savings and loan mortgage lending commitments outstanding increased to a new high. Furthermore, the rental vacancy rate, at 5.4 per cent in the third quarter, remains quite low by historical standards.

NEW PRIVATE HOUSING UNITS
(Millions of units; seasonally adjusted annual rates)

	1976	1977					Per cent change ^{3/} from:	
	QIV	QI	QII ^{1/}	QIII ^{2/}	Aug. ^{1/}	Sept. ^{2/}	Month ago	Year ago
Single & Multifamily								
Permits	1.53	1.52	1.63	1.70	1.77	1.70	- 4	+15
Starts	1.77	1.76	1.91	2.05	2.03	2.04	--	+15
Under construction ^{4/}	1.18	1.24	1.32	n.a.	1.37	n.a.	+ 2	+27
Completions	1.39	1.59	1.57	n.a.	1.65	n.a.	- 2	+20
Single-family								
Permits	1.03	1.06	1.08	1.11	1.16	1.09	- 6	+19
Starts	1.28	1.31	1.42	1.46	1.46	1.49	+ 2	+19
Under construction ^{4/}	.69	.73	.79	n.a.	.81	n.a.	+ 2	+29
Completions	1.05	1.19	1.20	n.a.	1.23	n.a.	- 3	+15
Multifamily								
Permits	.50	.46	.56	.59	.62	.60	- 2	+19
Starts	.49	.45	.49	.59	.58	.55	- 5	+ 7
Under construction ^{4/}	.50	.51	.54	n.a.	.56	n.a.	+ 2	+24
Completions	.34	.39	.37	n.a.	.42	n.a.	+ 4	+34
Mobile home shipments	.25	.27	.26	.27	.27	.29	+ 7	+16

^{1/} Revised.

^{2/} Preliminary.

^{3/} Per cent changes based on latest available data.

^{4/} Seasonally adjusted, end of period.

Commitments for near term business fixed capital spending remain favorable. New orders for nondefense capital goods increased 8.7 per cent in September. The nonmachinery component showed a sharp rise after sizable declines in the previous two months. The machinery grouping of such orders--which is usually more indicative of underlying trends--was unchanged in September, but the increase of 5.5 per cent for the third quarter as a whole was somewhat larger than over the past year. Construction contracts for commercial and industrial buildings (measured in square feet) showed a large increase in the third quarter with strength in both components. The dollar value of such contracts also was sharply higher in the third quarter.

Private capital spending surveys are in fairly close agreement that planned increases in plant and equipment expenditures in 1978 are somewhat smaller than the likely 1977 rise. The McGraw-Hill fall survey--which has been the most reliable of the private reports over the years--showed business planning an 11 per cent increase in fixed capital spending for 1978. As has been the case thus far in 1977, producers of durable goods other than iron and steel plan somewhat larger increases than the average for all business. In the nonmanufacturing sector, airlines and communications firms also are anticipating large increases.

The book value of manufacturers' inventories increased at an annual rate of \$15.5 billion in September--about twice the pace of the previous two months. The step-up was concentrated in nondurable

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

	1977					Sept. 76 to
	QI	QII	QIII	Aug.	Sept.	Sept. 77
<u>Contracts and orders for plant & equip.^{1/}</u>						
Current dollars	6.3	12.2	.6	11.9	8.6	38.2
1972 dollars	4.6	10.7	-1.4	11.6	7.3	29.6
<u>New orders received by manufacturers</u>						
Total durable goods						
Current dollars	5.8	4.1	-1.7	4.0	.9	17.4
1967 dollars ^{2/}	4.1	2.8	-3.6	3.3	-.1	9.3
Nondefense capital goods						
Current dollars	6.7	4.1	-.4	1.9	8.7	18.4
1967 dollars ^{2/}	5.0	2.8	-2.0	1.4	8.0	11.4
<u>Construction contracts for commercial and industrial buildings^{3/}</u>						
Current dollars	.0	1.9	31.9	23.2	.8	46.8
Square feet of floor space	8.5	4.6	9.5	21.5	-4.6	39.7

- ^{1/} The Commerce Department creates this series 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.)
- ^{2/} Deflated by appropriate wholesale price index.
- ^{3/} Current dollars series obtained from FR seasonal. Floor space is seasonally adjusted by Census.

SURVEYS OF PLANT AND EQUIPMENT EXPENDITURES
(Per cent change from prior year)

	Actual 1976	Planned			
		1977 Commerce ^{1/}	1978		
			McGraw- Hill	Merrill ^{2/} Lynch	Rinfret ^{3/}
All business	6.8	13.3	11	10	9
Manufacturing	9.4	15.5	11	9	13
Durables	8.4	17.9	14	11	11
Nondurables	10.3	13.5	8	8	15
Nonmanufacturing	4.9	11.6	11	11	6
Mining	5.4	11.3	3	48	14
Transportation	-1.6	-6.8	11	0	0
Utilities	10.6	18.0	10	10	13
Communications	4.4	14.2	15	15	4
Commercial and other	1.9	9.7	12	5	3

^{1/} Results of the August Commerce survey which reflect actual spending in the first half of the year.

^{2/} Confidential results.

^{3/} Confidential results. The Rinfret results are corrected for systematic bias. Unadjusted, the survey indicates an 11 per cent increase for 1978.

BUSINESS INVENTORIES
 (Change at annual rates in seasonally
 adjusted book value; billions of dollars)

	1976				1977				
	QI	QII	QIII	QIV	QI	QII	QIII	Aug.	Sept.
Manufacturing and trade	23.1	31.5	29.6	10.3	32.8	32.5	n.a.	32.9	n.a.
Manufacturing	7.5	14.2	15.4	6.5	11.2	17.8	10.3	6.4	15.5
Durable	1.7	6.8	6.7	6.4	7.8	10.9	5.6	5.7	4.6
Nondurable	5.8	7.5	8.6	0	3.3	6.8	4.7	.7	11.0
Trade, total	15.6	17.3	14.2	3.9	21.6	14.8	n.a.	26.5	n.a.
Wholesale	5.1	9.0	4.3	1.6	9.7	2.9	n.a.	8.9	n.a.
Retail	10.5	8.3	9.9	2.2	12.0	11.8	n.a.	17.6	n.a.
Auto	1.1	.1	4.8	1.3	2.2	2.4	n.a.	2.4	n.a.

INVENTORY RATIOS

	1975	1976		1977				
	QII	QII	QIV	QI	QII	QIII	Aug.	Sept.
<u>Inventory to sales:</u>								
Manufacturing and trade	1.62	1.51	1.51	1.48	1.47	n.a.	1.48	n.a.
Manufacturing	1.84	1.64	1.66	1.58	1.58	1.59	1.57	1.58
Durable	2.40	2.03	2.04	1.94	1.94	1.93	1.92	1.91
Nondurable	1.26	1.23	1.25	1.20	1.20	1.22	1.19	1.22
Trade, total	1.40	1.37	1.36	1.36	1.36	n.a.	1.38	n.a.
Wholesale	1.26	1.22	1.22	1.22	1.19	n.a.	1.20	n.a.
Retail	1.50	1.48	1.47	1.47	1.50	n.a.	1.52	n.a.
<u>Inventories to unfilled orders:</u>								
Durable manufacturing	.612	.625	.632	.635	.631	.641	.640	.641

stocks which rose at an annual rate of \$11.0 billion; this followed three months in which such stocks were either liquidated or increased fractionally. Stocks of durables rose at an annual rate of \$4.6 billion in September; the smallest increase this year. The inventory/sales ratio for the manufacturers rose slightly in September, but it was not appreciably higher than the historically low rates of the first half of the year.

For the third quarter as a whole, total manufacturing and trade inventory investment was apparently somewhat reduced from the first half of 1977. While third quarter manufacturing accumulation slowed, average trade accumulation for the first two months of the quarter was about equal to that recorded in the first half. Even so, increases in trade inventories were at a \$26.5 billion rate in August--the most rapid advance since March. This upsurge primarily reflected a run-up in nondurable stocks.

Recent patterns of government spending continue to be significantly affected by the implementation of countercyclical aid programs. On an NIA basis, Federal government outlays grew by \$22.5 billion during the third quarter of 1977. Federal grants to States and localities rose by \$8.6 billion--the largest increase since the double General Revenue sharing payment in the fourth quarter of 1972. These grants were bolstered by payments implementing public service jobs, local public works, and countercyclical revenue sharing programs enacted last year

and this past spring. Despite continuing shortfalls from Administration estimates, Federal NIA purchases recorded the second sizable increase in a row during the third quarter. Outlays were also swelled by a \$4.8 billion increase in transfer payments, mainly reflecting the 5.9 per cent cost-of-living increase for Social Security recipients.

State and local activity also has reflected the implementation of the various countercyclical programs. Employment rose by 17,000 in October, after a very large, upward-revised increase of 116,000 in September. State and local government employment increased by 252,000--an average annual rate of 4.1 per cent--over the last two quarters in large part because of the addition of a substantial number of new federally-subsidized public service employees. Despite the recent large influx of Federal public works grants, value of construction put-in-place in the State and local sector showed little change in September or for the third quarter as a whole.

The total fiscal picture for the government sector continues to be characterized by large Federal deficits in tandem with large State and local surpluses. Final data now indicate a Federal unified budget deficit of \$45 billion for fiscal year 1977. Outlays in the fiscal year ending September 30--at \$401.9 billion--were \$4.5 billion below the Administration's July Budget Update. On the receipts side, the data show that revenues totalled \$356.9 billion, down about \$1.4 billion from the mid-year estimate. At the same time States

and localities have been running extraordinarily large surpluses.

Thus, the total government sector net deficit for the last four quarters is estimated to have been \$21 billion on an NIA basis.

