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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

November 10, 1971

TABLE OF CONTENTS

	Section
SUMMARY AND OUTLOOK	I
Nonfinancial	- 1
Financial	- 4
Balance of payments	- 7
THE ECONOMIC PICTURE IN DETAIL	
Domestic Nonfinancial Scene	II
Gross national product	- 1
Industrial production	- 5
Retail sales	- 7
Unit auto sales	- 8
Consumer credit	- 9
Census consumer buying survey	-11
Manufacturers' orders and shipments	-13
Inventories	-14
Cyclical indicators	-16
Construction and real estate	-17
Planned plant and equipment spending	-20
Labor market	-22
Pay board policy	-24
Wage developments	-25
Industrial relations	-28
Productivity and labor costs	-28
Wholesale prices	-30
Consumer prices	-32
GNP price indexes	-35
Domestic Financial Situation	III
Monetary aggregates	- 1
Bank credit	- 2
Nonbank depositary institutions	- 4
Mortgage market	- 8
Corporate and municipal securities markets	-10
Government securities market	-15
Other short-term credit markets	-18
Federal finance	-22

International Developments IV

U.S. balance of payments . . . . - 1
Euro-dollar markets . . . . - 2
Foreign exchange markets . . . . - 3
U.S. Foreign trade . . . . - 6
Interest rate developments and monetary policy
in major industrial countries abroad . . . . - 9

Appendix A-
Demand Deposit Ownership: Third Quarter 1971 . . . . A -1

Appendix B-
The Floating Prime Rate . . . . B -1

Appendix C-
A Survey of the Impact of Floating Exchange Rates
on International Trade and Finance . . . . C -1

Nonfinancial

Overall economic activity is expected to be more expansive this quarter than in the third, with the staff projecting a rise in real GNP at an annual rate of close to 6 per cent--double the third quarter rate. The pace of consumer spending has stepped up further. Auto sales were in record volume in October, even though sales of imported cars were down. Retail sales of nondurable goods are estimated, on the basis of weekly data, to have increased appreciably in October. Also contributing to the projection of accelerated growth this quarter is the expectation that inventory investment will increase in contrast to its decline last quarter when steel stocks were being run down rapidly. Residential construction activity, however, will not provide as much of a stimulus as earlier this year when starts were rising rapidly.

Industrial production is estimated to have changed little in October, as coal output was depressed by the strike. The underlying trend appears to be up, however, with further increases in output of consumer goods and business equipment. New orders for durable goods declined in September, following a rise in August; orders for capital equipment have changed little on average since early this year, and unfilled orders have tended to drift down.

The labor market improved somewhat in October as the unemployment rate declined by 0.2 per cent to 5.8 per cent, and employment as measured by the household survey rose appreciably. However, nonfarm payroll employment, adjusted to include those on strike, showed a much smaller rise. Average hourly earnings in October continued to reflect the wage freeze, with a relatively small increase for the private nonfarm economy and no change in manufacturing and trade since August.

Price changes have also reflected the mid-August freeze. Wholesale prices of industrial commodities, seasonally adjusted, declined further from mid-September to mid-October, at an annual rate of 3.3 per cent--the largest decline since 1960. The rise in the consumer price index slowed appreciably from August to September.

The Pay Board on November 8 announced basic Phase II wage policies, approved by a 10-5 vote. The test states that "permissible annual increases would be those normally considered supportable by productivity improvement and cost of living trends." Specifically, for new contracts, the policies provide initially for a general pay standard--presumably including fringe benefits--allowing an annyal increase of up to 5.5 per cent; the acceptance of existing contracts, including deferred pay increases, but subject to review under certain conditions; and no allowance of retroactive increases that had been scheduled during the freeze interval unless approved by the Board in specific cases.

Outlook. The staff is currently projecting GNP increases of $27.5 billion a quarter in the first half of next year, with real growth at an average annual rate of about 6.5 per cent, somewhat more rapid than in the current quarter.

All major demand categories are projected to increase, but the principal expansive strength in the private sector is expected from consumer spending, business fixed investment, and inventory investment. Residential construction activity is counted on for only moderate further expansion, with the number of starts remaining near the record rate now projected for the fourth quarter.

The expected vigor of consumer spending reflects large prospective increases in personal disposable income arising from employment gains, increased Federal personal tax exemptions, the increased Federal outlays for the volunteer army, and a prospective increase in social security benefits. The expected rise in business fixed investment is moderate and is about in line with the recent McGraw-Hill Survey, which indicates an increase of 7 per cent in 1972. Inventory investment is expected to rise substantially as businessmen react to rising sales volume.

While real output is projected to increase substantially, the unemployment rate declines only moderately to about 5.5 per cent by mid-1972 in view of prospective gains in output per man hour and in the civilian labor force. Phase II price and wage policies are assumed to be relatively effective, and the rise in the private GNP fixed weight price index is projected to moderate to an annual rate of about 3 per cent in the second quarter of 1972.

Financial

Interest rates have continued to decline since the last Committee meeting, with short-term rates down one-fourth to three-eights of a percentage point, the prime rate lowered in two steps by one-half point, and the long-term rates off 15 to 25 basis points. Altogether, these declines bring the cumulative change in yields since the President's August announcement to about one full percentage point in long-term markets and three-fourths to one and one-half points in short-term markets.

An important factor influencing recent rate developments has been the gradual easing of the Federal funds rate and expectations that further ease may be in prospect. In addition, short-term rates have been influenced by the pattern of Treasury financings. Bills have been in relatively short market supply as a result of the Treasury cash build-up associated with the late summer sale of special certificates to official foreign accounts, heavy foreign official purchases directly in the market, and the Treasury's emphasis on debt extension in the current and recent financings.

As market yields, and also stock prices, declined, inflows of consumer-type deposits accelerated at commercial banks, and remained large at the thrift institutions, despite the step-up in consumer purchases of automobiles. With such deposit inflows large, and business loans weak, commercial banks were able not only to finance a high level of net mortgage acquisitions and a large increase in consumer loans--the latter associated with the record level of automobile sales--but also to purchase sizable amounts of tax-exempt bonds.

Outlook. Business loan demands are now expected to be quite modest over the period immediately ahead, reflecting small inventory accumulation by business firms, possible repayments of loans made earlier for exchange rate speculation, and the continued relatively high level of capital market financing. The latter apparently results from a sustained high level of utility financing, the declining, but still large, desire to restructure balance sheets by large borrowers, and the appearance of increased demands from medium sized corporations taking advantage of lower rates. Most recently, the volume of corporate bond financing, uncertanties regarding implementation of phase II, and agressive dealer pricing, has caused syndicate positions to mount in both the corporate and tax-exempt bond market.

Dealer positions in Treasury coupon issues have also risen substantially in the wake of the recent refunding. And a fairly sizable addition to the supply of bills is in prospect as the Treasury is expected to raise most of the about $5 billion of cash needed in late November and December in this market. Thus, the technical position of the securities markets suggests the possibility of some near-term, temporary back-up in rates. However, today's reduction in the discount rate to 4-3/4 per cent should temper, if not avert, any such adjustment.

With market interest rate changing little on balance, consumer-type time deposit inflows at thrift institutions and banks are likely to remain large. This will help sustain mortgage credit availability over the balance of the year. Indeed, the continued favorable position of private lenders has led the housing agencies to cut back somewhat on their own borrowing plans.

Balance of payments

Judgments about effects thus far of the import surcharge and the changes in exchange rates since August 15 are severely hampered by the distortion of flows of imports and exports caused by the West Coast dock strike and preparations for the East Coast stoppage which began on October 1. In September, though West Coast operations had not yet resumed, imports rose considerably and exports rose very sharply. This was the result of the acceleration of shipments and arrivals at East Coast and Gulf ports ahead of the October 1 strike date. The trade balance for the month of September was a surplus; for the third quarter as a whole there was a deficit at an annual rate of about $2 billion, compared with about $4 billion in the second quarter.

The third-quarter balance on goods and services ("net exports" in the GNP accounts) is now estimated as a very slight negative figure, about the same as for the second quarter. Offsetting the lessening of the trade deficit--which clearly reflected a special situation--investment income receipts are estimated to have fallen off from what had been an abnormally high level in the second quarter.

Some improvement in net exports of goods and services is looked for next year as a result of the alterations in the international exchange rate structure that have already occurred or that might take the place of the import surcharge. However, without further rate alternations in the direction of appreciation of foreign currencies against the dollar, and given the expected changes in economic activity here and abroad, we project the merchandise trade balance as a continuing, though reduced, excess of imports over exports.

For the immediate future, the import surcharge in particular is undoubtedly tending to hold imports down, not only because of the addition to costs but also because of uncertainties as to its duration. Nevertheless, because the acceleration of exports before the October 1 strike date borrowed heavily from the fourth quarter, statistics for the balance on goods and services are not likely to show any improvement in the present quarter.

Foreign countries have added relatively little to their official reserve holdings in recent weeks--since about the middle of October. This result, at a time when the U. S. balance on current account and long-term capital remains heavily in deficit, can be taken as an indication that some partial unwinding of hedgers' and speculators' positions has been occurring. This could be taking various forms. There may be some shrinking of lead time on dollar payments to foreigners for U. S. imports, and other changes in leads and lags. Corporations could be pulling back funds from subsidiaries abroad. And now that 3-month Eurodollar interest rates have fallen below 6-1/2 per cent--and this week below 6 per cent--some withdrawals of U. S. depositors' funds from the Eurodollar market may be occurring. The easing of Eurodollar rates may itself be explained by reduced demand for credit to finance hedgers' and speculators' positions--as well as by the interest rate declines that have been occurring in U. S. and some European national money markets.

The unwinding of speculative positions may speed up greatly if and when the business world becomes convinced that exchange rate adjustments have been about completed--for a period of months or a year ahead, at least. When that happens we would expect to see a partial reversal of the currency appreciations of recent months; foreign central banks would then have to decide how far to let the reversal go before resisting it by selling dollars out of their reserves.

I -- T - 1

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	1971 July	1971 Aug.	1971 Sept.	1971 Oct.	Per Cent Change* From 1 mo. ago	Per Cent Change* From 3 mos. ago	Per Cent Change* From Year ago
Civilian labor force (mil.)	83.8	84.3	84.6	84.8	0.2	1.1	1.8
Unemployment rate (%)	5.8	6.1	6.0	5.8	--	--	5.5 4/
Insured unempl. rate (%) 5/	4.0	4.2	4.5	n.a.	--	--	4.1 4/
Nonfarm employment, payroll (mil.)	70.5	70.5	70.9	70.9	0.0	0.5	1.2
Manufacturing	18.5	18.5	18.6	18.6	0.1	0.5	-0.2
Nonmanufacturing	52.0	52.1	52.3	52.3	0.0	0.5	1.7
Industrial production (1967=100) 5/	106.1	104.8	105.3	n.a.	0.5	-1.8	-1.1
Final products, total	104.7	104.8	104.9	n.a.	0.1	0.4	1.4
Consumer goods	115.8	116.0	116.2	n.a.	0.2	0.1	5.5
Business equipment	96.4	96.2	96.8	n.a.	0.6	1.9	-3.7
Materials	105.5	102.4	103.7	n.a.	1.3	-4.9	-4.9
Capacity util. rate, mfg. 5/	74.3	72.7	72.5	n.a.	--	--	77.0 4/
Wholesale prices (1967=100) 1/ 5/	114.6	114.9	114.5	114.4	-0.1	-0.2	3.1
Industrial commodities (FR) 5/	114.3	114.9	114.8	n.a.	-0.1	1.0	4.2
Sensitive materials (FR)	115.1	116.4	116.3	115.4	-0.8	0.3	3.3
Farm products, foods & feeds	115.0	114.6	113.0	113.0	0.0	-1.7	2.4
Consumer prices (1967=100) 1/ 5/	121.8	122.2	122.4	n.a.	0.2	0.7	4.2
Food	119.8	120.0	119.1	n.a.	-0.8	-0.1	2.9
Commodities except food	117.0	117.3	117.8	n.a.	0.4	0.6	3.9
Services	128.8	129.4	129.9	n.a.	0.4	1.3	5.2
Hourly earnings, pvt. nonfarm ($)	3.43	3.46	3.46	3.47	0.3	1.2	6.1
Hourly earnings, mfg. ($)	3.58	3.59	3.60	3.59	-0.3	0.3	6.5
Weekly earnings, mfg. ($)	143.09	142.40	142.22	142.81	0.4	-0.2	7.3
Net spend. weekly earnings, mfg. (3 dependents 1967 $) 1/ 5/	101.27	100.68	101.79	n.a.	1.1	-0.6	2.0
Personal income ($ bil.) 2/ 5/	859.2	867.6	870.8	n.a.	0.4	0.1	6.9
Retail sales, total ($ bil.) 7/	33.7	34.6	n.a.	n.a.	--	--	--
Autos (million units) 2/	8.4	8.4	9.5	10.6	11.7	26.6	73.6
GAAF ($ bil.) 3/ 7/	n.a.	n.a.	n.a.	n.a.	--	--	--
12 leaders, composite (1967=100) 5/	127.0	126.9	126.5	n.a.	-0.3	1.1	10.5
Selected leading indicators:							
Housing starts, pvt. (thous.) 2/ 5/	2,229	2,235	1,958	n.a.	-12.4	-2.1	29.8
Factory workweek (hours)	40.0	39.8	39.6	39.7	0.3	-0.8	0.8
Unempl. claims, initial (thous.) 5/	275	333	327	n.a.	2.0 6/	-6.4 6/	4.5 6/
New orders, dur. goods, ($ bil.) 5/	32.0	31.8	30.8	n.a.	-3.1	0.3	8.5
Capital equipment	7.5	8.0	7.7	n.a.	-3.9	-5.7	13.6
Common stock prices (41-43=10)	99.00	97.24	99.40	97.29	-2.1	-1.7	15.3

* Based on unrounded data. 1/ Not seasonally adjusted. 2/ Annual rates.
3/ Gen'l. merchandise, apparel, and furniture and appliances. 4/ Actual figures.
5/ Per cent calculated to September, 1971. 6/ Sign reversed. 7/ To be revised.

SELECTED DOMESTIC FINANCIAL DATA

	Averages QI	QII	QIII	Sept.	Oct.	Week ended Nov. 3
Interest rates, per cent						
Federal funds	3.86	4.56	5.47	5.55	5.20	5.16
3-mo. Treasury bills	3.76	4.26	5.01	4.69	4.46	4.27
3-mo. Federal agencies	3.78	4.43	5.29	5.11	4.69	4.24
3-mo. Euro-dollars	5.50	6.72	7.77	8.34	6.58	5.99
3-mo. finance co. paper	4.48	4.74	5.52	5.44	5.30	5.03
4-6 mo. commercial paper	4.57	5.05	5.74	5.75	5.54	5.19
Bond buyer municipals	5.25	5.74	5.75	5.37	5.06	5.11
Aaa corporate-new issues	7.33	7.83	7.68	7.44	7.29	7.11
20-year Treasury bonds	6.00	6.24	6.24	6.05	5.92	5.84
FHA mortgages, 30-year	--	7.67	7.91	7.84	n.a.	--

	QI	QII	QIII	Sept.	Oct. p
Change in monetary aggregates (SAAR, per cent)					
Total reserves	11.0	6.6	10.4	15.8	-15.0
Nonborrowed reserves	11.0	5.3	10.8	29.6	-12.2
Credit proxy	17.0	9.6	9.8	8.6	2.1
Credit proxy + nondep. funds	10.9	6.5	9.1	8.9	4.8
Money supply	8.9	11.3	3.0	-3.7	-1.5
Time and savings deposits	27.3	13.5	11.3	15.8	15.6
Deposits at S&L's and MSB's	23.3	17.3	12.7	13.4	n.a.
Bank credit, end-of-month 1/	12.2	9.1	9.8	9.7	9.4
Treasury securities	19.8	9.8	-14.0	-17.5	-29.7
Other securities	27.9	17.0	9.9	17.2	24.2
Total loans 1/	6.3	6.6	14.7	12.4	12.3
Business 1/	2.5	4.6	16.5	8.1	3.0

	QI	QII	QIII	Sept.	Oct.
Change in commercial paper ($ millions)					
Total (SA)	-2,581	-874	96	834	n.a.
Bank-related (NSA)	-657	41	133	108	82

	1969	1970			1971	
	H-2	H-2	QIII	Oct.	QIII	Oct.
New security issues (NSA, $ millions)						
Total corp. issues	13,172	20,499	8,560	2,777	10,605	3,010 e
Public offerings	10,770	18,113	7,596	3,473	9,011	2,510 e
State and local government bond offerings	5,446	10,327	4,465	1,924	4,465	1,700 e
Fed. sponsored agency debt (change)	5,586	3,057	1,593	416	1,711	706 e
Fed. govt. debt (change)	9,811	16,278	7,387	2,561	9,087	1,600 e

n.a. - Not available. e - Estimated. p - Preliminary.
SAAR - Seasonally adjusted annual rate. NSA - Not seasonally adjusted.
1/ Adjusted for loans sold to bank affiliates.

I -- T - 3

U.S. Balance of Payments

In millions of dollars; seasonally adjusted

	1971 p/				
	I	II	III	AUG.*	SEPT.*
Goods and services, net 1/	1,147	-22			
Trade balance 2/	269	-1,040	-520	-335	190
Exports 2/	11,030	10,716	11,505	3,630	4,445
Imports 2/	-10,761	-11,756	-12,025	-3,965	-4,255
Service balance	878	1,018			
Remittances and pensions	-342	-357			
Govt. grants & capital, net	-1,026	-1,094			
U.S. private capital (- = outflow)	-2,230	-1,967			
Direct investment abroad	-1,370	-1,315			
Foreign securities	-353	-396	-231	-174	12
Bank-reported claims -- liquid	-72	38	-405	-281	-11
" " " other	-53	-317	-1,206	-1,308	459
Nonbank-reported claims -- liquid	-225	66	e/-81	-191	e/148
" " " other	-157	-43			
Foreign capital (excl. reserve trans.)	-2,241	-110			
Direct investment in U.S.	92	-24			
U.S. corporate stocks	78	1	230	79	155
New U.S. direct investment issues	317	264			
Other U.S. securities (excl. U.S. Treas.)	164	-59			
Liquid liabilities to:	-2,693	-59	-2,293	-1,099	-609
Commercial banks abroad	-3,042	-85	-2,091	-1,114	-367
Other private foreign	78	-148	-381	-92	-223
Intl. & regional institutions	271	174	179	107	-19
Nonliquid liab. to banks and others	-199	-233			
Foreign official reserve claims	4,856	5,047	10,914	7,616	1,443
Liquid	5,067	5,216	11,095	7,719	1,454
Other	-211	-169	-181	-103	-11
U.S. monetary reserves (increase, -)	862	838	1,373	1,155	-3
Gold stock	109	456	300	244	2
Special drawing rights 3/	125	196	150	50	--
IMF gold tranche	255	252	851	859	-3
Convertible currencies	373	-66	72	2	-2
Errors and omissions	-1,026	-2,335			
BALANCES (deficit -) 3/					
Official settlements, S.A.	-5,718	-5,885	-12,287		
" " , N.S.A.	-5,440	-6,444	-12,680	-8,771	-1,440
Net Liquidity, S.A.	-2,728	-5,930	e/-9,508		
" " , N.S.A.	-2,604	-6,572	e/-10,162	-7,200	e/-968
Adjusted liquidity, S.A. 4/	-3,025	-5,826	-9,994		
" " , N.S.A.	-2,927	-6,548	-10,575	-7,672	-831

* Monthly, only exports and imports are seasonally adjusted. e/ Estimated.

1/ Equals "net exports" in the GNP, except for latest revisions.

2/ Balance of payments basis which differs a little from Census basis.

3/ Excludes allocation of $717 million of SDRs on 1/1/71.

4/ Measured by changes in U.S. monetary reserves, all liabilities to foreign official reserve agencies and liquid liabilities to commercial banks and other foreigners.

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. Commerce Department figures for the third quarter show a GNP increase of $15.9 billion -- in real terms an annual rate of gain of only 2.9 per cent. But given proposed fiscal actions, and accepting our previous assumptions in regard to the timing and relative effectiveness of wage and price controls, we continue to expect a step-up in real growth during this and the next several quarters averaging in excess of 6 per cent. This rate of growth should be reflected in a significant recovery in industrial output and an improvement in the unemployment situation.

We now expect GNP to increase by $22 billion in the current quarter -- some $6 billion more than in the third quarter, although about $3-1/2 billion less than we had projected last month. The downward adjustment reflects not quite as strong an increase in consumer nondurable goods outlays and a less favorable outlook for net exports. In the consumer sector, auto sales have been running stronger than we had anticipated -- totaling 10.6 million domestic-type units, annual rate, for October. We expect such auto sales to dip somewhat in November and December, but to average about 9-3/4 million units, annual rate, for this quarter. Sales of foreign models are likely to drop somewhat further under the pressure of relatively higher price tags as well as supply shortages caused by the dock strikes.

Retail sales other than autos, particularly nondurables, had been somewhat less buoyant in September, but appear to have improved during October on the basis of the weekly figures. The expected increase in nondurable sales for this quarter ($5 billion), while below our earlier projection, is substantially larger than the weak third quarter rise, with fairly good gains anticipated at general merchandise and department stores. The other major change in our fourth quarter figures is a $1-1/2 billion downward adjustment in the change in net exports as a result of the adverse effects of the coal and dock strikes.

Our projections of other sectors are about as presented last month. Contributing to the expected gain in GNP is the continued increase in residential construction expenditures, albeit at a more moderate rate than in recent quarters. In addition, the beginning of a step-up in inventory accumulation should become evident, as the downward influence of the runoff of excessive steel stocks last quarter comes to an end and as businessmen begin to increase stocks in response to improved consumer demand. The slight upward adjustment in our projection of business fixed investment expenditures represents a higher estimate of business purchases of trucks and cars, while the small downward revision in State and local spending reflects mainly the surprisingly low level of construction outlays reported recently by these jurisdictions.

We anticipate that the economy will continue to advance at a brisk pace throughout the first half of next year although somewhat less rapidly than had been projected last month. We now project GNP increases averaging $27-1/2 billion annual rate per quarter. Growth in

GNP AND RELATED ITEMS, 1971
(Changes in seasonally adjusted totals at annual rates)

	QIII	QIV	
	OBE Prel.	Proj. of 10/13/71	Current
	-----Billions of dollars-----		
GNP	15.9	25.5	22.0
Final Sales	20.0	23.7	20.1
Personal consumption	11.2	14.9	12.9
Residential construction	2.0	1.1	.9
Business fixed investment	2.7	.0	.5
Net exports	.0	1.0	- .5
Federal purchases	1.9	3.7	3.6
State & local purchases	2.3	3.0	2.7
Inventory change	-4.1	1.8	1.9
	----Per Cent Per Year----		
Real GNP	2.9 3/	7.1	5.8
GNP deflator	3.3 3/	2.5 1/	2.4 2/

1/ Excluding the first $1.2 billion, annual rate, of voluntary army pay increase, 2.1 per cent per year.

