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CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

December 12, 1973

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Nov.	12/7	90.0	2.5	5.9	3.4
Unemployment rate	Nov.	12/7	4.7	4.5 1/	4.8 1/	5.2 1/
Insured unemployment rate	Oct.	12/12	2.8	2.8 1/	2.6 1/	3.4 1/
Nonfarm employment, payroll (mil.)	Nov.	12/7	76.5	3.2	3.8	3.6
Manufacturing	Nov.	12/7	20.1	2.8	3.9	3.8
Nonmanufacturing	Nov.	12/7	56.4	3.3	3.8	3.5
Private nonfarm:						
Average weekly hours (hours)	Nov.	12/7	37.0	37.0 1/	37.0 1/	37.2 1/
Hourly earnings ($)	Nov.	12/7	3.99	3.0	7.1	7.0
Manufacturing:						
Average weekly hours (hours)	Nov.	12/7	40.6	40.6 1/	40.5 1/	40.8 1/
Unit labor cost (1967=100)	Oct.	12/7	124.7	1.6	7.5	5.5
Industrial production (1967=100)	Nov.	12/15	127.2	1.9	2.2	5.8
Consumer goods	Nov.	12/15	133.2	2.7	6.1	4.6
Business equipment	Nov.	12/15	126.6	7.6	6.4	11.6
Defense & space equipment	Nov.	12/15	79.9	-1.5	1.0	0.4
Materials	Nov.	12/15	130.7	-4.6	-0.6	6.4
Consumer prices (1967=100)	Oct.	11/21	136.6	9.9	12.4	7.9
Food	Oct.	11/21	149.1	6.5	26.3	18.8
Commodities except food	Oct.	11/21	124.9	5.8	4.2	3.8
Services 2/	Oct.	11/21	142.2	13.7	11.0	5.6
Wholesale prices (1967=100)	Nov.	12/6	142.6	20.5	-0.4	17.5
Industrial commodities	Nov.	12/6	133.8	37.9	20.1	12.1
Farm products & foods & feeds	Nov.	12/6	166.7	-17.7	38.6	31.2
Personal income ($ billion) 3/	Oct.	11/30	1067.7	10.4	12.4	10.4
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Oct.	12/4	44.0	4.0	2.9	18.4
Capital goods industries:	Oct.	12/4	13.6	5.7	7.6	22.6
Nondefense	Oct.	12/4	11.6	3.2	2.0	20.9
Defense	Oct.	12/4	1.9	23.6	61.3	34.6
Inventories to sales ratio:						
Manufacturing and trade, total	Oct.	12/13	1.41	1.44 1/	1.41 1/	1.47 1/
Manufacturing	Oct.	12/10	1.56	1.59 1/	1.56 1/	1.63 1/
Trade	Oct.	12/13	1.27	1.29 1/	1.27 1/	1.31 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Oct.	12/4	.717	.728	.746	.870
Retail sales, total ($ bil.)	Nov.	12/10	43.1	0.1	1.8	11.4
GAF	Nov.	12/10	11.1	1.0	2.1	10.5
Auto sales, total (mil. units) 3/	Nov.	12/7	10.4	2.1	-7.7	-11.6
Domestic models	Nov.	12/7	8.7	0.0	-10.4	-12.7
Foreign models	Nov.	12/7	1.7	14.2	8.6	-5.1
Plant & equipment expen. ($ bil.) 4/						
All industries	1973	12/5	100.08	--	--	13.2
Manufacturing	1973	12/5	38.00	--	--	21.2
All industries	1st H '74	12/5	110.04	--	--	13.5
Manufacturing	1st H '74	12/5	44.02	--	--	22.1
Housing starts, private (thous.) 3/	Oct.	11/16	1,613	-8.4	-26.4	-34.1
Leading indicators (1967=100)	Oct.	11/26	165.0	0.2	-0.2	10.9

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ Planned--Commerce November survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

The energy crisis has begun to have an impact on numerous sectors of the economy. Employment cutbacks continue to be announced by the automobile industry and by commercial airlines; prices of petroleum and products have risen sharply; sales of large autos have fallen, and gasoline purchases have declined.

Staff estimates now indicate an increase of $29 billion in nominal GNP this quarter--compared with $32 billion in the last Greenbook--and prices are increasing faster than had earlier been anticipated. Real GNP is estimated to be increasing this quarter at an annual rate of only 2 per cent. Consumer expenditures for durable goods will be down appreciably, with auto sales weakening. Moreover, the decline in residential construction activity apparently will be steeper than we had projected a month ago. Business outlays for fixed capital, however, are still likely to show a sizable increase this quarter, and inventory investment is now expected to rise appreciably, in part because of the large back-up of dealer stocks of autos.

Industrial production is now indicated to have been weaker in recent months than originally reported. The figures for September and October have been revised down and only a slight increase occurred in November. The revisions reflect new information in physical quantities and electric power, and are concentrated in business equipment and materials. Over the past four months, industrial production has risen only 1/2 per cent with output of business equipment--despite the downward revision--the only major sector showing any appreciable increase.

The labor market, on the other hand, continued strong through mid-November. Nonfarm payroll employment increased 200,000 further in November, mostly in nonindustrial activities. The unemployment rate, however, moved back up to 4.7 per cent, about the level that had generally prevailed since midyear except for the 4.5 per cent October low. Toward the end of the month, unemployment compensation claims were beginning to rise, possibly reflecting to some extent layoffs related to the fuel crisis.

Retail sales were virtually unchanged in November, according to the advance report, and the increase previously reported for October has been scaled down. Unit sales of autos stayed at about the reduced October rate, with supplies of smaller models increasingly short relative to demands. Sales of imported models rose in November.

Business capital spending plans have continued strong, according to available data gathered before the heightened awareness of the energy crisis. The latest Commerce plant and equipment survey indicates a substantial further expansion in the first half of 1974, particularly in manufacturing. New orders for nondefense capital goods rose further in October.

The November rise in wholesale industrial prices was at a post World War II record of 3.2 per cent. Fuels, particularly petroleum and products, accounted for the bulk of the rise. But increases were widespread for other commodities, amounting to about 1 per cent on average. Wholesale prices of farm products and foods declined for the third consecutive month. In October, consumer prices had risen sharply, to a level almost 8 per cent above a year earlier.

Outlook. The energy crisis has injected major uncertainties into the outlook. The magnitude and duration of the shortfall in oil supplies are still in doubt, and the Administration is still in the process of making basic decisions on a conservation program. The current staff GNP projection is based on the following assumptions with respect to petroleum and products: (1) The Arab embargo on shipments of mid-East oil to the United States will not be lifted during 1974. (2) The shortfall of oil supplies will amount to around 3-1/2 million barrels per day, or more than 15 per cent of estimated demand, and about 7 per cent of total U. S. energy needs. (3) All classes of users will suffer at least some cutback in supply, but the burden will fall heaviest on consumers, with the aggregate supply of gasoline available to them reduced by 30 per cent in early 1974. Industrial uses for process heating and for production inputs will be largely insulated from the shortage to minimize adverse effects on employment and incomes. (4) Gasoline will be allocated both by permitting sharply higher prices and by eventually adopting some form of direct rationing. Wholesale prices of gasoline are expected to rise some 30 per cent from late 1973 to late 1974.

The staff also has incorporated the following assumptions in the 1974 GNP projections: (1) Growth in M_1 will average about 5 per cent over the year. Short-term market rates are expected to average somewhat below current levels although fluctuating fairly widely during the year. (2) With respect to fiscal developments, social security benefits are now assumed to increase 7 per cent on January 1 and an additional 4 per cent on June 1. To defray the increased costs, the wage base has been raised by $600 from the previously scheduled figure, to $13,200, effective January 1. (3) Price and wage controls will be continued in some form beyond the present April expiration date, but with more activities removed from control over the course of the year.

On these assumptions, real GNP is now projected to decline somewhat in the first half of 1974, and then to resume a modest rate of increase in the second half. But from late 1973 to late 1974, the rise in real GNP is projected at only about 1/2 per cent, compared to 2-1/2 per cent in the November projection.

The unemployment rate is now projected to rise appreciably in the first half of the year, and to increase further to about 6 per cent by year-end. Prices are expected to advance appreciably more than in the preceding projection, primarily because of prospective large increases in petroleum and products. The gross private fixed weight price index is projected to increase at an annual rate of about 6-1/2 per cent in the first half and 5-1/2 per cent in the second half.

The further weakness in activity now projected for much of 1974 mainly reflects the consequences of the oil crisis. Apart from reduced purchases of gasoline, oil, and related petroleum products (whose effects on GNP will be offset in part by less petroleum imports), the sectors most likely to be adversely affected are automobiles (and complementary products such as tires and accessories), and a variety of travel-related activities such as motel services, restaurant meals, recreation, suburban housing, and purchases of aircraft by commercial airlines. As the year goes on, consumers and businesses are expected to adapt to the reduced supply of petroleum in ways that encourage a resumption of growth in overall real economic activity.

STAFF GNP PROJECTIONS

	Changes in nominal GNP $ billion		Per cent change annual rate 1/ Real GNP		Per cent change annual rate 1/ Gross private product fixed weighted price index		Unemployment rate	
	11/14/73	12/12/73	11/14/73	12/12/73	11/14/73	12/12/73	11/14/73	12/12/7:
1 1/	78.3	78.3	3.2	3.2	4.6	4.6	5.9	5.9
2 1/	99.7	99.7	6.1	6.1	3.2	3.2	5.6	5.6
'3	133.3	133.0	6.1	5.9	5.8	6.9	4.8	4.9
4	115.2	96.6	2.9	.8	5.9	6.7	4.9	5.6
3-I 1/	43.3	43.3	8.7	8.7	7.0	7.0	5.0	5.0
II	29.5	29.5	2.4	2.4	7.9	7.9	4.9	4.9
III	32.0 2/	32.5 1/	3.6 2/	3.4 1/	7.1 2/	7.6 1/	4.8	4.8
IV	31.6	29.0	3.8	2.0	5.8	6.8	4.6	4.7
4-I	29.7	20.5	3.0	-.8	6.2	7.1	4.7	5.1
II	26.3	16.5	2.5	-1.2	5.4	6.2	4.8	5.5
III	24.1	22.5	2.0	1.2	5.0	5.5	5.0	5.8
IV	26.3	28.5	2.0	2.3	5.0	5.5	5.2	6.0
nge:								
IV to -IV	136.4	134.3	4.6	4.1	6.9	7.3	-.7	-.6
IV to -IV	106.4	88.0	2.4	.4	5.4	6.1	.6	1.3

Actual.
Commerce preliminary.

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

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 II	1973 III	1973 Proj. IV
Gross National Product	1155.2	1288.1	1166.5	1199.2	1242.5	1272.0	1304.5	1333.5
Final purchases	1149.1	1281.3	1157.8	1191.0	1237.8	1267.5	1299.8	1320.2 2/
Private	894.1	1004.0	903.1	930.3	969.2	992.2	1020.8	1034.0 2/
Excluding net exports	898.7	999.2	906.9	933.8	969.2	989.4	1013.2	1025.1 2/
Personal consumption expenditures	726.5	805.0	734.1	752.6	779.4	795.6	816.0	829.0
Durable goods	117.4	131.3	120.2	122.9	132.2	132.8	132.8	127.5
Nondurable goods	299.9	336.5	302.3	310.7	322.2	330.3	341.6	352.0
Services	309.2	337.2	311.6	319.0	325.0	332.6	341.6	349.5
Gross private domestic investment	178.3	201.0	181.5	189.4	194.5	198.2	202.0	209.4
Residential construction	54.0	58.0	54.5	56.9	59.0	59.6	59.2	54.1
Business fixed investment	118.2	136.2	118.3	124.3	130.9	134.1	138.0	142.0
Change in business inventories	6.0	6.8	8.7	8.2	4.6	4.5	4.7	13.3
Nonfarm	5.6	6.0	8.4	7.9	4.4	4.4	3.2	11.8
Net exports of goods and services 1/	-4.6	4.8	-3.8	-3.5	0.0	2.8	7.6	8.9 2/
Exports	73.5	100.5	74.0	79.7	89.7	97.2	104.5	110.4 2/
Imports	78.1	95.7	77.7	83.2	89.7	94.4	97.0	101.5
Gov't. purchases of goods and services	255.0	277.3	254.7	260.7	268.6	275.3	279.0	286.2 2/
Federal	104.4	107.3	102.3	102.7	105.5	107.3	106.8	109.4 2/
Defense	74.4	74.6	71.9	72.4	74.3	74.2	74.2	75.6 2/
Other	30.1	32.7	30.4	30.3	31.2	33.1	32.7	33.8
State & local	150.5	170.0	152.4	158.0	163.0	168.0	172.2	176.8
Gross national product in constant (1958) dollars	790.7	837.6	796.7	812.3	829.3	834.3	841.3	845.5
GNP implicit deflator (1958 = 100)	146.1	153.8	146.4	147.6	149.8	152.5	155.1	157.7
Personal income	939.2	1034.2	943.7	976.1	996.6	1019.0	1047.1	1074.0
Wage and salary disbursements	627.8	691.3	632.7	648.7	666.7	682.6	699.3	716.5
Disposable income	797.0	881.5	800.9	828.7	851.5	869.7	891.1	913.5
Personal saving	49.7	53.0	45.8	54.4	50.0	51.0	51.1	59.7
Saving rate (per cent)	6.2	6.0	5.7	6.6	5.9	5.9	5.7	6.5
Corporate profits before tax	98.0	126.9	98.4	106.1	119.6	128.9	129.4	129.5
Corp. cash flow, net of div. (domestic)	105.0	109.2	91.9	97.7	104.9	110.3	110.9	110.9
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.7	265.1	229.6	236.9	253.6	262.4	269.8	274.5
Expenditures	244.6	264.6	237.0	260.3	258.6	262.4	265.6	271.8
Surplus or deficit (-)	-15.9	0.5	-7.4	-23.4	-5.0	0.0	4.3	2.7
High employment surplus or deficit (-)	0.4	-0.7	7.3	-10.9	-1.0	-0.1	-1.5	-0.3
State and local government surplus or deficit (-), (N.I.A. basis)	13.1	10.9	9.5	19.6	13.9	11.5	10.4	7.8
Total labor force (millions)	89.0	91.1	89.3	89.6	90.0	90.9	91.3	92.2
Armed forces "	2.5	2.3	2.4	2.4	2.4	2.3	2.3	2.3
Civilian labor force "	86.5	88.8	86.9	87.2	87.6	88.6	89.0	89.9
Unemployment rate (per cent)	5.6	4.9	5.6	5.3	5.0	4.9	4.8	4.7
Nonfarm payroll employment (millions)	72.8	75.5	73.0	73.8	74.6	75.3	75.7	76.4
Manufacturing	18.9	19.8	19.0	19.3	19.6	19.8	19.8	20.0
Industrial production (1967 = 100)	115.1	125.4	116.3	120.2	123.1	124.8	126.7	127.1
Capacity utilization, mfg. (per cent)	78.6	83.0	79.4	81.5	82.8	83.3	83.3	82.7
Major materials (per cent)	90.2	94.9	91.0	92.4	93.8	94.5	96.0	95.3
Housing starts, private (millions, A.R.)	2.38	2.08	2.37	2.40	2.40	2.22	2.01	1.68
Sales new autos (millions, A.R.)	10.94	11.50	11.52	11.69	12.23	11.73	11.74	10.30
Domestic models	9.32	9.71	9.91	9.90	10.27	9.87	10.11	8.60
Foreign models	1.61	1.79	1.61	1.79	1.96	1.86	1.63	1.70