Broad measures of price change have presented mixed signals of late. Food prices played a key role in the overall moderation of price increases in the third quarter, declining at wholesale and showing only a small increase at retail. Price rises for nonfood commodities continued to abate at retail in the third quarter, slowing to a 2.7 per cent annual rate. Conversely, after easing temporarily in the second quarter, increases in industrial commodity prices at wholesale returned to a high rate in the third quarter.

Wholesale prices increased sharply in October with an 0.8 per cent rise in the overall index. The wholesale prices of finished goods also rose 0.8 per cent in October, double the September rise. The October increase in producer goods prices was the largest in nearly three years with higher prices for some machinery and equipment items, motor trucks, and aircraft accounting for most of the change. A 0.3 per cent rise in finished consumer foods--the first monthly increase in such prices since last May--was largely accounted for by higher meat prices. Viewed by commodity groupings, wholesale prices of industrial commodities rose by 0.6 per cent in October and prices of farm and food products rose 1.3 per cent.

RECENT CHANGES IN WHOLESALE PRICES
 (Per cent changes at compound annual rates; based
 on seasonally adjusted data)^{1/}

	Relative Importance Dec. 76	1975	1976		1977				
			HI	HII	QI	QII	QIII	Sept.	Oct.
Finished goods	41.1	6.6	2.9	3.9	8.8	8.4	1.8	4.6	9.2
Consumer foods	10.4	5.5	-1.3	-3.2	12.7	13.8	-7.5	-3.8	3.8
Consumer nonfoods	18.7	6.7	3.3	6.4	8.7	6.3	5.2	8.3	6.9
Producer goods	12.1	8.2	5.8	7.0	5.5	6.3	5.6	5.8	18.1
Intermediate materials ^{2/}	45.3	5.4	4.7	7.9	8.0	4.3	7.8	8.8	6.4
Crude materials ^{3/}	3.8	4.5	10.9	16.1	21.7	-2.0	8.9	3.8	-3.0
All commodities	100.0	4.2	3.9	5.3	10.6	3.2	1.9	5.6	9.9
Farm and food products	21.6	-.3	1.0	-3.2	19.1	-2.5	-17.0	-5.2	15.8
Industrial commodities	78.4	6.0	5.0	7.8	8.1	5.1	7.6	9.8	6.7
Industrial commodities ex. fuels and power	67.7	5.0	5.8	6.4	6.7	3.8	7.2	7.2	8.4

^{1/} Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

^{2/} Excludes intermediate materials for food manufacturing and manufactured animal feeds.

^{3/} Excludes crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco.

Consumer prices increased 0.3 per cent in September-- about the same as in August. Food prices were up only 0.1 per cent; the third month in a row of modest increases. Prices of nonfood commodities also increased quite modestly as used car prices fell again and apparel prices rose at less-than-seasonal rates. Service price increases continued to be smaller than during the first half of the year.

Unit labor costs in the nonfarm business sector rose 6.5 per cent over the past four quarters--up from a 6 per cent rise over the preceding four quarter period. This pickup largely reflects the slowing of productivity gains that is characteristic of a maturing expansion. Despite an estimated gain of 3.5 per cent in the third quarter, nonfarm business output per hour has risen by under 2 per cent between 1976:QIII and 1977:QIII--down one percentage point from the rise over the preceding four quarter period. However, the basic source of rising costs remains the rapid rates of increase of hourly compensation. Nonfarm business compensation per hour rose at almost 8.5 per cent over the past year after an 8.9 per cent increase over the previous year.

Recent developments indicate further rapid growth of compensation. First-year wage changes in collective bargaining agreements covering 1,000 or more workers averaged 7.8 per cent during the first nine months of 1977, compared to 8.4 per cent in 1976. Taking into account all benefits, the first year wage and benefit increase averaged 9.6 per cent in contracts covering 5,000 or more workers.

RECENT CHANGES IN CONSUMER PRICES
 (Per cent changes at compound annual rates; based
 on seasonally adjusted data)1/

	Relative Importance Dec. 76	1975	1976		1977			September
			HI	HII	QI	QII	QIII	
All items	100.0	7.0	5.0	4.8	10.0	8.1	4.2	3.9
Food	23.7	6.5	.2	.8	14.6	12.7	1.7	1.2
Commodities (nonfood)	38.8	6.2	4.8	5.6	7.4	4.2	2.7	2.9
Services	37.5	8.1	8.5	6.3	9.8	9.4	7.4	6.1
Memoranda:								
All items less food and energy <u>2/</u> <u>3/</u>	68.9	6.7	6.9	5.5	8.3	7.1	4.6	3.4
Petroleum products <u>2/</u>	4.5	10.1	-2.2	9.7	7.1	7.0	3.2	7.1
Gas and electricity	2.9	14.2	9.8	15.4	10.7	12.1	13.2	4.4

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

2/ Estimated series.

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

PRODUCTIVITY AND COSTS

(Per cent change from preceding quarter at a compound annual rate;
based on seasonally adjusted data)

	1976				1977			1976:QIII to 1977:QIII
	QI	QII	QIII	QIV	QI	QII	QIII	
<u>Output per hour</u>								
Total private business	7.6	3.3	3.0	0	5.8	-1.1	4.9	2.4
Nonfarm business	6.5	5.5	2.9	-1.8	4.8	.7	3.5	1.8
Manufacturing	3.2	6.1	4.4	-1.0	.3	2.7	6.5	2.1
Durable	4.0	8.4	4.2	-2.9	-1.3	4.9	5.3	1.5
Nondurable	2.1	2.8	4.5	1.7	2.7	-.5	8.2	3.0
<u>Compensation per hour</u>								
Total private business	13.1	8.3	9.0	8.6	11.5	6.3	8.4	8.7
Nonfarm business	11.1	9.4	8.8	7.4	11.4	7.5	7.4	8.4
Manufacturing	12.4	9.2	6.7	7.5	13.0	6.9	7.6	8.7
Durable	12.9	9.4	5.1	5.6	13.5	8.3	5.9	8.3
Nondurable	11.1	8.2	8.6	11.1	12.0	4.2	9.8	9.2
<u>Unit labor costs</u>								
Total private business	5.1	4.9	5.8	8.6	5.3	7.5	3.3	6.2
Nonfarm business	4.3	3.7	5.8	9.4	6.3	6.8	3.7	6.5
Manufacturing	9.0	2.9	2.2	8.7	12.7	4.1	1.0	6.5
Durable	8.6	.9	.8	8.8	15.0	3.2	.6	6.7
Nondurable	8.9	5.2	3.9	9.2	9.0	4.7	1.4	6.1

In October, the volatile average hourly earnings index-- an approximation of wage rate change for nonfarm production workers-- rose at an annual rate of 12.4 per cent. This brought the average increase so far this year to 7.9 per cent (annual rate)--up from the 6.8 per cent increase during 1976.

HOURLY EARNINGS INDEX^{1/}
 (Per cent change from preceding comparable period at a compound annual
 rate; based on seasonally adjusted data)

	1976				1977				
	QI	QII	QIII	QIV	QI	QII	QIII	Sept. 2/	Oct. 2/
Private nonfarm	7.0	6.7	7.1	6.4	8.2	6.6	7.9	6.2	12.4
Construction	5.6	7.4	5.3	3.6	6.0	4.2	5.0	-0.4	7.4
Manufacturing	7.4	6.4	9.2	6.5	7.8	7.6	9.8	7.5	8.6
Trade	5.2	5.7	6.7	8.2	9.4	6.6	6.5	7.3	12.7
Transportation and public utilities	9.1	9.3	6.6	4.7	5.9	7.5	8.5	13.5	8.9
Services	8.3	6.6	4.8	7.8	10.9	5.6	7.5	1.8	21.2

^{1/} Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

^{2/} Monthly change at an annual rate, not compounded.

MAJOR COLLECTIVE BARGAINING SETTLEMENTS
 (Per cent)

	Average Adjustment		
	1975	1976	1977 (first 9 months)
Wage-rate settlements (1,000 or more workers)			
First year adjustment	10.2	8.4	7.8
Average over life of contract ^{1/}	7.8	6.4	5.8
Wage and benefit settlements (5,000 or more workers)			
First-year adjustment	11.4	8.5	9.6
Average over life of contract ^{1/}	8.1	6.6	6.2

^{1/} Excluding cost-of-living adjustments.

DOMESTIC FINANCIAL SITUATION

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SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net change from:		
	Period	Level	Month ago	Three months ago	Year ago
	\$ billions		Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	October	358.96	9.1	6.2	5.6
Nonborrowed reserves	October	345.91	-14.1	-5.0	2.0
Money supply					
M1	October	333.8	12.3	8.6	7.5
M2	October	799.7	10.3	8.3	10.2
M3	October	1356.5	12.3	12.0	12.0
Time and savings deposits (less CDs)	October	465.9	8.6	8.1	12.1
CDs 2/	October	66.3	3.1	3.5	4.0
Thrift deposits (S&Ls + MSBs + Credit Unions)	October	556.7	15.1	17.4	14.8
Bank credit (end of month)	October	856.7	13.6	10.0	10.5

Indicator	Latest data		Net change from:			
	Period	Per cent or index	Month ago	Three months ago	Year ago	
Market yields and stock prices						
Federal funds	wk. endg.	11/2/77	6.50	.09	.70	1.44
Treasury bill (90 day)	"	11/2/77	6.14	.16	.77	1.27
Commercial paper (90-119 day)	"	11/2/77	6.55	.24	1.06	1.55
New utility issue Aaa	"	11/4/77	8.35	.21	--	--
Municipal bonds (Bond Buyer) 1 day	"	11/3/77	5.55	-.05	-.08	-.79
FNMA auction yield (FHA/VA)	"	11/7/77	8.86	.12	.15	.16
Dividend price ratio (common stocks)	wk endg.	11/2/77	5.14	.28	.46	1.39
NYSE index (12/31/65=50)	end of day	11/7/77	50.67	-1.92	-2.99	-2.62

Indicator	Net Change or Gross Offerings			
	Period	Latest Data	Year ago	Year to Date 1977 1976
	\$ billions			
Credit demands				
Business loans at commercial banks 1/	October	3.9	2.6	16.7 .7
Consumer instalment credit outstanding 1/ 1/	September	2.4	1.8	22.6 14.8
Mortgage debt outstanding (major holders) 1/	August	8.4	5.4	57.4 38.5
Corporate bonds (public offerings)	October	2.2 ^e	2.7	20.4 ^e 22.6
Municipal long-term bonds (gross offerings)	October	3.8	3.5	39.1 ^e 29.5
Federally sponsored agcy. (net borrowing)	October	.7	.9	6.4 ^e 3.5
U.S. Treasury (net cash borrowing)	November	6.3 ^e	5.3	32.5 ^e 53.5

1/ Seasonally adjusted.