2/ Excluding the first $1.2 billion, annual rate, of voluntary army pay increase, 2.0 per cent per year.

3/ At compound rates.

consumer income and purchases should be supported during both quarters by a series of stimuli: larger employment gains, increased Federal payments to the military in furtherance of a volunteer army, lower withholding taxes, and appreciable tax refunds resulting from retroactive tax concessions which we assume will be enacted shortly by Congress.

The saving rate may rise to about 7.7 per cent during the first quarter, reflecting in part the "windfall" nature of the tax refunds, but the rate is expected to dip to under 7-1/2 per cent in the second quarter.

Anticipated changes in business fixed investment and in residential construction expenditures for the first half differ only a little from our estimates in the last Greenbook. The latest McGraw-Hill survey figures for 1972 appear to be in line with the 7 per cent increase we have projected for the first two quarters. Residential construction activity is expected to advance moderately further, with housing starts edging off only slightly from the 2.2 million rate expected this quarter.

We are holding to our previous estimate of a sizable gain in inventory investment, in response to the brisk rise in final sales and reflecting also a rebuilding of steel and auto stocks. Some modest improvement should also be evident for net exports early next year once the adverse influences of the coal and dock strikes are removed.

The continuing strength in the economy should be reflected in sizable gains in both employment and in the civilian labor force, and a modest reduction in the unemployment rate, to about 5-1/2 per cent by mid-year.

We expect a relatively rapid rate of productivity gain, which should help to keep cost increases in check, and thus operate to support the Phase II program of limiting advances in wages and prices. The rise in prices, as measured by the fixed weight GNP deflator is now expected to moderate to about a 3 per cent annual rate by the second quarter.

GNP AND RELATED ITEMS, 1972
(Changes in seasonally adjusted totals at annual rates)

	QI		QII	
	Proj. of 10/13/71	Current	Proj. of 10/13/71	Current
	-----------Billions of dollars-----------			
GNP	31.0	28.0	27.0	27.0
Final sales	27.8	25.0	22.2	24.7
Personal consumption	17.2	15.1	15.3	16.9
Residential construction	1.8	1.7	.4	.6
Business fixed investment	1.5	1.1	2.5	2.8
Net exports	1.5	2.0	1.5	.5
Federal purchases	1.8	2.0	- .5	.3
State & local purchases	4.0	3.1	3.0	3.6
Inventory change	3.2	3.0	4.8	2.3
	------------Per Cent Per Year---------			
Real GNP	7.9	6.3	7.1	6.6
GNP deflator	3.5 1/	4.0 2/	2.5	3.1

1/ Excluding the remaining \$1.2 billion, annual rate, of voluntary army pay increase, 3.1 per cent per year.
2/ Excluding the remaining \$1.2 billion, annual rate, of voluntary army pay increase, 3.6 per cent per year.

CONFIDENTIAL - FR

November 10, 1971

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

	1971 Proj.	1972 Proj.	1971 III	1971 IV	1972 Projected I	1972 Projected II	1972 Projected III	1972 Projected IV
Gross National Product	1051.0	1149.4	1059.0	1081.0	1109.0	1136.0	1163.0	1189.5
Final purchases	1047.5	1139.6	1057.4	1077.5	1102.5	1127.2	1152.7	1176.0
Private	814.1	887.2	823.0	836.8	856.7	877.5	897.4	917.2
Excluding net exports	813.6	885.2	823.5	837.8	855.7	876.0	894.9	914.2
Personal consumption expenditures	665.7	724.9	672.1	685.0	700.1	717.0	733.0	749.5
Durable goods	102.8	115.8	104.7	108.2	111.5	114.5	117.3	119.9
Nondurable goods	280.1	305.8	281.7	286.8	293.5	302.0	309.7	317.9
Services	282.8	303.3	285.7	290.0	295.1	300.5	306.0	311.7
Gross private domestic investment	151.4	170.1	152.9	156.3	162.1	167.8	172.2	178.2
Residential construction	40.1	44.1	41.7	42.6	44.3	44.9	44.0	43.1
Business fixed investment	107.8	116.2	109.7	110.2	111.3	114.1	117.9	121.6
Change in business inventories	3.5	9.8	1.6	3.5	6.5	8.8	10.3	13.5
Nonfarm	3.0	9.7	0.8	3.0	6.3	8.8	10.3	13.5
Net exports of goods and services	0.6	2.0	-0.5	-1.0	1.0	1.5	2.5	3.0
Exports	65.9	72.0	68.5	62.7	69.1	71.2	72.8	75.0
Imports	65.4	70.0	69.0	63.7	68.1	69.7	70.3	72.0
Gov't. purchases of goods & services	233.4	252.4	234.4	240.7	245.8	249.7	255.3	258.8
Federal	97.8	104.2	97.6	101.2	103.2	103.5	105.4	104.8
Defense	72.2	74.4	71.4	72.6	74.0	73.9	75.1	74.4
Other	25.6	29.8	26.2	28.6	29.2	29.6	30.3	30.4
State & local	135.6	148.2	136.8	139.5	142.6	146.2	149.9	154.0
Gross national product in constant (1958) dollars	741.6	784.5	743.6	754.5	766.3	778.9	790.2	802.6
GNP implicit deflator (1958 = 100)	141.7	146.5	142.4	143.3	144.7	145.8	147.2	148.2
Personal income 1/	858.6	925.6	866.3	878.2	899.0	915.0	935.5	953.0
Wage and salary disbursements	575.1	620.7	578.8	587.0	601.7	613.3	627.3	640.3
Disposable income 1/	743.2	804.2	750.0	759.5 2/	780.3 2/	795.9 2/	812.9	827.8
Personal saving 1/	58.6	59.1	58.8	55.2 2/	60.4 2/	58.8 2/	59.5	57.6
Saving rate (per cent) 1/	7.9	7.4	7.8	7.3 2/	7.7 2/	7.4 2/	7.3	7.0
Corporate profits before tax 1/	86.4	102.3	86.9	90.0	92.5	100.0	105.0	111.5
Corp. cash flow, net of div. (domestic) 1/	81.7	96.5	82.8	86.9	89.3	94.5	98.6	103.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts 1/	200.7	216.9	201.7	206.1	210.2	213.7	219.3	224.5
Expenditures	222.4	243.4	224.9	230.4	237.9	240.1	246.7	248.9
Surplus or deficit (-) 1/	-21.7	-26.5	-23.2	-24.3	-27.7	-26.4	-27.4	-24.4
High employment surplus or deficit (-)	1.9	-4.5	3.0	0.4	-6.2	-3.5	-5.5	-2.9
Total labor force (millions)	86.9	88.3	87.0	87.5	87.8	88.1	88.4	88.8
Armed forces "	2.8	2.5	2.8	2.7	2.6	2.5	2.5	2.5
Civilian labor force "	84.1	85.8	84.2	84.8	85.2	85.6	85.9	86.3
Unemployment rate (per cent)	5.9	5.5	6.0	5.8	5.7	5.6	5.5	5.3
Nonfarm payroll employment (millions)	70.7	72.3	70.7	71.1	71.6	72.0	72.5	73.0
Manufacturing	18.6	18.9	18.5	18.6	18.7	18.9	19.0	19.1
Industrial production (1967 = 100)	106.0	112.3	105.4	106.5	108.7	111.2	113.5	116.0
Capacity utilization, manufacturing (per cent)	74.0	75.3	73.2	73.3	74.0	74.9	75.7	76.6
Housing starts, private (millions A.R.)	2.03	2.10	2.14	2.20	2.18	2.15	2.10	2.00
Sales new autos (millions, A.R.)	10.25	10.88	10.29	11.00	10.80	10.80	10.85	11.05
Domestic models	8.80	9.58	8.76	9.75	9.40	9.50	9.60	9.80
Foreign models	1.45	1.30	1.53	1.25	1.40	1.30	1.25	1.25

NOTE: Projection of related items such as employment and industrial production index are based on projection of deflated GNP. Federal budget high employment surplus or deficit (N.I.A. basis) are staff estimates and projections by method suggested by Okun and Teeters.

1/ Incorporates provisions of Revenue Act of 1971 as passed by House.

2/ Incorporates effect of acceleration of payment of estate and gift taxes.

CONFIDENTIAL - FR

November 10, 1971

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1971 Proj.	1972 Proj.	1971 III	1971 IV	1972 Projected I	1972 Projected II	1972 Projected III	1972 Projected IV
	Billions Of Dollars							
Gross National Product	76.9	98.4	15.9	22.0	28.0	27.0	27.0	26.5
Inventory change	0.7	6.3	-4.1	1.9	3.0	2.3	1.5	3.2
Final purchases	76.2	92.1	20.0	20.1	25.0	24.7	25.5	23.3
Private	62.2	73.1	15.8	13.8	19.9	20.8	19.9	19.8
Excluding net exports	65.2	71.7	15.8	14.3	17.9	20.3	18.9	19.3
Net exports	-3.0	1.4	0.0	-0.5	2.0	0.5	1.0	0.5
Government	14.0	19.0	4.2	6.3	5.1	3.9	5.6	3.5
GNP in constant (1958) dollars	21.6	42.9	5.2	10.9	11.8	12.6	11.3	12.4
Final purchases	20.8	37.9	8.4	9.5	9.3	10.9	10.1	9.8
Private	21.1	34.0	5.8	7.2	9.1	10.2	9.8	9.3
	In Per Cent Per Year							
Gross National Product	7.9	9.4	6.3 1/	8.3	10.4	9.7	9.5	9.1
Final purchases	7.8	8.8	7.7	7.6	9.3	9.0	9.0	8.1
Private	8.3	9.0	7.8	6.7	9.5	9.7	9.1	8.8
Personal consumption expenditures	8.1	8.9	6.8	7.7	8.8	9.7	8.9	9.0
Durable goods	16.0	12.6	15.5	13.4	12.2	10.8	9.8	8.9
Nondurable goods	5.8	9.2	2.7	7.2	9.3	11.6	10.2	10.6
Services	7.7	7.2	7.6	6.0	7.0	7.3	7.3	7.5
Gross private domestic investment	11.9	12.4	1.3	8.9	14.9	14.1	10.5	13.9
Residential construction	31.9	10.0	20.2	8.6	16.0	5.4	-8.0	-8.2
Business fixed investment	5.6	7.8	10.1	1.8	4.0	10.1	13.3	12.6
Gov't. purchases of goods & services	6.4	8.1	7.3	10.8	8.5	6.3	9.0	5.5
Federal	0.6	6.5	7.9	14.8	7.9	1.2	7.3	-2.3
Defense	-4.2	3.0	-2.2	6.7	7.7	-0.5	6.5	-3.7
Other	16.9	16.4	38.5	36.6	8.4	5.5	9.5	1.3
State & local	11.0	9.3	6.8	7.9	8.9	10.1	10.1	10.9
GNP in constant (1958) dollars	3.0	5.8	2.9 1/	5.8	6.3	6.6	5.8	6.3
Final purchases	2.9	5.1	4.6	5.1	5.0	5.7	5.2	5.0
Private	3.6	5.7	3.9	4.8	6.0	6.6	6.2	5.8
GNP implicit deflator	4.7	3.4	3.3 1/	2.4 3/	4.0 4/	3.1	3.6 5/	2.8
Private GNP fixed weight price index 2/	4.9	3.3	4.4 1/	2.0	3.6	3.1	2.9	2.8
Personal income	6.8	7.8	5.2	5.5	9.5	7.1	9.0	7.5
Wage and salary disbursements	6.2	7.9	4.5	5.7	10.0	7.7	9.1	8.3
Disposable income	8.1	8.2	4.6	5.1	11.0	8.0	8.5	7.3
Corporate profits before tax	14.6	18.4	2.3	14.3	11.1	32.4	20.0	24.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	4.8	8.1	7.3	8.7	8.0	6.7	10.5	9.5
Expenditures	8.4	9.4	7.2	9.8	13.0	3.7	11.0	3.6
Nonfarm payroll employment	0.1	2.3	0.0	2.3	2.8	2.2	2.8	2.8
Manufacturing	-4.1	2.7	-2.2	2.2	2.2	4.3	2.1	2.1
Industrial production	-0.7	5.9	-5.2	4.2	8.3	9.2	8.3	8.8
Housing starts, private	41.5	3.7	36.5	11.0	-4.5	-4.6	-9.3	-19.0
Sales new autos	22.7	6.1	19.0	27.8	-7.3	0.0	1.9	7.4
Domestic models	23.6	8.9	22.7	45.3	-14.4	4.3	4.2	8.3
Foreign models	18.0	-10.5	-1.0	-72.6	48.0	-28.6	-15.4	0.0

1/ At compound rates.

2/ Using expenditures in 1967 as weights.

3/ Excluding the first $1.2 billion, annual rate, of voluntary army pay increase, 2.0 per cent per year.

4/ Excluding the remaining $1.2 billion, annual rate, of voluntary army pay increase, 3.6 per cent per year.

5/ Excluding Federal government general pay increase, 2.9 per cent per year.

Industrial production. Industrial production is tentatively estimated to have changed little in October as an apparent rise in output of consumer goods and business equipment was offset by a sharp decline in coal production because of a strike.

Auto assemblies in October were at an 8.5 million unit rate, the same as in the third quarter. November production schedules are also set at an 8.5 million rate despite the large rise in sales since late September. While General Motors has raised its December output schedule by 8000 cars, this amounts to an increase of only 1.3 per cent for the monthly scheduled total, to an annual rate of 8.6 million units. Producers are evidently not sure that sales of domestic cars will continue at the very advanced October rate after the freeze. Output of consumer staples, furniture, and some appliances probably rose in October. Production of industrial and commercial equipment is estimated to have increased moderately, following the pattern of the last few months (production worker manhours for both electrical and nonelectrical machinery rose one per cent further in October).

Gains in output of raw steel moderated in October and production of steel mill products apparently also showed less rise than in September. Output of copper recovered further from the strike-reduced July level. The decline in coal production because of the strike is equivalent to a drop of 0.6 of a point in the total index.

INDUSTRIAL PRODUCTION
1967=100, seasonally adjusted

	1971			Per cent change	
	July	Aug.	Sept.	Sept 1969 1/ to Sept 1971	Nov 1970 2/ to Sept 1971
Total index	106.1	104.8	105.3	-5.9	2.6
Consumer goods	115.8	116.0	116.2	3.5	7.9
Autos	107.9	108.5	108.0	-7.4	108.5
Home goods	112.8	111.8	111.8	.2	4.9
Apparel & staples	115.9	116.4	116.6	4.8	3.8
Business equipment	96.4	96.2	96.8	-12.2	2.3
Defense equipment	77.7	77.7	76.9	-24.7	-5.9
Intermediate products	113.3	111.4	111.2	- .8	-.4
Construction products	114.1	110.0	110.0	-1.7	-.4
Materials, total	105.5	102.4	103.7	-9.4	.9
Durable	98.9	93.7	95.7	-16.7	2.2
Steel	99.8	63.3	78.3	-33.1	-18.1
Nondurable	112.5	113.0	112.6	-1.1	-.6

1/ Pre-recession peak of the total index.
2/ Auto strike induced low of the total index.

Retail sales. Retail sales in October were about half a per cent higher than in September, according to our estimate based on the weekly reports. This estimate may revise upward since the weekly figures on the value of sales of the automotive group indicate a decline for the month in contrast to the strong increase in unit auto sales. Sales of furniture and appliances and nondurables increased by close to 1 per cent, with general merchandise and apparel showing the most strength. (Official figures should be available for inclusion in the Supplement.)

Unit auto sales. Sales of new domestic type autos in October continued their rapid rise to a record seasonally adjusted annual rate of 10.6 million units, up 12 per cent from September and sharply over a year ago when sales were depressed by the GM strike. Since August 21, domestic sales have been at a 9.6 million unit rate, a pace 15 per cent above the 8.3 million unit annual rate of the seven and one half months of the year before the New Economic Program.

Stocks of new domestic-type cars at the end of October were similar in actual numbers to the recent relatively normal years of 1968 and 1969. However, with sales in October at a record rate, stocks amounted to only a 48.5 day supply, a relatively low level by recent standards.

October sales of foreign cars were at an annual rate of 1.3 million units, down 12 per cent from the revised September figure but 7 per cent above a year ago. The decline from September reflected supply shortages caused by dock strikes and rising prices resulting from production cost increases, the import surcharge, and changes in exchange rates. The import share of total sales fell to 11 per cent, down from 15 per cent in September and 17 per cent a year ago. Sales of foreign cars in the first 10 months of the year were at a 1.5 million unit rate.

DISTRIBUTION OF U.S. AUTO SALES
(In per cent 1/)

	1970	1971		
	October	August	September	October
Total	100.0	100.0	100.0	100.0
Domestic				
Total	83.5	78.1	85.5	88.9 e
Large	66.9	57.1	65.6	69.9 e
Small 2/	16.6	21.1	19.9	19.0 e
Imports				
Total	16.5	21.9	14.5	11.1 e
Low priced	14.4	18.6	12.2	9.6 e

1/ Based on not seasonally adjusted data.
2/ Compacts and subcompacts.

Consumer credit. The September increase in consumer instalment credit outstanding--a leading indicator--amounted to a record $12.0 billion, seasonally adjusted annual rate, as compared with $9.9 billion in August. The increase for the quarter as a whole was $10.3 billion (annual rate), also a record. The previous monthly and quarterly highs were reached in October 1968 and the fourth quarter of that year respectively.

While the new peaks largely reflect exceptional strength in automobile sales, sizable gains have also occurred during recent months in other types of credit. The increases in nonautomotive consumer goods credit and personal loans during the third quarter were substantially larger than in the second quarter.

NET CHANGE IN CONSUMER INSTALMENT CREDIT OUTSTANDING
(Billions of dollars, seasonally adjusted annual rates)

	Total	Automobile	Other consumer goods	Personal loans	Home repair and modernization
1970 - QIII	4.1	- .6	2.4	2.1	.1
QIV	-1.5	-4.4	1.8	1.1	.0
1971 - QI	2.7	.4	.6	1.7	.1
QII	6.7	2.3	1.8	2.3	.3
QIII	10.3	3.7	2.8	3.5	.3

Interest rates on consumer instalment loans up to $5,000 with maturities up to 36 months were reduced about 1 percentage point (true annual rate) in early November by 3 major banks in New York (Chase Manhattan, First National City, Bankers Trust). These announced reductions lowered consumer loan rates to about the levels posted by 2 other New York banks (Chemical, Franklin National) in late August. One West Coast bank (Crocker National) also announced a reduction early this month of approximately one-half percentage point (true annual rate) on consumer instalment loans.

Terms on consumer loans are generally regarded as determined on a regional market basis and rates show considerable disparity throughout the country. For example, the rate for a 12-month unsecured personal loan is now listed at 10.07 per cent at the New York banks and 15.78 per cent at Crocker National; a 36-month new car loan is now 10.88 per cent at the big New York City banks (except Franklin National, 10.27 per cent) but 9.11 per cent at Crocker National.

Census consumer buying survey. The October Census survey indicates that consumer buying plans and expected income changes are similar to those of a year ago. The index of expected purchases of new cars (Jan-April 1967=100) increased to 103.4 in October from 94.8 in July, and compares with 103.8 a year earlier. The number of appliances reported likely to be bought also rose in the current survey from July and approximates the year earlier level. Buying plans for houses declined for the second successive quarter and were unchanged from October 1970.

Households expecting an income increase declined appreciably in the current survey, presumably reflecting the wage freeze; however, those expecting a decrease in income edged downward and, on balance, expectations are very similar to those a year earlier. On the other hand, actual income changes worsened, with higher income reported by fewer households and lower income reported by more families as compared with a year ago and with the previous survey in July this year. Nonetheless, reported actual current income is still better than in the first half of this year.

The buying intentions portion of this survey appears to have limited predictive value, probably largely because of inaccurate household projections of family income. An examination of actual new car purchases by families remaining in this survey over three successive periods suggests that families with zero intention of buying a new car are more apt to purchase a new car if it turns out that their actual income increases when they previously thought it might not. Moreover, a higher percentage of families expecting to buy a car actually go through with the purchase if they think their income will increase and their income actually does increase. Thus, if income does increase substantially over the next quarter or so, past experience with this survey suggests that the current survey index of unit purchases of new autos may understate actual sales developments.

HOUSEHOLD PURCHASE AND INCOME EXPECTATIONS

	1970	1971			
	October	January	April	July	October
INDEXES OF EXPECTED UNIT PURCHASES (Jan 1967-April 1967 = 100)					
New cars	103.8	107.9	104.7	94.8	103.4
Houses	95.6	96.3	101.7	97.7	95.5
ACTUAL AND EXPECTED CHANGES IN INCOME					
Current income compared to income of one year ago:					
Per cent reporting higher current income	37.3	35.0	35.1	37.6	34.9
Per cent reporting lower current income	13.6	14.2	14.5	12.5	13.7
Difference	23.7	20.8	20.6	25.1	21.2
Mean expectations of substantial changes in income:					
Increase	16.7	17.2	19.9	17.0	15.7
Decrease	7.3	6.7	7.5	6.8	6.7
Difference	9.4	10.5	12.4	10.2	9.0
Number of major appliances reported likely to be bought per 100 households within 12 months	26.8	24.4	26.1	24.1	26.1

NOTE: Indexes of expected unit purchases are seasonally adjusted. Other series do not appear to contain seasonal movement.

<u>Manufacturers' orders and shipments</u>. New orders for durable goods declined 3 per cent in September (preliminary). Steel orders began to pick up as stocks accumulated earlier were run down, but the volatile defense series dropped sharply and there were also declines in all other major market categories. Excluding defense and primary metals, orders declined 2-1/2 per cent, but this decline followed an August increase of 3.2 per cent, and both the September level and the average for the quarter as a whole were above the second quarter figures. This recent improvement in non-defense orders occurred entirely in the motor vehicle and "all other" durables group; the latter includes manufacturers of construction materials and automotive components. Orders for capital equipment were down 2 per cent in the third quarter.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
(Seasonally adjusted, monthly averages)

	1971				Change, Sept. from August
	QII	QIII (prel.)	Aug. (rev.)	Sept. (prel.)	
	--------Billions of dollars--------				--Per Cent--
Durable goods, total	30.5	31.5	31.8	30.8	-3.1
Excluding defense and primary metals	24.2	24.9	25.4	24.8	-2.5
Primary metals	4.7	4.4	4.2	4.5	7.4
Iron & steel	2.1	1.9	1.7	2.0	19.1
Other	2.6	2.5	2.5	2.5	- .7
Motor vehicles & parts	4.7	5.2	5.3	5.2	-1.9
Household durables	2.4	2.4	2.5	2.4	-2.7
Defense products	1.6	2.2	2.2	1.5	-31.6
Capital equipment	7.9	7.7	8.0	7.7	-3.9
All other durables	9.2	9.6	9.7	9.5	-1.5

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

Steel shipments increased from the very low August level, but this was more than offset by a drop in defense shipments and declines in several other groups. The backlog of unfilled orders declined 0.6 per cent and was back to the reduced July level, 13 per cent below the mid-1969 peak.