1/ Net exports of g. & s. (bal. of paymts.)	-4.6	4.5	-3.8	-3.5	0.0	2.5	7.0	8.4 2/
Exports	73.5	100.6	74.0	79.7	89.7	97.1	104.9	110.8 2/
Imports	78.1	96.1	77.7	83.2	89.7	94.6	97.8	102.4

2/ Excludes effect of shipments of military equipment and supplies to Israel.

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

	1974	1974			
	Proj.	Projected			
		I	II	III	IV
Gross National Product	1384.8	1354.0	1370.5	1393.0	1421.5
Final purchases	1375.0	1339.5	1359.5	1384.2	1416.8
Private	1071.4	1046.8	1060.4	1077.6	1100.6
Excluding net exports	1060.2	1035.7	1049.1	1066.8	1089.2
Personal consumption expenditures	862.5	840.3	853.8	869.5	886.5
Durable goods	123.2	123.5	121.5	122.7	125.2
Nondurable goods	373.2	360.8	369.8	377.3	384.8
Services	366.1	356.0	362.5	369.5	376.5
Gross private domestic investment	207.4	209.9	206.3	206.1	207.4
Residential construction	48.8	49.9	47.3	47.3	50.7
Business fixed investment	148.9	145.5	148.0	150.0	152.0
Change in business inventories	9.8	14.5	11.0	8.8	4.7
Nonfarm	9.7	15.0	11.5	8.3	4.0
Net exports of goods and services 1/	11.2	11.1	11.3	10.8	11.4
Exports	117.5	112.9	116.3	119.3	121.6
Imports	106.4	101.8	105.0	108.5	110.2
Gov't. purchases of goods and services	303.7	292.7	299.1	306.6	316.2
Federal	114.5	111.3	112.7	115.0	119.1
Defense	77.7	75.9	76.5	77.7	80.5
Other	36.9	35.4	36.2	37.3	38.6
State & local	189.1	181.4	186.4	191.6	197.1
Gross national product in constant (1958) dollars	844.4	843.8	841.4	843.8	848.5
GNP implicit deflator (1958 = 100)	164.0	160.5	162.9	165.1	167.5
Personal income	1127.0	1095.8	1114.0	1137.6	1160.8
Wage and salary disbursement	749.0	729.0	739.8	755.1	772.3
Disposable income	958.7	932.3	947.8	967.7	987.0
Personal saving	69.5	66.6	67.8	71.2	72.5
Saving rate (per cent)	7.3	7.1	7.2	7.4	7.4
Corporate profits before tax	120.2	124.5	120.5	117.0	119.0
Corp. cash flow, net of div. (domestic)	109.3	109.8	108.5	107.8	111.2
Federal government receipts and expenditures, (N.I.A. basis)					
Receipts	283.9	279.8	281.6	284.4	289.7
Expenditures	295.7	285.3	291.6	299.3	306.7
Surplus or deficit (-)	-11.8	-5.5	-10.0	-14.9	-17.0
High employment surplus or deficit (-)	5.1	0.4	4.3	6.8	8.9
State and local government surplus or deficit (-), (N.I.A. basis)	5.5	8.2	6.6	4.6	2.7
Total labor force (millions)	93.1	92.6	93.0	93.3	93.6
Armed forces "	2.3	2.3	2.3	2.3	2.3
Civilian labor force "	90.8	90.3	90.7	91.0	91.3
Unemployment rate (per cent)	5.6	5.1	5.5	5.8	6.0
Nonfarm payroll employment (millions)	76.5	76.4	76.4	76.4	76.6
Manufacturing	19.6	19.7	19.6	19.5	19.5
Industrial production (1967 = 100)	125.5	126.7	125.0	125.0	125.5
Capacity utilization, mfg. (per cent)	79.3	81.4	79.3	78.4	78.1
Major materials	93.3	94.7	93.1	92.8	92.5
Housing starts, private (millions, A.R.)	1.64	1.62	1.55	1.65	1.75
Sales new autos (millions, A.R.)	8.50	9.00	8.00	8.30	8.70
Domestic models	6.50	7.00	6.00	6.30	6.70
Foreign models	2.00	2.00	2.00	2.00	2.00
1/ Net exports of goods and services (balance of payments).	10.7	10.7	10.9	10.4	11.0
Exports	117.9	113.3	116.7	119.7	122.0
Imports	107.2	102.6	105.8	109.3	111.0

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 II	1973 III	1973 Proj. IV
	---	---	---	Billions of Dollars	---	---	---	---
Gross National Product	99.7	132.9	24.1	32.7	43.3	29.5	32.5	29.0
Inventory change	-0.1	0.8	3.2	-0.5	-3.6	-0.1	0.2	8.6
Final purchases	99.7	132.2	20.9	33.2	46.8	29.7	32.3	20.4
Private	79.0	109.9	20.4	27.2	38.9	23.0	28.6	13.2
Net exports	-5.4	9.4	1.9	0.3	3.5	2.8	4.8	1.3
Excluding net exports	84.4	100.5	18.5	26.9	35.4	20.2	23.8	11.9
Personal consumption expenditures	59.3	78.5	14.9	18.5	26.8	16.2	20.4	13.0
Durable goods	13.8	13.9	5.1	2.7	9.3	0.6	0.0	-5.3
Nondurable goods	21.2	36.6	4.4	8.4	11.5	8.1	11.3	10.4
Services	24.3	28.0	5.4	7.4	6.0	7.6	9.0	7.9
Residential structures	11.3	4.0	1.7	2.4	2.1	0.6	-0.4	-5.1
Nonresidential fixed investment	13.8	18.0	2.0	6.0	6.6	3.2	3.9	4.0
Government	20.7	22.3	0.5	6.0	7.9	6.7	3.7	7.2
Federal	6.3	2.9	-4.4	0.4	2.8	1.8	-0.5	2.6
State and local	14.3	19.5	4.9	5.6	5.0	5.0	4.2	4.6
GNP in constant (1958) dollars	45.3	46.9	11.1	15.6	17.0	5.0	7.0	4.2
Final purchases	46.0	46.6	8.7	16.0	20.0	5.0	7.3	-2.7
Private	41.4	44.6	10.9	14.3	19.1	4.2	7.5	-3.4
	---	---	---	Per Cent Per Year 1/	---	---	---	---
Gross National Product	9.4	11.5	8.7	11.7	15.2	9.9	10.6	9.2
Final purchases	9.5	11.5	7.6	12.0	16.7	9.9	10.6	6.4
Private	9.7	12.3	9.6	12.6	17.8	9.8	12.0	5.3
Personal consumption expenditures	8.9	10.8	8.5	10.5	15.0	8.6	10.7	6.5
Durable goods	13.3	11.8	18.9	9.3	33.9	1.8	0.0	-15.0
Nondurable goods	7.6	12.2	6.0	11.6	15.6	10.4	14.4	12.7
Services	8.5	9.1	7.2	9.8	7.7	9.7	11.3	9.6
Gross private domestic investment	16.4	12.7	16.5	18.6	11.2	7.8	7.9	15.5
Residential structures	26.5	7.4	13.5	18.8	15.6	4.1	-2.7	-30.3
Business fixed investment	13.2	15.2	7.1	21.9	23.0	10.1	12.2	12.1
Gov't. purchases of goods & services	8.8	8.7	0.8	9.8	12.7	10.4	5.5	10.7
Federal	6.4	2.8	-15.5	1.6	11.4	7.0	-1.9	10.1
Defense	3.9	0.3	-22.4	2.8	10.9	-0.5	0.0	7.8
Other	13.6	8.6	4.0	-1.3	12.4	26.7	-4.7	14.1
State and local	10.5	13.0	14.0	15.5	13.3	12.8	10.4	11.1
GNP in constant (1958) dollars	6.1	5.9	5.8	8.1	8.7	2.4	3.4	2.0
Final purchases	6.2	5.9	4.5	8.4	10.3	2.4	3.6	-1.3
Private	6.9	6.9	7.0	9.1	12.0	2.5	4.4	-1.9
GNP implicit deflator	3.2	5.3	2.8	3.3	6.1	7.4	7.0	7.0 2/
Private GNP fixed weighted index 3/	3.2	6.9	3.1	4.1	7.0	7.9	7.6	6.8
Personal income	8.8	10.1	7.8	14.5	8.7	9.3	11.5	10.7
Wage and salary disbursements	9.5	10.1	7.7	10.5	11.6	9.9	10.2	10.2
Disposable income	6.8	10.6	8.1	14.6	11.5	8.8	10.2	10.4
Corporate profits before tax	15.2	29.5	16.1	35.2	61.5	34.9	1.6	0.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	15.0	15.9	7.7	13.3	31.3	14.6	11.8	7.2
Expenditures	10.7	8.2	-11.6	45.5	-2.6	6.0	5.0	9.7
Nonfarm payroll employment	3.0	3.7	2.8	4.5	4.5	3.7	2.2	3.6
Manufacturing	2.2	4.8	2.6	7.1	5.4	4.7	1.2	3.1
Industrial production	7.9	8.9	9.2	13.8	10.1	5.8	6.0	1.5
Housing starts, private	14.1	-12.6	16.0	6.6	0.2	-27.1	-32.3	-51.7
Sales new autos	6.8	5.1	49.7	5.9	19.8	-15.4	0.2	-40.7
Domestic models	7.4	4.2	53.1	-0.5	16.0	-14.9	10.1	-47.6
Foreign models	3.3	11.2	30.9	52.0	42.3	-18.1	-41.7	19.5