2/ \$ billions, not at annual rates.

e Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

The volume of funds raised in financial markets during October appears to have been at least as large as in recent months. Although nonfinancial businesses moderated their long-term credit demands, a rise in short-term borrowing apparently led to an increase in the total volume of funds raised by such businesses. Households appear to have stepped up their instalment borrowing, and growth in mortgage debt was probably in line with the substantial pace of recent months. Borrowing by the Treasury in October was up from the September level and continued strong in early November, largely in connection with quarterly refunding operations. By contrast, the gross volume of funds raised by the State and local government sector moved lower in October, reflecting a decline in short-term borrowing.

Most market rates of interest increased in early October, up to the time of the FOMC meeting. Since then, short-term rates have declined on balance, while some long-term rates have edged higher. Despite increases in money market rates in early October and in other recent months, M_1 advanced sharply in October, continuing the substantial rates of expansion of previous months. M_2 growth also picked up during the month, largely as a result of the faster rate of expansion in M_1 . Meanwhile, thrift deposit flows decelerated somewhat further in October, probably reflecting to a significant degree generally higher short-term market rates of interest.

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1976 <u>1/</u>		1977 <u>2/</u>				Change from:	
	May-June High	December Low	Sept. FOMC 20	Oct. FOMC 18	Oct. 31	Nov. 7	Sept. FOMC	Oct. FOMC
<u>Short-term rates</u>								
Federal funds <u>1/</u>	5.58	4.63	6.10	6.50	6.50	6.59 ^{3/}	+ .49	+ .09
Treasury bills								
3-month	5.53	4.27	5.87	6.28	6.18	6.16	+ .29	- .12
6-month	5.93	4.50	6.02	6.53	6.51	6.47	+ .45	- .06
1-year	6.32	4.62	6.12	6.63	6.63	6.57	+ .45	- .06
Commercial paper								
1-month	5.65	4.48	6.05	6.63	6.40	6.44	+ .39	- .19
3-month	5.90	4.63	6.13	6.63	6.55	6.58	+ .45	- .05
Large negotiable CD's <u>4/</u>								
3-month	5.95	4.60	6.20	6.80	6.60	6.70	+ .50	- .10
6-month	7.00	4.71	6.40	7.10	6.90	7.00	+ .60	- .10
Bank prime rate	7.25	6.25	7.25	7.50	7.75	7.75	+ .50	+ .25
<u>Intermediate- and Long-term rates</u>								
Corporate								
New AAA <u>5/</u>	8.95	7.93	8.08	8.20	8.28	8.35p	+ .27	+ .15
Recently offered <u>6/</u>	8.84 <u>7/</u>	7.84	8.07	8.23	8.24	8.32p	+ .25	+ .09
Municipal								
(Bond Buyer) <u>8/</u>	7.03 <u>9/</u>	5.83	5.51	5.70	5.59	5.55	+ .04	- .15
U.S. Treasury (constant maturity)								
3-year	7.52	5.64	6.82	7.28	7.34	7.25	+ .43	- .03
7-year	7.89	6.32	7.20	7.49	7.54	7.51	+ .31	+ .02
20-year	8.17	7.26	7.58	7.73	7.76	7.82	+ .24	+ .09
<u>Stock prices</u>								
	January Low	December High <u>10/</u>	Sept. 20	FOMC Oct. 18	Oct. 31	Nov. 8	Sept. FOMC	Oct. FOMC
Dow-Jones Industrial	881.51	994.18	851.78	820.51	818.35	816.27	-35.51	-4.24
N.Y.S.E. Composite	49.06	56.96	52.49	51.19	50.65	50.78	-1.71	- .41
AMEX	86.42	107.26	118.07	114.59	113.02	113.85	-4.22	- .74
Keefe Bank Stock <u>6/</u>	520	664	605	588	575	568	-37	-20

- 1/ Daily average for statement week.
2/ One-day quotes except as noted.
3/ Average for first 6 days of statement week ending November 9.
4/ Highest quoted new issues.
5/ 1977 figures are averages for preceding week.
6/ 1977 figures are one-day quotes for preceding Friday.
7/ High for the year was 8.94 on January 7.
8/ 1977 figures are one-day quotes for preceding Thursday.
9/ High for the year was 7.13 on January 7.
10/ High for the year was 1003.87 in statement week ending September 29.

Monetary Aggregates and Bank Credit

Growth in M_1 accelerated to a 12-1/4 per cent annual rate in October, up from 7-1/4 per cent in September. As in the first month of other recent quarters, a bulge in seasonally adjusted M_1 growth occurred in the first statement week of October and was not reversed over the remainder of the month. This recurring pattern suggests a shift in seasonal deposit flows, although the reasons for such a shift, if indeed it has occurred, remain unknown. Notwithstanding the persisting irregularity in weekly patterns, M_1 growth in October apparently reflected the continued underlying strength in the demand for transactions balances, as M_1 has grown at a 10 per cent annual rate since the end of the first quarter of this year.

Recently, further evidence has emerged suggesting that increases in market rates in recent months are affecting the interest-bearing components of the broader monetary aggregates. With the 3-month Treasury bill rate (measured on a discount basis) averaging about 115 basis points above the commercial bank passbook ceiling rate, savings deposit inflows at commercial banks slowed during October to a 3-1/4 per cent annual rate (line 6 of table), the second consecutive month of such slowing. Similarly, data for September indicate that growth in passbook savings deposits at savings and loan associations continued the slowing trend that began in the summer. The emerging tendency for the public to substitute other higher-yielding instruments for passbook savings and shorter-term time deposits is supported by the rise in noncompetitive tenders at weekly

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MONETARY AGGREGATES
(Seasonally adjusted)^{1/}

	1 9 7 7						1977
	QI	QII	QIII	Aug.	Sept.	Oct.	through Oct.
<u>Net changes at annual rates, per cent</u>							
<u>Major monetary aggregates</u>							
1. M ₁ (currency plus demand deposits)	4.2	8.4	9.3	5.9	7.3	12.3	8.2
2. M ₂ (M ₁ plus time & savings deposits at CBs other than large CDs)	9.9	9.2	10.3	6.4	7.9	10.3	9.6
3. M ₃ (M ₂ plus all deposits at thrift institutions)	11.3	10.0	12.3	11.4	12.0	12.3	11.6
<u>Bank time and savings deposits</u>							
4. Total	12.5	8.3	10.0	6.9	7.6	14.6	10.0
5. Other than large negotiable CDs	14.0	9.8	11.0	7.1	8.4	8.6	10.7
6. Savings deposits	21.1	8.5	6.6	14.6	8.9	3.3	9.9
7. Individuals ^{2/}	15.4	9.2	10.0	16.9	11.3	5.3	10.9
8. Other ^{3/}	103.0	2.5	-37.7	-10.5	-29.6	-17.8	-3.5
9. Time deposits ^{4/}	8.0	10.8	15.0	0.0	8.4	13.2	11.4
10. Small time ^{5/}	13.0	18.8	7.4	1.5	4.4	18.8	13.1
11. Large time ^{4/}	-2.2	-6.1	32.3	-3.0	16.2	1.8	6.1
<u>Deposits at nonbank thrift institutions ^{6/}</u>							
12. Total	13.4	11.2	15.4	18.4	17.9	15.1	14.5
13. Savings & loan assoc.	14.7	12.3	16.8	20.5	19.8	16.7	16.0
14. Mutual savings banks	9.2	6.7	10.4	12.8	12.1	11.5	9.5
15. Credit unions	16.2	14.5	18.8	20.4	17.3	13.2	17.1
<u>Average monthly changes, \$ billions</u>							
<u>Memoranda:</u>							
16. Total US Govt deposits	0.0	-0.4	0.2	-1.6	0.5	-0.3	-0.1
17. Negotiable CDs	-0.4	0.6	-0.2	0.4	0.0	3.0	0.3
18. Nondeposit sources of funds ^{7/} -	0.4	1.1	1.6	2.0	2.7	-0.1	9.1
19. Total attracted from the public ^{8/}	6.7	6.3	7.1	6.2	7.1	9.0	6.5

- ^{1/} Quarterly growth rates are computed on a quarterly average basis.
- ^{2/} Savings deposits held by individuals and nonprofit organizations.
- ^{3/} Savings deposits of businesses, governments, and others, not seasonally adjusted.
- ^{4/} Excluding negotiable CDs at weekly reporting banks.
- ^{5/} Small time deposits are total time deposits (excluding savings deposits) less large time deposits, negotiable and nonnegotiable, at all commercial banks.
- ^{6/} Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.
- ^{7/} The nondeposit sources of funds series on line 18 is a new series which replaces a series of the same title. The new series represents nondeposit borrowings of commercial banks from nonbank sources. It includes Federal funds purchased and security RPs plus other liabilities for borrowed money plus the old nondeposit sources of funds series (mainly Eurodollar borrowings and loans sold) less inter-bank loans.
- ^{8/} Sum of the deposit component of M2, negotiable CDs, and nondeposit sources of funds.

bill auctions in October (see chart)--along with increased noncompetitive tenders at auctions of two-and three-year notes (not shown in the chart).^{1/} Furthermore, growth of assets of money market mutual funds advanced during October--the third monthly increase following a sustained period of declines.