Inventories. In September, according to preliminary book value data, business inventories rose at a $9.5 billion annual rate, the highest since March. Stocks rose for all major categories, except durable goods manufacturing. Durable goods manufacturers continued to run down stocks of steel and other materials but increased finished and in-process stocks at steel mills and machinery and transportation equipment establishments. For the third quarter as a whole, the book value increase was about the same as in the second quarter.

September retail sales are not available on the revised basis and the business inventory-sales ratio cannot yet be calculated. For both manufacturers and wholesale trade, sales were down and the inventory-sales ratio up slightly in September. Manufacturing ratios were more favorable than a year earlier and similar to the 1968 steel runoff, while the wholesale trade ratio was about the same as a year earlier. With the durable manufacturers' order backlog resuming its decline in September, the inventory/backlog ratio continues to indicate a heavy and increasing overhang, particularly for capital equipment.

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

	1971			
	QII	QIII (prel.)	Aug. (rev.)	Sept. (prel.)
Manufacturing and trade	6.2	6.3	5.8	9.5
Manufacturing, total	.1	-1.3	-1.6	1.8
Durable	-1.0	-1.3	-2.0	- .3
Nondurable	1.2	.0	.5	2.1
Trade, total	6.0	7.6	7.4	7.7
Wholesale	2.2	2.0	- .9	.4
Retail	3.9	5.7	8.2	7.3
Durable	2.7	4.7	6.9	6.4
Automotive	2.8	4.6	7.6	5.5
Nonautomotive	- .1	.1	- .8	.9
Nondurable	1.1	1.0	1.4	.9

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

INVENTORY RATIOS

	1968		1970		1971	
	Aug.	Sept.	Aug.	Sept.	Aug. (rev.)	Sept. (prel.)
Inventories to sales:						
Manufacturing, total	1.80	1.74	1.79	1.81	1.73	1.74
Durable	2.18	2.07	2.13	2.17	2.05	2.07
Nondurable	1.36	1.34	1.37	1.37	1.35	1.36
Wholesale trade, total	1.20	1.18	1.23	1.24	1.23	1.24
Inventories to unfilled orders:						
Durable manufacturers	.716	.716	.816	.833	.862	.867

Cyclical indicators. The preliminary Census composite leading indicator index declined 0.3 per cent in September. The August decline, previously reported at 1 per cent, is now indicated to be 0.1 per cent, so that the preliminary September index is only 0.4 per cent below its July peak.

Leading series which declined in September were the manufacturing workweek, new orders for durable goods, contracts and orders for plant and equipment, housing permits, and the ratio of price to unit labor cost. There were increases in industrial materials prices and the monthly average of common stock prices, and a slight decline in initial claims for unemployment insurance (treated inversely in the index).

COMPOSITE CYCLICAL INDICATORS
(1967=100)

		12 Leading Trend Adjusted	5 Coincident	6 Lagging
1971:	April	124.1	123.1	123.6
	May	125.2	124.0	123.0
	June	125.1	126.2 (H)	124.0
	July	127.0 (H)	124.5	124.3
	August	126.9	124.1	126.6
	September (prel.)	126.5	125.2	127.6

(H) Current high value.

The preliminary coincident composite rose 0.9 per cent in September but was still below the June high, while the lagging composite rose 0.8 per cent. The latter index is 3.7 per cent above its May low but still 3.6 per cent below the peak reached in August 1970.

Construction and real estate. Seasonally adjusted new construction put in place in October edged higher from September[1/] to virtually the peak $113 billion annual rate now reported for August. Outlays for residential construction--already up more than 50 per cent from the low in July of 1970--changed little from the record rate achieved in September. Outlays for public projects, mainly State and local, also changed little in October at a rate still moderately under the high reached in the first quarter of this year. While expenditures for private nonresidential construction advanced in October, they remained moderately below their August peak.

Over-all, construction costs apparently edged off somewhat in October, according to tentative Census Bureau indications. But, at a level 9 per cent above a year earlier, they continued to account for about half the year-to-year gain in total current dollar outlays in October.

1/ The September figure was revised upward by 2 per cent as part of an extensive revision just completed. The revision carries back to January of 1960 in the case of residential and farm construction; for the more recent period, it also incorporates a number of data and procedural improvements affecting two categories of private nonresidential construction, namely, nonresidential buildings and privately owned public utilities. For 1970 and other recent years, the net effect of all the revisions was to raise the level of the new series relative to the old by up to 3 per cent for total construction and by about 8 per cent for the private residential component as a whole, with only a moderate upward adjustment for private nonresidential and virtually no change for public. In the case of the residential sector, the upward revision resulted almost entirely from a much needed separation of 1-unit structures from multifamily structures for estimating purposes. On a seasonally adjusted basis, the new residential outlay series shows the same cyclical turning point in 1970 as the old.

NEW CONSTRUCTION PUT IN PLACE
(Seasonally adjusted annual rate)

	All	Private: Total	Private: Residential 1/	Private: Nonresidential 1/	Public
		Billions of dollars			
1970 - Annual (Old)	91.3	63.1	29.3	33.8	28.2
Annual (r)	94.3	66.1	31.7	34.4	28.1
1971 - IQ (r)	102.0	71.4	36.6	34.8	30.6
IIQ (r)	107.6	78.0	41.1	36.9	29.5
IIIQ (r)	111.9	82.4	44.7	37.7	29.5
1971					
August (r)	113.0	83.1	44.8	38.3	29.8
September (r)	111.9	82.7	45.6	37.0	29.2
October (p) 2/	112.4	83.2	45.5	37.7	29.3
		Per cent change in August from a year earlier			
In current dollars	+17	+23	+38	+8	+2
In 1967 dollars	+8	+13	+30	-4	-6

1/ New series includes Farm Residential, a very nominal amount, formerly in Nonresidential.
2/ Data for the most recent month (October) are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Seasonally adjusted private housing starts, which had surged to an exceptional 2.2 million unit annual rate this summer, dropped more than a tenth in September. Even so, the September rate was sufficiently high to leave the third quarter average at a record 2.14 million annual pace, nearly a tenth above the advanced second quarter rate and up more than 70 per cent from the cyclical low experienced in the first quarter of 1970.

While the uncertainty about "Phase II" developments, including the possibility of lower interest rates, may have contributed to the September drop, technical measurement problems related to working day allowances appear also to have been a factor. Both types of factors may also contribute to a dampening of the starts rate for October; which has yet to be reported. However, given the near-record volume of mortgage commitments outstanding and the advanced rate of building permits, some increase beyond the third quarter average is indicated for the fourth quarter as a whole, probably mainly in single-family units.

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

	Starts			
	Total1/	Per Cent Single-family	Per Cent FHA-insured2/	Permits
1970 - Annual	1,434	57	29	1,324
1970				
IIQ	1,286	58	28	1,257
IIIQ	1,512	56	28	1,358
IVQ	1,777	58	35	1,593
1971				
1Q	1,813	55	24	1,608
IIQ	1,962	58	22	1,805
IIIQ (p)	2,141	56	24	2,008
1971				
July (r)	2,229	53	22	2,052
August (r)	2,235	54	23	2,006
September (p)	1,958	60	28	1,967

1/ Apart from starts, mobile home shipments for domestic use in August--the latest month for which data are available--were at a seasonally adjusted annual rate of 529,000, virtually matching the record reached in July and 10 per cent above the advanced rate in the second quarter of the year.

2/ Based on unadjusted totals for all periods. FHA-insured starts include both subsidized and nonsubsidized units.

Based on the number of units available and fit for use, rental vacancy rates advanced to an average of 5.3 per cent in the third quarter of 1971. While this was the highest for any third quarter since 1968, it was still well below earlier highs both nationally and regionally. Moreover, with new and existing home sales continuing relatively strong, vacancy rates for home-owner units remained quite low even by more recent standards.

RESIDENTIAL VACANCY RATES
(Per cent)

	Average for third quarter of:				
	1965	1968	1969	1970	1971
Rental Units	7.2	5.4	5.0	4.9	5.3
Northeast	4.6	3.4	2.8	2.8	2.8
North Central	6.4	5.4	5.5	5.4	5.3
South	7.9	6.8	6.3	6.5	7.0
West	10.8	6.2	5.8	5.0	6.3
Home-Owner Units	1.5	1.1	1.0	1.0	.9

Planned plant and equipment spending. Businessmen currently plan to increase outlays for new plant and equipment by 7-9 per cent in 1972 according to two recent surveys; the estimated increase for 1971 is 2 per cent. The McGraw-Hill survey, taken in October, indicates an expected rise in spending of 7 per cent, with manufacturers planning an 8 per cent increase (in contrast to a decline of 6 per cent in 1971) and nonmanufacturers a 6 per cent rise (compared with 8 per cent in 1971). The earlier Lionel D. Edie survey showed a 9 per cent overall increase with 8 per cent in manufacturing and 9 per cent in nonmanufacturing. The difference in the planned nonmanufacturing increase between the two surveys is largely attributable to electric utilities. McGraw-Hill reports only a very small prospective increase by utilities firms while Edie reports a significant further rise. In both surveys the planned increase for electric utilities is well below the estimated sharp rise in 1971.

PLANS FOR CAPITAL SPENDING

	1971 (Estimated) 1/		1972 (Planned)	
	(Bil. $)	(per cent change from 1970)	McGraw-Hill (per cent change	Edie from 1971)
All business	81.44	2	7	9
Manufacturing	30.11	-6	8	8
Durable goods	14.31	-9	9	8
Nondurable goods	15.80	-2	8	9
Nonmanufacturing 2/	51.33	7	6	9
Railroads	1.64	-8	-3	4
Other transportation	3.16	-26	22	33
Electric utilities	13.12	23	2	10
Gas utilities	2.40	-4	6	16
Communication	10.99	9	10	6
Commercial	17.94	8	4	6

1/ Commerce-SEC.
2/ Includes industries not shown separately.

Respondents to both surveys indicate that the new liberalized depreciation rules and the proposed investment tax credit will have only a minimal impact on 1972 investment plans--McGraw-Hill puts the impact at $0.4 billion of the total increase of $5.6 billion. However, a greater impact is expected in 1973 and following years. McGraw-Hill also indicated that businesses expect to pay 5 per cent more for plant and equipment in 1972 while charging 3 per cent more for their own products; the dollar volume of manufacturing sales is expected to increase by about 8 per cent in 1972 (5 per cent in physical volume terms).

<u>Labor market</u>. The labor market continues to show limited improvement: unemployment was down in October and total employment in the household series showed a sizable gain, but the nonfarm payroll series showed little strength. The unemployment rate declined in October by 0.2 percentage points to 5.8 per cent, seasonally adjusted. Nearly all of the decline in unemployment occurred among adult men, most of whom were apparently seeking full time work. The unemployment rate for married men dropped 0.3 percentage points to 3.0 per cent, the lowest rate since October 1970; joblessness also fell among blue-collar workers. The unemployment rates for most other groups showed little change. Compared to a year ago, the unemployment rate for Negroes is up 1.4 percentage points while the rate for whites is virtually unchanged, returning the Negro-to-white unemployment ratio from 1.8 to one to its longer-run ratio of two to one.

Accompanying the decline in unemployment was an increase of 320,000 in total household employment. The civilian labor force was up by 185,000 in October, after growing by an average of 385,000 in August and September. The civilian labor force has expanded 1.5 million from a year ago and the total labor force by 1.1 million--both increases were less than the labor force growth expected on the basis of population growth and longer-run trends in participation rates. Since October 1970, total employment (household series) has advanced by 1.1 million and the unemployment rate has increased from 5.5 to 5.8 per cent.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1970	1971		
	October	April	September	October
Total	5.5	6.1	6.0	5.8
Adult men	4.1	4.4	4.5	4.3
Adult women	5.0	6.0	5.6	5.5
Teenagers	17.0	17.2	17.1	17.0
Married men	3.0	3.1	3.3	3.0
White	5.2	5.6	5.4	5.3
Negro	9.3	10.0	10.5	10.7
White-collar	3.0	3.8	3.3	3.4
Blue-collar	7.3	7.4	8.0	7.2

In contrast to total household employment, payroll employment showed no change in October after rising sharply in September. But the lack of any growth was due to an increase in strike activity over the month in the mining (coal) and transportation (docks) industries. Even after excluding the effect of strikes, however, payroll employment rose by only 85,000, and manufacturing employment was virtually unchanged. Sizable gains occurred in primary metals and autos, but in other industries employment showed little change or small declines. Outside of manufacturing, employment rose moderately in services and State and local governments.

The number of employees on nonfarm payrolls has increased by 450,000 since the beginning of the year, but is still 250,000 below the peak reached in March 1970. Most of the unemployment increases have been in trade, services and State and local government. Manufacturing employment in October was down 120,000 from January and was 1.6 million below the alltime high reached in July 1969.

Average hours of production workers in manufacturing rose 0.1 hours to 39.7 in October after declining in the previous two months. Most of this increase occurred in durable goods manufacturing where gains in metals, electrical machinery and autos raised average hours in durable manufacturing 0.4 hours. The manufacturing workweek, however, still remains below the 40.0 hour mark of earlier this year.

NONFARM PAYROLL EMPLOYMENT, 1971
(seasonally adjusted, in thousands)

	Average monthly change			
	I	II	III	Oct. from Sept.
Total	56	59	83	-6
Private	19	44	61	-47
Manufacturing	-62	0	4	12
Production workers	-43	16	10	-10
Nonmanufacturing	82	43	57	-59
Mining	0	-1	-2	-93
Construction	-13	-3	-4	15
Transportation & p.u.	23	-7	-15	-25
Trade	41	20	44	5
Services and finance	31	34	34	39
Government	37	15	22	41
Federal	0	-7	11	3
State and local	36	23	10	38

Pay Board policy. As a general standard for pay increases during Phase II, the Pay Board has established that annual wage and benefit increases should be related to productivity improvement and cost-of-living trends. Initially, the Board has set a 5.5 per cent guideline for annual aggregate increases in all labor agreements signed after the freeze ends November 13. This guideline is not inflexible, however, and the Board announced that the standard will be reviewed periodically and could be revised in the future. In addition, the Board indicated that in reviewing new contracts it will take account of ongoing collective bargaining and pay practices and equity considerations. The Board also decided to accept contracts agreed to prior to the freeze, including deferred wage increases scheduled to go into effect after the freeze period, provided they are not challenged by an interested party or 5 members of the Pay Board; increases, however, which would have gone into effect during the freeze period cannot be granted retroactively except under limited conditions.

Wage developments. The rapid pace of wage increases has slowed sharply since the wage freeze began. Average hourly earnings of production workers on private nonfarm payrolls have risen at a far slower rate since August than from January to August. The peculiar August-October movements in mining and transportation are due to strikes. In manufacturing and trade there has been no increase in average hourly earnings; in construction, there has been a dramatic slowdown.

AVERAGE HOURLY EARNINGS OF PRODUCTION
AND NONSUPERVISORY WORKERS, 1971
(Per cent change, annual rate;
seasonally adjusted)

	January-August	August-October
Private nonfarm	6.7	1.7
Manufacturing	5.4	.0
Mining	7.4	-30.5
Construction	9.1	4.2
Transportation & p.u.	7.6	11.3
Trade	6.1	.0
Finance	8.1	- 1.8
Services	4.1	6.0

First-year wage increases in major collective bargaining settlements concluded in private nonfarm industries during the third quarter of 1971 averaged 14.0 per cent. The faster rate of increase in the third quarter reflected large wage settlements prior to the wage freeze in both manufacturing and nonmanufacturing, mainly because of the steel and telephone agreements which covered nearly one million workers--about 70 per cent of the workers concluding settlements in the third quarter. Settlements reached in the first nine months of this year covered 2.8 million workers. Nearly 1.4 million workers whose contracts expired during this period have not settled; longshoring and coal because of strikes and aerospace and steel fabricating because of the freeze. In contract construction, reports of settlements have been fragmentary.

WAGE INCREASES IN MAJOR COLLECTIVE BARGAINING SETTLEMENTS
(Mean Adjustments)

	Annual Rate of Increase			
	Year		1971	
	1969	1970	1st 6 mos.	IIIQ
Private nonfarm industries 1/				
First year	9.2	11.9	10.0	14.0
Average over life of contract	7.6	8.9	8.0	7.8
Manufacturing				
First year	7.9	8.1	8.7	14.5
Average over life of contract	6.0	6.0	6.4	8.5
Nonmanufacturing				
First year	10.8	15.2	12.0	13.6
Average over life of contract	9.3	11.5	10.8	7.2
Construction				
First year	13.1	17.6	13.4	11.4
Average over life of contract	13.1	14.9	14.2	10.3

1/ Covers settlements affecting 1,000 workers or more.

Wage increases averaged over the life of the contract amounted to 7.8 per cent a year in major contracts concluded in the third quarter, little changed from the average for the first half of the year and moderately lower than in 1970. In construction, wage rate increases although still high have declined substantially since 1970, probably reflecting the necessity for approval by the Construction Industry Stabilization Committee of all wage increases in settlements reached after March 28, 1971. Reported construction settlements cover 186,000 workers or only about one-third of all workers covered by major construction contracts scheduled to expire in 1971.

When wages and benefits are combined, first-year adjustments averaged 15.0 per cent in the third quarter; averaged over the life of the contract, the annual rate of increase was 8.4 per cent compared with 9.1 per cent in 1970.

Industrial relations. There appears to have been little collective bargaining activity in key contract negotiations during October. The strike of 80,000 coal miners has lasted more than a month. Dwindling stockpiles of coal and some shortages have led to layoffs at scattered steel and aluminum plants. Layoffs of railroad workers because of reduced coal shipments have been reflected in a sharp rise in the number of claims for benefits under the railroad unemployment insurance program. Longshoremen at the ports of Philadelphia, Baltimore, New Orleans, and Beaumont, Texas recently returned to work in response to court orders, leaving about 30,000 dock workers on strike at Atlantic and Gulf ports. At the key New York port, contract negotiations have reportedly been stepped up recently. The West Coast dock strike was halted by Taft-Hartley injunction. If there is no settlement during the 80-day cooling off period, the strike could be resumed December 24.

Productivity and labor costs. Growth in output per manhour in the private nonfarm economy slowed to a 2.1 per cent annual rate in the third quarter--half the second quarter gain. The sharp cut in steel production was partly responsible for this slowing and was a major factor in an outright decline in manufacturing productivity. Compared with the third quarter last year, output per manhour was up 2.8 per cent in the nonfarm sector. This year-over-year increase, while still on the low side, was a considerable improvement over the performance of 1969 and 1970.

COMPENSATION, PRODUCTIVITY, AND UNIT LABOR COSTS

	Compensation per manhour		Output per manhour		Unit labor cost	
	Private Nonfarm economy	Manufac-turing	Private nonfarm economy	Manufac-turing	Private nonfarm economy	Manufac-turing
Per cent change from previous quarter: (annual rate)						
1970: III	8.7	9.1	5.6	4.1	2.9	4.4
IV	5.5	5.8	-1.6	-4.7	7.2	11.1
1971: I	9.1	10.3	6.7	8.4	2.3	1.4
II	7.8	5.2	4.3	6.7	3.4	-1.0
III	5.4	4.4	2.1	-2.1	3.2	6.7
Per cent change from year earlier:						
1969	6.9	6.4	- .1	1.3	7.1	5.1
1970	7.0	6.6	.7	1.5	6.3	5.0
1971: I	7.4	7.9	3.7	4.0	3.6	3.8
II	7.8	7.6	3.7	3.5	3.9	3.9
III	6.9	6.4	2.8	1.9	4.0	4.4

The rise in compensation per manhour in the private nonfarm economy slowed to a 5.4 per cent annual rate in the third quarter from 7.8 per cent in the second quarter due partly to the effects of the freeze. As would be expected, the freeze had less influence on the size of the over-the-year increases in compensation per manhour and these continued about as large in the third quarter as in 1969 and 1970 in both the private nonfarm economy and manufacturing. But, with productivity gains much larger this year than in 1969 and 1970, the year-over-year rise in unit labor costs continued smaller in the third quarter than for the years 1969 and 1970.

Wholesale prices. On a seasonally adjusted basis, the wholesale price index rose at an annual rate of 1.3 per cent between September and October as an increase in prices of farm and food products at an annual rate of 18.4 per cent more than offset the 3.3 per cent rate of decline for industrial commodities. Before seasonal adjustment, the overall WPI dropped 1.0 per cent at an annual rate and would have declined even more but for increased prices of raw agricultural products, which are not controlled under the President's economic stabilization program, and imported items, to which special regulations apply. The second consecutive monthly decline in the seasonally adjusted index of industrial commodities was the largest since mid-1960; two consecutive monthly declines last occurred in early 1964.

The rise in farm and food prices reversed last month's decline and reflected increases for fresh and dried fruits and vegetables, meats, and dairy products.

WHOLESALE PRICES
(Percentage changes, seasonally adjusted annual rates)

	June 1970 to Dec. 1970	Dec. 1970 to June 1971	June 1971 to Sept 1971	Sept 1971 to Oct. 1971	Aug. 1971 to Oct. 1971
All commodities	2.2	5.0	2.1	1.3	-1.8
Farm and food 1/	- .4	7.2	-5.5	18.4	-2.1
Industrial commodities	3.4	4.1	4.7	-3.3	-2.1
Crude materials 2/	.8	4.7	1.3	4.0	3.0
Intermediate materials 2/	1.8	5.5	6.8	-2.0	-1.0
Finished goods 2/	5.4	2.3	2.4	-3.8	-2.4
Producer	6.0	3.3	2.8	-5.0	-3.0
Consumer	5.1	1.8	2.2	-3.2	-2.1

1/ Farm products, and processed foods and feeds.
2/ Excludes food.

The preponderance of declines or no-changes among the groups of industrial commodities was reflected in the direction of change in 231 industrial product classes in October. These changes are similar to those for September and are markedly different than a year earlier and from more recent periods.