1/ Percentage rates of change are annual rates compounded quarterly.
2/ Excluding Federal pay increase, 6.5 per cent per year.
3/ Using expenditures in 1967 as weights.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974 Proj.	1974 Projection I	II	III	IV
	-----------	Billions of Dollars	-----------		
Gross National Product	96.7	20.5	16.5	22.5	28.5
Inventory change	3.0	1.2	-3.5	-2.2	-4.1
Final purchases	93.7	19.3	20.0	24.7	32.6
Private	67.4	12.8	13.6	17.2	23.0
Net exports	6.4	2.2	0.2	-0.5	0.6
Excluding net exports	61.0	10.6	13.4	17.7	22.4
Personal consumption expenditures	57.5	11.3	13.5	15.7	17.0
Durable goods	-8.1	-4.0	-2.0	1.2	2.5
Nondurable goods	36.7	8.8	9.0	7.5	7.5
Services	28.9	6.5	6.5	7.0	7.0
Residential structures	-9.2	-4.2	-2.6	0.0	3.4
Nonresidential fixed investment	12.7	3.5	2.5	2.0	2.0
Government	26.4	6.5	6.4	7.5	9.6
Federal	7.2	1.9	1.4	2.3	4.1
State and local	19.1	4.6	5.0	5.2	5.5
GNP in constant (1958) dollars	6.8	-1.7	-2.4	2.4	4.7
Final purchases	4.5	-2.2	0.2	3.8	7.2
Private	0.9	-3.2	-0.9	2.2	5.4
	----------	Per Cent Per Year 1/	----------		
Gross National Product	7.5	6.3	5.0	6.7	8.4
Final purchases	7.3	6.0	6.1	7.5	9.8
Private	6.7	5.0	5.3	6.6	8.8
Personal consumption expenditures	7.1	5.6	6.6	7.6	8.1
Durable goods	-6.2	-12.0	-6.3	4.0	8.4
Nondurable goods	10.9	10.4	10.4	8.4	8.2
Services	8.6	7.6	7.5	8.0	7.8
Gross private domestic investment	3.2	1.0	-6.7	-0.4	2.5
Residential structures	-15.9	-27.6	-19.3	0.0	32.0
Nonresidential fixed investment	9.3	10.2	7.1	5.5	5.4
Gov't. purchases of goods & services	9.5	9.4	9.0	10.4	13.1
Federal	6.7	7.1	5.1	8.4	15.0
Defense	4.2	1.6	3.2	6.4	15.2
Other	12.8	20.3	9.4	12.7	14.7
State and local	11.2	10.8	11.5	11.6	12.0
GNP in constant (1958) dollars	0.8	-0.8	-1.2	1.2	2.3
Final purchases	0.5	-1.1	0.1	1.8	3.5
Private	0.1	-1.8	-0.5	1.3	3.2
GNP implicit deflator	6.6	7.1 2/	6.2	5.0	6.0 3/
Private GNP fixed weighted index 4/	6.7	7.1	6.2	5.5	5.5
Personal income	9.0	8.4	6.8	8.7	8.4
Wage and salary disbursements	8.3	7.2	6.1	8.5	9.4
Disposable income	8.8	8.5	6.8	6.0	10.9
Corporate profits before tax	-5.3	-14.6	-12.2	-11.1	7.0
Federal government receipts and expenditures (N.I.A. basis)					
Receipts	7.1	7.9	2.6	4.0	7.7
Expenditures	11.8	21.4	9.1	11.0	10.3
Nonfarm payroll employment	1.3	0.0	0.0	0.0	1.1
Manufacturing	-1.0	-5.9	-2.0	-2.0	0.0
Industrial production	0.1	-1.3	-5.5	0.1	1.8
Housing starts, private	-21.2	-13.5	-16.2	28.4	26.5
Sales new autos	-26.1	-41.7	-37.6	15.9	20.7
Domestic models	-33.1	-56.1	-46.0	21.6	27.9
Foreign models	11.7	91.6	0.0	0.0	0.0

1/ Percentage rates of change are annual rates compounded quarterly.
2/ Excluding Federal pay increase, 7.0 per cent annual rate.
3/ Excluding Federal pay increase, 5.5 per cent annual rate.
4/ Using expenditures in 1967 as weights.

<u>Industrial production</u>. Industrial production, following downward revisions in September and October, rose 0.2 per cent in November, the same rate of increase as shown by the downward revised September and October figures. The revisions were centered in business equipment and durable and nondurable goods materials. The total index in November at 127.2 per cent of the 1967 average was 5.8 per cent above a year earlier.

INDUSTRIAL PRODUCTION
(1967=100, seasonally adjusted)

	1973			
	Aug.	Sept.	Oct.	Nov.
Unrevised	126.5	127.1	127.8	--
Revised	126.5	126.8	127.0	127.2

PER CENT CHANGES FROM
PREVIOUS MONTH

Unrevised	-.2	.5	.6	--
Revised	-.2	.2	.2	.2

Auto assemblies in November were at a seasonally adjusted annual rate of 9.6 million units, up from the 9.4 million rate in October. December auto production schedules now indicate a 9.2 million rate but this may not be realized. Output of most household appliances and TV sets were maintained at advanced levels in November, while production of furniture declined. Output of nondurable consumer goods changed little despite curtailment of residential electricity consumption. Production of business equipment, following a decline in October, rose in November, returning to the September level. Output of industrial materials declined in November. Production of steel was unchanged but output of most durable and nondurable goods materials, including the textile, paper, and chemical grouping was down.

Retail sales. In November, retail sales were virtually unchanged from October, according to the advance estimate, and with a large downward revision in the earlier estimate of sales in October, the fourth quarter may be somewhat lower than previously anticipated. In November durable goods sales declined 0.3 per cent, with a 1.3 per cent drop in the automotive group partially offset by some recovery in sales of furniture and appliances. Nondurable goods sales increased 0.3 per cent with the food group almost unchanged, sales of gasoline down and outlays for general merchandise up 1.3 per cent. Excluding autos and nonconsumption items, sales were up 0.4 per cent from the previous month.

Compared to the third quarter, sales in November were up only 1.3 per cent, with sales of nondurable goods increasing 2.3 per cent but with the durable goods group relatively weak.

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

	1973				1973		
	Quarters						
	IV-I	I-II	II-III	III-Nov.3/	Sept.	Oct.2/	Nov.1/
Total sales	5.7	.1	2.9	1.3	.4	1.3	.1
Durable	8.2	-2.0	1.9	- .5	-1.5	.6	- .3
Auto	7.8	-3.3	3.0	-2.3	-2.2	.5	-1.3
Furniture and appliance	9.1	.5	1.0	.0	1.9	-2.4	.8
Nondurable	4.4	1.3	3.4	2.3	1.3	1.7	.3
Food	3.7	2.2	4.7	1.9	.3	2.4	- .1
General merchandise	6.3	.4	2.0	1.2	1.0	- .1	1.3
Gas stations	3.4	2.9	.3	3.8	1.4	4.9	-1.1
Total, less auto and nonconsumption items	4.7	1.3	3.1	2.2	1.3	1.4	.4
GAF	6.9	- .5	2.1	1.0	1.6	- .5	1.0
Real*	3.8	-2.5	.3	n.a.	.3	.8	n.a.

* Deflated by all commodities CPI, seasonally adjusted.
1/ Advance.
2/ Preliminary.
3/ November from third quarter average.

Unit sales of consumer durables. November sales of new domestic-type autos were at an 8.7 million unit annual rate, the same as in October but 13 per cent below a year earlier. Sales of domestic small cars continued to recover from their third quarter low caused by production shortfalls and attained a market share equal to the 31 per cent of the second quarter. Total stocks of domestic-type cars were

1.6 million units at the end of November, unadjusted, a record for the month; they amounted to a 64.8 days supply, up sharply from the 57.8 days supply at the end of October and the 45.6 days supply in November 1972. The overhang of large cars is extremely heavy.

Foreign car sales in November were at a 1.7 million unit annual rate, up 14 per cent from October but 6 per cent below a year earlier. The import share, on a seasonally adjusted basis was 15.0 per cent, about the same as in October and in November last year.

In November, factory unit sales of major appliances, TVs, and radios are estimated to have risen 3 per cent from October. Factory sales of major appliances were about the same as in October as three items of the index were up, three were down, and three were unchanged. TV sales were up 7 per cent, almost entirely because of strength in color set purchases; radios, which are largely imported, were up 12 per cent.

UNIT SALES OF SELECTED CONSUMER DURABLES
Seasonally adjusted

	1972	1973			Per cent change from	
	Nov.	Sept.	Oct.	Nov.	Month ago	Year ago
	Annual rate, millions of units					
Auto sales	11.8	12.1	10.2	10.4	2	-12
Domestic	10.0	10.6	8.7	8.7	0	-13
Foreign	1.8	1.5	1.5	1.7	14	- 6
	Indexes, 1967=100					
Home Goods Factory						
Unit sales	147	161	149	154e	3	4
TVs 1/	155	167	156	167e	7	8
Radios 1/	137	183	71	80e	12	-42
Major Appliances	142	155	147	148e	1	4

1/ Includes domestic and foreign lable imports.
e/ Estimated on the basis of data through the first four weeks of October.

Consumer surveys. The two most recent surveys by the Conference Board and the Michigan Survey Research Center were in the field before the public was fully aware of the oil shortage. Both surveys indicated some improvement in the very depressed consumer attitudes about both present and expected business and personal financial situations. But Michigan reports that respondents were progressively more pessimistic as the survey continued from mid-October to mid-November. In apparent contradiction to the improved attitudes, buying plans for houses dropped sharply in the Conference Board survey, and plans to purchase autos and appliances were relatively low. Michigan does not report intentions to purchase, but responses to their questions on whether it is a good or bad time to buy have become increasingly unfavorable. In the latest survey, more than twice as many respondents said that now is a bad time to buy a car or house than said that it was a good time; until May of this year favorable evaluations of market conditions had outweighted unfavorable responses.

The Michigan index of consumer sentiment, a composite measure of five questions on consumer attitudes toward business and personal financial situations, increased moderately. The newly devised Conference Board index of confidence, also constructed from five attitudinal questions quite similar to the Michigan questions, rose very strongly. However, both indexes were still below their year-earlier levels.

The greater relative improvement of the Conference Board index may reflect the month-earlier timing of the survey. Michigan found that there was concern about the energy crisis in the second quarter, but that it had largely disappeared in the third quarter and was only emerging again in the first weeks of November. Apparently, when the Conference Board conducted its interviews from mid-September to mid-October, the public had largely forgotten the spring gasoline shortage, and had somewhat adjusted to the Watergate revelations and higher food costs. Experience with consumer surveys indicates that the public usually gets used to bad news, and if no new problem emerges, tends to become more optimistic.

Construction and real estate. Seasonally adjusted value of new construction put in place--revised upward somewhat for recent months--edged down 1 per cent in November to $133 billion. Outlays for private residential construction continued to fall and were more than a tenth below the March 1973 peak. Private nonresidential construction remained at the record rate reached in October. Public construction tended upward in November but was still below the peak reached early this year.

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

	1973			Per cent change in November from:	
	QII	QIII r/	Nov. 1/	Oct. 1973	Nov. 1972
Total - current dollars	135.9	137.9	133.2	-1	+ 5
Private	104.0	106.1	101.0	-2	+ 4
Residential	59.9	59.7	54.3	-3	- 5
Nonresidential	44.0	46.4	46.8	--	+16
Public	32.0	31.8	32.1	+1	+10
State and local	27.1	27.1	27.3	+1	+10
Federal	4.9	4.7	4.8	+1	+10
Total - 1967 dollars	90.7	90.1	85.6	-2	- 4

1/ Data for November 1973 are confidential Census Bureau extrapolations. In no case should public reference be made to them.
-- Less than 1 per cent.

Increasing costs in recent months continued to be a significant factor in the current dollar value of construction put in place. In the third quarter as a whole, the Commerce Department composite cost index was 10 per cent above a year ago, compared with an average increase of 7 per cent in each of the preceding two years. Including lot value, the price index of comparable new one-family houses sold during the third quarter was 13 per cent higher than a year earlier, or double the average increase in 1972.

Anticipated plant and equipment spending. The Commerce Department's latest survey of plant and equipment anticipations--taken in late October and early November--showed that businesses were still planning a 13.2 per cent increase in capital spending for 1973, with manufacturers expecting a slightly larger gain than planned earlier. Actual third quarter expenditures (at annual rates) were $1.0 billion less than indicated in September, continuing a pattern characteristic of recent quarters. The short-fall is expected to be made up in the fourth quarter.

The December survey also contained the Commerce Department's first look at capital spending planned for early 1974. Following an anticipated 4.0 per cent gain in the fourth quarter, outlays were expected to rise 3.1 per cent in the first quarter and 3.5 per cent in the second quarter of 1974, a combined increase of 13.5 per cent over the first half of 1973. Manufacturers continue to plan substantially larger increases in capital spending than nonmanufacturing industries, in line with the findings of private surveys for the year 1974.

EXPENDITURES FOR NEW PLANT AND EQUIPMENT BY U.S. BUSINESS
(Billions of dollars; seasonally adjusted annual rates)

	1973				1974	
	I	II	III	IV	I	II
				----Anticipated 1/		------
All industry	96.19	97.76	100.90	104.94	108.16	111.92
Manufacturing	35.51	36.58	38.81	40.54	42.92	45.12
Durable goods	17.88	18.64	19.73	20.94	22.21	22.69
Nondurable goods	17.63	17.94	19.08	19.60	20.71	22.43
Nonmanufacturing	60.68	61.18	62.09	64.40	65.24	66.80

1/ Source: December Commerce Survey.

Conference Board data also indicate significant strength in capital spending. Newly approved capital appropriations of large manufacturing companies continued to rise in the third quarter, sparked by a sizable gain for durable goods producers. Backlogs of unspent appropriations remained at very high levels and could support the current level of manufacturers' spending for another four and a half quarters.

<u>Manufacturers orders and shipments</u>. New orders for durable goods rose 4.0 per cent in October (p)--3.3 per cent excluding defense--following a 1.0 per cent drop in September. Nondefense capital goods orders rose 3.2 per cent.

Shipments of durable goods were up 3.5 per cent in October following a 1.3 per cent rise in September. Backlogs of unfilled orders continued to increase rapidly.

For the third quarter new orders for durable goods averaged only 0.7 per cent above the second quarter, a smaller increase than earlier in the year. The slowdown was widespread. Nondefense capital goods orders rose 2.3 per cent compared with gains of about 6 per cent reported in the first and second quarters.

Unfilled orders for durable goods, on the other hand, continued to increase rapidly in the third quarter to a level about one-third higher than in the third quarter of 1972 and 44 per cent above the cyclical trough in the fourth quarter of 1970.