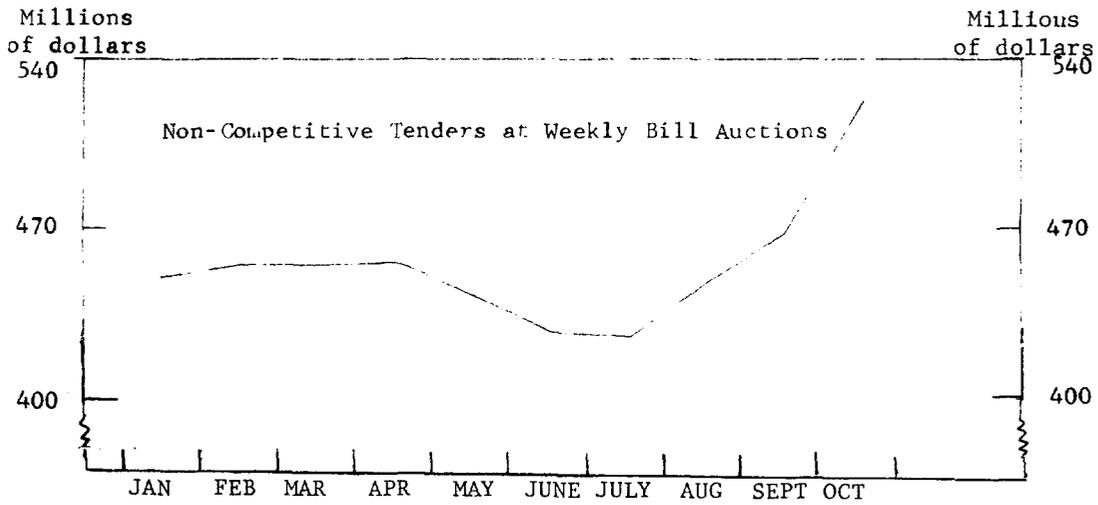
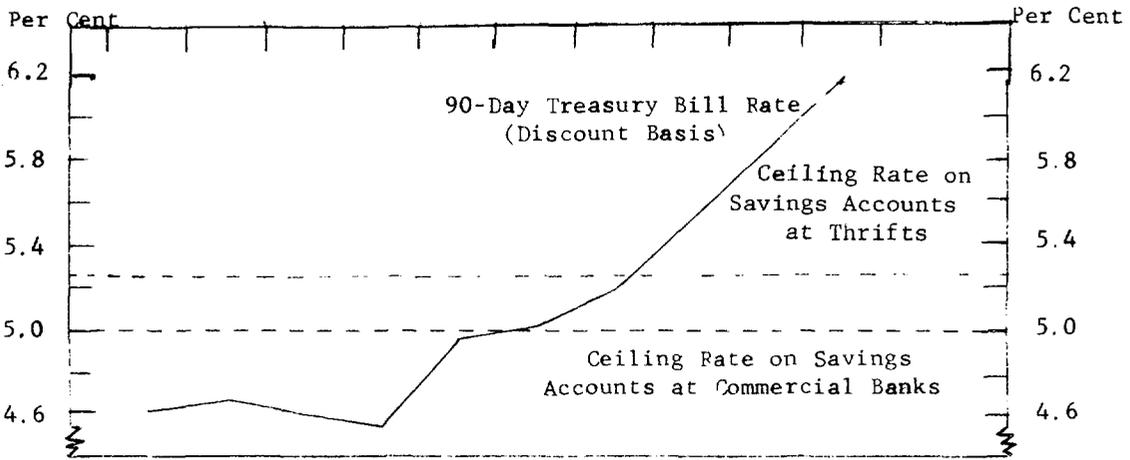
Meanwhile, growth in time deposits other than negotiable CDs at large banks accelerated to a 13-3/4 per cent rate, up from 8-1/2 per cent in September and no change in August. The pickup in these other time deposits reflected a substantial increase in small denomination deposits (line 10), a large share of which probably was concentrated among issues maturing in four years or more--where ceiling rates still exceed market yields and where all net growth in time deposits has been concentrated over the last several years.

October marked the end of the four-month period when a large volume of "wild card" time deposits issued in 1973 is believed to have matured. It appears that thrift institutions may have attracted some maturing wild card funds from commercial banks during the first three months of the period, as deposit inflows at thrifts advanced from the pace of preceding months while inflows of small

^{1/} At the October 28 auction of three-year notes, noncompetitive tenders totaled \$1.1 billion. The levels of both bill and note tenders, however, are still considerably below those of the disintermediation period of 1974 and generally do not exceed average levels during 1975 and 1976. Although noncompetitive tenders of commercial banks (but not those of foreign official institutions) are included in such measures, it is unlikely that the volume of such tenders (except, perhaps, for their customers' accounts) has grown much in recent months as the holdings of U.S. Government securities by commercial banks--both large and small--have declined over this period.

Chart 1

SHORT-TERM INTEREST RATES AND
NON-COMPETITIVE TENDERS
(Monthly Averages)



1977

time deposits at banks ~~slowed~~. However, if such a diversion of deposits from commercial banks to thrifts occurred in October, it was on a reduced scale as small time deposits at banks accelerated while growth of total thrift deposits declined.

With the strengthening of other time deposits at banks essentially offsetting the slowing of savings deposits and with demand deposit growth accelerating, M_2 advanced at a 10-1/4 per cent annual rate in October. Similarly, even though total deposit flows at thrift institutions abated, M_3 growth rose in October to a 12-1/4 per cent rate.

Total loans and investments at banks (measured by the last Wednesday of the month series) increased at a 13-1/2 per cent annual rate in October. Securities held in bank portfolios dropped as they have on balance since July, reflecting continued sharp declines in bank holdings of U.S. Government securities. By contrast, bank lending expanded vigorously in October, although some of the strength in October and the comparative weakness in September may be due to changing seasonal patterns. Growth was particularly strong in the business loan category.

Real estate lending by commercial banks slowed to a 13-3/4 per cent annual growth rate in October from the substantial pace of previous months. Nevertheless, real estate lending by banks continues strong and has accounted for nearly one-third of all bank loan growth during the first ten months of 1977. Moreover, the bank share of total real estate lending recently has risen to one-fifth,

COMMERCIAL BANK CREDIT
(Seasonally adjusted changes at annual rates, per cent)^{1/}

	1 9 7 7						1977 through October
	QI	QII	QIII	Aug	Sep	Oct	
Total loans & investments ^{2/}	9.5	11.2	8.5	12.3	3.7	13.6	10.4
Investments	10.6	10.3	-4.6	3.3	-11.6	-3.3	4.5
Treasury securities	25.9	6.6	-22.0	-3.5	-36.3	-27.7	-.1
Other securities	0.5	12.9	7.3	7.8	4.6	12.3	7.6
Total loans ^{2/}	9.1	11.5	14.4	16.4	10.4	20.9	13.1
Business loans	8.1	11.9	7.5	12.5	1.9	24.0	11.0
Security loans	-2.3	2.3	20.3	46.7	-6.4	--	6.1
Real estate loans	12.6	15.1	16.1	16.4	16.9	13.7	15.1
Consumer loans	11.8	16.5	18.4	21.8	18.2	n.a.	16.2 ^{3/}

Memoranda:

1. Commercial paper issued by nonfinancial firms ^{4/} 15.0 61.2 -8.0 13.0 -17.5 -- 20.3
2. Business loans at banks net of bank holdings of bankers acceptances 13.0 12.6 6.1 10.7 2.8 21.6 12.1
3. Business loans at banks net of bank holdings of bankers acceptances plus nonfinancial commercial paper 13.1 16.0 5.0 10.9 1.3 19.8 12.7

^{1/} Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.

^{2/} Loans include outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.

^{3/} 1977 through September.

^{4/} Measured from end-of-month to end-of-month. n.a.--not available

from about 15 per cent a year earlier, at a time when mortgage growth in the aggregate has been substantial.

Coinciding with an acceleration of total loan growth this year has been a change in bank financing of the growth of such assets. During the first half of the year the expansion in bank credit was primarily supported by growth in deposits, and bank holdings of U.S. Government securities expanded along with loans. Since late June, however, Treasury security holdings have declined by \$8 billion seasonally adjusted, and such declines have financed nearly one-fourth of the growth in loans and other securities--an emerging pattern typical of previous periods of substantial loan growth.^{1/}

In addition, negotiable CDs at large banks increased by \$3 billion seasonally adjusted in October, the largest monthly increase in nearly three years.^{2/} Total borrowing from nondeposit sources, in contrast, was unchanged as increases in Eurodollar borrowings and loans through the discount window offset declines in net borrowings from Federal funds and repurchase agreements. Borrowings at the window averaged nearly \$700 million above those of September

^{1/} On a nonseasonally adjusted basis, **declines** in commercial bank holdings of Governments since late June have been most pronounced at large banks outside New York City, while those of New York banks have been unchanged. The stability in Treasury holdings by New York banks has occurred despite sizable loan growth at such banks and may reflect the full use of U.S. Government securities as collateral for repurchase agreements and public deposits.

^{2/} The bulk of the growth in CDs was at a few New York banks and occurred despite some buildup at the end of September for end-of-quarter statement date purposes.

as the spread between the Federal funds rate and the discount rate was sizable during much of the month.^{1/} The October strength in CDs relative to the generally very short-term nondeposit sources may indicate a desire by some banks to secure funds at relatively more certain rates.