WHOLESALE PRICES
Monthly changes in 231 industrial product classes

	1970 1/ Sept.	1970 1/ Oct.	1971 Average monthly changes Jan to March	1971 Average monthly changes Apr. to June	1971 Average monthly changes July to August	1971 Sept.	1971 October
Number of:							
Increases	101	109	124	111	113	51	48
Decreases	42	41	40	40	33	53r	50
No changes	85	78	67	79	85	127r	133

1/ 228 product classes

Prices of consumer nonfood finished goods declined 0.3 per cent on a seasonally adjusted basis in October as prices of gasoline dropped and those for new-model passenger cars increased less than usual. Lower seasonally-adjusted prices for passenger cars and trucks were mainly responsible for the 0.4 per cent decline in producer finished goods.

The October increase in unadjusted prices of passenger cars reflected not only an advance in prices of U. S. cars but an increase also for imported cars and may presage changes in the competitive price positions of U. S. and imported cars. A recent staff study shows that the Administration's new economic policies involving prices, import surtaxes, Federal excise taxes on automobiles, and exchange rate adjustments can improve markedly the competitive price position of U. S. subcompacts vis-a-vis foreign makes. The October wholesale price index for passenger cars to some extent reflects these policies as the surcharge and exchange rate adjustments contributed to the rise in prices of imported passenger cars. If, however, the import surcharge is terminated and a price increase of only one-half of the increase that had been announced prior to the freeze is made on domestic 1972 models, the relative price competitiveness of the subcompacts will revert to a position similar to that of the pre-freeze period, assuming no further appreciation of the currencies of the major foreign auto producers.

Consumer prices. The rise in consumer prices slowed in September to a seasonally adjusted annual rate of 2.4 per cent. Particularly sharp declines for raw foods offset in part substantial increases in certain processed foods, apparel, and college tuition.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Dec. 1970 to Mar. 1971	Mar. 1971 to June 1971	June 1971 to Sept. 1971	July 1971 to Aug. 1971	Aug. 1971 to Sept. 1971
All items	2.8	5.3	3.3	5.2	2.4
Food	6.0	6.3	- .3	1.0	-3.0
Commodities less food	1.0	4.9	3.1	6.3	2.1
Services 1/	3.2	5.2	5.4	5.7	4.7
Addendum:					
Services less home finance 1/2/	8.5	6.3	4.9	4.8	3.8

1/ Not seasonally adjusted.
2/ Confidential.

Items exempted from the freeze declined on balance as the increases in mortgage rates and taxes (both indexes embody lags) were more than offset by the drop in prices of unprocessed foods.

Declines in fresh fruits and vegetables, eggs and coffee more than offset sizable increases in beef, frozen orange juice, margarine and salad oils. As a result, seasonally adjusted food prices in September were below their June level; over the previous six months they had increased at an average annual rate of about 6 per cent.

The September index includes substantial increases in certain nonfood commodities and services, but the rates of rise for these components were significantly lower than in August and over the first seven months of the year. Prices of apparel rose more than seasonally and gasoline prices rose further, although by less than in August, and remained about 3 per cent above year-ago levels. Both new and used car prices fell, but were still about 6 per cent above those a year earlier.

The major service price increases occurred in home maintenance and repair services and college tuition. Rent and medical service costs rose more slowly than previously this year, and gas and electricity and public transport hardly at all.

A substantial portion of the increase in the September index may reflect pre-freeze changes in price. Fall and winter apparel is not priced in August but may actually have been sold at the higher prices before mid-month. Food prices relate to the first week of each month and may therefore have risen after the August pricing date but before the freeze. College tuition charges are collected in July, August and September for the coming academic year.

As most other commodities and services are priced every three months outside the five major cities, pre-freeze price changes for these could account for a significant proportion of the September increase. In the case of services, this is substantiated by a special BLS analysis of 4000 prices included in the September CPI; nearly all the increase in these occurred before August.

The BLS also did a special tabulation, for 3885 individual nonfood prices in the five largest cities, of post-freeze quotations in August and September. Of these, less than 8 per cent rose, 87 per cent showed no change and nearly 6 per cent declined.

<u>GNP price indexes</u>. The rate of price rise, as measured by the fixed-weighted index for gross private product, slowed from an annual rate of 5.0 per cent in the second quarter to 4.4 per cent in the third, according to preliminary estimates (third quarter fixed-weighted estimates are confidential). The rates of increase for the implicit deflators for both GNP and gross private product also dropped in the third quarter; however, shifts in weights have held down recent implicit deflator increases to rates about one percentage point below those shown by the fixed-weighted indexes.

PRICE CHANGE IN GROSS PRIVATE PRODUCT AND COMPONENTS
MEASURED BY FIXED-WEIGHTED INDEXES 1/
(Percentage changes from previous quarters
at seasonally adjusted annual rates)

	1971		
	QI	QII	QIII 3/
Gross private product 2/	5.5	5.0	4.4
Personal consumption expenditures	5.3	4.5	3.6
Durable goods	7.0	1.8	2.0
Nondurable goods	3.0	4.2	2.8
Services	7.2	5.7	4.9
Gross private domestic investment (fixed)	4.8	6.6	10.3
Non-residential:			
Structures	2.7	14.7	20.6
Producers' durable equipment	4.1	2.0	2.8
Residential structures	9.0	6.9	14.1

1/ 1967 expenditure weights.
2/ Includes change in business inventories and net exports, not shown separately, as well as Government purchases less employee compensation.
3/ Preliminary--unpublished data.

Major factors in the third-quarter slowing were the reduced rates of increase in prices of nondurables (mainly food) and, to a lesser extent, services, which more than offset the rapid acceleration in construction costs. The fixed-weighted index for residential structures climbed at an average rate of more than 10 per cent over the first three quarters of 1971, well above previous peak rates of 6-7 per cent from mid-1967 to mid-1969. The August 15 imposition of price ceilings had a relatively small effect on the change in the third quarter as a whole but is expected to be much more important for the fourth quarter.

It should be noted that both the fixed-weighted price index and the implicit deflator for gross private product include prices of farm products. While the weight of such products is relatively small, price changes are frequently very large so that their effect on the overall price measures can be appreciable. A fixed-weighted price index for the nonfarm private economy is not available. However, as shown in the table, both a nonfarm and a farm component are available for the implicit deflator for gross private product.

PRICE CHANGE FOR PRIVATE GROSS PRODUCT BY SECTOR
(Percentage changes at seasonally adjusted annual rates)

	QI 1969 to QI 1970	QI 1970 to QIV 1970	QIV 1970 to QI 1971	QI 1971 to QII 1971	QII 1971 to QIII 1971p
Fixed-weighted index for gross private product 1/	4.9	4.9	5.5	5.0	4.4 3/
Implicit deflators for gross private product 2/	5.0	5.1	4.5	4.1	3.4
Business:					
Nonfarm	4.4	5.9	4.0	3.9	3.9
Farm	15.3	-18.9	17.3	10.3	-10.0

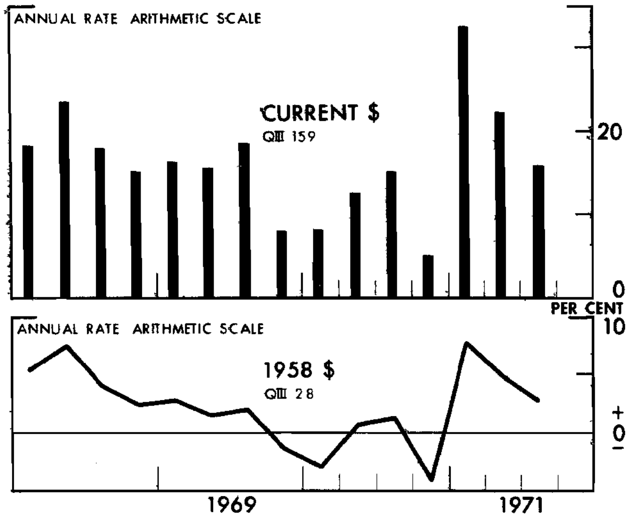
1/ 1967 weights.
2/ Includes households and institutions sector, not shown separately.
3/ Confidential.

An inspection of the total and of the two components clearly shows that big savings in prices of farm products appreciably affect the total deflator. Most recently, the large drop in the deflator for farm products in the third quarter of 1971 had the effect of lowering the total implicit deflator; presumably, the fixed-weighted index would have shown a larger increase than the indicated 4.4 per cent rate had it not been for this influence.

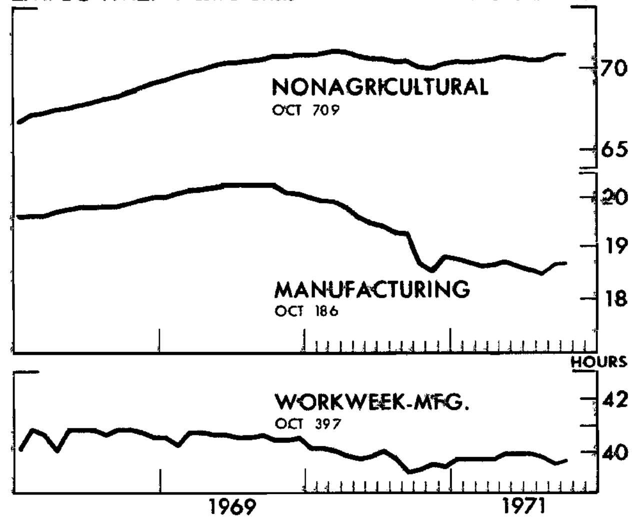
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE

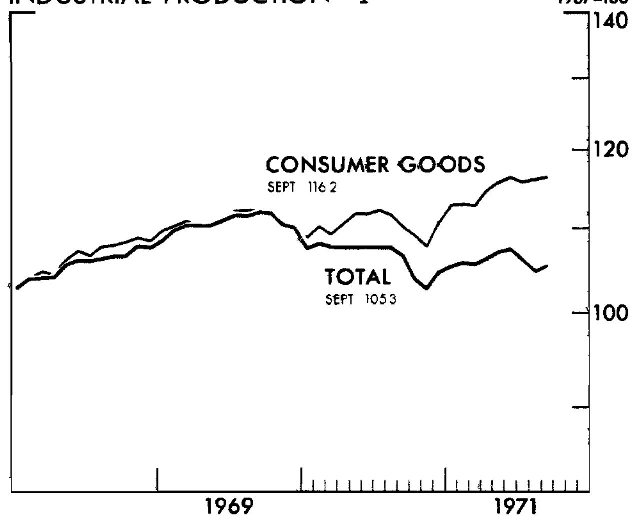
GNP INCREASE



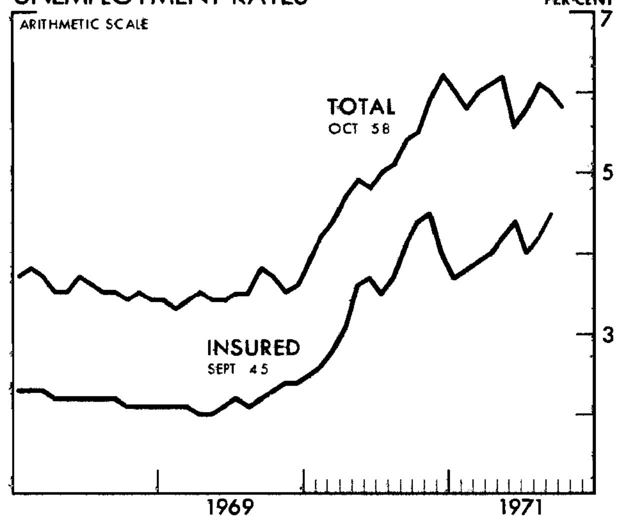
EMPLOYMENT ESTAB BASIS



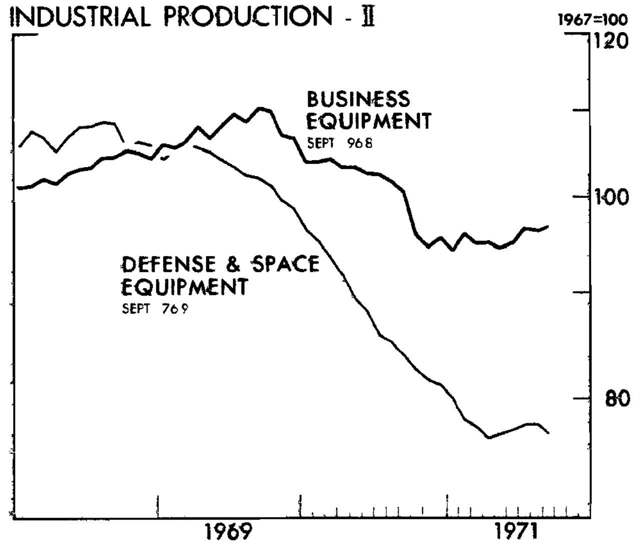
INDUSTRIAL PRODUCTION - I



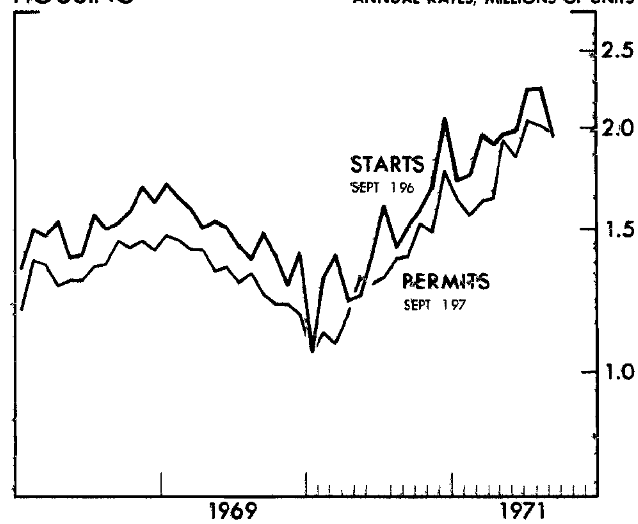
UNEMPLOYMENT RATES



INDUSTRIAL PRODUCTION - II



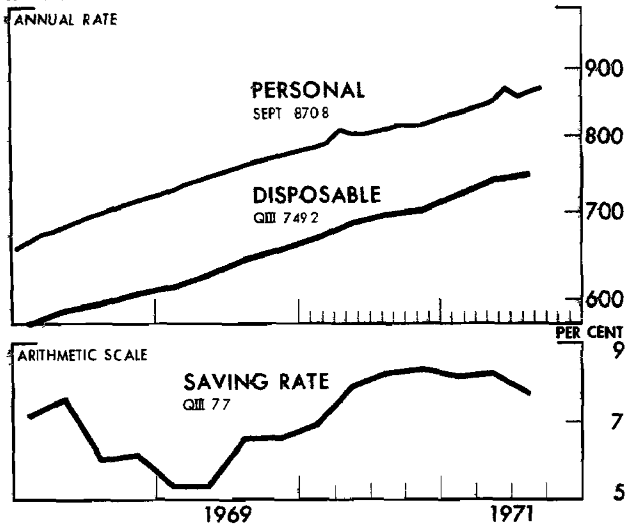
HOUSING



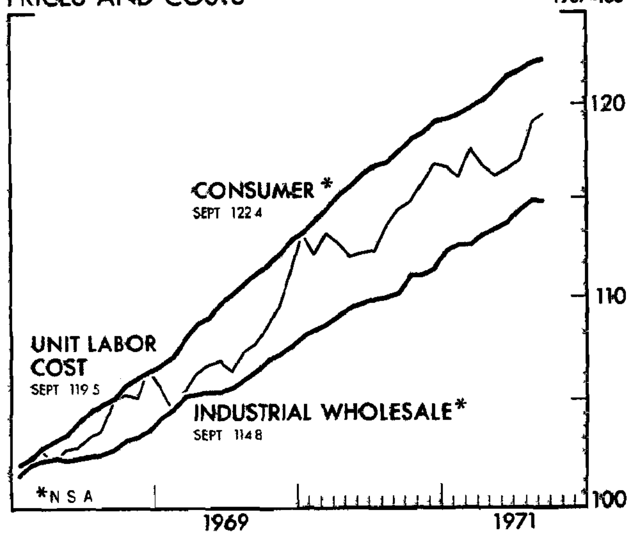
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE

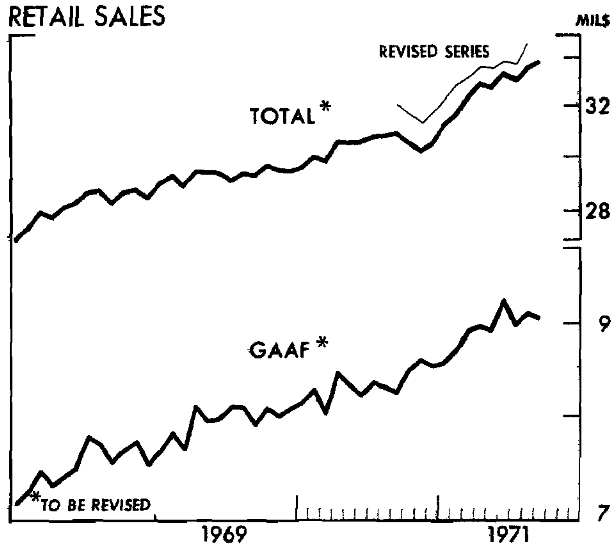
INCOME



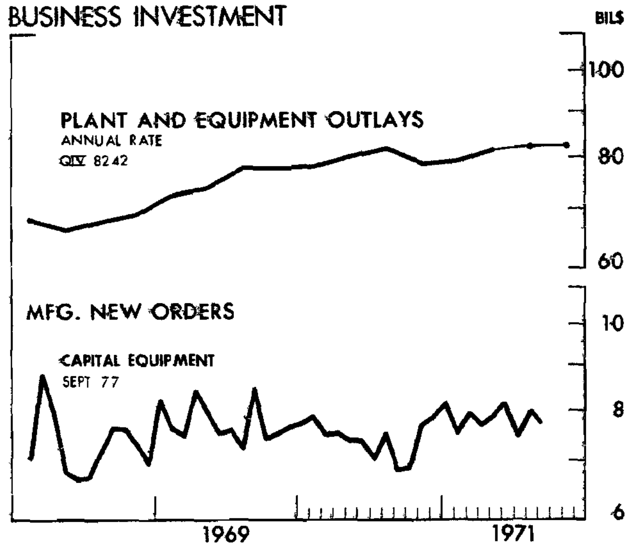
PRICES AND COSTS



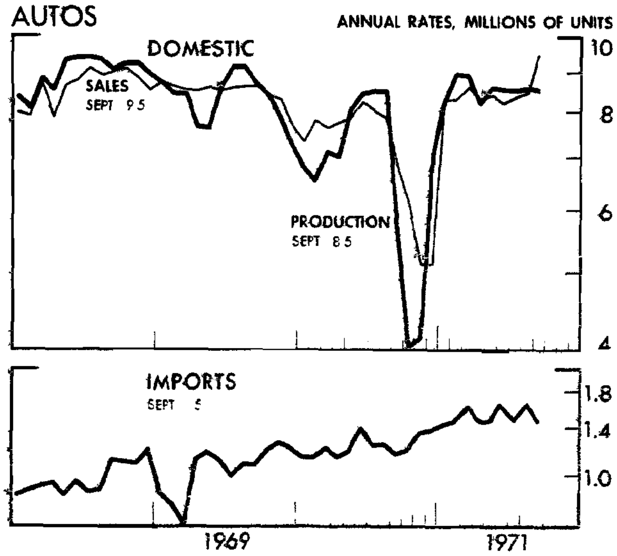
RETAIL SALES



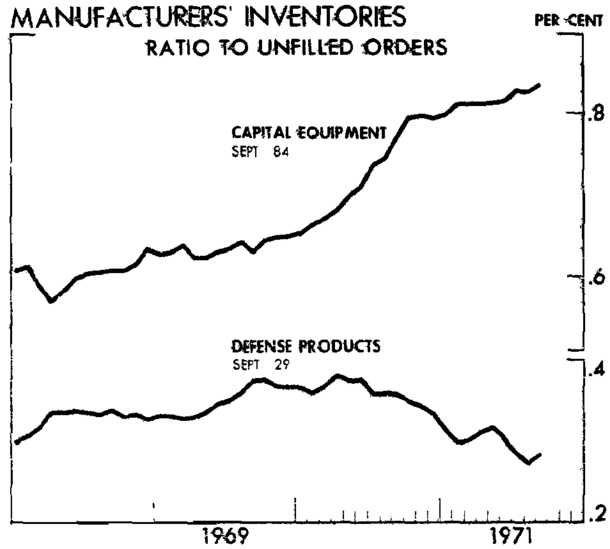
BUSINESS INVESTMENT



AUTOS



MANUFACTURERS' INVENTORIES



THE ECONOMIC PICTURE IN DETAIL

Domestic Financial Situation

Monetary Aggregates. Preliminary data indicate that the narrow money stock (M_1) declined during October for the second consecutive month, and the estimated level for early November is little different from the July average.1/ In contrast, early figures show that M_2 increased at a moderate 6 per cent rate during October, as growth in time and savings deposits other than large CD's increased to a rate of about 13 per cent, significantly above the rate for other recent months and about equal to the rapid rates realized during the second quarter of the year. The increased rate of growth in time and savings deposits may stem from the increased yield differential in favor of such deposits *vis-a-vis* open market investments that has arisen from the recent declines in open market rates.

Despite the increased rate of growth in M_2, the adjusted credit proxy expanded during October at the slowest rate thus far this year as U. S. Government deposits, which had remained roughly stable on average in September, declined and the rate of growth in large negotiable time CD's was reduced. Progressive cutbacks in CD offering rates during October slowed the flow of CD money sharply after the early part of the month, although the average for the month showed a seasonally adjusted rise of almost $1 billion from September. Early November data for New York City banks show a sizable drop in outstanding CD's.

1/ Changes in demand deposit ownership over the third quarter are discussed in Appendix A.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1971 QI	QII	QIII	Aug.	Sept.	Oct.
	Annual percentage rates					
1. M_1 (Currency plus private demand deposits)	8.9	11.3	3.0	2.6	-3.7	-1.6p
2. M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	17.8	12.6	4.5	4.8	1.6	5.8p
3. M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	19.0	14.8	7.4	7.2	4.8	n.a.
4. Adjusted bank credit proxy	10.9	6.5	9.1	10.3	8.9	4.8p
5. Other aggregates						
a) Total time and savings deposits	27.3	13.5	11.3	6.5	15.8	15.6p
b)						
b) Time and savings deposits other than large CD's	27.2	13.7	6.0	6.4	7.4	13.1p
	Billions of dollars					
c) Negotiable CD's (SA)	0.6	0.2	1.3	0.2	2.1	.9p

Increased growth in nondeposit sources of funds in October offset to some degree the weaker pattern in Government deposits and CD's as banks increased their Eurodollar borrowing by about $650 million on average. Overnight Eurodollars continued to be slightly less expensive than Federal funds over most of the month. Longer-term Eurodollars remained more costly than CD's of comparable maturity, but the differential narrowed quite sharply over the period.