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

	1973			
	QII from QI	QIII from QII	Sept. from August	Oct. from Sept. (p)
Durable goods, total	5.7	.7	- 1.0	4.0
Excluding defense	5.4	1.8	- .3	3.3
Primary metals	13.8	-2.8	-11.5	7.1
Motor vehicles and parts	- 1.8	6.7	1.7	.1
Household durables	3.6	.5	2.0	3.9
Nondefense capital goods	6.5	2.3	2.1	3.2
Defense capital goods	11.2	-22.7	-15.6	23.6
Construction & other durables	4.7	1.7	2.1	2.9

Inventories. The book value of manufacturing and trade inventories rose at a $25.0 billion annual rate in October (p)--up from the $18.5 billion September rate and the $19.8 billion third quarter rate. Manufacturers' stocks rose a bit less rapidly than in September as inventories of finished goods were drawn down. But retail trade inventories increased at an $11.7 billion annual rate--the most rapid monthly gain in 1973--with accumulation especially noticeable in autos and nondurable goods. Wholesale inventories rose a little more slowly in October than in September.

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

	1973				
	QI	QII	QIII	Sept. r/	Oct. p/
Manufacturing and trade	21.5	22.9	19.8	18.5	25.0
Manufacturing, total	9.8	11.4	12.4	14.5	11.4
Durable	6.6	7.7	9.8	12.4	6.9
Nondurable	3.2	3.7	2.6	2.1	4.5
Trade, total	11.7	11.5	7.5	4.0	13.6
Wholesale	6.1	3.6	4.6	3.9	1.9
Retail	5.6	7.9	2.9	.2	11.7

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

The overall manufacturing and trade inventory-sales ratio declined to 1.41 in October--a very low level. The ratio of inventories to unfilled orders in durable manufacturing continued to move down.

INVENTORY RATIOS

	1972		1973	
	Sept.	Oct.	Sept. r/	Oct. p/
Inventories to sales:				
Manufacturing and trade	1.49	1.47	1.44	1.41
Manufacturing, total	1.65	1.63	1.59	1.56
Durable	1.95	1.91	1.90	1.85
Nondurable	1.27	1.28	1.21	1.20
Trade, total	1.34	1.31	1.29	1.27
Wholesale	1.21	1.20	1.15	1.11
Retail	1.42	1.38	1.38	1.39
Inventories to unfilled orders:				
Durable manufacturing	.873	.870	.728	.717

<u>Cyclical indicators</u>. The Census composite index of leading indicators gained 0.2 per cent in October (p), following a downward revised drop of 1.6 per cent in September. The coincident, deflated coincident and lagging indicators all increased.

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

	1973					
	May	June	July	Aug.	Sept.	Oct. (p)
12 Leading, trend adjusted	1.9	.9	.8	1.1	-1.6	.2
12 Leading, prior to trend adjustment	1.6	.5	.4	.7	-2.0	- .1
5 Coincident	.9	.9	1.2	.4	.7	1.6
5 Coincident, deflated	.4	.3	1.5	- .9	.9	1.4
6 Lagging	1.7	2.8	2.9	2.1	1.2	.5

Of the eight leading series available, those increasing were initial claims for unemployment insurance (inverted), new orders for durable goods, contracts and orders for plant and equipment, industrial materials prices and common stock prices. Housing permits and the average workweek in manufacturing both declined. After the compilation, the change in instalment credit was reported to have risen substantially in October.

Labor market. The labor market continued to display substantial strength in November as nonfarm payroll employment rose briskly and unemployment for most experienced worker categories remained little changed. The total unemployment rate, however, climbed back to 4.7 per cent after dropping in October to a recent low of 4.5 per cent. The November data do not reflect the impact of energy shortages which probably will not show up significantly in the statistics until January.

The increase in unemployment was centered in those groups where the rate had dropped in October--teenagers and young men 20-24 years old--although joblessness also rose in November for women 25 and over. Unlike the payroll employment series, household survey employment was about unchanged in November, while the civilian labor force increased nearly 200,000--all among full time workers.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1972	1973		
	Nov.	Sept.	Oct.	Nov.
Total	5.2	4.8	4.5	4.7
Males:				
20-24 years	8.5	7.0	6.1	6.7
25 years and over	2.8	2.4	2.4	2.4
Females:				
20-24 years	8.2	8.9	7.3	7.4
25 years and over	4.3	3.8	3.7	4.1
Teenagers	15.6	14.4	13.9	14.6
Household heads	2.9	2.7	2.7	2.9
State insured	3.1	2.7	2.7	2.7
White	4.6	4.2	4.1	4.2
Negro and other races	10.1	9.4	8.3	9.1

Nonfarm payroll employment (establishment series) rose 200,000 in November and has increased nearly one million since July. Manufacturing employment rose about 50,000 in November; less than half of this was among production workers, however, and in durable goods manufacturing, production worker employment showed no change. The factory workweek remained at 40.6 hours in November, 0.4 hour shorter than the recent peak reached in February; and manhours in manufacturing were little changed. Over the past two months factory employment has increased 170,000, following virtually no growth from June to September. Strong employment gains have continued in trade, services and State and local government.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	Nov. 1971- Nov. 1972*	Nov. 1972- July 1973	July 1973- Nov. 1973
	--------------Annual Rate--------------		
Total	2,665	2,487	2,949
Private	2,401	2,252	2,646
Manufacturing	746	738	747
Production workers	561	587	507
Trade	638	575	738
Services	589	497	777
Government	264	236	303
Federal	-15	-62	78
State and local	279	297	225

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

Earnings. Although wage rate increases have slowed somewhat in the past two months, the adjusted hourly earnings index has increased at a rapid rate since early 1973. The index has risen at a 7 per cent annual rate since March compared to a 5.6 per cent rate during most of Phase II, with a speed up evident in most industries.

AVERAGE HOURLY EARNINGS INDEX*
(Seasonally adjusted; per cent change at annual rates)

	Aug. 1971- Jan. 1972	Jan. 1972- Mar. 1973	Mar. 1973- Nov. 1973	Oct. 1973- Nov. 1973
Private nonfarm	6.5	5.6	7.1	3.2
Manufacturing	6.3	5.4	6.7	1.6
Construction	6.5	5.5	7.3	8.3
Transportation	11.6	9.2	8.7	3.7
Trade	5.4	5.0	7.4	14.0
Services	6.9	4.7	6.4	3.2

*Excludes effects of fluctuations in overtime premiums in manufacturing and of shifts of workers between industries.

Collective bargaining. General Motors and the United Auto Workers reached agreement on a new three year contract. The settlement is reported to follow closely those at Chrysler and Ford which called for basic wage increases of 3 per cent a year, a first-year "catch-up" of 12 cents an hour, an improved cost-of-living escalator clause and increased pensions. Subsequent to the agreement, wages in the automobile industry were decontrolled by the Cost of Living Council.

Consumer prices. The rise in consumer prices accelerated in October to an annual rate of over 10 per cent, seasonally adjusted. This brought the "All items" index to a level 8 per cent above October 1972, with the food component up 19 per cent. Food prices resumed their rise in October along with a sharp acceleration in prices of other commodities, notably fuels. Service costs posted their largest advance since March 1970.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Relative importance Dec. 1972	Nov. 1971 to Jan. 1973 (14 months)	Jan. 1973 to June (5 months)	June 1973 to Sept. (3 months)	Sept. 1973 to Oct. (1 month)
1 items	100.0	3.6	8.3	10.0	10.4
Food	22.5	6.5	20.3	28.8	6.7
Commodities less food	40.1	2.4	5.2	2.6	6.0
Services 1/	37.4	3.5	4.3	7.4	14.5
dendum:					
All items less mortgage costs 2/	96.3	3.7	8.7	9.4	7.4
Services less home finance 1/ 2/ 3/	30.9	3.3	4.6	4.8	9.2
Commodities less food, used cars home purchase 3/	31.8	2.1	6.1	2.3	8.1

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

Despite further large declines for meats, poultry and eggs, food prices rose at a 6.7 per cent annual rate in October. There were sharp increases for dairy, cereal and bakery products, fruits and vegetables and restaurant meals and snacks.

The surge in gasoline and fuel oil prices lifted the index for other commodities and contributed, roughly, 0.1 percentage point--

over one per cent at an annual rate--to the rise in the "All items" index. October prices for gasoline were 10 per cent, and for fuel oil 14 per cent, higher than 12 months earlier. Larger increases are expected in November and later months. However, new car prices were down, seasonally adjusted, as a result of the COLC delay in authorizing increases on the 1974 models. The advances approved by COLC in September involved only the cost of Government-mandated emission control and safety equipment, but this was less than the estimated adjustment for quality improvement incorporated in the index. Used car prices also fell in October.

Service prices jumped as mortgage costs rose sharply in October for the second month. In addition, the annual adjustment to the health insurance component weighed heavily in the increase and raised the index for medical services to a level 5.6 per cent above October 1972. During the year the rise in the cost of health insurance is estimated from price indexes for health services. At the end of the fiscal year for the health insurers, financial data become available and are used to correct the earlier estimates. The 1972 adjustment was also upward, although smaller, but in previous years this procedure involved over-estimates and, therefore, downward adjustments.

Wholesale prices. Wholesale prices rose from October to November by 1.8 per cent, seasonally adjusted (23.3 per cent at an annual rate), as a result of widespread and large price increases for industrial commodities. Prices of farm and food products declined for the third consecutive month.

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

	November 1972 to November 1973	1973 Dec. '72 to June '73	Freeze June to July	July to Aug.	Phase IV Aug. to Nov.	Oct. to Nov.
All commodities	17.5	22.3	-15.5	106.4	- .4	23.3
Farm products	31.2	47.5	-43.0	735.2	-33.4	-16.3
Industrial commodities	12.1	12.5	.7	4.8	21.6	45.2
Crude materials	27.8	23.3	15.1	15.8	59.2	103.5
Intermediate materials	11.0	13.3	- .9	8.7	13.9	26.5
Finished goods	11.7	10.0	- 1.0	3.6	26.4	67.7
Producer	4.8	5.7	1.0	7.0	4.6	4.9
Consumer nonfoods	15.3	12.2	- 2.0	2.0	39.0	112.2
Nondurable	22.5	17.0	- 2.9	1.0	65.0	210.5
Durable	3.7	5.0	2.1	5.3	- 1.7	4.2
Consumer finished foods	23.9	28.3	- 9.5	243.7	- 8.1	- 7.4

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

The index of industrial commodities rose 3.2 per cent (45.2 per cent at an annual rate) in November, the largest monthly increase since 1947.[1/] The fuels and power group increased by nearly one-fifth and accounted for more than two-thirds of the overall increase in the index of industrial commodities. But large increases were also reported for metals and metal products, textile products, chemicals and allied products, plywood, paper products, and machinery. Apart from fuels and power, the index of industrial commodities rose by about one per cent.

1/ This is the largest seasonally adjusted increase recorded since the seasonally adjusted series was inaugurated in May 1947. The unadjusted increase of 3.0 per cent was equalled in January 1947 and exceeded in November and December 1946.

WHOLESALE PRICES

	Percentage increases a/ October to November 1973	Contribution to Increases	
Industrial commodities	3.0	100.0	
Fuels and related products and power	19.1	70.7	
Refined petroleum products	34.7	66.5	100.0
Gasoline	32.3	33.4	50.3
Distillates	46.6	29.5	44.4
Light b/	51.8	7.8	11.7
Middle c/	45.0	21.7	32.7
Residual fuels	30.6	3.1	4.6
Other	3.2	.5	.7
Crude petroleum	4.5	1.3	
Coal	6.7	2.3	
Electric power	1.0	.8	
Other	-.2	-.1	

Components may not add to 100.0 due to rounding.
a/ Not seasonally adjusted.
b/ Largely kerosene, for space heating, and jet fuel.
c/ Home heating fuel and diesel oil.

The rise in gasoline prices accounted for nearly one-half of the rise in the fuels and power group, and distillates were responsible for most of the remainder.

It is possible that a large, but as yet unquantifiable, upward bias exists in the index for refined petroleum products, and that the average prices of gasoline and other products are rising less rapidly than indicated. BLS announced that prices of refined products used in the index are chiefly quotations from spot markets which now appear to represent a declining portion of the transactions taking place in domestic markets. (BLS now has a study under way to improve this index).

On December 6, the Cost-of-Living Council exempted 40 non-ferrous metals from Phase IV price controls. Among the metals decontrolled were lead, zinc, tin, gold, silver, and platinum. Most nonferrous scrap metals were also exempted. (Other commodities not under regulation include copper scrap, fertilizer, lumber, and cement.)

Prices of aluminum and copper were not decontrolled because it was felt that decontrol would result in "unacceptably large price increases". The Council did authorize price increases for these metals, however--about 16 per cent, to 29 cents a pound, for aluminum and about 13 per cent, to 68 cents a pound, for copper. Although these prices are still far below foreign prices, with the differential reduced, it is hoped that the rising volume of exports will be curtailed.

On December 10, the Cost-of-Living Council exempted major automobile manufacturers from wage and price controls on the understanding that producers will limit price increases on 1974 models.

Agriculture. Prices received by farmers declined 1-1/2 per cent during the month ending November 15, but were still 38 per cent above a year ago. It was the third straight monthly decline, with lower livestock prices again a major factor. Milk and potato prices moved up during the month.