Business Credit

Trends in nonfinancial business credit flows during September and October are difficult to interpret. Business loans at commercial banks grew sharply in October, following almost no change in September, with the acceleration attributable to a spurt in such loans at large banks. Some--but not all--of the uneven growth during September and October probably reflects a newly emerging seasonal pattern. While the accumulation of bankers' acceptances by a few very large banks for year-end tax and statement date purposes--which was evident in the previous two years--is in part responsible for the October growth, business loans excluding bank holdings of bankers' acceptances (memo item 2 in the bank credit table) also accelerated markedly. All things considered, the underlying strength in business loans last month probably lies between the 21-1/2 per cent growth in business loans net of bank holdings of acceptances shown for October, and the 12-1/4 per cent average for September and October.

^{1/} Such credit, though, declined late in the month and in early November following the boost in the discount rate to 6 per cent.

Relatively strong loan growth at banks has occurred against a backdrop of weakness in commercial paper offerings by nonfinancial corporations, despite the continued attractiveness of the commercial paper rate for prime borrowers. Borrowing by nonfinancial firms in the commercial paper market was unchanged in October, following a decline in September. Some of the weakness in such borrowing in September and October reflected limited issuance of paper by utilities, whose cash flows were reportedly sufficient to cover their short-term needs; firms in the utility industry had accounted for a sizable portion of the growth in nonfinancial commercial paper during the first eight months of the year. Moreover, reports from commercial paper dealers indicate that other regular commercial paper issuers have not turned to commercial banks for their short-term financing needs despite their smaller than seasonal sales of paper.

Even with the weakness in commercial paper borrowing by nonfinancial business, the growth in total short-term business credit-- as measured by business loans at banks, net of their holdings of bankers acceptances, plus nonfinancial commercial paper (memo item 3)-- averaged 10-1/2 per cent over the September - October period and was even stronger in October.

It is not clear to what extent the strength in short-term business borrowing in October is explained by the moderate volume of public bond offerings. Such offerings by industrial corporations increased less than seasonally last month, although an unusually large volume of offerings by financial concerns--accounting for more

than one-half of the month's total issues--boosted October's gross offerings to \$2.2 billion.^{1/} The relatively light volume of public bond offerings by industrial companies through October of 1977--year-to-date industrial offerings are only about two-thirds of last year's total--was apparently accompanied by a continued large volume of private placement takedowns, most of which are for less than prime borrowers.

The small increase in corporate bond yields since the October FOMC meeting, and the larger rise earlier last month, apparently had little impact on the volume of public offerings in October. The forward calendar of such offerings for the remainder of the year also appears to have been unaffected by the higher level of rates, although few industrial issues are currently scheduled and the overall corporate calendar remains moderate.

Stock market prices have moved about 1 per cent lower since the October FOMC meeting, on relatively moderate trading volume. Third quarter corporate reports suggested little or no growth overall in book profits from advanced second quarter levels. Stock market investors appear to be concerned about the robustness of the current economic expansion, the outlook for interest rates, and the impact of the Administration's energy and tax reform proposals.

^{1/} Contributing to the substantial offerings by financial concerns in recent months have been several mortgage-backed bonds. Savings and loans have sold nine mortgage-backed bond issues thus far in 1977 and the outstanding volume currently is \$865 million; four mortgage-backed issues--amounting to \$225 million--were sold in October.

SECURITY OFFERINGS
(Monthly totals or monthly averages, in millions of dollars)

	<u>1976</u> Year	<u>1977</u>					
		H1	QIII ^{e/}	Sep. ^{e/}	Oct. ^{e/}	Nov. ^{f/}	Dec. ^{f/}
<u>Gross offerings</u>							
Corporate securities--total	4,445	4,148	3,552	3,300	3,800	4,600	4,300
Publicly offered bonds	2,204	2,018	2,033	1,800	2,200	2,000	1,800
By quality ^{1/}							
Aaa and Aa	1,040	1,152	1,017	875	1,075	--	--
Less than Aa ^{2/}	1,154	866	1,016	925	1,125	--	--
By type of Borrower							
Utility	675	753	588	930	825	--	--
Industrial	874	590	750	300	200	--	--
Other	655	675	695	570	1,175	--	--
Privately placed bonds	1,317	1,215	933	900	1,000	1,000	1,800
Stocks	924	915	586	600	600	1,600	700
Foreign securities--total	852	581	717	749	600	--	--
Publicly offered ^{3/}	520	443	520	475	300	300	300
Privately placed	332	138	197	274	300	--	--
State and local govt. securities--total	4,756	6,337	5,403	6,100	5,000	5,000	4,300
Long-term	2,932	4,044	3,667	3,800	3,800	3,500	3,100
Short-term	1,824	2,293	1,736	2,300	1,200	1,500	1,200
<u>Net offerings</u>							
U.S. Treasury	4,967	1,400	3,833	2,400	6,000	7,300	8,400
Sponsored Federal agencies	245	626	531	615	516	115	815

^{1/} Bonds categorized according to Moody's bond ratings.

^{2/} Includes issues not rated by Moody's.

^{3/} Classified by original offering date.

^{e/} Estimated.

^{f/} Forecast.

Although new stock offerings remained light in October, November's forward calendar of stock offerings is the largest since early 1976. New equity offerings by utilities are expected to reach a record level as AT&T has announced that it will sell about \$700 million of new stock early in the month and will use the proceeds to retire about one-half of its outstanding but currently callable 8-3/4 per cent debentures.

Treasury and Municipal Finance

The Treasury stepped up its borrowing in the last half of October and in early November, largely in connection with its regular quarterly refunding operation. In mid-October \$600 million in new money was raised through the sale of 2-year notes, while late in the month and in early November the Treasury raised \$4.1 billion in cash through sales of \$3.3 billion of 3-year notes, \$2.0 billion of 10-year notes, and \$1.3 billion of 30-year bonds. ^{1/} When announcing its plans for mid-quarter refunding, the Treasury projected its marketable borrowing needs to be \$18-3/4 billion in the current quarter and \$20 to \$23 billion in the first quarter of 1978, and it also reaffirmed its intention to lengthen the average maturity of its debt.

^{1/} These figures exclude noncompetitive bids awarded to foreign official institutions of \$600 million in the 2-year note auction and \$700 million in subsequent note sales.

The demand for marketable Treasury securities by foreign official institutions jumped sharply in October, reflecting massive foreign exchange intervention by some foreign central banks as selling pressure on the dollar was particularly heavy. Marketable U.S. Government securities held in custody by the Federal Reserve Bank of New York spurted by more than \$4 billion during the month, nearly matching the substantial \$6 billion increase over the entire third quarter. As in previous months this year, most foreign purchases in October were of intermediate- and long-term securities.

In contrast to increases in rates on long-term corporate and Treasury securities, rates on long-term tax-exempts have declined slightly since the last FOMC meeting to levels prevailing in late September. The \$3.8 billion volume of long-term borrowing by State and local governments was about the same as in September but considerably below the projection in the last Greenbook. The shortfall was due, in part, to a large number of postponements and reductions in the size of offerings when interest rates backed up temporarily early in the month, and in part to smaller than anticipated additions to the calendar later in the month.

Mortgage and Consumer Finance

The volume of mortgage lending in October apparently remained around the unprecedented third quarter pace. Mortgage loans at commercial banks increased nearly \$2 billion in October, only slightly below the record third quarter average. At savings

and loan associations, mortgage commitments outstanding reached a new record level of \$31.4 billion at the end of September, 4 per cent above the level a month earlier. Despite the slowdown in deposit flows during October, it is likely that the net increase in mortgage loans at S&L's held near the record \$5.3 billion September rate--given record commitments in September and heavier reliance by these institutions on mortgage-backed bonds and FHLBank borrowings. S&L's increased their indebtedness to the FHLBanks by about \$500 million on a seasonally adjusted basis to \$16-3/4 billion--still well below the high of \$20-1/2 billion at the end of 1974.

The liquidity ratio at insured S&L's--~~cash~~ and other liquid assets as a percentage of deposits plus short-term borrowings--registered a sizable decline in September to 8.9 per cent from 9.4 per cent in August. Part of this decline, however, was seasonal, and although the liquidity ratio now is considerably below the historically high levels of 1975-1976, it remains well above the low of 7.2 per cent reached in the fall of 1974.

Despite strong mortgage demands and increases in some other long-term rates, the average interest rate on new commitments for conventional home mortgages at reporting S&Ls has changed little since the October FOMC meeting; this rate has been virtually unchanged since July, remaining about 25 basis points above the lows reached early this year. The more sensitive secondary market rates have also been relatively stable since the last FOMC meeting, following increases of about 10 basis points in the first half of October.

In September, growth in consumer instalment credit moderated somewhat to a seasonally adjusted rate of 14 per cent, largely reflecting a slower rate of expansion of consumer loans at commercial banks during the month. For the third quarter, growth of consumer credit declined slightly to a 15 per cent annual rate from the recovery high of 17 per cent in the previous quarter. Preliminary indications for October, however, suggest some strengthening in consumer credit growth. Sales of automobiles, appliances, and furniture apparently were strong during the month, and instalment loans at large commercial banks registered sizable gains.

III-18
INTEREST RATES AND SUPPLY OF FUNDS FOR
CONVENTIONAL HOME MORTGAGES
AT SELECTED S&Ls

End of Period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from month or week earlier	Spread ^{1/} (basis points)	Per cent of S&Ls with funds is short supply
1977--High	8.95	--	+92	14
Low	8.65	--	+37	2
1977--Mar.	8.70	+ 5	+48	2
Apr.	8.78	+ 8	+47	11
May	8.85	+ 7	--	12
June	8.88	+ 3	+81	8
July	8.93	+ 5	+76	7
Aug.	8.93	0	+92	14
Sept.	8.90	- 3	+65	12
Oct. 7	8.93	+ 3	+78	11
14	8.93	0	+73	10
21	8.93	0	+71	10
28	8.90	- 3	+62	11
Nov. 4	8.90	0	+55	N.A.