Bank Credit. Commercial bank credit on a last-Wednesday-of-the-month basis grew at about the same rate during October as in September.

As in other recent months, the growth was concentrated in loans and bank holdings of securities other than U. S. Governments--primarily municipals--while holdings of direct Treasury issues showed a sharp decline on a seasonally adjusted basis.

COMMERCIAL BANK CREDIT ADJUSTED FOR LOANS
SOLD TO AFFILIATES 1/
(Seasonally adjusted percentage changes at annual rates)

	1971					
	QI	QII	QIII	Aug.	Sept.	Oct.
Total loans & investments 2/	12.2	9.1	9.8	13.4	9.7	9.4
U. S. Treasury securities	19.8	9.8	-14.0	-3.9	-17.5	-29.7
Other securities	27.9	17.0	9.9	-3.7	17.2	24.2
Total loans 2/	6.3	6.6	14.7	22.5	12.4	12.3
Business loans 2/	2.5	4.6	16.5	29.1	8.1	3.0
Real estate loans	10.0	13.0	14.2	14.1	13.9	12.2
Consumer loans	4.8	6.3	14.1	14.0	18.5	13.6

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

Among the loan categories, real estate loans continued to rise sharply, reflecting the high level of residential construction activity, and consumer loans remained very strong as a result of the high level of automobile sales. Business loans showed relatively little growth, however, confirming the lackluster demand that has prompted two 1/4 percentage point reductions in the prime lending rate in recent weeks. On October 20, most major banks lowered the prime rate from 6 per cent to 5-3/4 per cent and a new round of reductions on November 4 brought the rate to 5-1/2 per cent.[1/] Although the possibility cannot be ruled out, the evidence does not suggest that the behavior of business loans during October was influenced by repayments of foreign-exchange-related borrowing undertaken in August and September.

The large seasonally adjusted drop in bank holdings of U. S. Treasury obligations during October, as over the third quarter as a whole, reflects in part the fact that with the large inflow of funds from foreign central banks during August and September, the amount of new cash raised from the domestic public through the sale of marketable debt was much smaller than in other recent years. Since much of this debt ordinarily is acquired at least in the first instance by commercial banks, the seasonal factors for these months allows for larger increases and smaller declines than in fact occurred this year.

Nonbank depositary institutions. Deposit inflows to nonbank thrift institutions during October were only slightly below the pace in the third quarter. During the third quarter, savings and loan associations continued to have an extraordinarily large cash flow to invest in mortgages. In addition to large deposit inflows, some borrowed funds

1/ At about the time of the first reduction, several major banks shifted to a "floating" prime rate policy under which this key lending rate is tied to open market rates and/or the cost of funds to the bank. Some details of these policies and the spread of the "floating" prime rate are discussed in Appendix B along with some comments on the significance of this development.

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

	Mutual Savings Banks	Savings and Loan Associations	Both
1970 - QI	2.7	2.3	2.5
QII	6.4	7.2	7.0
QIII	6.9	10.6	9.3
QIV	10.5	12.1	11.6
1971 - QI	17.7	26.0	23.3
QII	15.0	18.4	17.3
QIII p/	8.5	14.7	12.7
1971 - August*	6.6	9.3	8.4
September* p/	9.9	15.1	13.5
October* p/	8.6	12.7	11.4
September and October p/	9.3	14.0	12.5

* Monthly patterns may not be significant because of difficulties with seasonal adjustment.
p/ Preliminary.

were utilized,[1/] and gross mortgage repayments continued to be sizable. Part of the increase in mortgage repayments is attributable to the record volume of refinancings in the third quarter as shown in the table. By the end of the third quarter the cumulative volume of refinancings was already almost twice that for all of 1970.

The net decrease in liquid assets during the third quarter, as shown in the table, is due partly to the lower FHLBB minimum liquidity requirements for S&Ls, but more probably reflects the drawing down of funds stored earlier for mortgages acquired in this quarter. S&L commitments outstanding to acquire mortgages appear to be in line with recent cash flow.

1/ Funds borrowed by S&Ls during the third quarter tended to be the relatively new fixed-rate fixed-maturity options that many of the district FHLBanks have been offering. During the month of October, there was very little net additional change in advances.

SOURCES AND USES OF FUNDS AT INSURED SAVINGS AND LOAN ASSOCIATIONS
(Seasonally unadjusted, billions of dollars)

	Third Quarter			
	1968	1969	1970	1971
Sources				
Deposit accounts, net 1/	.9	-.2	2.8	5.2
Borrowed funds	.2	1.5	.2	..5
Subtotal	1.1	1.3	3.0	5.7
Gross mortgage repayments 2/	3.7	3.6	4.0	6.4
Other sources, net 3/	.7	.3	.8	.4
Total	5.5	5.2	7.8	12.5
Uses				
Net increase in liquid assets 4/	-.6	-.8	.6	-.7
Gross mortgage acquisitions	6.1	6.0	7.2	13.2
Total	5.5	5.2	7.8	12.5
Memoranda				
Mortgage refinancings (included above in repayments)	.4	.3	.5	1.2
Average ratio of outstanding mortgage commitments to recent cash flow 5/	.97	1.12	.89	.99

1/ Net change in deposits, including interest credited.

2/ Includes, in addition to repayments, proceeds from sales of loans and participations and miscellaneous credits. Excludes interest, taxes, etc.

3/ Includes net changes in loans in process, reserves and surplus, and other liabilities minus the net changes in miscellaneous loans and assets not set out separately in the "uses" statement.

4/ Reflects all eligible liquid assets according to FHLB requirements. For 1968, includes only cash and U. S. Government securities. Since 1968, includes also Federal agency issues maturing within five years.

5/ Represents the average of the monthly ratios produced by dividing outstanding commitments plus loans in process by the sum of cash flow in the current month and previous two months.

At mutual savings banks, net deposit inflows in the third quarter were considerably larger than those of other recent third quarters and net mortgage acquisitions were nearly twice the volume acquired in the third quarters of the past two years. The third quarter was the first this year in which savings banks' net mortgage acquisitions exceeded their net purchases of corporate securities. This change probably reflects disbursal of the large volume of mortgage commitments made earlier in the year when savings banks' deposit inflows had started to increase.

SOURCES AND USES OF FUNDS AT MUTUAL SAVINGS BANKS
(Seasonally unadjusted, billions of dollars)

	Third Quarter			
	1968	1969	1970	1971
Sources				
Net change in deposits	1.0	.3	1.1	1.6
Other sources 1/	.2	.2	.2	.3
Total	1.2	.5	1.3	1.9
Uses				
Net mortgage acquisitions	.7	.5	.6	1.1
Net change in corporate securities	.4	*	.5	.6
Net change in liquid assets 2/	*	- .1	.1	*
Net other uses 3/	.1	.1	.1	.2
Total	1.2	.5	1.3	1.9

* Less than $500 million.
1/ Reserves and miscellaneous liabilities.
2/ Cash and U. S. Governments.
3/ State and locak, other loans, and miscellaneous assets.

Mortgage market. Yields on Government underwritten home mortgages in the secondary market continued to edge down through October, according to FNMA auction results. By the latest auction (November 1), average yields on FNMA's short-term forward commitments to purchase such mortgages were 30 basis points below the 1971 high reached late in July.

FNMA PURCHASE AUCTIONS

	Amount of total offers		Short-term commitments	
	Received	Accepted	Discount	Private market yield
	(Millions of dollars)		(Points)	(Per cent)
1971 - High	1,168 (5/10)	314 (4/26)	8.5 (7/26)	8.07 (7/26)
July 26	686	183	8.5	8.07
Aug. 25	635	154	7.8	7.97
Sept 7	445	189	7.1	7.88
20	438	193	6.9	7.86
Oct. 4	365	195	6.9	7.85
18	220	104	6.7	7.83
Nov. 1	130	56	6.2	7.77

NOTE: Average secondary market yield after allowance for commitment fee and required purchase and holding of FNMA stock, assuming prepayment period of 15 years for 30-year Government-underwritten mortgages. Implicit yields shown are gross, before deduction of fee paid by investors to servicers of 38 basis points. Beginning October 18, short-term commitments are for 4-rather than 3-month terms.

Along with the decline in secondary market yields, the volume of bids submitted to FNMA declined further in the latest auction. Both developments reflected increased interest in FHA and VA mortgages by institutional investors, judging from field reports and trade opinion. In addition, they reflected increased willingness by mortgage companies, anticipating an additional rise in secondary market prices, to originate these loans without first obtaining resale commitments.

Market expectations of further increases in mortgage prices also encouraged applications to the Government National Mortgage Association for insurance of securities to be issued by mortgage companies and other loan originators against pools of Government underwritten loans assembled some time earlier when mortgage prices were lower. During October, insurance applications to GNMA amounted to about \$230 million, the largest volume since April. Meanwhile, under Programs 21 and 22 initiated in August to subsidize discount points on certain FHA and VA mortgages, GNMA by November 3 had accepted a total of \$1.7 billion in commitments to purchase loans at prices of 95 or 96. It had transferred \$1 billion of these commitments to mortgage companies and other loan originators at lower prices, generally 93 to 94.

In the primary market for conventional new-home mortgages, average interest rates declined a little during October in some areas, according to press reports and trade opinion. Whether these individual cases are indicative of national developments is not clear, because the conventional mortgage interest rate series published by the Federal Housing Administration is not yet available for October. In September, this series showed mixed regional trends, with no change in the national average of 7.85 per cent.

At nonbank thrift institutions during September, the combined backlog of mortgage commitments increased slightly to a new high. By the end of that month, the total amount of mortgage commitments outstanding at all savings and loan associations and at New York State mutual savings banks was more than twice the low posted early last year.

MORTGAGE COMMITMENTS OUTSTANDING AT THRIFT INSTITUTIONS 1/
(Billions of dollars, seasonally adjusted)

Date	S&L's	N. Y. State Savings Banks	Both Thrift Institutions
1970 - High	8.1 (Dec.)	2.6 (Jan.)	10.1 (Dec.)
Low	5.2 (Mar.)	1.8 (Oct., Nov.)	7.7 (Mar.,Apr.)
September	7.1	1.9	9.1
1971	11.1	2.8	13.8
April	11.1	2.8	13.8
May	12.2	3.1	15.4
June	13.0	3.1	16.1
July	13.2	3.1	16.4
August	13.3	3.1	16.4
September	13.3	3.2	16.5

1/ Based on data, including loans in process, from Federal Home Loan Bank Board and Savings Banks Association of New York State. Detail may not add to total because of rounding.

Corporate and municipal securities markets. Yields on corporate and municipal debt securities continued to fall during October and by early November were 20 to 25 basis points below the levels prevailing at the time of the last FOMC meeting. But some investor resistance to these higher prices has led to a rise in syndicate positions relative to issue volume in recent weeks. However, dealers apparently do not feel uneasy about the situation, since they have been able to reduce inventories of older, higher-coupon bonds at a profit over this period.

BOND YIELDS
(Per Cent)

	New Aaa Corporate Bonds1/	Long-term State and Local Bonds2/
1970		
Low	7.68 (12/18)	5.33 (12/10)
High	9.30 (6/9)	7.12 (5/28)
1971=		
Low	6.76 (1/29)	4.97 (10/22)
High	8.23 (5/21)	6.23 (6/24)
Week of:		
October 1	7.53	5.24
8	7.30	5.17
15	7.22	4.99
22	7.17	4.97
29	7.11	5.11
November 5	7.05	4.99

1/ With call protection (includes some issues with 10-year protection.)
2/ Bond Buyer (mixed qualities)

Declining bond yields seem to have stimulated corporate filings. October volume of public bond offerings reached almost $2 billion, and it is estimated that the November calendar will be about the same. Underwriters report that the current lower level of yields has encouraged some medium-sized, lower-grade borrowers to enter the market, mainly with convertibles. Although December volume usually drops sharply because of the long holiday season, there is already a substantial volume of issues ready for filing, suggesting that the December calendar could be at least $1.5 billion. Thus, it appears that total corporate public bond offerings for the year will approach the $25 billion level, about matching the record 1970 volume. Although the most recently available SEC data suggest a leveling off in the growth of takedowns on private placements, the 1971 total for direct placements will be substantially above that of 1970.

CORPORATE SECURITY OFFERINGS
(Monthly or monthly averages in millions of dollars seasonally unadjusted)

	Bonds			
	Public	Private	Stocks	Total
1970 - Year	2,099	403	713	3,245
Through October	1,995	375	708	3,078
1971 - Through October e/	2,163	537	1,049	3,749
1971 - QII	2,182	586	1,128	3,896
QIII e/	1,577	596	1,505 1/	3,678
QIV e/	1,817	533	787	3,137
October e/	1,950	500	560	3,010
November e/	2,000	400	1,000	3,400
December e/	1,500	700	800	3,000

e/ Estimated.
1/ Includes $1.4 billion AT&T stock offering.

In the stock market, prices over the last three weeks have generally drifted downward to the pre-Phase I levels of August 1971. As of November 5, however, both the NYSE and AMEX indices remained above their May 1970 lows by 39 and 27 per cent, respectively. Volume over the last three weeks has continued low relative to early 1971 levels, with daily trading on the NYSE, for example, averaging 12 to 13 million shares.

STOCK PRICE INDICES

	May 1970 Low	August 13 1971	November 8 1971	Per cent change from May 1970 Low to Nov. 8	Per cent change from August 13 to Nov. 8
NYSE	38.20	52.88	52.12	36.4	-1.4
AMEX	19.36	24.59	24.50	26.5	-0.4
NASDAQ	n.a.	105.44	105.43	n.a.	-0.0

The behavior of the stock market since mid-year may account for some of the recent slowdown in equity offerings, but new stock volume for 1971 will show a significant increase over the previous year. As mentioned in the last Greenbook, the absolute volume of electric utility stock issues has remained high. Utilities are turning more to the stock market to raise needed capital because sharply rising interest costs over the past two years have contributed to a growing fixed debt burden.

Long-term debt offerings by State and local governments fell off to $1.7 billion in October, as expected. Because a few unusually large issues are included in the November schedule, the staff now estimates that volume will be about $1.9 billion in this month. Seasonal forces usually result in a decline of new offerings in December, but the volume will still be relatively high if the governmental units accomplish their borrowing plans.

In the short-term municipal market, there was some retirement of debt in October and it appears that this trend may continue over the quarter. The volume of maturing issues in November and December is unusually large and the normal seasonal pattern would indicate a reduction in outstandings.

STATE AND LOCAL GOVERNMENT OFFERINGS
(Monthly or monthly averages in millions of dollars, seasonally unadjusted)

	Long Term	Net Short Term
1970 - Year	1,514	393
Through October	1,422	326
1971 - Through October	2,041	379
QII	2,032	423
QIII e/	1,972	331
QIV e/	1,767	-258
October	1,700	-98
November e/	1,900	-343
December e/	1,700	-329

e/ Estimated

Government securities market. Interest rates continued to move lower throughout the Treasury securities market over the latter part of October and early November. In general, yields on coupon issues have declined by about 10-25 basis points from their October 19 levels, while bill rates are down by 15-30 basis points except in the case of the 3-month issue which has declined by 33 basis points.

MARKET YIELD ON U. S. GOVERNMENT AND AGENCY SECURITIES
(Per cent)

	1971		Weekly average for week ending				
	Daily highs 1/	Daily lows 1/	Aug 13	Oct 19	Oct 26	Nov 2	Nov 9
Bills							
1-month	5.33 (7/19)	2.07 (3/12)	5.17	4.12	4.12	4.14	4.01
3-month	5.53 (7/19)	3.22 (3/11)	5.25	4.45	4.45	4.33	4.16
6-month	5.84 (7/27)	3.35 (3/11)	5.67	4.58	4.51	4.44	4.33
1-year	6.01 (7/28)	3.45 (3/11)	5.92	4.73	4.60	4.46	4.43
Coupons							
3-year	6.91 (7/28)	4.27 (3/22)	6.81	5.53	5.45	5.35	5.30
5-year	7.03 (8/10)	4.74 (3/22)	6.94	5.89	5.84	5.81	5.75
7-year	7.11 (8/10)	5.15 (3/23)	7.03	5.94	5.91	5.90	5.86
10-year	6.95 (8/28)	5.38 (3/23)	6.82	5.91	5.90	5.87	5.74
20-year	6.56 (6/15)	5.69 (3/23)	6.41	5.91	5.91	5.88	5.79
Agencies							
6-month	6.20 (7/23)	3.67 (3/16)	6.08	4.96	4.83	4.78	4.63
1-year	6.56 (7/28)	3.93 (3/16)	6.53	5.34	5.24	5.12	4.90
3-year	7.33 (8/12)	4.70 (3/24)	7.33	6.10	6.02	5.87	5.66
5-year	7.45 (8/13)	5.12 (3/23)	7.44	6.32	6.25	6.18	6.03

1/ Latest dates of high and low rates in paretheses.

The further downward movement in yields for Treasury notes and bonds has largely been a reflection of a strengthening and spreading of expectations that interest rates are likely to continue adjusting lower through the winter. Thus, demand at current price levels has been firm. In this environment, the response to the Treasury's November refunding operation was quite good.

Of the publicly held November maturities, $1.3 billion, or 34 per cent, were not exchanged into either the new 6 per cent 7-year note or the 6-1/8 per cent 15-year bond. Since no short-term option was offered in the exchange, this result is considered very satisfactory. In the prerefunding part of the financing, approximately 40 per cent, or about $3.2 billion, of the eligible May and August 1972 maturities were exchanged into the new securities. Individual cash subscriptions to the long bond were a neglibible $25 million. Altogether, $5.1 billion of the 7-year note and $0.6 billion of the 15-year bond will be issued. On November 9, the Treasury is auctioning $2.75 billion of 4-7/8 per cent 15-month notes to cover the attrition on the November maturities and to raise about $1.4 billion of new money.

Besides the general pressures toward lower rates, Treasury bill rates have been subject to some special influences. The cuts in the commercial bank prime rate have generated recurrent expectations that the discount rate will be lowered in the near future. There has been continued demand for bills by foreign buyers. And finally, the market supply of bills, including tax bills, is somewhat smaller than in other recent years. Thus, rates have remained under fairly contininous downward pressure.

In these circumstances, dealers have had no difficulty in selling awards from bill auctions, and in fact they have pared down their bill holdings slightly very recently from the level generally prevailing in October. Positions in coupon issues have been swelled by the Treasury's November "rights" financing operation in which the dealers received about $1.3 billionoof the new securities, including nearly $300 million of the 15-year bond. Progress in distributing these issues has not been particularly rapid as yet.

DEALER POSITIONS IN GOVERNMENT AND AGENCY SECURITIES
(In millions of dollars)

	Aug 13	October Daily average	Oct 18	Oct 22	Nov 1	Nov 8
Treasury securities						
Total	2,381	4,354	3,769	4,585	5,518	5,013
Treasury bills (total)	1,823	2,834	2,114	2,987	3,235	2,755
Due in 92 days or less	968	1,278	948	1,366	1,121	898
93 days or over	855	1,557	1,166	1,621	2,114	1,857
Treasury notes and bonds (Total)	558	1,521	1,655	1,598	2,283	2,258
Due within 1-year	185	779	836	790	1,987	223
1-5 years	315	395	477	434	468	486
over 5 years	59	347	342	374	- 172	1,549
Agency securities						
Total	599	905	830	950	1,053	1,040
Due within 1-year	281	379	315	434	401	422
Over 1- year	318	526	515	517	652	619

The amount of new money raised in the Federal agency market in late October was slightly less than in the preceding 4 weeks. FNMA continued its new money demands, raising $550 million compared with $400 million the preceding month; on balance, other agency borrowing activity--by the farm credit agencies and the TVA--resulted in a small net repayment of funds to the market. System action in the agency market was confined to a single operation in which $83 million of such issues were purchased, including $57 million with maturities of over one year.

NEW FEDERAL AGENCY OFFERINGS

Date	Agency	Amounts ($ millions)	Maturity	Yield	New Money ($ millions)
Oct. 19	TVA	150	25-year	7.30	150
Oct. 20	FICB	594	9-mo.	4.95	-101
	Coops	282	6-mo.	4.85	3
Oct. 22	FNMA	350	2 yr. 7 mo.	5.70	)
		300	4 yr. 10 mo.	6.12	)5.50
		250	11 yr. 10 mo.	6.75	)
Oct. 26	TVA	80	119 days	4.52 1/	-80

1/ Average discount.

Other short-term credit markets. Seasonally-adjusted nonbank commercial and finance company paper rose an estimated $900 million over the preceding month to $29.2 billion. For the second consecutive month, the bulk of the increase was in directly-placed finance company paper, which rose $1.3 billion in the two-month period.

The magnitude and widespread nature of the current increase appear to reflect the recent rise in consumer borrowing. A part of the increase is accounted for by auto finance companies, who have been stimulated by the continuing decline in their short-term borrowing costs to compete more actively with commercial banks for auto loans. Financing of auto dealers by the captive finance companies probably did not increase, as new car inventories are estimated to have declined in October.

All short-term market rates are continuing their downward movement, with declines since mid-August running as high as 150 basis points. Declines in these rates since October 20 in the three-month maturities have ranged from 25 to 38 basis points, leaving spreads between bills and commercial paper little changed.

COMMERCIAL AND FINANCE COMPANY PAPER
(End-of-month data, in millions of dollars)

1971	August	September	October
Total commercial and finance paper 1/	29,342	30,176	31,189e
Bank related 2/	1,792	1,900r	1,981p
Nonbank related 3/	27,550	28,276	29,208e
Placed through dealers	11,236	11,396	11,574e
Placed directly	16,314	16,880	17,634e
		Net change	
Total commercial and finance paper 1/	- 55	834	1,013
Bank related 2/	- 16	108	81
Nonbank related 3/	- 39	726	932
Placed through dealers	-223	160	178
Placed directly	184	566	754

1/ Combines seasonally adjusted nonbank-related paper and seasonally unadjusted bank-related paper.
2/ Seasonally unadjusted.
3/ Seasonally adjusted.
e/ estimated.
p/ preliminary.
r/ revised.