Grain and soybean prices remained at high levels through harvest peak and have moved up further in early December. Strong export demand has absorbed much of the impact of larger crops. A drop in grain exports to the USSR and the EEC during the 1973-74 crop year will probably be more than offset by larger exports to Eastern Europe, Japan, China, Africa and India.

On November 25, reported sales of corn, milo, barley, oats, and wheat for delivery to identified destinations during the 1973-74 crop year were only 7 per cent below total overseas deliveries in 1972-73. Inclusion of sales to unidentified destinations pushes the total to 6 per cent above last year, and more sales later in the crop year seem certain.

November red meat and poultry production increased 4-1/2 per cent (p) to the highest level in a year and was a major factor in recent weak livestock prices. Low profitability in feeding operations has led to declining placements of cattle on feedlots from June through October (seasonally adjusted). As a result, fed cattle marketings may drop early next year. However, the large number of feeder calves now being held on pasture are expected to enter feedlots at heavier weights and more quickly reach market condition, bringing a recovery in beef supply in the spring.

High feed prices continue to limit milk production which, during October, was 5 per cent below a year earlier. Lower protein feeding rates have brought the first annual decline in output per cow in 30 years. However, November egg settings indicate broiler supplies will continue above year-earlier levels at least into February.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		November	34.7p	10.3	9.4	8.7
Reserves available (RPD's)		November	32.5p	11.0	6.3	9.7
Money supply						
M1		November	266.7p	10.4	4.2	5.5
M2		November	562.4p	11.4	8.6	8.2
M3		November	882.4p	9.6	7.3	8.5
Time and savings deposits (Less CDs)		November	295.6p	11.5	12.6	10.7
CDs (dollar change in billions)		November	61.2p	-2.2	-5.8	20.0
Savings flows (S&Ls + MSBs)		November	320.0p	6.8	5.2	8.9
Bank credit (end of month)		November	628.9p	5.0	5.3	13.8
Market yields and stock prices				Percentage or index points		
Federal funds	wk. endg.	12/5/73	10.17	0.40	0.62	5.00
Treasury bill (90 day)	"	12/5/73	7.36	-0.48	-1.33	2.42
Commercial paper (90-119 day)	"	12/5/73	9.33	0.55	-1.17	4.05
New utility issue Aaa	"	12/7/73	8.06	0.06	0.12	0.91
Municipal bonds (Bond Buyer)	1 day	12/6/73	5.00	-0.04	-0.03	0.19
FNMA auction yield (FHA/VA)		12/10/73	8.81	-0.13	0.14	1.11
Dividends/price ratio (Common stocks)	wk. endg.	11/28/73	3.55	0.45	0.38	0.84
NYSE index (12/31/65=50)	end of day	12/10/73	52.15	-4.36	-3.46	-12.99

Credit demands		Net change or gross offerings: Current month 1973	Current month 1972	Year to date 1973	Year to date 1972
Business loans at commercial banks	November	1.3	2.1	26.8	12.3
Consumer instalment credit outstanding	October	1.7	1.5	17.9	12.5
Mortgage debt outst. (major holders)	September	4.1	5.1	46.8	40.7
Corporate bonds (public offerings)	September	0.7	0.9	8.4	14.1
Municipal long-term bonds (gross offerings)	September	1.7	1.7	17.0	20.1
Federally sponsored Agcy. (net borrowing)	December	0.5e	0.2	16.3e	3.5
U.S. Treasury (net cash borrowing)	December	3.0e	4.2	6.1e	17.4
Total of above credits		13.0	15.7	139.3	120.6

e - Estimated

THE ECONOMIC PICTURE IN DETAIL

DOMESTIC FINANCIAL SITUATION

Since the last Committee meeting, private short-term interest rates generally moved somewhat higher, while long-term rates showed little net change. Treasury bill rates declined on balance, however, as foreign central bank liquidation of dollar assets slackened. Following the announcement on December 7 of a reduction in marginal reserve requirements on large CD's and related liabilities, there was a drop in some market rates, particularly yields on Treasury bills.

Business demand for short-term credit has remained generally strong, with the total of business borrowing in November at banks and in the commercial paper market combined close to the third quarter rate. The increased cost of commercial paper relative to bank loans last month induced some borrowers to shift back to commercial banks, and consequently business loans at banks expanded fairly rapidly following weak growth over the preceding two months. Banks became more aggressive bidders for large negotiable CD's after mid-November as demands strengthened and growth in consumer time and savings deposits slowed.

In the capital markets, stock prices have declined about 15 per cent from the recent high reached late in October prior to the uncertainties generated by the energy crisis. Investors have absorbed large amounts of corporate and tax-exempt bonds during recent weeks at relatively stable rates. Credit demands of the Treasury and Federal agencies, however, have declined sharply. In fact, Agency financings have dropped to the lowest level of the year due to a reduced need for support of the residential mortgage market.

The improved pace of deposit flows to thrift institutions, which began in September, was sustained in November. Certificate inflows (including the 4-year certificates) are reported to have accounted for a major share of the recent deposit growth. Advances to S&L's by the FHL Banks in November virtually ceased, and S&L's have been able to reduce indebtedness to commercial banks and also to rebuild depleted liquid asset positions. Mortgage rates continued to decline in November and by early December rates in the primary market were more than 30 basis points below their late September high.

Outlook. Interest rates over the next few weeks will be strongly influenced by expectations. Signs of an easing in monetary policy and/or an appreciable weakness in economic activity would be likely to move interest rates downward. Total credit demands may be expected to weaken in the first half of 1974, but over the near-term the outlook for the total and sectoral pattern of credit demands is uncertain. It would appear, given the revised GNP projection, that a decline in demand and a shift in its composition is in prospect. But such changes are likely to occur with varying lags, depending on the sector involved.

In the short-term, business credit demands will be sustained by rising inventory accumulation, continued strength in capital outlays, and a decline in the rate of internal funds generation. The proportion of business credit demands likely to be focused on commercial banks will depend not only on the relative levels of the bank prime rate and commercial paper rate, but on borrower attitudes in regard to the appropriate timing of long-term financing. Some underwriters report that firms are considering postponing prospective bond offerings in anticipation of a decline in long-term rates.

Demands of the Federal sector on financial markets will probably be light during the next few months. The Treasury is projected to need no new cash until March, assuming no significant liquidation of Treasury special issues by foreign official accounts. Agency financing should be small as a result of reductions in mortgage credit demand and the greater availability of private funds for housing.

At current short-term market rate levels, and against the background of recent experience, flows at thrift institutions are likely to remain generally favorable; and if there is a decline in market interest rates, savings flows are likely to show further improvement. Moreover, savings flows could be strengthened by precautionary demands for liquid assets related to the economic uncertainties generated by the energy crisis. S&L's likely would use new funds initially to repay high cost borrowings from the FHLBanks and to continue rebuilding of liquidity positions. While thrift institutions also can be expected to seek to increase their mortgage commitments and acquisitions, the demand for mortgage credit will probably weaken as borrowers postpone commitments in anticipation of lower rates and because of general economic uncertainty. On balance, given the supply-demand outlook mortgage rates are likely to decline further.

Finally, consumer credit demands are likely to fall substantially as the demand for automobiles, motor and mobile homes, boats, and other recreational goods declines because of the fuel shortage. These reductions may be offset only in small part by increased credit demands related to home improvements--especially those of an energy-conserving type.

<u>Monetary aggregates</u>. Growth in all the monetary aggregates accelerated in November as M_1 increased at the most rapid rate since mid-year. The faster growth in the broader measures, M_2 and M_3, was solely the result of the accelerated expansion in M_1. Inflows of consumer-type time and savings deposits at banks increased somewhat less rapidly in November than October, and inflows at thrift institutions were only moderately higher.

Some of the strong growth in M_1 during November probably reflected a return to more normal rates of increase in transactions balances. However, it also may have been associated with the uncertainties generated by the energy crisis and the steep decline in stock prices. Special foreign transactions--including an increase in foreign government deposits at Federal Reserve Banks[1/] and a rise in deposits of foreign commercial banks at large U. S. banks--further added to M_1 growth in November.

Inflows of time deposits other than large CD's at commercial banks remained strong, but were below the October pace. Moreover, most of the increase in the November average was the result of growth in late October. After mid-November, inflows of small denomination time deposits weakened considerably.

1/ Foreign central banks liquidated Treasury securities in November in order to obtain dollars to support their own currencies. About one-half of these sales were by one central bank which elected temporarily to hold the proceeds in the form of balances at the Federal Reserve Bank of New York. Such deposits are part of measured M_1.

MONETARY AGGREGATES

(seasonally adjusted changes)

	1973					
	Q I	Q II	Q III	Sept.	Oct.	Nov. p
			Per cent at annual rates			
M_1 (Currency plus private demand deposits)	1.7	10.3	.3	-2.3	4.6	10.4
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	5.7	9.5	5.1	3.9	10.4	11.4
M_3 (M_2 plus time and savings deposits at mutual savings banks and S&L's)	8.6	9.4	4.4	3.2	9.1	9.6
Adjusted bank credit proxy	15.0	12.2	10.5	5.4	1.6	.5
Time and savings deposits at commercial banks						
a. Total	23.1	16.0	13.4	6.8	1.7	2.4
b. Other than large CD's	9.5	8.7	9.8	9.6	16.2	11.5
			Billions of dollars 1/			
Memoranda:						
a. U. S. Government demand deposits	.3	- .8	--	.9	1.5	- .6
b. Negotiable CD's	3.9	2.4	1.6	- .2	-3.4	-1.2
C. Nondeposit sources of funds	.2	.2	.6	.1	- .4	.2

p - Preliminary and partially estimated.

1/ Change in average levels month-to-month or average monthly change for the quarter, measured from last month, in quarter to last month in quarter, not annualized.

With other deposit inflows strong, banks continued to allow large negotiable CD's to run off during the early part of November. These runoffs ceased around mid-month, however, when smaller inflows of other time deposits and increasing credit demands induced banks to bid more aggressively for CD funds. CD rates, which had declined steadily during October, increased 50 to 75 basis points in November. Apparently anticipating future declines in interest rates, banks emphasized short maturity CD's. The average maturity of CD's sold in November declined to 1.6 months (preliminary), the shortest maturity in the 8-year history of the series; the average maturity of outstanding CD's in November, at 2.1 months, is also the shortest on record.

Despite the pick-up in CD sales and overnight Euro-dollar borrowing late in the month, outstanding CD's declined on average more than $1.2 billion in November, and non-deposit sources of funds for the month increased by only $200 million. The CD runoff on average for the month, accompanied by a decline in U. S. Government deposits, almost completely offset the increased inflows of private demand and other time deposits. As a result, the adjusted member bank credit proxy as in October, increased only marginally in November.

Bank credit. Growth in total loans and investments of commercial banks in November (last-Wednesday-of-the-month series, seasonally adjusted) remained relatively moderate for the third consecutive month. Total loans, however, expanded somewhat faster in reflection of a pick-up in business loans following two months of little or no growth. Most other loan categories--including real estate and consumer loans--were weaker in November relative to the strong growth rates evidenced throughout most of the year. Liquidation of U. S. Treasury securities by banks slowed down considerably in November from the pace set in recent months. Other security holdings, which had been increasing, declined as well.

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

	1973					
	Q I	Q II	Q III	Sept.	Oct. r	Nov.
Total loans and investments 2/	19.9	12.7	11.4	4.1	6.7	5.0
U. S. Treasury securities	-9.7	7.9	-34.4	-29.1	-29.8	-8.7
Other securities	2.4	9.2	12.3	7.8	29.1	-2.8
Total loans 2/	30.1	14.5	17.8	7.4	5.2	8.9
Business loans 2/	37.7	18.4	17.3	3.1	.0	9.9
Real estate loans	20.4	20.2	17.0	16.2	14.9	13.6
Consumer loans	17.6	14.1	14.7	10.7	15.2	10.5

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

While large banks outside New York City also experienced a noticeable pick-up in business borrowing, a substantial part of the growth in business loans in November was concentrated at New York City banks. Data for all weekly reporting banks indicate considerable variability in credit demands among industries with borrowing by public utilities--other than transportation and communication--and commodity dealers showing unusual strength.

Some of the pick-up in business borrowing probably reflected the narrowing spread between the 9.75 per cent prime rate--offered by the majority of banks during November--and commercial paper rates, which rose more than 50 basis points over the month. As bank credit demands accelerated, outstanding dealer-placed commercial paper in November increased by less than half the strong expansion of October, when the rate spread was much less favorable to banks. On balance, total short-term credit demand, as measured by the sum of business loans and commercial paper, increased at a 17.1 per cent annual rate in November--somewhat less rapid than in October but slightly above the third quarter average.[1/]

Growth in real estate loans at commercial banks has moderated over the course of the year. In November, these loans increased at a 13.6 per cent annual rate, compared with about a 20 per cent annual rate in the first half. Consumer loans also are estimated to have increased less rapidly in November, apparently due in part to the shift in sales from large to compact automobiles.

The reduced rate of loan expansion since August and the increase in Treasury bill holdings in November have raised the liquidity positions of commercial banks. At weekly reporting banks, the ratio of liquid assets to liabilities has risen for four consecutive months following a steady decline over the preceding nine months.

1/ Detailed analyses of the most recent Quarterly Lending Practices Survey and the Monthly Loan Commitments Survey are presented in appendices to the Supplement.