^{1/} Average mortgage rate minus average yield on new issues of Aaa utility bonds.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA auctions of forward purchase commitments						Yields on GNMA guaranteed mortgage backed securities for immediate delivery ^{2/}
	Conventional			Govt.-underwritten			
	Amount (\$ millions)		Yield to FNMA ^{1/}	Amount (\$ millions)		Yield to FNMA ^{1/}	
	Offered	Accepted		Offered	Accepted		
1977--High	416	278	9.14	723	422	8.86	8.21
Low	108	71	8.81	50	35	8.46	7.56
Oct. 3	187	137	9.07	131	82	8.77	8.09
10							8.16
17	243	168	9.11	326	213	8.84	8.18
24							8.19
31	328	224	9.14	156	106	8.86	8.18
Nov. 7							8.21

^{1/} Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, reflect the average accepted bid yield for home mortgages, assuming a prepayment period of 12 years for 30-year loan without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total eligible bids received.

^{2/} Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate on such loans.

N.A. -- not available.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976	1977 ^{1/}			
				QII	QIII	Aug.	Sept.
Total							
Change in outstandings ^{2/}							
Billions of dollars	8.9	7.3	19.9	31.9	29.9	31.8	28.2
Per cent	6.1	4.7	12.3	16.8	15.1	15.9	13.9
Bank share (per cent)	41.5	39.6	54.0	51.6	51.2	54.6	52.2
Extensions ^{2/}							
Billions of dollars	147.0	163.9	192.4	224.4	228.0	230.4	230.0
Bank share (per cent)	46.2	47.2	48.9	49.0	49.1	49.1	49.3
Liquidations ^{2/}							
Billions of dollars	148.0	156.6	172.4	192.5	198.1	198.6	201.8
Ratio to disposable income	15.2	14.4	14.6	14.9	15.0	15.1	15.1
Automobile Credit							
Change in outstandings ^{2/}							
Billions of dollars	0.3	3.2	10.2	13.7	12.9	12.6	13.3
Per cent	0.6	6.1	18.3	19.8	17.8	17.1	17.8
Extensions ^{2/}							
Billions of dollars	45.3	51.5	62.8	72.8	72.9	73.9	73.3
New car loans over 36 months as per cent of total new car loans at:							
Commercial banks ^{3/}	8.8	14.0	25.4	38.9	42.8	42.8	n.a.
Finance companies	8.6	23.5	33.9	45.3	51.1	51.5	52.4
New car finance rate (APR)							
Commercial banks (36 mo. loans)	10.97	11.36	11.08	10.82	10.85	10.86	10.82
Finance companies	12.61	13.11	13.17	13.12	13.11	13.12	13.12

^{1/} Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.

^{2/} Data are revised to reflect new historical benchmarks and other information.

^{3/} Series was begun in May 1974, with data reported for the mid-month of each quarter. Figure for 1974 is average of May, August, and November.

n.a.--not available.

NOTE: Data on outstandings, extensions, and liquidations are revised for each period in 1977 to reflect revisions in the commercial bank component based on the June 1977 Call Report.

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

November 9, 1977

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	1976		1977			
	YEAR	Q1	Q2	Q3	Aug.	Sept.
1. Merchandise exports	114,694	29,458	30,488	30,737	9,687	10,929
2. Merchandise imports	124,014	36,561	38,347	38,300	12,809	12,921
3. <u>Trade Balance</u>	-9,320	-7,103	-7,859	-7,563	-3,122	-1,992
4. <u>Bank-reported private capital flows</u>	-10,071	-1,851	934	4,260	-2,520	4,345
5. Claims on foreigners (increase -)	-21,039	3,446	-5,394	1,654	668	-12
6. Long-term	-2,362	-306	13	-435	-237	-179
7. Short-term	-18,677	3,752	-5,407	2,089	905	167
8. (of which on commercial banks in offshore centers 2/)	(12,633)	(2,058)	(-3,595)	(2,326)	(1,008)	(-140)
9. Liabilities to foreigners (increase +)	10,968	-5,297	6,328	2,606	-3,188	4,357
10. Long-term	208	48	104	172	90	83
11. Short-term	10,760	-5,345	6,224	2,434	-3,278	4,274
12. to commercial banks abroad	8,030	-4,502	3,869	3,776	-3,992	4,543
13. (of which to commercial banks in offshore centers 3/)	(4,115)	(-3,315)	(3,271)	(3,230)	(-2,571)	(3,676)
14. to other private foreigners	2,719	366	688	175	131	267
15. to int'l and regional organizations	11	-1,209	1,667	-1,517	583	-536
16. <u>Foreign private net purchases (+) of U.S. Treasury securities</u>	2,783	1,047	-1,308	1,242	391	963
17. <u>Other private securities transactions (net)</u>	-7,480	187	-926	-1,760	-904	-519
18. Foreign net purchases (+) of U.S. corp. securities	1,250	879	820	417	148	136
19. (of which stocks)	(853)	(376)	(371)	(137)	(28)	(57)
20. U.S. net purchases (-) of foreign securities	-8,730	-692	-1,746	-2,177	-1,052	-655
21. (new foreign issues of bonds and notes)	(-9,954)	(-1,272)	(-1,981)	(-2,213)	(-1,116)	(-696)
22. <u>Change in foreign official res. assets in the U.S.</u>	13,091	4,972	6,677	7,781	529	3,147
23. OPEC countries (increase +)	6,770	2,694	1,014	1,347	-527	102
24. (Of which U.S. corporate stocks)	(1,828)	(160)	(367)	(363)	(95)	(108)
25. Other countries (increase +)	6,321	2,278	5,663	6,434	1,056	3,045
26. <u>Change in U.S. reserve assets (increase -)</u>	-2,530	-388	6	152	-189	78
27. <u>Other transactions and statistical discrepancy (net payments (-))</u>	13,527	3,136	2,476	-4,112	5,815	-6,022
28. Other current account items	8,355	2,983	3,399			
29. Military transactions, net 4/	-34	416	364			
30. Receipt of income on U.S. assets abroad	21,369	6,133	6,565			
31. Payment of income on foreign assets in U.S.	-11,561	-2,881	-3,164			
32. Other services, net	2,743	340	629			
33. Remittances and pensions	-1,878	-526	-505			
34. U.S. Gov't grants 4/	-2,284	-499	-490			
35. Other capital account items	-4,761	-1,198	-4,258			
36. U.S. Gov't capital, net claims 4/ (increase -)	261	-235	-665			
37. U.S. direct investment abroad (increase -)	-4,596	-404	-2,602			
38. Foreign direct investment in U.S. (increase +)	2,176	537	486			
39. Nonbank-reported capital, net claims (increase -)	-2,602	-1,096	-1,477			
40. Statistical discrepancy	9,935	1,351	3,335			
MEMO:						
41. Current account balance 4/	-965	-4,120	-4,460	n.s.	n.s.	n.s.
42. Official settlements balance	-10,561	-4,584	-6,683	-7,933	-340	-3,225
43. O/S bal. excluding OPEC	-3,791	-1,890	-5,669	-6,586	-867	-3,123

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 grants to Israel under U.S. military assistance acts, exports financed by those grants, and offsetting capital transactions.

*/ Less than \$50,000.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. In the four weeks since the last green book, the dollar has depreciated sharply against the Japanese yen, Swiss franc, and British pound. On a trade-weighted basis it has declined about 1-1/4 per cent. The recent weakness of the dollar has been associated with continuing concern about the current account deficit of the U.S. and the current account surpluses of other countries, and the statements of public officials about the likely response of exchange rates to these imbalances.

Since the beginning of the year the British government had held the trade-weighted value of the pound roughly constant,

. On October 31, however, the pound was allowed to float upward. It has subsequently appreciated a net 2-1/2 per cent against the dollar,

. The British Treasury stated that the decision to float the pound was taken because large capital inflows were making it difficult to hold the M3 money supply within its target range of 9-13 per cent per year. (In the month ending in mid-September alone, M3 jumped 2.2 per cent, putting it very near the upper limit of the target range.)

The Japanese yen appreciated a further 4 per cent during the past four weeks, following a 4 per cent rise in the previous two weeks. Other countries have been exerting great pressure on Japan lately to do something about its large trade and current account surpluses, and the market evidently

concluded that an appreciation of the yen would be a likely result.

. Since the beginning of the year

the yen has appreciated about 18 per cent.

The year-long decline of the Canadian dollar continued during the last four weeks. The Canadian currency fell a further 1-1/2 per cent, at one point slipping below 90 U.S. cents to its lowest level in 40 years. Since the election victory of the French Separatist Party in Quebec last November, the Canadian dollar has dropped 12-1/2 per cent against the U.S. dollar,

. the Canadian government announced on October 28 that it had arranged a U.S.\$1-1/2 billion, seven-year standby credit facility with a group of Canadian banks.

The Swiss franc also appreciated sharply during the last four weeks -- by about 4 per cent, and the price of gold rose almost \$10 in volatile trading to about \$167. Both of these assets tend to appreciate disproportionately when the dollar is under generalized selling pressure.

. The System sold \$145 million equivalent of marks, increasing its swap debt to the Bundesbank to \$181 million in the process. Also the System purchased \$37 million equivalent of Swiss francs directly from the Swiss National Bank, which were used to reduce its swap debt to the BNS to \$558 million.

International capital markets. In the third quarter there was a somewhat reduced demand for credit in international capital markets. Total new borrowings of \$13.3 billion in the Euro-credit, Euro-bond, and foreign bond markets were 16 per cent below the upwards-revised second-quarter level. Interest rates have recently moved up in all these markets, but spreads on Euro-credits have narrowed a bit further. Two very large Euro-credits, to Mexico and Nigeria, in October will boost that month's total borrowing figure sharply.