SELECTED SHORT-TERM INTEREST RATES
(Wednesday Quotation-Discount Basis)

	1970		1971			Net change	
	Highs	Lows	Aug 11	Oct 20	Nov 3	Aug 11-Nov 3	Oct 20-Nov3
1-month							
Commercial paper 1/	n.a.	n.a.	5.75	5.25	4.88	- 87	-37
Commercial paper 2/	9.25	5.50	5.75	5.25	5.00	- 75	-25
Finance paper	9.00	5.00	5.50	5.00	4.75	- 75	-25
Bankers' acceptances	9.00	5.50	5.75	5.25	5.00	- 75	-25
Certificates of Deposit--new issue 3/	7.75	5.00	5.50	4.88	4.63	- 87	-25
Treasury bill	7.84	4.58	5.17	4.12	4.04	-113	- 8
3-month							
Commercial paper 1/	n.a.	n.a.	5.83	5.25	5.00	- 83	-25
Commercial paper 2/	9.25	6.00	6.00	5.63	5.38	- 62	-25
Finance paper	8.25	5.50	5.50	5.25	4.88	- 62	-37
Bankers' acceptances	9.00	5.50	5.88	5.38	5.00	- 88	-38
Certificates of Deposit--new issue 3/	6.75	5.50	5.75	5.13	4.88	- 87	-25
Treasury bill	7.93	4.74	5.22	4.46	4.16	-106	-30
6-month							
Bankers' acceptances	9.00	5.50	6.00	5.38	5.00	-100	-38
Treasury bill	7.99	4.78	5.67	4.52	4.30	-137	-22
12-month							
Certificates of Deposit--new issue 3/	7.50	5.50	6.25	5.50	5.00	-125	-50
Treasury bill	7.62	4.74	5.91	4.64	4.37	-154	-27
Prime municipal notes	5.80	2.95	3.60	2.70	2.55	-105	-15

1/ Federal Reserve Bank of New York.
2/ Wall Street Journal's Money Rates.
3/ Investment yield basis. Highs for certificates of deposit are ceilings effective as of January 21, 1970.
n.a. Not available.

Source: Wall Street Journal's Money Rates for finance paper and banker's acceptances, other data from the Federal Reserve Bank of New York.

Federal finance. Since the preceding Greenbook, when the House version of the 1971 Revenue Act was incorporated in the Staff estimates, there have been no major changes in the fiscal assumptions listed in the accompanying table. The Senate Finance Committee is expected to report out a tax bill substantially similar to the House version. The projected unified budget deficit for fiscal year 1972, however, has been increased by about $2 billion to $29.5 billion since the preceding Greenbook. This is accounted for mainly by a downward revision in the estimate of personal tax receipts, due partly to the lower level of recent collections and partly to a decrease in projected wage and salary levels. Outlays for fiscal year 1972 are projected slightly lower than in the last Greenbook, due to an unexpectedly large decrease in military spending in the third quarter budget accounts.

New estimates that extend the projection period on the basis of the assumptions listed in the next table, show an expected budget deficit of $31.0 billion for calendar year 1972, as receipts increase more sluggishly than outlays. These projections assume that there will be no major cutback in foreign aid, and that the drop in budget defense spending that occurred in the third quarter will be reversed.

All available estimates of the high employment budget--despite differences in levels due to different calculation methods--show a significant shift toward expansive fiscal policy in calendar year 1972.

MAJOR FISCAL ASSUMPTIONS IMPLICIT IN
STAFF PROJECTIONS OF FEDERAL SECTOR, NIA ACCOUNTS
(Effects in billions of dollars)

Expenditures	Effect Calendar 1972
Federal military and civilian pay raise July 1972 (after 6-mo. freeze)	$1.0
Volunteer-army pay raise, Nov. 15, 1971	2.4
No general revenue sharing before 1973	--
No welfare reform before 1973	--
HR-1 medicare increase and OASDI liberalization, Jan. 1972	3.0
HR-1 increases in OASDI benefits, July 1972	1.0
Increased agricultural price supports Q3 and 4 1971 1/	--
Decline in defense purchases aside from pay raise	-.8
7 per cent expenditure growth calendar year 1971 to 1972 excluding items above	15.3

Receipts 2/	
Increased personal exemption to $700 on July 1, 1971 (avg. $675 for year) and $750 in Jan. 1972	-1.9
Increased standard deduction from 13 to 15 per cent, Jan. 1972	- .3
Low income allowance of $1,050 in 1971 (no phase-out) and $1,300 in 1972	-1.0
Other reform and relief from 1969 Act	-2.8
7 per cent investment tax credit	-3.6
Elimination of ADR 3/4-year convention	1.7
DISC tax deferral on increased export earnings	- .1
Repeal of auto and light truck excises	-2.6
Social insurance wage base increase to $9,000 on Jan. 1, 1972 (not the HR-1 base and rate hikes)	+3.0
10 per cent import surcharge through CY 1972	+2.0

1/ Effect is $.9 billion for FY 1972.

2/ Items correspond to the House tax bill (Revenue Act of 1971) plus "other reform and relief," the social insurance base hike, and the import surcharge.

The staff estimate of the high employment deficit for fiscal year 1972 now amounts to $1.5 billion as the moderate surplus in the current half year is more than cancelled by a deficit rate of almost $5 billion in January to June 1972. For calendar year 1972, the staff is estimating a high employment deficit of $4.5 billion.

Treasury sale of $2.75 billion of 15-month notes for settlement on November 15 will cover $1.3 billion of attrition in the November refunding and provide $1.4 billion of new cash for the Treasury. With no further new money the Treasury balance would be expected to drop to $3.5 billion by the end of November and further drains are expected in December. Thus it seems likely that there will be an additional cash offering for settlement in late November or early December, and again around mid-December. For the remainder of 1971, a total of $5 billion of additional borrowing is estimated. Of this total $1 billion is accounted for by the ongoing weekly increases of $200 million in Treasury bill issues, and the remainder by the additional cash operations referred to above.

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS 1/
(In billions of dollars)

	Fiscal Year		Calendar Years F.R. Estimates		F.R.B. Staff Estimates Calendar Quarters					
					1971		1972			
	1971*	1972e/	1971	1972	III*	IV	I	II	III	IV
Federal Budget										
(Quarterly data, unadjusted)										
Surplus/deficit	-23.2	-29.5	-25.8	-31.0	-7.8	-11.4	-11.3	1.0	-9.6	-11.2
Receipts	188.3	200.5	192.3	208.6	48.6	42.9	47.8	61.2	52.1	47.4
Outlays	211.6	230.0	217.9	239.6	56.3	54.3	59.1	60.2	61.7	58.6
Means of financing:										
Net borrowing from the public	19.4	27.2	20.9	29.6	9.1	8.6	9.6	-.1	8.6	11.5
Decrease in cash operating balance	-.8	1.9	1.6	--	-1.2	3.5	.1	-.5	--	.4
Other 2/	4.5	.5	3.2	1.4	-.1	-.7	1.7	-.4	1.0	-.7
Cash operating balance, end of period	8.8	6.9	6.5	6.5	10.0	6.5	6.4	6.9	6.9	6.5
Memo: Net agency borrowing 3/	1.1	n.e.	1.3	n.e.	1.7	1.5	2.4	n.e.	n.e.	n.e.
National Income Sector										
(Seasonally adjusted annual rate)										
Surplus/deficit	-18.8	-25.4	-21.7	-26.5	-23.2	-24.3	-27.7	-26.4	-27.4	-24.4
Receipts	193.9	207.9	200.7	216.9	201.7	206.1	210.2	213.7	219.3	224.5
Expenditures	212.7	233.3	222.4	243.4	224.9	230.4	237.9	240.1	246.7	248.9
High employment surplus/deficit (NIA basis) 4/	1.4	-1.5	1.9	-4.5	3.0	.4	-6.2	-3.5	-5.5	-2.9

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

1/ Estimates reflect effects of House Revenue Bill, which provides $.8 billion less in tax cuts in fiscal year 1972 than the President's program. The Administration budget deficit estimate on the basis of the President's program is $27.0--28.0 billion for FY 1972 with outlays estimated at $232.0 billion. These figures would imply a receipts estimate ranging from $204.0--205.0 billion.

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

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

4/ Estimated by F.R. Board staff.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

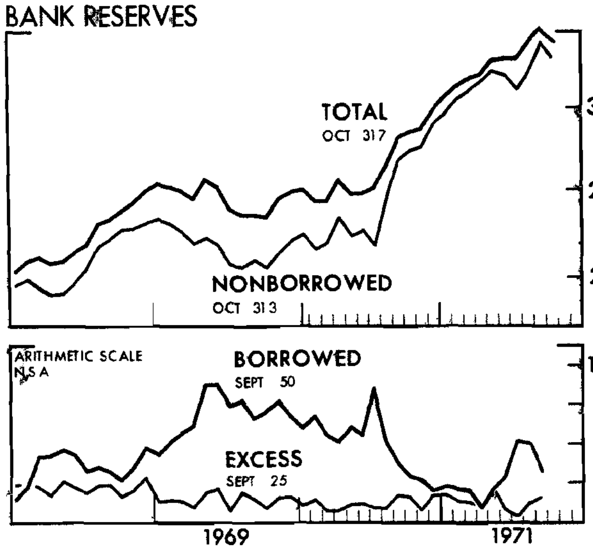
	Oct.	Nov.	Dec.
Total net borrowing	1.8	4.2	2.6
Weekly and monthly bills	.4	.8	.6
Tax bills	--	--	--
Coupon issues	2.0	--	--
As yet unspecified new borrowing	--	4.0	2.0
Other (debt repayments, etc.)	-.6	-.6	--
Plus: Other net financial sources a/	1.1	-1.1	-.7
Plus: Budget surplus or deficit (-)	-6.2	-4.5	-.7
Equals: Change in cash balance	-3.3 b/	-1.4	1.2
Memoranda: Level of cash balance end of period	6.7 b/	5.3	6.5
Derivation of budget surplus or deficit:			
Budget receipts	12.4	14.4	16.1
Budget outlays	18.6	18.9	16.8
Maturing coupon issues held by public	--	3.7	--
Net agency borrowing	.7	.5	.4

a/ Checks issued less checks paid and other accrual items.
b/ Actual.

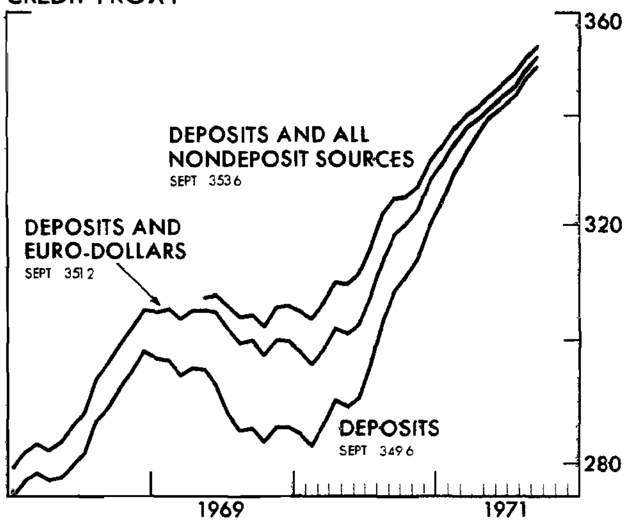
FINANCIAL DEVELOPMENTS - UNITED STATES

BILLIONS OF DOLLARS, SEASONALLY ADJUSTED, RATIO SCALE

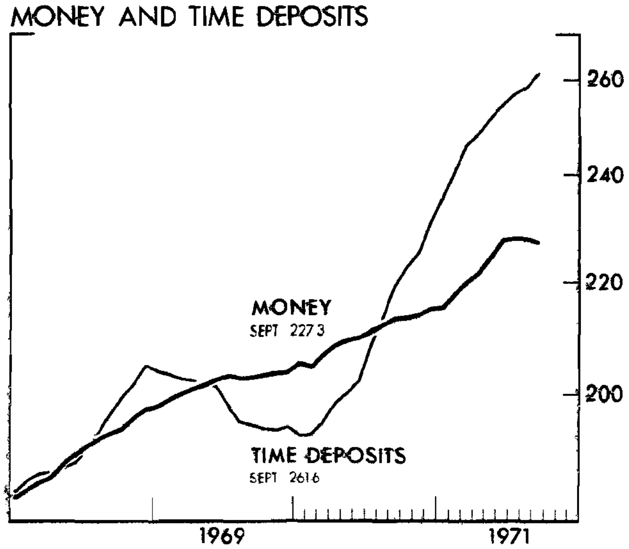
BANK RESERVES



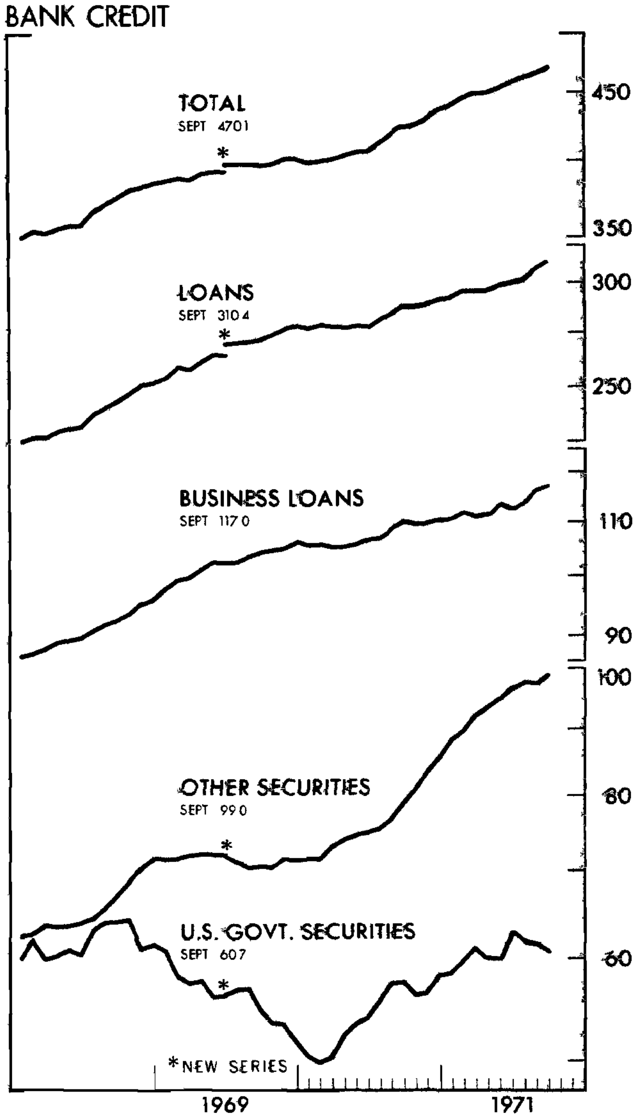
CREDIT PROXY



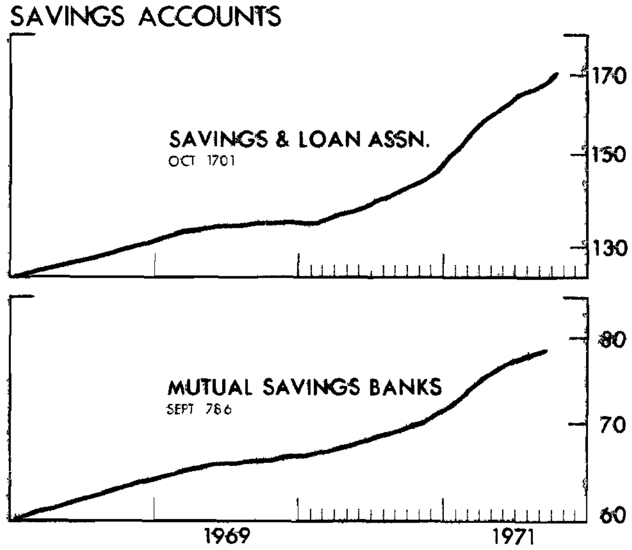
MONEY AND TIME DEPOSITS



BANK CREDIT

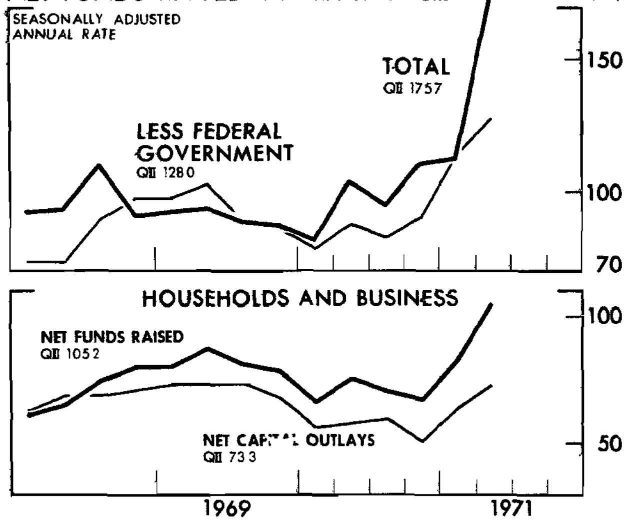


SAVINGS ACCOUNTS

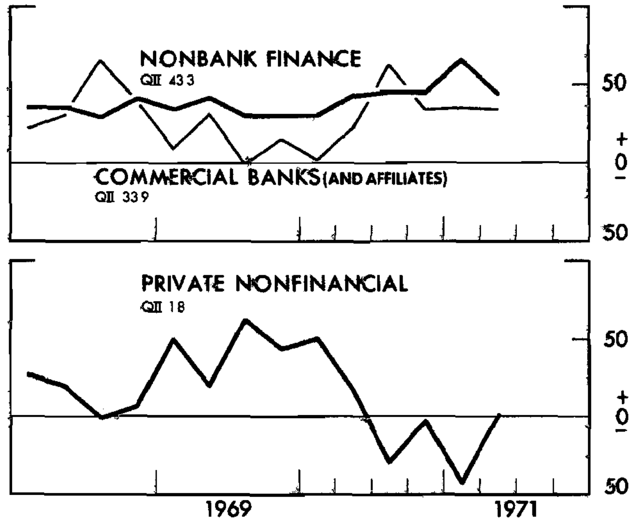


FINANCIAL DEVELOPMENTS - UNITED STATES

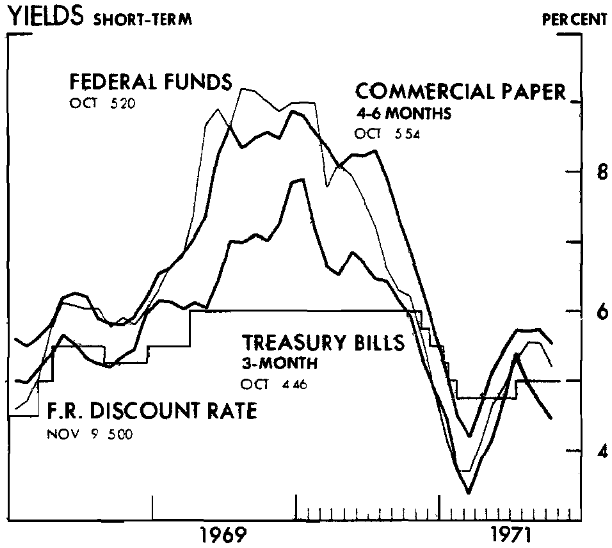
NET FUNDS RAISED NONFINANCIAL SECTORS



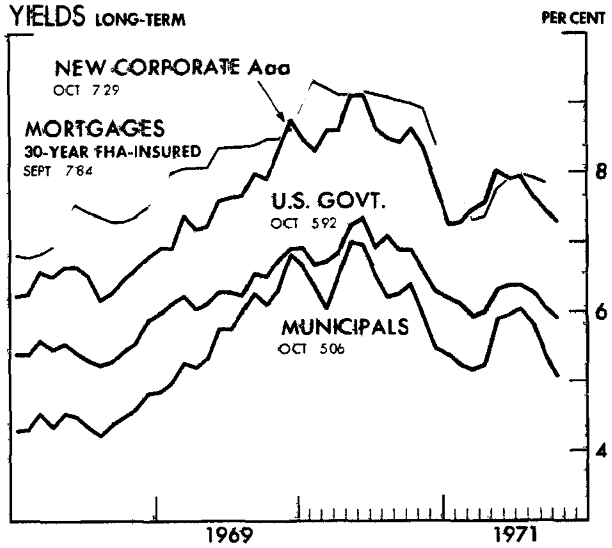
SHARES IN FUNDS SUPPLIED



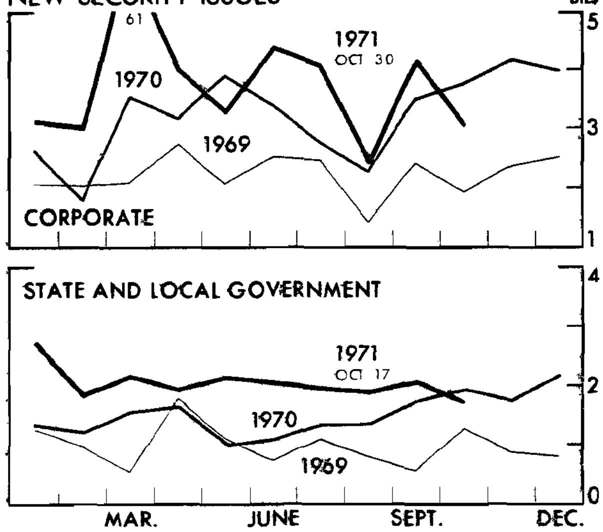
YIELDS SHORT-TERM



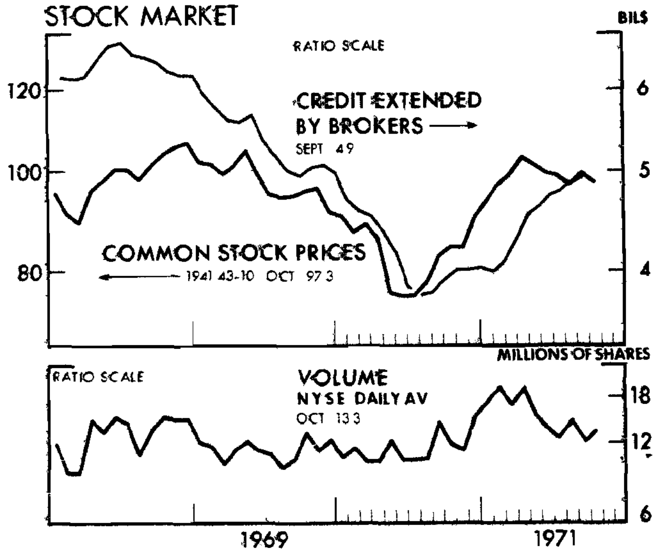
YIELDS LONG-TERM



NEW SECURITY ISSUES



STOCK MARKET



THE ECONOMIC PICTURE IN DETAIL

International Developments

U.S. balance of payments. In the period since mid-October the official settlements measure of the U.S. balance of payments has shown markedly lower deficits. During September known international transactions were relatively favorable to the United States; the trade accounts were temporarily in surplus, U.S. banks reported a reduction of about $450 million in claims on foreigners (mainly a reduction in claims on U.K. borrowers), U.S. investors sold a small amount, net, of foreign securities, and foreigners raised their net purchases of U.S. corporate securities to about $225 million for the month, including net purchases of about $150 million of U.S. corporate stocks. In view of these favorable developments holding down the deficit, the continuation of an over-all deficit of $1-1/2 billion in September suggested that some outflow of liquid funds still persisted.