RATE SPREADS AND CHANGES IN BUSINESS LOANS AND COMMERCIAL PAPER
(Amounts in billions of dollars, seasonally adjusted monthly changes)

	Prime rate less 30-59 day commercial paper rate (per cent)	Business loans at all commercial banks 2/	Dealer placed commercial paper	Total	Annual rate of change in total 3/ (per cent)
		Average Monthly Changes 1/			
1973-QI	--	4.1	-1.3	2.8	23.7
QII	--	2.2	.2	2.4	18.7
QIII	--	2.2	.1	2.3	15.6
January	+ .37	3.6	- .3	3.3	28.7
February	- .02	5.2	-1.9	3.3	27.0
March	- .31	3.6	-1.7	1.9	15.2
April	- .29	2.4	- .1	2.3	18.2
May	- .05	2.8	--	2.8	21.8
June	- .41	1.4	.6	2.0	15.3
July	- .90	3.6	--	3.6	27.2
August	- .93	2.5	- .5	2.0	14.8
September	- .40	.4	.9	1.3	9.6
October	+ .52	--	2.6	2.6	19.5
November	+ .38	1.3	1.1 e/	2.4 e/	17.1 e/
Weekly Pattern:					
Oct. 3	+ .20	n.a.	n.a.	n.a.	n.a.
10	+ .25	n.a.	n.a.	n.a.	n.a.
17	+ .40	n.a.	n.a.	n.a.	n.a.
24	+ .58	n.a.	n.a.	n.a.	n.a.
31	+ .95	n.a.	n.a.	n.a.	n.a.
Nov. 7	+ .75	n.a.	n.a.	n.a.	n.a.
14	+ .50	n.a.	n.a.	n.a.	n.a.
21	+ .15	n.a.	n.a.	n.a.	n.a.
28	+ .22	n.a.	n.a.	n.a.	n.a.

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

<u>Nonbank financial institutions</u>. According to preliminary data, deposit flows to nonbank thrift institutions were moderately stronger in November than in the previous month--with deposit growth at S&L's maintained at about the same improved rate as in October, and flows into MSB's showing a considerable increase over the reduced October pace. At both sets of institutions, certificates of deposit--especially 4-year certificates--constituted the major portion of, if not the entire, net inflow.

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

	Mutual savings banks	Savings and loan associations	Both
1972 - QI	13.6	22.5	19.7
QII	10.7	15.9	14.3
QIII	11.6	18.2	16.2
QIV	11.0	14.2	13.2
1973 - QI	8.1	16.0	13.6
QII	6.8	10.4	9.2
QIII	-.4	3.1	2.0
September	2.5	7.5	6.0
October p/	1.4	8.8	6.6
November e/	4.5	8.5	7.5

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

FHLBank net advances to S&L's were nominal during November, totaling only $60 million as compared with almost $500 million in October. Although November balance sheet data are not yet available, S&L's used some of their available funds in October to repay other borrowings, primarily bank loans. In addition, S&L's used a substantial portion of their increased deposit flow to rebuild liquidity--

following a $3.2 billion reduction in liquid assets during the third quarter.

At life insurance companies, policy loan activity reached a peak rate in August. September data showed a small decline in the growth of policy loans, and comparable sample data for October indicate an appreciable further slowdown, presumably reflecting the easing of market interest rates between mid-September and late October.

Consumer credit. Consumer credit outstanding rose $25.2 billion in October, seasonally adjusted annual rate. The expansion in instalment debt--$20.4 billion--equaled the average rate of advance during the second and third quarters, but was below the record first quarter rate of $24 billion. Growth in automobile credit during October slowed to the lowest seasonally adjusted rate of the year, as extensions continued to decline and repayments advanced to another new high. Increases in personal loans and home improvement loans in October matched the third quarter gains, and nonautomotive consumer goods credit rose further.

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

	Total	Automobile	Other consumer goods	Personal loans	Home improvement
1972 - QIII	16.1	5.9	6.0	3.3	.9
QIV	19.5	7.4	7.3	4.0	.9
1973 - QI	24.0	10.0	7.4	5.4	1.1
QII	20.0	7.4	6.9	4.7	1.0
QIII	21.0	7.2	8.2	4.3	1.3
Oct.	20.4	5.8	9.1	4.2	1.3

The increase in interest rates on consumer loans--which has lagged changes in most other market rates--generally slackened in October. Finance company rates on new car contracts, after a 15 basis point rise in September, advanced 6 basis points in October; bank rates were up 19 and 9 basis points, respectively, during the same months.

The record volume of consumer credit extended during the past year may be partly responsible for a recent increase in loan repayment difficulties. The delinquency rate on consumer instalment loans at commercial banks, which had declined on a seasonally adjusted basis during the summer months, rose to a 20-year high in October. The number of loans delinquent 30-89 days as a per cent of all consumer instalment loans held by banks reached 1.83 per cent, 2 basis points above the previous peak in April. Also, personal bankruptcies rose more than 5 per cent in the third quarter to a seasonally adjusted annual rate of 166,000 filings. While this was the highest rate since the fourth quarter of 1971, it was still well below the most recent cyclical peak of 193,000 in the third quarter of 1970. Despite the recent uptrend, personal bankruptcies for the full year 1973 are likely to be only slightly above the nine-year low of 159,000 filings in 1972.

NON-BUSINESS BANKRUPTCIES
(Thousands of filings, quarterly figures at seasonally adjusted annual rates)

1969	1970	1971	1972	1972		1973		
				QIII	QIV	QI	QII	QIII
170.4	188.3	172.6	159.1	159.1	154.5	151.7	157.6	166.1

Commercial paper outstanding. Commercial paper outstanding increased an estimated $1.6 billion, seasonally adjusted, during November--a sizable increase but well below the exceptionally rapid rise in October. While all types of paper contributed to this expansion, an estimated $1.1 billion was attributable to nonbank-related dealer placed paper, which benefited from lower interest rates in relation to the prime rate until the latter part of November.

Nonbank-related directly placed paper registered an estimated $400 million growth as finance company subsidiaries of large automotive manufacturers reported continuing needs for funds to reduce bank debt and finance wholesale receivables. Bank-related paper showed a small increase in November after declining in October.

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

	Estimated change in outstanding during period: 1973					Estimated Nov. 30, 1973
	QI	QII	QIII	Oct.	Nov.	
Total commercial paper outstanding	-1.5	2.2	2.5	2.4	1.6	42.7
Bank-related	.8	.8	.9	-.4	.1	5.0
Nonbank-related	-2.4	1.4	1.5	2.8	1.5	37.7
Dealer	-3.9	.6	.4	2.6	1.1	12.7
Direct	1.6	.8	1.2	.2	.4	25.0

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

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

Short-term rates. Rates in short-term credit markets have fluctuated considerably since the November FOMC meeting, to a large extent because of changing market views about the likely future course of monetary policy. On balance, key private rates rose somewhat while Treasury bill rates declined.

For a week or so after the November meeting, rates continued to decline from their mid-November highs, as many professionals came to feel that monetary policy would soon ease in response to the energy shortage and an impending slowdown in the economy. Rates on short-dated bills, in particular, dropped significantly, perhaps because precautionary demands for liquid assets by the public rose in the face of the uncertain economic outlook. Also, foreign central banks bought over $500 million of bills in the market, reinvesting part of the funds they obtained from sales of Government coupon and Agency issues primarily to the System.

In late November and early December, rates rose moderately, however, as tightness persisted in the Federal funds market, with trading generally around a 10-1/4 per cent rate. At the same time, many observers began to feel that the Fed might not ease in response to the energy shortage, and Chairman Burns' testimony before a Congressional Committee on December 4 was widely interpreted as support for this view. Upward rate pressures developed in the banking sector in particular, as business firms, reacting to the rise in commercial paper rates, turned back to the banks for short-term credit. Rates on large negotiable CD's rose markedly, and bank prime rates moved up into a 9.75--10.00 per cent range around the beginning of December.

Treasury bill rates also rose, in part because the auction of tax bills on November 28 was somewhat larger than expected. This offering--$1 billion of reopened April TABs and $2 billion of June TABs--wound up largely in the hands of dealers, at a time when dealer position carrying costs were quite high. Shortly thereafter, the bill market was affected by uncertainty due to delay in passage of new debt ceiling legislation. A bill raising the debt limit to $475.7 billion was passed on Monday, December 3, but only after the Treasury had been forced to defer the weekly bill auction.

More recently, rates have turned down again, as the market interpreted a lowering of marginal CD reserve requirements on December 7 as evidence that the Fed had indeed shifted toward ease. Bill rates, especially, have declined, continuing the greatly increased volatility of these rates in the last two months or so.

Looking ahead, the Treasury may not need to raise new cash until March 1974, barring a substantial renewal of redemptions of Treasury non-marketable issues by foreign central banks. Such redemptions have slowed considerably--from a pace of about $550 million per week between the October and November meetings, to about $60 million per week since then. In the Agency market, both the Federal Home Loan Banks and FNMA have lowered their borrowing plans, reflecting reduced demand on these Agencies to support the housing market. As a result, it presently appears that Agency borrowing from December through March 1974 may amount to about $2.7 billion, rather than the $3.9 billion projected earlier.

SELECTED SHORT-TERM INTEREST RATES
(Per cent)

	Daily Rates					
	Mid-Sept. highs	Late Oct. lows	Nov. FOMC meeting (Nov. 20)	Late Nov. lows	Dec. 7	Dec. 11
Treasury bills						
3-months	9.04	7.02	7.77	7.30	7.65	7.52
6-months	9.00	7.01	7.78	7.69	8.03	7.57
1-year	8.50	6.78	7.39	7.22	7.46	7.18
Commercial paper						
90-119 day	10.50	8.38	9.38	9.25	9.50	9.50
4-6 months	10.50	8.13	9.25	9.00	9.25	9.25
Bank prime rate	10.00	9.75	9.50-9.75	9.50-9.75	9.75-10.00	9.75-10.00
Large negot. CD's 1/						
3-months	11.00	8.13	9.45	9.25	9.75	9.30
6-months	10.65	7.50	8.85	8.50	9.13	8.88
Federal agencies						
1-year	9.11	7.56	7.99	7.81	7.82	7.79

	Statement week ended				
	Nov. 14	Nov. 21	Nov. 28	Dec. 5	Dec. 12 2/
Federal funds (weekly average)	10.03	10.23	10.09	10.17	10.25

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

Long-term securities markets. On balance, long-term rates have changed little since the last FOMC meeting. They declined during the latter half of November despite a large volume of new offerings of corporate and municipal bonds. Early in December, rising short-term rates and a growing volume of both unsold issues in syndicate and secondary market inventories led to some back-up in long-term yields, which continued despite the announcement of a reduction in marginal reserve requirements on large CD's.

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa utility bonds 1/	Recently offered Aaa utility bonds 1/	Long-term State and local bonds 2/	U.S. Government bonds (10-year constant maturity)
1971 - High	8.26 (7/30)	8.19 (1/2)	6.23 (6/24)	6.89 (7/20)
Low	7.02 (2/5)	7.14 (12/31)	4.97 (10/21)	5.87 (1/14)
1972 - High	7.60 (4/21)	7.46 (4/21)	5.54 (4/13)	6.58 (9/27)
Low	6.99 (11/24)	7.21 (12/1)	4.96 (12/7)	5.87 (1/14)
1973 - High	8.52 (8/10)	8.32 (8/10)	5.59 (8/3)	7.55 (8/10)
Low	7.29 (1/12)	7.28 (1/5)	4.99 (10/11)	6.42 (1/3)
Nov. 2	7.76	7.97	5.17	6.72
9	8.00	8.03	5.19	6.76
16	7.98	7.99	5.27	6.76
23	7.86	7.86	5.13	6.71
30	7.85	7.87	5.15	6.70
Dec. 7	8.06p	7.96p	5.15	6.70p

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

The reaction to the energy crisis and its associated effects was much more pronounced in the stock market. After reaching a peak in late October, the Dow Jones Industrial average fell over 153 points, or about 15 per cent, in active trading; other broader market indices fell about the same relative amount. Brokers report that the decline may have been aggravated by the large number of margin calls they had to make to investors who generally opted to liquidate their positions rather than put up more collateral.

The over-all volume of corporate security offerings remains quite high, with the fourth quarter now projected to be about 40 per cent above the average for the first 3 quarters. Most of the increase is attributable to a sharp rise in publicly offered bonds, with December projected to decline less than seasonally from the November total. Stock offerings also are expected to fall in December from the high rate of the preceding month, which reflected mainly issues by utilities. In the private placement market, volume in December is expected to increase for seasonal reasons.

On the basis of current schedulings, and expected additions to the calendar, the January public bond volume is projected to rise from the reduced December level. Underwriters report, however, that the energy crisis has created expectations of an economic slowdown and possible interest rate declines later on, prompting some corporations to reevaluate financing plans and, in some cases, also the associated capital expenditure plans. But, as yet, there has been no discernible effect on the bond calendar.

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

	1973				1974
	1st 3 Qrs.	QIV f/	Nov. e/	Dec. f/	Jan. f/
Corporate securities - Total	2,570	3,667	3,900	3,700	3,300
Public bonds	958	1,700	1,800	1,600	2,000
Privately placed bonds	723	967	900	1,200	800
Stock	900	1,000	1,200	900	500
State and local government securities	1,890	2,200	2,200	1,600	2,000

e/ Estimated.
f/ Forecast.