Publicized medium-term Euro-credits arranged in the third quarter of \$5.2 billion were well below both the first- and second-quarter totals. The total of credits arranged by developed countries was small. Two loans to state agencies in Italy aggregating \$400 million were the first Euro-loans received by the Italian public sector since early 1974. Spanish borrowings continued to be sizable in the third quarter, and in October the Spanish Government arranged a \$300 million credit, bringing total loans to Spain so far this year to about \$1.3 billion; the latter figure is, however, below the high 1976 rate of Spanish borrowing.

Non-oil developing countries arranged fewer credits than in the second quarter, and for the first nine months of 1977 the annual rate of reduced those countries was 25 per cent below the 1976 rate. This reflected rates of borrowing by Argentina, Brazil, Mexico, and the Philippines through September. However, a \$1.2 billion credit arranged by the Mexican Government in October brought Mexican borrowings in this market to \$2.1 billion, more than in all of last year. Credits to oil-exporting countries rose sharply in third quarter. For the first nine months of this year total credits to

Borrowing in International Capital Markets
(in billion of dollars)

	1975	1976		1977				
	Year	Year	1st H	2nd H	1st H	Q-1	Q-2	Q-3
I. Medium-term Euro-credits: ^{1/} total	20.6	29.0	12.3	16.7	14.7	8.1	6.6	5.2
Developed countries	6.6	10.2	3.9	6.3	7.3	4.4	3.0	1.5
Denmark	.3	.8	.4	.4	.7	.2	.5	0
France	.5	.8	.7	.1	1.7	.8	.9	0
Spain	1.0	1.9	.3	1.6	.7	.2	.5	.5
Sweden	.3	.4	.1	.3	1.0	1.0	0	*/
United Kingdom	.6	2.2	1.0	1.2	1.7	1.6	.2	.0
Other	4.2	4.1	1.4	2.7	1.6	.6	1.0	1.2
Oil-exporting countries	3.2	4.2	1.7	2.5	2.3	1.7	.6	1.5
Algeria	.5	.6	.4	.2	*/	*/	0	.3
Indonesia	1.6	.5	.3	.2	0	0	0	.1
Iran	.2	1.4	.7	.7	.3	.3	*/	.1
Venezuela	.2	1.0	0	1.0	1.2	1.2	.1	.4
Other	.7	.7	.3	.4	.7	.2	.5	.7
Other developing countries	7.7	11.2	4.5	6.7	4.6	1.9	2.3	1.8
Argentina	*/	1.1	.1	1.0	.2	*/	.2	*/
Brazil	2.1	3.4	1.2	2.2	.6	.1	.6	.5
Mexico	2.2	1.9	.7	1.2	.6	.5	.2	.3
Philippines	.3	.9	.7	.2	.3	.2	.1	.1
Other	3.1	4.1	1.8	2.3	2.5	1.1	1.4	.8
Centrally-planned economies	2.7	2.5	1.4	1.1	.9	.2	.7	.4
International org's & other	.4	.9	.9	0	0	0	0	.1

	1975	1976		1977				
	Year	Year	1st H	2nd H	1st H	Q-1	Q-2	Q-3
II. Euro-bonds: total	10.2	15.0	8.4	6.6	10.4	4.7	5.7	4.6
Canada	1.2	2.9	1.9	1.0	1.2	.4	.8	.4
France	1.3	1.3	.8	.5	.6	.4	.1	.3
Japan	1.2	1.2	.7	.5	.5	.3	.3	.3
Other dev'd countries	4.7	5.8	2.5	3.3	4.9	1.9	3.0	3.6
Developing countries	.2	.7	.3	.4	1.1	.4	.7	.7
Int'l org's & other	1.6	3.1	2.2	.9	2.0	1.3	.8	.3
III. Foreign bonds: total	11.9	17.9	9.5	8.4	6.4	2.8	3.6	3.5
By borrower: Canada	3.4	5.9	3.4	2.5	1.5	.8	.7	.9
IBRD	2.4	3.0	1.6	1.4	1.3	.3	.9	.9
Other	6.1	9.0	4.5	4.5	3.6	1.6	2.0	1.6
By market: U.S. ^{2/}	6.8	10.0	5.4	4.6	3.5	1.3	2.2	2.0
Switzerland	3.4	5.2	2.6	2.6	2.0	1.3	.7	.9
Other	1.7	2.7	1.5	1.2	.9	.2	.7	.6
IV. Total Borrowing	42.7	61.9	30.2	31.7	31.5	15.6	15.9	13.4

^{1/} Completed credits of one year or over.

^{2/} Figures may differ from statistics of U.S. international transactions because latter are on a drawdowns basis.

Source: World Bank

oil-exporting countries approximated last year's rate, but the pace of borrowing by Algeria, Indonesia and Iran has been reduced while the Arabian Gulf states and Venezuela have stepped up their borrowings. Nigeria arranged its first Euro-credit, for \$1 billion, in October.

Euro-dollar interest rates rose during the third quarter in concert with U.S. rates. The 3-month deposit rate averaged 6.2 per cent for the quarter compared with 5.2 per cent in the first quarter and 5.6 per cent in the second, and rose to almost 7.5 per cent in mid-October before leveling out. The LIBO (London interbank offer) rates used to price loans to nonbank borrowers rose accordingly. However, the spreads over LIBO charged on such loans have continued to contract gradually. Prime nonbank borrowers currently are paying $3/4$ or $7/8$ per cent over LIBO for 5-7 year funds.

New Euro-bond issues declined in the third quarter to about the first-quarter level, but remained well above the average quarterly 1976 issue pace. While Canadian, Japanese and French issues continued below last year's rate, issues by other developed countries as a group underwent a further sharp increase in the third quarter and for the first nine months were more than twice as large as in the comparable period of 1976. This increase was spread over a large number of developed countries. Euro-bond issues by developing countries increased further in the third quarter; the 9-month total of such issues was over 2-1/2 times the year-earlier amount, with Brazilian and Mexican issues exceeding one-half of the total. Yields on dollar-denominated Euro-bonds declined 10-20 basis points during the third quarter, but the decline was reversed when yields rose 15 basis points during the first three weeks of October as U.S. bond yields turned up.

New issues of foreign bonds of \$3.5 billion in the third quarter were nearly unchanged from the second quarter and thus continued to be well below last year's pace. Canadian issues were somewhat larger quarter and included a \$200 million, 20-year, private placement in the United States in September by Hydro-Quebec. That issue was Hydro-Quebec's first issue in the U.S. market in 1977; it carried a 9-1/4 per cent coupon, compared with an 8-3/8 per cent yield on a \$200 million, 30-year, public offering in the United States by the Province of Ontario in the same month.

U.S. International Transactions. In the third quarter, the U.S. merchandise deficit remained essentially unchanged at an annual rate of \$30.3 billion compared with a rate of \$31.4 billion in the second quarter. Increases in foreign official reserve assets in the United States, excluding OPEC, continued to be extremely large in the third quarter; the \$6.4 billion increase (\$25.6 billion at annual rate) more than offset the expected current account deficit for the third quarter.

U.S. International Transactions Summary
(in billions of dollars, (-) = Outflow)

	1976 Year	1 9 7 7				
		Q-1	Q-2	Q-3	Aug.	Sept.
1. Trade balance <u>1/</u>	-9.3	-7.1	-7.9	-7.6	-3.1	-2.0
2. (annual rate)		(-28.4)	(-31.4)	(-30.3)	(-37.5)	(23.9)
3. Private capital trans. adj. <u>2/</u>	-14.8	-0.6	-1.3	1.7	-1.0	2.8
4. Private capital as reported	-14.8	-0.6	-1.3	3.7	-3.0	4.8
5. Reporting bias <u>3/</u>	--	--	--	-2.0	2.0	-2.0
6. OPEC net investment in U.S.	6.8	2.7	1.0	1.3	-0.5	0.1
7. Other foreign official assets	6.3	2.3	5.7	6.4	1.1	3.0
8. U.S. reserve assets	-2.5	-0.4	*	0.2	-0.2	0.1
9. All other <u>4/</u>	13.5	3.1	2.5	-2.1	3.8	-4.0
Memorandum:						
10. GNP Net exports <u>5/</u>	7.7	-7.4	-8.7	-8.4 ^e	n.a.	n.a.
11. CURRENT ACCOUNT BALANCE	-1.4	-4.1	-4.5	-4.5 ^e	n.a.	n.a.

1/ Seasonally adjusted.

2/ Includes bank-reported capital, foreign private purchases of U.S. Treasury securities, and other private securities transactions.

3/ Adjustment for reporting bias in bank-reported data associated with weekend transactions. See pages IV 10-11 in the June 1976 green book.

4/ Includes service transactions, unilateral transfers, U.S. government capital, direct investments, nonbank capital transactions, and statistical discrepancy.

5/ Includes revisions not yet included in published GNP accounts.

*/ Less than \$50 million.

e Estimated

The U.S. merchandise trade balance in September (international accounts basis) was in deficit by \$23.9 billion at an annual rate, bringing the third quarter to a deficit rate of \$30.3 billion. The sharp rise in exports in September included some acceleration of export shipments in anticipation of the East and Gulf Coast longshoremen's strike and a rebound of coal exports from a strike-depressed August rate.