More recently, however, the weekly balance-of-payments indicators suggest the flow of funds from the United States has dwindled considerably, or even begun to be reversed. In recent weeks only Germany and the United Kingdom have added significantly to their dollar holdings. Gains by Japan have tapered off and French dollar holdings have been reduced. Some of this change may reflect a shift by corporations who, after sending large amounts abroad earlier in the year, find that it is now advantageous to substitute foreign funds -- as they would be required to do in any case before the year end.

Evidence that a change has occurred in the flow of liquid private funds is given by the significant weakening of Euro-dollar rates since the beginning of October and the tendency of other currencies as a group to level off or even weaken against the dollar.

Euro-dollar markets. Since the previous Greenbook Euro-dollar rates have followed the general decline in U.S. and other national money market rates. As shown in the table below the differential between CD rates and three-month Euro-dollar deposits has tended to narrow. The differential between overnight Euro-dollars and Federal funds shifted to the advantage of Federal funds in the last two weeks and U.S. banks' liabilities to foreign branches have decreased by $110 million from October 6 through November 3. Over the same period an additional $1 billion of special Euro-dollar Treasury issues was allowed to run off at maturity.

The fear of exchange loss to Euro-dollar deposit holders, and continuing demand for Euro-dollar loans to finance holdings of foreign currencies, had resulted in unusually high rates in August and September. The influence of these factors abated in October as exchange rates against the dollar levelled off. Other factors tending to depress Euro-dollar rates included the announcement by ENEL, a state-owned Italian enterprise, that it would prepay $300 million in Euro-dollar loans during November. There is also a large potential for repayment of Euro-dollar borrowings by German corporations if money market conditions in Germany ease relative to the Euro-dollar market.

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

Average for month or week ending Wednesday	(1) Over-Night Euro-$ 1/	(2) Federal Funds 2/	(3) (1)-(2) Differential	(4) 3-month Euro-$ Deposit 1/	(5) 60-89 day CD rate (Adj.) 3/	(6) (4)-(5) Differential
1971						
Jan.-Mar.	4.68	3.87	0.81	5.52	4.41	1.11
Apr.-June	6.15	4.56	1.59	6.70	4.95	1.75
July	5.39	5.28	0.11	6.47	5.81	0.66
Aug.	12.20	5.57	6.63	8.16	5.72	2.44
Sept.	5.10	5.55	-0.45	8.34	5.70	2.64
Sept. 22	4.97	5.46	-0.49	8.21	5.76	2.45
29	5.18	5.43	-0.25	8.21	5.74	2.47
Oct. 6	4.94	5.33	-0.39	7.30	5.66	1.64
13r	5.09	5.29	-0.20	6.77	5.38	1.39
20	5.09	5.14	-0.05	6.55	5.26	1.29
27	4.64	5.11	-0.47	6.15	5.12	1.04
Nov. 3	5.25	5.17	0.08	5.99	5.00	0.99
10p	5.06	4.96	0.10	5.97	5.00	0.97

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

Foreign exchange markets. The dollar's gradual depreciation against major foreign currencies (weighted average basis) since August 15 was moderately reversed in the past two weeks. Its further depreciation against the Japanese yen, the Dutch guilder and the Belgian franc was somewhat more than offset by its appreciation against most other major foreign currencies, particularly the German mark and the Canadian dollar.

PER CENT APPRECIATIONS OR DEPRECIATIONS (-) FROM PAR VALUES OF MAJOR FOREIGN CURRENCIES

	Against U.S. dollar			Against all currencies		
	Oct. 13	Oct. 27	Nov. 10	Oct. 13	Oct. 27	Nov. 10
U.S. dollar	--	--	--	-3.07	-3.11	-3.09
Sterling	3.7	3.9	3.9	0.53	0.66	0.68
Canadian dollar	7.5	8.0	7.5	4.51	4.62	4.42
DM	10.3	9.9	9.4	6.86	6.51	6.14
Swiss franc	10.2	9.7	9.5	6.83	6.31	6.16
Guilder	7.8	8.0	8.3	4.44	4.64	4.96
French franc	0.4	0.6	0.5	-2.66	-2.55	-2.66
Belgian franc	7.0	7.1	7.7	3.66	3.79	4.45
Lira	2.1	2.1	2.0	-1.04	-1.07	-1.11
Yen	8.9	9.2	9.5	5.53	-5.80	6.12

Note: Calculations are based on offer rates in the New York market on October 13 and 27 and November 10, 1971 and par values in effect on May 1, 1971. For weighted average appreciations (columns 4 -6), weights are shares of each country in 1970 world trade. Shares are calculated as the sum of each country's exports and imports (f.o.b.) divided by two times world exports. Currencies other than the ten are assumed, as a group, to have neither appreciated nor depreciated against the U.S. dollar.

Foreign central banks' purchases of dollars in the exchange markets, as evidenced by the United States official settlements balance, amounted to only about $200 million in the three weeks ended November 3, compared with $1-1/4 billion in the previous three weeks. Bank of Japan intervention, in particular, was substantially reduced, but the Bank of England has continued to purchase fairly large amounts of dollars through early November.

One notable development during the period was the re-emergence of trading in forward yen for the first time since mid-August, prior to the floating of the Japanese yen on August 28. The three-month forward yen rate in recent days has been at a 13.2 per cent per annum premium over the current spot rate -- a level about 13 per cent above the yen's par value. Whether forward market activity resumed because of reduced uncertainty, now that the spot rate has appreciated to around 9-1/2 per cent over par, or because of some change in Japanese exchange control policy, is not clear. An indication that Japanese banks now have a little more freedom of operation is the resumption of limited trading in spot yen in New York. For several weeks there had been practically no trading in yen outside Tokyo.

The firmness of the Belgian franc in recent weeks was partly attributable to purchases by the Federal Reserve Bank of New York of Belgian francs for System account. These purchases, undertaken at the request of the National Bank of Belgium, are being made in order to repay $105 million equivalent (at the exchange rate at the time of the drawing) of System swap drawings maturing in January.

The Belgian National Bank in turn has been purchasing Dutch guilders in the market in order to repurchase from the Netherlands Bank francs which the latter accumulated in August and September in keeping the franc/guilder cross rate from moving beyond the agreed upon range. This partially accounts for the guilder's strength. In light of the strength of both the guilder and the franc the Belgian National Bank requested on November 9 that the System hold off on further purchases of francs for at least a week.

U.S. foreign trade. Extraordinarily large increases in exports and imports in September are attributed to an acceleration in trade activity in anticipation of the East and Gulf Coast dock strikes which began on October 1. With exports increasing by 22 per cent from the August level and imports by 7-1/2 per cent, the trade balance in September was a surplus.

The more moderate rise in imports than in exports may reflect earlier hedge-buying by importers in anticipation of the dock strike and the restraining effect of the work stoppage at West Coast ports, which handle more imports than exports. Also, the large withdrawals of imported goods from customs-bonded warehouses in September to avoid paying the surcharge that would be levied on such goods beginning October 1 may have reduced the need for additional purchases of "new" imports. (Goods withdrawn from warehouses are not included in the balance of payments trade data which are recorded on an arrival basis).

For the third quarter, the trade balance was a deficit of about $2 billion at an annual rate, compared with a deficit of $4-1/4 billion in the second quarter. More than one-half of the change resulted from a reduction in our trade deficit with Japan as imports from that country fell by 20 per cent. This sharp fall-off in imports is undoubtedly related to the West Coast dock strike since nearly one-half of U.S. imports from Japan ordinarily arrive by vessels through those ports. Also imports from Japan in the first half of the year may have been abnormally high because of accelerated purchases in anticipation of possible controls on U.S. imports of textiles or other goods of which Japan is a principal supplier.

A series of events this year has tended to obscure the trends of exports and imports. Trade movements in the first quarter were affected by the recovery from the GM strike in late 1970. Then and later, actual or expected strikes by longshoremen and in the steel, coal, railroad, copper, aluminum, and other industries, caused changes in the timing or volume of import and export trade. Anticipation of controls on U.S. imports, climaxed by a textile agreement with Japan, Hong Kong, Korea, and Taiwan in October, and the uncertainties resulting from the floating of the dollar and the imposition of an import surcharge after August 15 probably also have distorted trade this year. On balance it appears likely that these diverse influences tended to worsen the trade balance in the second quarter and improve it in the third quarter.

Trade movements in the closing months of this year and possibly into the early months of 1972 are likely to be very erratic even if the current dock strike at East Coast ports ends very soon. Although the West Coast dock strike was halted, at least temporarily, by a Taft-Hartley injunction on October 1, more than one-third of the ships that were caught in those ports when the strike began in early July were still waiting to be unloaded as of the first week of November. Any confirmation of the effectiveness of the surcharge and exchange rate appreciations realized so far will probably have to be postponed until the first part of 1972.

Changes in aggregate demand in foreign economies and in the United States have played an important role in worsening the U.S. trade balance since last year. In 1970 U.S. exports were buoyed by high activity abroad while U.S. imports were depressed by the sluggishness of domestic demand. The U.S. trade surplus of just over $2 billion that year, if adjusted for cyclical factors, may have been a deficit of about a $1/2 billion.

This year the slackening of economic growth in Europe and Japan, as well as the moderate upturn in domestic economic activity, have diminished the benefit of these cyclical changes on our trade balance. The average rate of the recorded trade deficit in the second and third quarters, more than $3 billion, may not be much different from the cyclically-adjusted balance.

<u>Interest rate developments and monetary policy in major industrial countries abroad</u>. Short-term interest rates in major industrial countries abroad have moved in somewhat diverse fashion since mid-1971. (See table.) In the United Kingdom, Japan and Switzerland, they decreased substantially, from July through October, by amounts ranging from about 1 to 1-1/2 points. The decline in the United Kingdom and Japan came largely in response to policy actions, though increased liquidity resulting from capital inflows also contributed; in Switzerland, it reflected mainly massive speculative short-term capital inflows in the first two weeks of August.

SELECTED SHORT-TERM INTEREST RATES 1/

	High 1970		1971 June	July	Aug.	Sept.	Oct.	Latest	
United Kingdom	9.27	(Feb.)	6.49	6.19	5.96	5.42	5.16	5.09	(10/29)
Switzerland	5.50	(Apr.)	3.50	3.50	3.12	2.12	2.10	2.00	(11/5)
Japan*	8.50	(Feb.)	6.50	6.45	6.25	6.00	5.60	5.50	(10/29)
Canada	7.54	(Jan.)	3.03	3.47	3.80	3.79	3.72	3.28	(11/5)
Belgium	8.50	(Jan.)	4.80	4.86	4.84	4.68	4.60	4.60	(11/1)
Germany	9.56	(Mar.)	6.57	7.64	7.58	7.57	7.86	7.38	(11/3)
Netherlands	6.00	(Oct.)	4.39	4.03	4.24	4.43	4.46	4.50	(10/29)
France*	10.27	(Jan.)	6.00	5.72	5.72	5.94	6.00	5.62	(11/5)
Italy	8.25	(July)	4.75	4.75	4.75	4.75	n.a.	4.75	(9/30)
Euro-dollar:									
3-mo. deposit	10.04	(Jan.)	7.08	6.56	8.16	8.48	6.58	6.06	(11/5)
Overnight	n.a.		4.89	6.66	12.20	5.51	4.94	5.25	(11/5)
United States	7.78	(Jan.)	4.58	5.26	4.84	4.59	4.40	4.06	(11/5)

1/ Rates quoted are monthly averages (end-month for Italy), generally for 3-month funds, as follows: Italy and Switzerland, time deposits; Germany, interbank loan rate; United Kingdom, local authority deposit; Canada, Netherlands, and United States, Treasury bills; Belgium, tap rate on Treasury bills; Euro-dollar deposit; France and Japan, call money rate.
* - Call money.

In contrast to domestic short-term rates, Euro-dollar rates moved over a broad range, climbing steeply from mid-July until the beginning of September, easing on balance through most of September, and declining sharply since then. The climb in the Euro-dollar rates -- in the case of 90-day deposits, from about 6.25 per cent in mid-July to 9 per cent in early September -- was largely associated with speculative pressures against the dollar. The recent decline implies, inter alia, that the market is becoming increasingly doubtful that the

SELECTED LONG-TERM BOND YIELDS 1/

	High 1970	1971 June	July	Aug.	Sept.	Oct.	Latest
United Kingdom	9.75 (Dec.)	9.36	9.17	9.13	8.74	8.56	8.69 (10/29)
Japan	8.89 (Apr.)	7.73	7.59	7.51	n.a.	n.a.	7.51 (Aug.)
Switzerland	6.05 (July)	5.35	5.41	5.42	5.15	5.02	4.97 (10/29)
Canada	8.34 (Jan.)	7.23	7.41	7.34	7.00	6.82	6.10 (11/3)
France	8.05 (Mar.)	7.80	7.80	7.70	7.75	n.a.	7.75 (10/15)
Italy	9.43 (July)	8.18	8.15	8.12	8.10	n.a.	8.10 (Sept.)
Belgium	8.05 (Oct.)	7.35	7.28	7.32	7.15	7.29	7.29 (10/1)
Netherlands	8.53 (Apr.)	7.15	7.35	7.14	7.37	7.14	7.07 (10/29)
Germany	8.78 (June)	8.20	8.34	8.27	8.11	7.97	7.93 (10/29)
United States	7.34 (June)	6.38	6.38	6.27	6.05	5.92	5.81 (11/8)
Euro-bonds	9.38 (June)	8.30	8.34	8.70	8.45	n.a.	8.45 (Sept.)

1/ Rates are monthly averages except for Belgium, where the beginning-of-month yield is shown, and Euro-bonds, where the end-of-month yield is cited. Yields are for long-term government and public sector bonds except as follows: the Euro-bond yield is a composite of 10 dollar-denominated issues of U.S. companies; for Italy, the composite yield is for all bonds except Treasury bonds; for Japan, a composite yield of private industrial bonds is shown. The French yield is net of withholding tax, the gross yield being approximately one percentage point higher.

dollar will depreciate much further vis-a-vis those other currencies into which it is possible to move funds. The 90-day Euro-dollar rate is currently down to the 6 per cent level again.

Long-term rates for the most part have moved downward since mid-year (see table), the most pronounced decreases occurring in Canada and the United Kingdom. Declines in yields elsewhere since June or July have not exceeded 50 basis points. The movement in long-term yields largely reflects the easing of short-term rates, and the actual and anticipated relaxation of monetary policies. Nine central banks in European countries lowered their discount rates in September and October.

The monetary relaxation reflects, in part, growing concern over actual or anticipated slowdowns in the growth of aggregate demand. In several countries -- notably, Italy, Canada, and the United Kingdom -- the discount rate reductions represented continuation of easier monetary policies initiated in late 1970 or early 1971. In France, too, the easing of monetary restraint dates back to early 1970, though the movement toward greater ease has been very moderate and marked by some retightening measures along the way (such as the discount rate rise in May). Japan -- which did not cut the discount rate in September or October but has done so four times since the summer of 1970, most recently in July -- has also been pursuing an easy monetary policy for over a year.

Only in Germany and the Netherlands do the recent steps in the direction of relaxation represent a reversal of previous monetary policies. Overall, the recent easing, though general, has been moderate, as most countries are still also concerned about a too-rapid rise in prices.

It should be noted that the easing of monetary policy has been undertaken not only, and in some instances not even primarily, to stimulate the domestic economy. In countries which have floated their exchange rates, official steps to lower interest rates reflect efforts to hold down or push down the value of the domestic currency vis-a-vis other currencies. The main intent of such efforts is presumably to improve a country's bargaining position in negotiations over exchange rate realignment.

In Germany, monetary policy was eased slightly in mid-October when the Bundesbank lowered its discount rate from 5 to 4-1/2 per cent and the Lombard rate from 6-1/2 to 5-1/2 per cent. Reserve requirements on domestic liabilities were also reduced by 1 per cent, effective November 1.

These steps did not signal a major change in economic policy. On the contrary, and despite clear evidence of a slowdown as reflected in declining industrial production and new orders in recent months, German policy continues to accord priority to checking inflationary pressures.

The prime objective of lowering the Bundesbank lending rates may have been to reduce the mark exchange rate. In fact, the rate fell from 10.5 per cent above parity with respect to the dollar in early October to 9.7 per cent above parity recently.

Until the Bundesbank action in October, monetary policy had remained firm. In April, the discount and Lombard rates were reduced, but this was done in what turned out to have been a vain attempt to halt speculative capital inflows and the resulting rise in bank liquidity. Indeed, the rate cuts were accompanied by restrictive monetary measures.

The capital inflows of April and early May increased bank liquidity, which, however, was then sharply constricted in June when the foreign exchange holdings of the Bundesbank were reduced. Bank liquidity has remained tight since.

Short-term interest rates in Germany, as reflected by the 3-month interbank loan rate, rose sharply in June and July, then levelled off until October. They then rose as money market conditions tightened again, partly because banks were reluctant to commit funds in anticipation of a discount rate cut and partly because they had to increase their reserves with the central bank to meet monthly requirements. At the end of October and in early November, the interbank loan rate declined. In addition, there has been a very sharp decrease in the call money rate in the same period. Long-term bond rates have edged downward since July, mainly because of expectations of an easing of monetary policy.

In the Netherlands, the central bank lowered its discount rate on September 15 from 5.5 to 5 per cent. The move was intended in part to discourage inflationary capital inflows. Earlier in the month the government had acted to slow such inflows by placing restrictions on purchases of Dutch bonds by nonresidents.

However, the discount rate cut also reflects a slight easing of monetary policy in response to the marked slowdown in economic activity in the Netherlands and is aimed at providing a moderate stimulus to investment and consumption. The tentative character of the movement toward ease is explained by the persistence of strong inflationary pressures and is demonstrated by the retention of the quantitative ceilings on lending by Dutch banks.

The reduction in the discount rate two months ago has not been reflected in lower short-term market interest rates. The rate on call money, as well as the 3-month Treasury bill rate -- the latter had been edging down since July -- are somewhat higher now than when the discount rate was cut. Long-term bond yields, however, have decreased slightly.

Despite the absence of any expansionary measures -- as policy continues to stress curbing inflation -- monetary developments in Switzerland have been marked by a sharp decline in short-term interest rates. The decreases largely reflect the huge inflow of funds in the first half of August, when speculation reached enormous proportions. As a result of this capital inflow, commercial bank deposits at the Swiss National Bank increased from about 4 billion francs on July 31 to almost 13 billion on August 13. Despite the agreement of August 16 between the Swiss National Bank and the commercial banks that the newly-instituted reserve requirement against increases in banks' foreign liabilities after July 31 would be 100 per cent, the amount of the required reserves through the third week of October was less than

2 billion francs, implying that the bulk of the August capital inflow did not take the form of bank liabilities to nonresidents.

With their free reserves increased by over 7 billion francs, banks cut the rate they pay on 3-5 month time deposits from 3-1/2 to 2-1/2 per cent on August 23. A further cut, of 1/2 a point, took place on October 4. The decline in Euro-dollar rates may have been an additional reason for the October reduction.

Bond yields, which had been creeping slowly upward for several months, have retreated considerably since mid-August. The composite yield on Confederation bonds has fallen about half a point since August 6. The downward pressure on bond yields is probably explained by the additions to liquid balances of Swiss residents that occurred when they repatriated funds in August.

French monetary policy continues to be cautiously expansionary, as was indicated by the small reduction in the discount rate on October 29 from 6.75 to 6.50 per cent. The cut has been interpreted as a marginally reflationary action, reflecting some concern that the French boom is slowing down more than the authorities desire. However, with inflationary pressures still strong -- consumer prices rose sharply in September -- further relaxation of monetary policy is considered unlikely in the near future.

In May, in order to underscore official concern over inflation, the discount rate had been raised by a quarter of a point, to 6.75 per cent. Other restrictive monetary steps taken by the authorities this year include several increases in reserve requirements, designed to offset the expansionary impact of capital inflows.

However, the money supply has been allowed to expand at a substantially faster rate in 1971 than in 1970, indicating that, on balance, monetary policy has been intended to be moderately stimulative. The easing began in late 1970, in fact, when all quantitative limits on credit expansion were abolished.

Short-term interest rates continue to be determined by the Bank of France's intervention rate on the Paris money market. Rates were kept relatively high in September and early October, but were allowed to decline slightly late in the month. Long-term rates, on the other hand, have been inching up since June, partly in response to the rise in the discount rate in May. If long-term rates continue to respond to discount rate changes with a lag, they will decline during the balance of 1971 and in early 1972.

Since August 15, in order to inhibit the growth of foreign exchange reserves and the resulting increase in bank liquidity, the French Government has resorted mainly to exchange controls and other administrative measures, rather than further increases in the already high required reserve ratios. The most important measure to date, aside from the separation of the commercial and financial franc markets, has been to require importers to make payments for goods from abroad within 90 days of customs entry. This move is credited with having forced the commercial franc rate down from the IMF ceiling in September.

In the latest move to ease Italian monetary policy, the Bank of Italy on October 14 lowered its discount rate from 5 to 4-1/2 per cent and its rate on secured advances by a full point from 5 to 4 per cent. The action was intended to encourage investment spending, which has declined this year, significantly contributing to a deterioration of the already unsatisfactory level of Italian economic activity.

The cuts are unlikely to augment the already ample lending capacity of the commercial banks, whose liquidity is high as a result of the easy monetary policies in effect since the autumn of 1970. The prime objective of that policy has been to accelerate the growth of the monetary base, the main elements of which -- currency circulation and deposits at the Bank of Italy -- rose by 21 per cent from the end of August 1970 to the end of August 1971, compared to 15 per cent in the preceding 12 months. The main contributors to this year's rise were an increase in external official reserves of $1.3 billion and increases in the Bank of Italy's advances to the Treasury and holdings of Treasury securities. The effects of these operations on the monetary base were partly offset by a drop in Bank of Italy credit to banks.

The rapid growth of the monetary base has been partly employed by the banks to swell their free reserves to inordinately high levels. A ten-fold increase occurred in the year ending August 31. At the same time, banks reduced their rediscounts and advances from the Bank of Italy by more than two-thirds.