The volume of municipal bond financing in November and the volume forecast for January are above the monthly average for the first three quarters, with December being low for seasonal reasons. An increasing proportion of recent municipal financing continues to be made up of special revenue issues and industrial pollution control bonds. These issues, many of longer-term and higher yield, have reportedly been especially attractive to fire and casualty insurance companies which have been a major support to the municipal market this year.

Mortgage market. Mortgage market conditions apparently have eased somewhat further in November and early December. Savings and loan associations increased slightly their new mortgage commitments in October--the first monthly increase since January--and tentative estimates suggest that there was some additional rise in November, after seasonal adjustment. Even so, the backlog of mortgage commitments outstanding at S&L's apparently declined further in November, as loan takedowns under earlier commitments continued to exceed the flow of new commitments.

With lending by savings and loan associations at reduced levels, commercial banks have been accounting for an unusually large share of a reduced volume of mortgage credit expansion. For the three months ending in November, the net increase in commercial bank holdings of mortgages on all types of properties exceeded that of any other type of lender.

In the primary mortgage market, recent declines in the average contract interest rate on new commitments for 80 per cent conventional home loans at selected S&L's have been smaller than in earlier weeks. On December 7, this series was 32 basis points below its late September high. Field reports suggest that some demand for new commitments by builders and would-be buyers has continued to be discouraged not only by current rate levels, which are still well above prevailing usury ceilings in a number of states, but also by the energy crisis and by anticipations of further rate declines in the near future. These expectations have been accompanied by a reduction in the number of FHL Bank districts reporting funds in short supply and also by scattered rumors that the present 8-1/2 per cent contract interest rate on FHA/VA mortgages, which has been in effect since late August, will soon be reduced.

CONVENTIONAL HOME MORTGAGES
At 120 S&L's

	Average going rate on 80% loans (per cent)	Basis point change from month or week earlier	Spread 1/ (basis points)	Number of Federal Home Loan Bank districts with funds in short supply
1972 - High	7.46	--	45	7
Low	7.23	--	- 31	0
1973 - High	8.85	--	107	12
Low	7.43	--	- 12	0
1973				
Aug.	8.66	+48	72	12
Sept.	8.85	+19	104	11
Oct.	8.68	-17	71	10
Nov.	8.55	-13	70	8
Oct. 5	8.82	- 3	107	11
12	8.83	+ 1	87	11
19	8.75	- 8	76	10
26	8.68	- 7	71	10
Nov. 2	8.62	- 6	86	10
9	8.59	- 3	59	10
16	8.58	- 1	60	9
23	8.57	- 1	71	8
30	8.55	- 2	70	8
Dec. 7	8.53	- 2	47	7

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

In the secondary market, yields on Government-underwritten mortgages have declined further from the mid-September peak, primarily reflecting a low level of loan originations and continuing strong demand for such loans by mortgage companies and others in order to complete mortgage pools to back GNMA-guaranteed securities which they have already agreed to issue. Reflecting these developments, the volume of offerings to FNMA of short-term commitments to purchase home mortgages has remained so low in recent bi-weekly auctions that FNMA has delayed by one week the auctions originally scheduled for December 10.

The delinquency rate on home mortgages (MBA series) rose somewhat further during the third quarter.to a seasonally-adjusted level of 4.3 per cent of outstanding loans held by reporting institutions, a new high for the series which began in 1953. Although delinquency rates on both conventional and Federally-underwritten home mortgages were above year-earlier levels, they continued to be particularly high for FHA-insured loans, especially those associated with the interest-rate subsidy programs which were suspended earlier this year.

Agricultural finance. Net new borrowing by the farming sector (farm operators and landlords) is estimated at a record $7.6 billion in 1973, only 4 per cent more than in 1972 but 89 per cent above the annual average for 1967-71. Capital flows for investment and farm transfer purposes, estimated at $25.8 billion, were 26 per cent above those of 1972, but higher farm income and rising interest rates apparently prompted relatively greater reliance on internal funds for financing these flows.

Among major farm capital flows, the sharpest rise in both 1972 and 1973 occurred in the purchase of real estate from discontinuing proprietors. The farm income gains since 1971 have been accompanied by a land price boom that has now reached dimensions without parallel since World War I. The Department of Agriculture's November 1 survey places the national farm real estate price index 20 per cent above a year earlier--the largest annual rise since 1919. Increases among States ranged from 10 per cent in Louisiana to 30 per cent in Colorado. The land price rise reflects the extraordinary profitability of crop production in 1973 and in prospect for 1974, as well as widespread belief that the longer-term equilibrium level of crop prices has moved upward because of increased foreign demand and new farm legislation employing a system of "target prices" that are above previous support levels.

For the first time since 1919, the increase in the total value of farm real estate exceeded annual net farm income in 1972 and again in 1973. The unusually rapid increase in wealth probably raises both the ability and willingness of farm landowners to incur additional debt.

FARM REAL ESTATE APPRECIATION AND NET INCOME

	1971	1972	1973	Total 1971-73
Change in farm real estate price index (per cent) 1/	6.0	10.8	20.0	40.9
Change in value of farm real estate: 1/				
Total (billions of dollars)	11.6	22.4	46.1p	80.2p
Per farm (dollars)	4,040	7,910	16,500p	28,450p
Realized net farm income: 2/				
Total (billions of dollars)	18.2	21.8	27.9p	67.9p
Per farm (dollars)	6,340	7,690	9,960p	23,990p

1/ For year ending November 1 (Department of Agriculture surveys farm real estate prices on March 1 and November 1 only).
2/ Includes net rentals received by farm landlords.

In an outlook statement issued on December 6, the Department of Agriculture forecasts that 1974 farm capital investment and land transfer flows will be about equal to the $26 billion spend in 1973, but that net farm income will drop by between $3 billion and $5 billion. Given these divergent trends, it forecasts that farmers will choose to increase net new borrowing from the record $7.6 billion in 1973 to between $10 and $12 billion in 1974, with much of the increase occurring in mortgage debt.

Federal finance. The staff has made the following revisions in its estimates of Federal receipts and expenditures (NIA basis) for calendar year 1974. These changes mostly reflect the projected economic impact of the energy shortage and program adjustments expected to result from Congressional action.

REVISED ESTIMATES OF FEDERAL SECTOR
IN NATIONAL INCOME ACCOUNTS
FOR CALENDAR YEAR 1974
(Billions of current dollars)

	November 14 Greenbook	Change	Current estimate
Receipts, total	$288.3	-$3.8[1/]	$284.5
Revisions:			
Corporate	- 3.4	- 3.4	
Personal		- .6	
Social insurance		1.1	
Indirect business taxes		- .9	
Expenditures, total	292.6	3.2	295.8
Revisions:			
Social security		1.4	
unemployment insurance		1.6	
Energy research		.4	
Other		- .2	
Surplus/deficit	- 4.3	- 7.0	-11.3
High employment surplus/deficit	5.9	- .8	5.1

1/ Individual entries may not add to total because of rounding.

The reductions in estimated receipts are due primarily to lower income projections. No allowance has been made to reflect the possibility of tax increases on petroleum products. We are assuming a larger social security tax base because it now appears that Congress will approve an increase from $10,800 to $13,200 beginning in January.

Previously, the law had scheduled an increase to $12,600. Because it is a base rather than a rate change, however, this tax increase will not affect cash receipts significantly until the second half of the calendar year when cumulated earnings surpass the former $10,800 maximum taxable income level.

The increase in social security outlays reflects the current assumption of a 7 per cent increase in benefits payable in February and an additional 4 per cent in July. On a gross basis, these benefit boosts will add $5.2 billion to expenditures, but the previous projection had already allowed for a substantial portion of this change. Thus far, the House bill calls for the first increase in payments to be made in April, while the Senate version contemplates an immediate starting date. Estimates of transfers to persons in the form of unemployment benefits have also been raised--by $1.6 billion during the coming calendar year--to reflect the projected increase in unemployment. Finally, some increase in outlays is earmarked for research on new sources of energy during the second half of calendar 1974.

It should be noted that the full employment budget shown above does not reflect a possible downward adjustment in potential GNP related to the energy crisis, even though the usual assumption of a 4.3 per cent growth in potential output may no longer be appropriate. The full employment surplus would, of course, be smaller if such an adjustment were made.

On a unified budget basis, the staff is now projecting a fiscal year 1974 deficit of $5.5 billion. This reflects a cut of $2.5 billion in estimated receipts since the November Greenbook, $1.4 billion of which is due to lower income assumptions and the remainder to a reallocation of receipts across the calendar year. Our estimate of outlays in the unified budget is unchanged at $272 billion, with increases in transfer payments likely to be offset by the already evident shortfall in other budget outlays and by larger receipts from offshore-oil leases, which appear in the budget as offsets to spending. In a recent statement, OMB Director Ash estimated a fiscal 1974 budget deficit of $2 to $3 billion.

Corporate tax receipts are projected to be unusually large in the January-June period of 1974 because final payments will reflect high 1973 profits. Since current tax payments on 1973 profits have apparently been based primarily on the lower profits of calendar 1972, additional payments will have to be made in March and June. On the other hand, personal tax refunds are expected to exceed their large 1973 volume.

On the expenditure side, although the House has cut the regular defense appropriations bill by almost $3.0 billion below the Administration's request for fiscal 1974, we have not lowered our defense outlays. We assume that, as a result of the Mideast war, the Defense Department will prepare another supplemental request that will offset the Congressional savings. At present, our projection of defense spending does not reflect any impact of the oil shortage on the procurement of goods other than oil. Tentative information indicates that any savings resulting from the proposed military cutback in oil usage will be more than offset by price increases in this area.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Nov.	Dec.	Jan.	Feb.
Total net borrowing	2.4	3.0	0.2	0.4
Weekly and monthly bills	1.2	--	--	--
Tax bills	5.0	--	--	--
Coupon issues, net	0.2	--	--	--
As yet unspecified new borrowing	--	--	--	--
Special foreign series	-1.7	--	--	--
Agency transactions, debt repayment, etc.	-2.3 a/	3.0 a/	0.2	0.4
Plus: Other net financial sources b/	-0.7	1.2	1.2	-1.1
Plus: Budget surplus or deficit (-)	-2.7	0.2	-0.9	-2.5
Equals: Change in cash balance	-1.0 c/	4.4	0.5	-3.2
Memoranda: Level of cash balance, end of period	4.7 c/	9.1	9.6	6.4
Derivation of budget surplus or deficit:				
Budget receipts	19.4	21.7	22.3	20.3
Budget outlays	22.1	21.5	23.2	22.8
Maturing coupon issues held by public	3.5 d/	--	--	4.5
Sales of financial assets	0.2	0.7	0.2	0.6
Budget agency borrowing	0.3	*	0.2	0.4
Net borrowing by government-sponsored agencies	*	0.5	0.6	0.4

a/ Reflects purchase and resale of Tax Bills by Exchange Stabilization Fund.
b/ Checks issued less checks paid and other accrual items.
c/ Actual.
d/ In the November refinancing, $3.8 billion of notes and bonds were sold to provide funds for refunding the $3.6 billion of publicly-held bonds maturing on November 15.
* Less than $50 million.

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

	Fiscal Year 1973 *	Fiscal 1974 e/ Adm. Est. 11-15-73	Fiscal 1974 e/ F.R. Board	Calendar Years F.R. Estimates 1973	Calendar Years F.R. Estimates 1974	F.R.B. Staff Estimates Calendar Quarters 1973 III*	1973 IV	1974 I	1974 II	1974 III	1974 IV
Federal Budget						Unadjusted data					
Surplus/deficit	-14.3	0.0	-5.7	-11.0	-10.3	-1.1	-8.0	-6.9	10.1	-4.4	-9.1
Receipts	232.2	270.0	266.3	249.2	280.4	64.4	58.7	62.4	80.7	71.7	65.6
Outlays	246.5	270.0	272.0	260.3	290.7	65.5	66.7	69.3	70.6	76.1	74.7
Means of financing:											
Net borrowing from the public	19.3	n.a.	0.9	8.0	6.1	-0.7	6.8	3.6	-8.8	4.7	6.6
Decrease in cash operating balance	-2.5	n.a.	3.4	2.0	2.1	4.3	-0.8	1.2	-1.3	0.7	1.5
Other 1/	-2.5	n.a.	1.5	1.0	2.1	-2.5	2.0	2.1	--	-1.0	1.0
Cash operating balance, end of period	12.6	n.a.	9.2	9.1	7.0	8.3	9.1	7.9	9.2	8.5	7.0
Memo 2/: Sales of financial assets 3/	4.8	n.a.	3.2	3.7	n.a.	-0.2	1.1	0.9	1.3	n.a.	n.a.
Budget agency borrowing 4/	0.4	n.a.	1.6	0.1	n.a.	0.4	0.3	0.6	0.4	n.a.	n.a.
Sponsored agency borrowing 5/	8.7	n.a.	13.3	16.3	n.a.	6.1	3.1	1.7	2.4	n.a.	n.a.
National Income Sector						Seasonally adjusted, annual rates					
Surplus/deficit	-12.1	n.a.	-2.1	0.5	-11.9	4.3	2.7	-5.5	-10.0	-14.9	-17.0
Receipts	242.9	n.a.	276.4 6/	265.1	283.9	269.8	274.5	279.8	281.6	284.4	289.7
Expenditures	255.0	n.a.	278.6	264.6	295.7	265.6	271.8	285.3	291.6	299.3	306.7
High Employment surplus/deficit (NIA basis) 7/	-1.2	n.a.	0.7	-0.7	5.1	-1.5	-0.3	0.4	4.3	6.8	8.9

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

Footnotes continued

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

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

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

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

5/ 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.