U.S. Merchandise Trade, International Accounts Basis
(billions of dollars, seasonally adjusted annual rates)

	1976	1976		1 9 7 7			Aug.	Sept.
	Year	3Q	4Q	1Q	2Q	3Q		
<u>EXPORTS</u>	<u>114.7</u>	<u>118.4</u>	<u>118.8</u>	<u>117.8</u>	<u>122.0</u>	<u>122.9</u>	<u>116.2</u>	<u>131.1</u>
Agric.	23.4	25.0	23.5	24.5	26.8	23.9	21.9	24.6
Nonagric.	91.3	93.5	95.3	93.4	95.2	99.1	94.4	106.5
<u>IMPORTS</u>	<u>124.0</u>	<u>129.6</u>	<u>133.2</u>	<u>146.2</u>	<u>153.4</u>	<u>153.2</u>	<u>153.7</u>	<u>155.1</u>
Petroleum	34.6	37.6	37.4	44.1	47.7	45.8	46.4	47.2
Nonpetrol.	89.4	92.0	95.9	102.1	105.7	107.4	107.3	107.9
<u>BALANCE</u>	<u>-9.3</u>	<u>-11.2</u>	<u>-14.4</u>	<u>-28.4</u>	<u>-31.4</u>	<u>-30.3</u>	<u>-37.5</u>	<u>-23.9</u>

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

For the third quarter as a whole, exports rose slightly as a 4 per cent increase in the value of nonagricultural exports (divided equally between price and quantity) partially offset a decline in the value of agricultural exports. Agricultural exports declined in value by 11 per cent to \$23.9 billion at an annual rate. The decline was entirely due to lower recorded export prices, as volume was unchanged. Compared with the second quarter, export unit values fell 17 per cent for soybeans, 15 per cent for corn, 6 per cent for cotton, and 5 per cent for rice.

In the third quarter, imports dropped slightly. Nonpetroleum imports rose in value by 1.5 per cent, with volume at about the same rate as in the second quarter. Particularly strong were imports of foreign automotive products, other than those from Canada. U.S. sales subsidiaries, having experienced strong sales which depleted inventories, appear to have brought forward the importation of 1978 models in an attempt to reestablish customary inventory-to-sales ratios. Imports of iron and steel, especially from the EEC, and imports of capital goods also increased. Food imports fell by one-fifth. The volume of coffee and cocoa imports each fell by one-half. In the third quarter, petroleum imports declined by 4 per cent to a daily average of 9.4 million barrels per day. The drop in petroleum imports coincided with a decline in the rate of buildup of U.S. oil-stocks, which by the end of September were 7 per cent above their level of a year earlier.

Foreign official assets in the United States, excluding those held by OPEC, increased by \$3 billion in September.

. The increase in Swedish reserve holdings in the United States resulted from the shifting back of private capital into the Swedish krona following the late August devaluation. For the third quarter, foreign official assets, excluding OPEC, increased by \$6.4 billion, of which \$6.2 billion was invested in U.S. Treasury and agency securities.

In September, private capital flows for which data are available showed a large net inflow of \$5 billion. U.S. banking offices reported a net inflow of \$4.3 billion. After adjustment for the reporting bias associated with over-the-weekend money-market transactions, the net inflow is estimated to be between \$1.5 billion and \$2.3 billion. For the entire third quarter the adjusted net private capital inflow amounted to about \$2 billion, a \$3 billion swing from the second quarter net outflow.

For the first three quarters of 1977, U.S. banking offices likely received a small net capital inflow: a marked turnaround from the \$6 billion net capital outflow recorded for the first three quarters of 1976. An important element in this shift is the fact that U.S. banks have provided no additional net funding to their foreign branches in 1977, after having advanced branches about \$7 billion in 1976. However, partially offsetting the switch in the flow of funds between overseas branches and U.S. head offices has been the increase in the direct-deposit activity of U.S. corporations at foreign banks, including foreign branches of U.S. banks. In the first eight months of 1977, large U.S. nonbanking concerns increased their dollar deposits at offshore banks, mainly in the Bahamas and the United Kingdom, by \$2.1 billion, compared to an increase of \$1.4 billion for the first eight months of 1976' (\$1.3 billion for all of 1976).

Dollar Deposits Held Abroad by Large U.S. Nonbanking Concerns
(billions of dollars, end of period)

	<u>Bahamas</u>	<u>U.K.</u>	<u>Canada</u>	<u>Other</u>	<u>Total</u>
December 1975	.5	1.2	.6	.3	2.6
August 1976	.8	2.0	.8	.4	4.0
December 1976	1.2	1.7	.9	.6	4.4
August 1977	2.1	2.1	1.2	1.1	6.5

Net foreign private purchases of U.S. corporate securities totalled \$400 million in the third quarter, half the second-quarter rate, as net foreign purchases of U.S. corporate stock fell by \$250 million in the face of declining stock market prices.

New foreign bond issues in the United States amounted to \$2.2 billion in the third quarter, a rate higher than that recorded in either of the two earlier quarters of 1977. In the fourth quarter, new foreign bond issues are expected to be about \$1.8 billion: \$800 million of Canadian issues, and \$1 billion by other foreign issuers, largely Scandinavian. This will bring the total new foreign issues in the United States to \$7.7 billion for 1977, a \$2.2 billion decrease from the 1976 rate. The decrease is entirely accounted for by the reduction in Canadian borrowing in the United States.

OPEC reserve assets in the United States increased by \$100 million in September and by \$1.3 billion in the third quarter, slightly below the quarterly average for the first half of 1977. Continuing a program started in the second quarter of 1977 of purchasing U.S. corporate debt through private placements, one OPEC country bought a \$75 million note of a public utility. In 1977 to date, total purchases by this country under this program have amounted to at least \$500 million.

Recent Foreign Fiscal Policy Actions. Against a general background of disappointingly slow growth, high unemployment, and persistent inflation, authorities in many foreign industrial countries have announced fiscal policy initiatives recently. Most of the stimulative actions of larger countries have been cautious, aimed at reducing unemployment and stimulating investment while monetary policies remain accommodating. Germany and the United Kingdom have taken several measures to reduce personal income taxes; Japan and the United Kingdom have undertaken public works projects; Germany, France, and Japan have increased tax credits and loans for domestic business and residential construction; and Japan and Germany have adopted tax credits for the installation of energy-saving equipment. Fiscal policy actions in the smaller OECD countries have not been so uniformly designed to be expansionary. In particular, Austria, Belgium, and Switzerland have proposed measures to reduce public sector deficits; in most cases the deficit-reducing proposals are combined with tax revisions that reduce the regressivity of the measures and expenditures designed to reduce selectively the impact on employment.

The programs proposed by the United Kingdom, Germany, and Japan appear to possess the largest impact measured in terms of the likely percentage increase in gross national or domestic product; the fiscal programs of the French and Canadian Governments are expected to have less impact. The United Kingdom government

announced several policy measures on October 26, 1977; it was announced that these measures will increase the U.K. public sector deficit by about £1 billion (\$1.7 billion equivalent) in the current fiscal year (ending March 31, 1978) and about £2 billion in the next fiscal year compared to what they otherwise would have been; these borrowing requirements remain within the limits agreed upon with the IMF. The measures include a 12 per cent increase in personal income tax allowances retroactive to the beginning of the fiscal year in April, a £10 bonus to pensioners, increases in pension and other taxable social security benefits, increases in public expenditures, and a variety of small business tax-relief measures. The rise in public expenditures is about evenly divided between child benefits and manpower training plans, and a variety of construction programs. Additional expansionary measures are expected to be announced in the Spring 1978 budget.

On September 15, the German cabinet approved the 1978 government budget proposal which included a 10 per cent increase in expenditures over 1977 and a rise in the Federal budget deficit to DM 27.5 billion (\$11.8 billion equivalent) from DM 20.5 billion. The proposal also included increases in personal tax exemptions, liberalized accelerated depreciation allowances for business fixed investment, and a 20 per cent subsidy for investment to improve the energy-efficiency of private buildings. Following rejection by the upper house (Bundesrat), a compromise budget proposal was agreed upon that reduces tax revenues by an additional DM 3.5 billion, largely through increased personal deductions in the upper income tax brackets. The revised budget proposal was accepted by Parliament on November 4.

On October 20 the government of Canada announced that wage and price controls will begin to be phased out from next April 14. The Canadian government also announced plans for personal income tax cuts for low and middle income families and an extra \$C150 million in federal job creation this fiscal year (to March 1978). The budget deficit for FY1977 is now expected to reach \$C8.5 billion, up from a March estimate of \$C6.4 billion.

The French cabinet approved expenditure and credit measures totalling FF 5.5 billion (\$1.1 billion equivalent) on August 31, 1977: the measures included FF 1.5 billion payments to low income families, FF 3 billion in special credits to the housing and construction sectors, and FF 1 billion in special loans to finance large industrial projects. The government presented the 1978 budget proposals to parliament on September 7. These proposals include a 12.5 per cent increase in expenditures and a planned deficit of about FF 9 billion, compared to an estimated FF 16 billion actual deficit in 1977. Increases in the gasoline tax, a special tax on financial institutions, and a continuation of the special tax on some types of property ('external signs of wealth') will be partly offset, on the revenue side, by an increase in personal income tax brackets. On November 3, 1977, the cabinet adopted a draft supplementary budget for 1977, involving increased net expenditures of 2.93 billion francs.

On September 3, 1977, the Japanese cabinet announced a supplementary budget totalling ¥2 trillion (about \$8 billion) or approximately 1 per cent of Japan's GNP, in order to reach the summit target of 6.7 per cent growth of GNP in FY1977.

Of the \$8 billion in supplementary budget expenditures, \$3.8 billion is to be spent on national government public works, \$0.5 billion on local government public works, and \$3.2 million is to be provided in loans for private housing. Other parts of the seven-point stimulative package include accelerated construction of oil stockpiling facilities, promotion of private fixed capital outlays, encouragement of investment in energy-saving equipment, the easing of consumer credit terms as well as the availability of funds, and aid to industries suffering from adjustment problems. After taking into account cutbacks in other programs and the allocation of some spending to the fiscal 1978 period, it is estimated that net new spending under the program will add about \$5.3 billion to final demand during the current fiscal year. The financing of the program is not expected to involve any additional taxes. At the end of October, the Japanese Diet approved the major central government part (¥270 billion of supplementary expenditures and ¥736 billion of fiscal loans and investments) of the reflationary program announced in early September.