The discount rate cut was the second this year, the rate having been reduced by half a point in April. The banks immediately responded to the earlier cut by reducing their prime lending rates by 1/4 per cent; further reductions of 1/4 per cent each were made in June and September, reflecting rising liquidity and lagging loan demand. The banks also reduced the rate paid on deposits by 1/4 per cent in April, but no further cuts had occurred by the end of September.

Despite rising bank liquidity, bond yields -- following a very sharp drop in January and February -- rose again in May and June, and held steady in July and August. Yields fell in September but were still above the end-March level.

Easy money in Italy was abetted in August and September by the decision to prevent the lira from appreciating, on a weighted average basis, against other currencies. Intervention in the exchange markets to implement this decision was responsible for a net increase in official reserves of almost $600 million in those two months.

British monetary policy, which has been stimulative since early 1970, has also served, since August 15, to inhibit the appreciation of the floating pound. The authorities have recently indicated, however, that no further easing is contemplated for at least the balance of the year.

At the end of March, in conjunction with the moderately stimulative budget for the year which began April 1, ceilings on bank lending were liberalized, as was the target limit for money supply growth. Additional expansionary measures adopted by the government in July included the removal of all restrictions on installment buying.

On September 2, Bank rate was cut by a full point to 5 per cent. The move was explained as part of an effort to curtail capital inflows, and, indeed, the reduction came only a few days after the introduction of an array of exchange controls designed to prevent or discourage such inflows. However, since lower interest rates were unlikely to augment significantly the impact of the direct barriers to capital inflows, the principal aim of decreasing the discount rate may well have been to promote domestic economic activity.

Interest rates have decreased substantially on balance since mid-year. Short-term yields not rigidly linked to Bank rate edged downward in July and August, reflecting the high degree of liquidity associated with Britain's strong balance of payments position, stemming both from a current account surplus and, in August at any rate, heavy short-term capital inflows. During the last two months, short-term rates have continued downward, under the influence of the Bank rate cut, the continuing high level of bank liquidity, and, since last September, falling Euro-dollar rates.

Long-term yields, after rising in the latter half of July when the Chancellor's expansionary package failed to include measures aimed at lowering interest rates, then declined almost steadily until mid-October. The drop, averaging almost a full percentage point in the case of long-term government bonds, stemmed in large measures from revived expectations of easier money. Since mid-October, long-term yields have risen slightly, probably because no further easing of monetary policy is anticipated.

In mid-September administratively imposed limits on bank lending were abolished as the change in the method of implementing monetary policy proposed in May took effect. Under the new arrangement, all banks (and not, as before, the clearing banks only) must hold specified liquid assets equal to at least 12-1/2 per cent of their sterling deposits. Since the change left the clearing banks, which account for the bulk of domestic lending, with ample excess reserves, the immediate effect of the new system can be expected to be on the expansionary side.

Evidence that no further relaxation of monetary policy is now planned was provided when Bank rate was not lowered last month, despite the strengthening of exchange controls designed to check the steady appreciation of the pound vis-a-vis the dollar and despite the downward trend in interest rates abroad.

The apparent decision not to ease monetary policy further would indicate that the government is convinced that the economy will now be growing at a satisfactory rate. The Chancellor announced in July a goal of 4 to 4-1/2 per cent for growth between the first halves of 1971 and 1972. Though wage inflation has slowed somewhat this year and though price increases also appear to have decelerated since July, inflationary pressures are still sufficiently intense -- despite high unemployment and a large margin of unused plant capacity -- to dictate caution in applying stimulative measures.

Reflecting lessened demand pressures in the Belgian economy this year, the discount rate was reduced from 6 to 5-1/2 per cent on September 23 and ceilings on bank lending were allowed to expire on September 30. An additional reason why the discount rate was cut may have been that, as a result of the floating of the exchange rate on August 23, cash balances of the banks are no longer being augmented by official purchases of foreign exchange; rediscounts at the central bank are therefore tending to increase and the discount rate is having a greater effect on market rates. Since the reduction in the discount rate, the auction rate on 4-month bills has dropped a further 20 basis points (to 50 points under the level in early August).

Partly because of the continuing high level of unemployment, Canadian monetary policy was further eased recently, as the Bank of Canada lowered its discount rate from 5.25 to 4.75 per cent on October 25. The reduction supplemented the proposal on October 14 of several expansionary fiscal measures.

Like discount rate reductions in several other countries since August 15, the Canadian cut is intended not only to stimulate output through its impact on domestic credit conditions but also to exert downward pressure or counteract upward pressure on the exchange rate. Underscoring the importance which has recently been attached to the latter objective -- as the Canadian dollar approached parity with the U.S. dollar -- the Bank of Canada bought U.S. dollars on a large scale at the end of October, something it had not done since the Canadian dollar was floated at the end of May 1970.

Short-term interest rates in Canada have been unusually low in relation to U.S. rates since April. Canadian rates, as reflected in the movement of yields on 3-month Treasury bills, showed little change from mid-August until the discount rate cut, which was accompanied by corresponding cuts in the chartered banks' prime rates, interest rates on savings accounts and mortgage rates. Between the latter part of May and mid-August, Canadian short-term yields rose rather sharply -- the Treasury bill rate increasing from about 3 per cent to 4 per cent -- despite a substantial increase in the money supply.

Long-term yields, as measured by the average yield on Canadian government bonds, declined by about 70 basis points from mid-August to mid-October. As with short-term rates, Canadian and U.S. yields moved in parallel fashion. Earlier this year, Canadian bond prices fell sharply, and the recent recovery still leaves yields above their 1971 low of 6.60 on January 20.

As part of the effort to counteract the slowdown in economic growth, <u>Japan</u> continues to pursue the easy monetary policy introduced in the summer of 1970. The Bank of Japan has reduced its discount rate four times since October 1970, most recently in July. A further reduction in the rate is considered likely before the end of the year.

Other indications of the stimulative bent of monetary policy have been the more rapid rates at which bank credit and the money supply have been expanding this year compared to last.

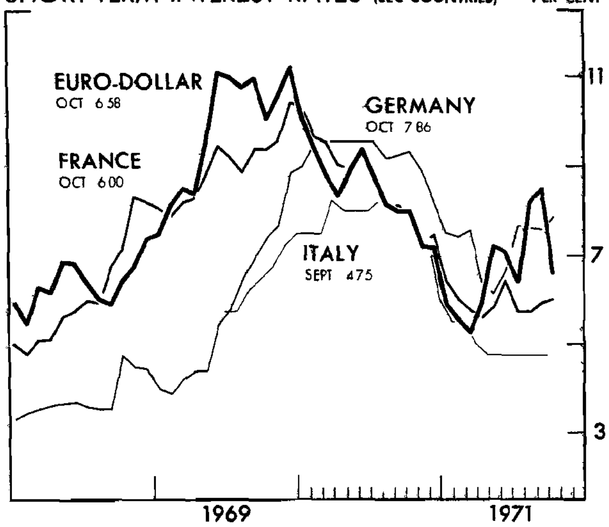
Interest rates have generally been declining since the summer of last year. The call loan rate declined from 8.5 per cent in September 1970 to 5.5 per cent in October 1971, the lowest level in 15 years. The average interest rate on commercial bank loans and investments fell from a peak of 7.70 per cent in October 1970 to 7.57 per cent in August of this year. Long-term yields have also come down, but only slightly, and small cuts have been made in some officially controlled rates.

Mainly because of large balance of payments surpluses, the banking system is now very liquid. One consequence of this development is that Japanese banks have substantially reduced their indebtedness to the Bank of Japan. As a result, the Japanese authorities fear that, should tight money be appropriate in the future, discount policy will prove ineffective. To deal with this potential problem the Bank of Japan reportedly plans to make more active use of legal reserve requirements in the future.

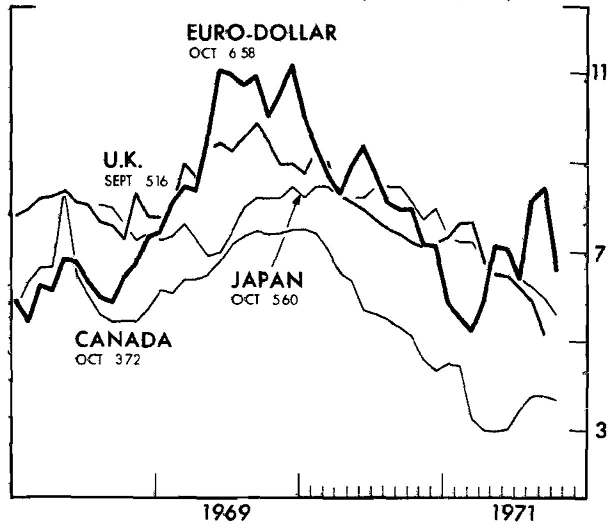
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

BILLIONS OF DOLLARS

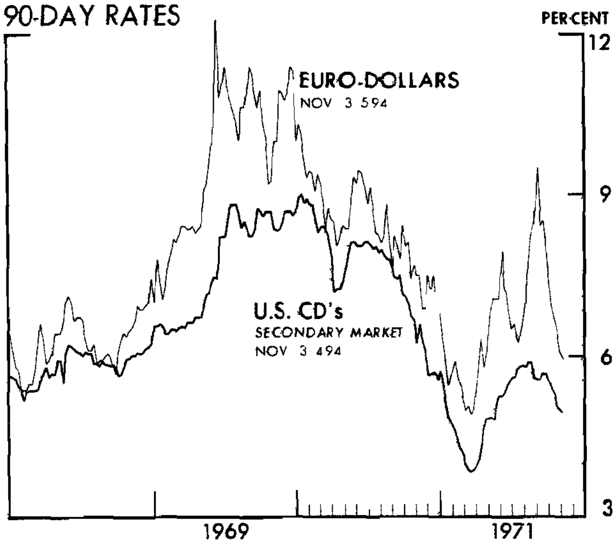
SHORT-TERM INTEREST RATES (EEC COUNTRIES) PER CENT



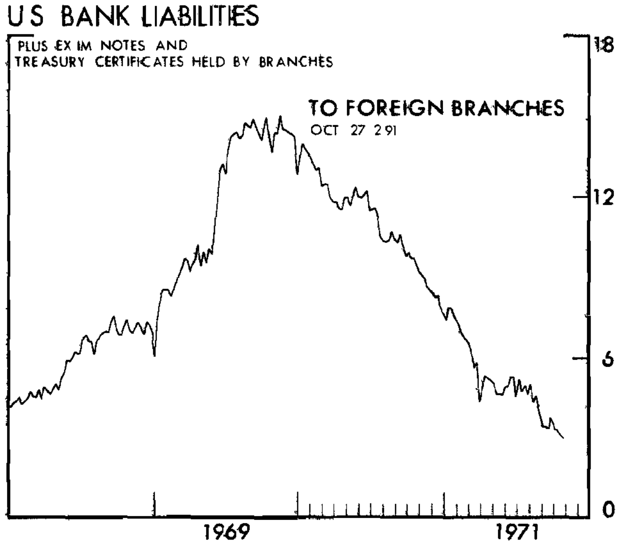
SHORT-TERM INTEREST RATES (OTHER COUNTRIES) PER CENT



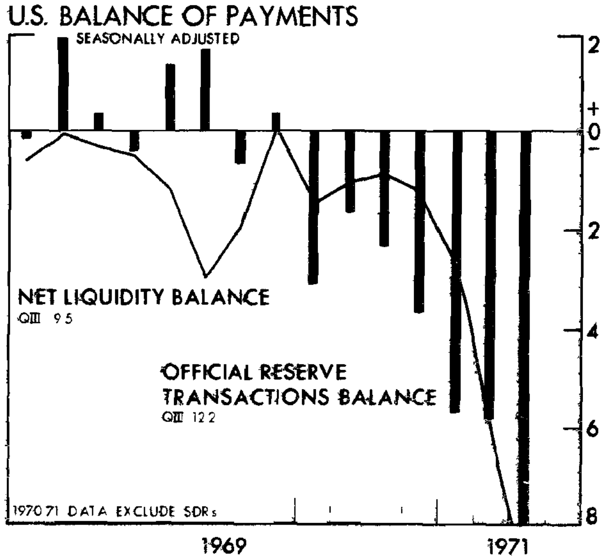
90-DAY RATES PER CENT



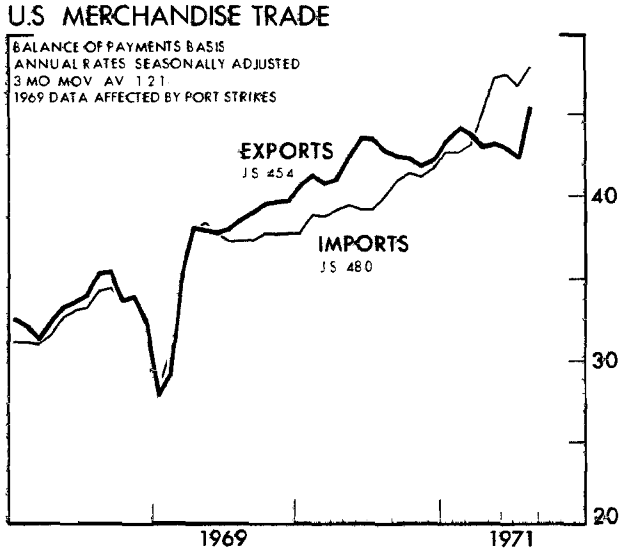
U S BANK LIABILITIES



U.S. BALANCE OF PAYMENTS



U.S MERCHANDISE TRADE



APPENDIX A WILL APPEAR IN THE SUPPLEMENT

APPENDIX B: THE FLOATING PRIME RATE*

In response to an informal survey, the Reserve Banks have indicated that to their knowledge only four commercial banks have thus far publicly adopted a floating prime rate. Two other commercial banks have apparently abandoned the prime rate convention altogether, intending to negotiate rates separately with each customer. Other banks have stated that they are interested in the floating rate concept but do not believe that a suitable rate setting mechanism has been devised as yet.

The rate-setting procedures adopted by banks that have shifted to a floating rate differ to some degree. First National City Bank has tied its prime rate to a level 50 basis points above the rate charged borrowers on 90 day commercial paper and has indicated that, when necessary, it will change the prime rate weekly in one eighth point intervals, using either a weekly average or rates established on the last days of the preceding week as the base rate. Irving Trust Co. has tied its rate 50 basis points above the dealer rate offered buyers of commercial paper, with changes to be made in quarter point intervals on the basis of fluctuations in the weekly average of the base rate. Michigan Bank NA, in Detroit, has adopted an index of the 90 day commercial paper rate and the rate on 360 day negotiable CD's. The prime rate determined in this way will be limited to borrowers in the banks own market area. The final details of the policy of the First National Bank of Boston, have not been worked out yet, but the bank has indicated that it intends to use a broader range of money market variables than those adopted by the other banks, and will also give consideration to its own portfolio position in setting its rate. This bank plans to change its rates on a monthly basis in one eighth point intervals but does not intend to annouce its actions.

The prime rate has progressively become a more flexible rate in recent years, changing more frequently and in smaller intervals to alterations in money market conditions as banks have responded to the competitive challenge offered by the commercial paper market and have placed greater reliance on large CD's and non deposit funds, the cost of which tend to move sensitively with money market conditions. In some respects, therefore, the significance of the new floating rate policy would appear to be more political than economic. That is to say, the newly developed mechanism may bring about a slight speed up in the

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* Prepared by Fred Struble, Economist, Banking Section, Division of Research and Statistics.

reaction of banks to changing market rates and may result in changes in the prime rate of smaller size, but the range of variation in this rate over the cycle will probably not be widened significantly by the mechanism. A device which imparts a more mechanical, non-administered appearance to a prime rate change, however, may reduce public objection to a possible hike in this rate at some future time.

APPENDIX C: A SURVEY OF THE IMPACT OF FLOATING EXCHANGE RATES ON INTERNATIONAL TRADE AND FINANCE*

Summary

As a result of the mid-August suspension of gold convertibility by the United States, since August 23 exchange rates have been allowed to float -- subject to varying degrees of official control -- in all of the European Group of Ten countries, except the French franc rate for trade transactions. The Japanese yen began to float on August 28. The German and Dutch currencies had, of course, been floating since May 10, and the Canadian dollar since June 1, 1970. Moreover, in several countries the authorities have acted with both direct and indirect measures to limit the movement of the exchange rate away from the official parity. Nevertheless, the current situation constitutes a radical departure from the past because floating rates are at present widespread and because great uncertainty prevails, here and abroad, as to the levels of exchange rates in the near future.

A survey of recent exchange market and trade developments was requested by the Department of State from the American Embassies in nine countries1/ and was carried out in late October. It indicates that, in the limited period of time since mid-August, the new exchange rate situation has so far had no readily apparent effect on the volume of foreign trade, with the important exception of export sales involving credits of relatively long maturity. (The survey did not cover effects on trade of changes in exchange rate levels, i.e., of the resulting changes in relative prices.) The survey results suggest that, on the basis of exchange market activity, capital movements have not been hindered by the floating rates *per se*, except possibly in Japan. On the other hand, despite the great uncertainty about spot exchange rates there has been no general increase in the use of the forward exchange market. The survey also covered reactions of the public to the U.S. measures of August 15; the findings show a general unhappiness but no organized pressure for retaliatory measures in any of the countries surveyed.

1/ Belgium, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the United Kingdom.

* Prepared by Rodney H. Mills, Jr., Economist, European Section, Division of International Finance

Effects on trade

The results of the survey suggest that increased uncertainties over exchange rates since August 15 have had no obvious repercussions on most types of trade transactions. But in most of the countries covered by the survey, difficulties have been experienced for exports involving relatively long-term credits, in general those over one year, because the long payment period increases the exchange risk, and forward cover for longer periods is unobtainable or very expensive. One way in which the exporter can avoid an exchange risk is to invoice his shipments in his own currency, thus placing the risk on the buyer. According to the survey, this practice is now widespread, or has recently increased, in Belgium, France, the Netherlands, Sweden, Switzerland and Japan. In Switzerland, exports requiring long-term finance came to a halt after mid-August but now are reviving because buyers have given in and agreed to being billed in Swiss francs.

Importers' resistance to invoicing in the seller's currency obliges some exporters to bill in the importer's currency or some third currency, usually the dollar (although some shifting from the dollar to sterling was noted in Sweden and Switzerland). In these instances, the exporter may still avoid an exchange risk by borrowing the invoice currency from a bank, rather than domestic currency, to finance his sales, and this practice was specifically reported in Belgium. The exporter may also avoid an exchange risk by selling his export proceeds forward. But in most countries, dollars can be sold forward only at substantial discounts from spot rates, and usually markets do not exist for forwards longer than one year. The survey reported that forward cover was a problem, of greater or lesser severity, for exporters in Japan, Germany, the Netherlands, Belgium, and Sweden, especially for relatively small firms.

In Japan, long-term export contract negotiations were suspended after the floating of the yen, but are now being resumed. The exchange risk problem is being resolved in part by increased invoicing of exports in yen, which Japanese shipbuilders were already doing before last August. But activity in the Tokyo forward exchange market has declined drastically, and the cost of forward cover has risen very sharply. This is creating difficulties especially for small- and medium-sized exporters. The Japanese Ministry of Finance is now making dollar deposits with banks to facilitate their purchases of export bills sold by small- and medium-sized firms. In Germany, exporters' problems with exchange risks have apparently been aggravated by the fact that, since the floating of the mark in May, there has been a decline in the proportion of exports invoiced in marks (presumably because of importers' resistance).

Effects on exchange markets

The volume of exchange market trading was reduced drastically in Switzerland, and to a lesser extent in other European countries, in the first few days after the reopening of the European exchanges on August 23. The floating of the yen on August 28 caused trading to fall sharply in Tokyo, where turnover (spot and forward) is still 20-30 per cent below normal. In Europe, trading volume is still generally smaller than in July and early August, when speculative activity was intense. But in all the European countries covered by the survey, trading volume has now returned to the normal levels (reached in Switzerland in late October), or has risen above normal (Sweden). The survey did not specifically seek to inquire about the effects of floating rates on international capital flows. But the resumption of normal levels of exchange market trading in Europe suggests that, if capital flows in European countries were initially hindered by the new exchange rate system, they are no longer hindered. From London it is reported that the international bond market is operating without any difficulties as a result of floating rates, and that activity in that market has been more dominated by dollar issues since the float than it was before. In Switzerland, demand for dollar-denominated Euro-bonds has increased at the expense of issues denominated in marks. The evidence that capital flows are now little if any restricted by floating rates should, of course, be considered in conjunction with the fact that the United Kingdom, France, Switzerland and Japan have imposed controls since mid-August to discourage or prevent inflows of short-term capital of one kind or another, to reduce upward pressure on the exchange rate, and the Netherlands has established a special exchange market for transactions in guilder-denominated bonds between residents and nonresidents.

In Japan, the volume of trading in forward exchange has been reduced by two-thirds or more, which is proportionately a much greater reduction than that in spot exchange trading. In Europe, exchange markets do not show any important shifts in the composition of trading between spot and forward transactions as compared with normal periods in the past. Sweden was the only country for which the survey reported a definite rise in the volume of forward transactions; there, forward sales of dollars and forward purchases of sterling and marks have increased. In Italy there is "some tendency" for more exporters to cover forward, but for Britain the survey found no significant increase in the demand for forward cover. The general situation in European markets remains one in which trading in forwards is a small part of the total (a figure of 10-15 per cent was reported for Belgium) and in which importers and exporters typically do not cover forward. Following the floating of the mark and the guilder in May, and following the reopening of the European exchanges in August, spreads between banks' bid and offer rates for foreign currencies generally widened sharply. Since then, spreads have narrowed again, but they still remain two or three times greater than normal in Switzerland and four times larger in France and the Netherlands.

Reactions to U.S. measures

Apart from the controls on capital inflows imposed by Japan, Switzerland, France, the United Kingdom and the Netherlands, the only significant actions taken specifically in reaction to the U.S. measures of August 15 were several measures by Japan. As reported above, steps have been taken to help exports of small- and medium-sized firms. The Japanese government will pay at least 60 per cent of their normal average wage to workers temporarily laid off because of the U.S. measures and the floating of the yen. In addition, three government-affiliated financing institutions will extend long-term, low-interest loans to export-related firms, and special loans will be made to enable firms to change their line of business. Exporters in Britain, Germany, and France are more concerned about the U.S. investment tax credit than about the import surcharge, while the opposite was reported for Italy and Japan. Exporters' dissatisfaction over appreciation of the exchange rate was noted in Germany and Belgium. Although floating rates have had relatively little injurious effect on trade, there is a general concern that prolonged uncertainty about exchange rates could eventually be harmful. In Switzerland, industrialists and bankers have stated that if progress in eliminating the U.S. surcharge and the uncertainty over exchange rates were not made by early 1972, pressures could begin to influence the Swiss government's economic policies.