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

7/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

CONFIDENTIAL (FR)

III -- T - 1

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

	1972	1 9 7 3p/			
	Year	Q-I	Q-II	Q-III	Oct.*
Goods and services, net 1/	-4,609	150	616	1,800	
Trade balance 2/	-6,912	-960	-230	732	405
Exports 2/	-48,769	15,320	16,747	18,177	6,415
Imports 2/	-55,681	-16,280	-16,977	-17,445	-6,010
Service balance	2,303	1,110	846	1,068	
Remittances and pensions	-1,570	-397	-381		
Govt. grants & capital, net	-3,513	-681	-455		
U.S. private capital (- = outflow)	-8,534	-6,133	-1,930		
Direct investment abroad	-3,404	-2,025	-1,158		
Foreign securities	-614	51	-128	-189	-240
Bank-reported claims -- liquid	-742	-1,296	870	-358	-314
" " " other	-2,764	-2,052	-1,746	420	-436
Nonbank-reported claims -- liquid	-492	-615	-87	+52	
" " " other	-517	-168	228	n.a.	
Foreign capital (excl. reserve trans.)	10,287	483	2,297		
Direct investment in U.S.	160	273	455		
U.S. corporate stocks	2,268	1,301	151	870	94
New U.S. direct investment issues	2,003	384	274	193	
Other U.S. securities (excl. U.S. Treas.)	64	61	87	170	
Liquid liabilities to:	4,776	-1,899	1,122	981	1,104
Commercial banks abroad	3,862	-1,916	696	866	873
Of which liab. to branches 3/	(178)	(-579)	(586)	(93)	(136)
Other private foreign	810	7	361	167	28
Intl. & regional organizations	104	10	65	-52	203
Other nonliquid liabilities	1,016	364	162		
Liab. to foreign official reserve agencies	10,308	10,279	-373	-2,145	-84
U.S. monetary reserves (increase, -)	742	220	17	-13	-4
Gold stock	547	--	--	--	--
Special drawing rights 4/	7	--	9	--	--
IMF gold tranche	153	-13	8	-13	-4
Convertible currencies	35	233	--	--	--
Errors and omissions	-3,112	-3,921	229		
BALANCES (deficit -) 4/					
Official settlements, S.A.		-10,499	356	2,158	
" " , N.S.A.	-11,050	-9,995	784	933	88
Net liquidity, S.A.		-6,689	-1,549	1,483	
" " , N.S.A.	-14,592	-6,314	-1,951	553	
Liquidity, S.A. 5/		-8,600	-766	1,177	
" , N.S.A.	-15,826	-8,162	-1,172	99	-1,016
Basic balance, S.A.		-947	-782		
" " , N.S.A.	-9,843	-865	-965		

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

INTERNATIONAL DEVELOPMENTS

Summary and Outlook. Recent developments in the U.S. balance of payments confirm the impression of a continuing broadly-based improvement in the trade balance, together with generally favorable developments in private capital flows. Recent gains are reflected in surpluses in the official settlements balance and a strengthening dollar in the exchange markets.

Large weekly surpluses in official settlements began to show up in late October, and the surplus for November is estimated at more than $2 billion. Also, during November the dollar appreciated by about 5 percent on average against the major foreign currencies, largely on the basis of market expectations of the relative impacts of the oil crisis on the economies of the United States, Europe, and Japan. Sales of dollars by foreign central banks, especially the Japanese central bank, prevented the dollar from appreciating even more in November. The Dutch guilder, in addition to the yen, has been particularly hard hit by the oil crisis, and has been supported with sales of European currencies rather than dollars.

On the basis of recent fragmentary data on capital flows, foreigners were still net buyers of U.S. corporate stocks in October and possibly in early November, but on a much smaller scale than in the third quarter; reportedly foreigners were net sellers of corporate stocks after mid-November. There was also a reduction in net foreign purchases of U.S. corporate bonds after September, and the recent easing of the

OFDI regulations will tend to diminish end-of-year off-shore sales of bonds, or foreign bank financing, by U.S. direct investors. U.S. investors stepped up their purchases of Israeli and Canadian provincial bonds in October, and there was also a sizable increase in bank lending in October.

The outlook for overall economic activity here and abroad is dominated by the uncertainties of the petroleum situation. Even if shipments of oil from Arab sources were restored to the September 1973 level by mid-1974, foreign countries generally would experience a major setback in economic activity. Before the oil crisis industrial production in major foreign countries was expected to rise by about 3-1/2 percent, on average, from the second half of 1973 to the first half of 1974, while it now appears, on the basis of a preliminary appraisal, that industrial production in these countries may not grow at all over this period. Hardest hit would be Japan, the Netherlands, and Germany.

There would be major consequences for world trade from an oil shortage extending well into next year. The growth of world trade would probably be reduced, and the reduction might be aggravated by disproportionate effects of the crisis in different countries, as well as by a contraction in world shipping facilities. The net effects on trade balances, or on overall international balances, arising from such a situation are well-nigh impossible to foresee, although the U.S. payments position seems likely to remain strong under all conceivable scenarios.

Foreign exchange markets. The dollar has been in substantial excess demand in the exchanges over the past six weeks. It appreciated, on a weighted average basis, by about 6-1/2 per cent from end-October to mid-December. In addition, a large part of the excess demand was met by central bank sales of dollars, producing a U.S. official settlements surplus over that period on the order of $2-1/2 billion, according to preliminary and partial data. The dollar's strength appears to have been based, primarily, on the market's interpretation of the relative impact of the oil crisis on the economies of the United States, Europe, and Japan and, secondarily, on the continuation of recent strong U.S. trade figures and the recent rise in U.S. short-term interest rates.

The currency in greatest excess supply during the period was the Japanese yen, reflecting the expectation that the Japanese BOP, already in substantial deficit, would be the most severely affected of all the industrial countries by the oil crisis. The yen depreciated by more than 5 per cent against the dollar, and the Bank of Japan sold some $2.7 billion in market intervention. (Part of this intervention is not reflected in published Japanese reserve figures as it was offset by some non-market transactions between the monetary authorities and Japanese commercial banks). Japan took some modest steps in early December to ease restrictions on capital inflows, but these measures of yet have not seemed to have much of an impact.

A second currency under particular selling pressure as a result of the oil crisis has been the Dutch guilder. The guilder declined by 10 per cent against the dollar from end-October to mid-December. During the first week of December the guilder required central bank support at its lower European and Benelux limits, amounting to more than $500 million equivalent in various European currencies, and there were rumors in the market -- officially denied -- that the Dutch would undo their 5 per cent September revaluation. The Netherlands Bank raised its discount rate from 7 to 8 per cent on December 5, and money market rates in Amsterdam soared as the central bank allowed the domestic monetary base to contract as a result of the exchange market intervention. After the weekend passed and the exchange market pressures substantially abated, the Netherlands Bank took measures to ease the domestic liquidity situation somewhat.

Other currencies to show particular weakness during the period included the Italian lira and sterling. Both currencies depreciated considerably against the dollar while still receiving substantial central bank intervention support. For the six weeks from end-October, Bank of Italy intervention totaled perhaps $350 million while the Bank of England sold $170 million spot and $210 million on a short-term swap basis. In both Britain and Italy the oil crisis came on top of already-deteriorating inflation/trade balance prospects.

The other major central bank selling dollars was the German Federal Bank, which intervened sporadically to sell nearly $500 million.

The European currencies which depreciated least against the dollar were the French and Swiss francs, which declined by 7 and 3 per cent, respectively. France, of course, is accorded favored status by the Arab oil-producing countries while the Swiss franc was benefiting from a relatively tight domestic liquidity situation. Intervention in French francs tended to depress the franc against the dollar as perhaps $250 million equivalent was supplied to the market as countervalue to intervention in guilders. The Swiss franc turned easier on December 11 following an announcement by the BNS that it was reducing the amount of required reserves to be held at the central bank by 20 per cent over the year-end period. That, on top of an earlier indication that it would supply some $1 billion equivalent in Swiss francs through over-year-end swaps, sufficed to substantially ease the domestic liquidity situation.

The London gold price, after hovering in the low $90's for a while following the termination of the March, 1968 agreement, suddenly shot up over the $100 mark on November 28, and subsequently moved as high as $107.25 (fixing price) before easing a bit. The rise in the price of gold appeared to be part of a general, steep rise in non-ferrous metals prices, perhaps associated with fears of worldwide shortages and inflation expected to be engendered by the energy crisis.

Euro-dollar market. Rates on Euro-dollar deposits of 1-month maturity and more have increased considerably in the past four weeks, continuing the upturn that began in early November. The 3-month rate averaged about 10-3/4 per cent in the week of December 12, compared with about 9-1/4 per cent in the last week of October. In large part the increase has reflected rising short-term interest rates in the United States; the 60-89 day CD rate, for example, has advanced one percentage point in this period. The sharp rise in interest rates in Britain in mid-November also put upward pressure on Euro-dollar rates; in addition, the seasonal increase in demand for 1-month funds at the end of November had a spillover effect on longer rates. In contrast to most Euro-dollar rates, the overnight rate has moved up very little in the past month.

The excess of the 3-month Euro-dollar rate over the U.S. 60-89 day CD rate has become larger in recent weeks, and has recently averaged close to 1-1/4 percentage points. For banks subject to marginal reserve requirements on CD's the cost of 3-month Euro-dollars now approximately equals the cost of 60-89 day CD's even when the Euro-dollar borrowing is not subject to the 8 per cent marginal reserve requirement. But in the week of December 12 the excess of the Federal funds rate over the cost of reserve-free overnight Euro-dollars averaged a bit more than four weeks earlier, while the cost advantage of Fed funds relative to overnight Euro-dollars subject to reserve requirements narrowed slightly in this period. Currently, about $1 billion of net outstanding Euro-dollar borrowings are subject to reserve requirements.

U.S. banks' gross liabilities to their foreign branches rose from a daily average of $1.9 billion in the week of November 7 to $2.5 billion in the week of November 28, then dropped back to $2.2 billion in the week of December 5.

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

Average for month or week ending Wednesday	(1) Over-night Euro-$ 1/	(2) Federal Funds 2/	(3) Differ-ential (1)-(2)(*)	(4) 3-month Euro-$ Deposit 1/	(5) 60-89 day CD rate 3/	(6) Differ-ential (4)-(5)(*)
1973-Feb.	9.03	6.58	2.45 (4.71)	7.46	6.16	1.30 (2.85)
Mar.	9.19	7.09	2.10 (4.40)	8.53	6.84	1.69 (3.46)
Apr.	7.43	7.12	0.31 (2.17)	8.15	7.10	1.05 (2.72)
May	7.74	7.84	-0.10 (0.90)	8.45	7.30	1.15 (1.87)
June	8.19	8.49	-0.30 (0.41)	8.81	7.94	0.87 (1.01)
July	9.75	10.40	-0.65 (0.20)	10.40	9.06	1.34 (1.45)
Aug.	10.70	10.50	0.20 (1.13)	11.49	10.20	1.29 (1.40)
Sept.	10.85	10.79	0.06 (1.00)	11.16	10.30	0.86 (0.81)
Oct.	10.04	10.01	0.03 (0.90)	9.96	9.16	0.80 (0.54)
1973-Oct. 31	9.61	9.90	-0.29 (0.55)	9.27	8.50	0.77 (0.55)
Nov. 7	9.23	9.70	-0.47 (0.33)	9.39	8.75	0.64 (0.38)
14	9.47	10.03	-0.56 (0.26)	9.63	9.13	0.50 (0.21)
21	9.54	10.23	-0.69 (0.14)	9.88	9.25	0.63 (0.35)
28	9.61	10.29	-0.68 (0.16)	10.43	9.25	1.18 (0.95)
Dec. 5	9.59	10.17	-0.58 (0.25)	10.48	9.50	0.98 (0.72)
12 p/	9.59	10.24	-0.65 (0.18)	10.71	9.50	1.21 (0.97)

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

U.S. balance of payments. The balance on the official settlements basis is estimated to have been in surplus by about $2 billion in November (not seasonally adjusted and not at an annual rate) and by about $88 million in October. The large November surplus was accompanied by an appreciation of about 5 percent in the average value of the dollar in terms of major foreign currencies. Toward the end of November and the first week of December there were sizable deficits in the official settlements balance, but these stemmed mainly from dollar repayments by Japanese commercial banks to the Japanese Ministry of Finance, which more than offset continued dollar sales by the Bank of Japan. The large November surplus apparently reflects in large part reflows from Japan, where the oil shortage looms as a major threat, rather than a further improvement in the basic balance on current and long-term capital transactions. In fact, that balance now is believed to have registered a greater surplus in the third quarter than the $6 billion annual rate indicated in the last Greenbook, and it may not be as large in the current quarter.

Information on specific components of the balance of payments in October and November is limited to trade and transactions in securities and bank claims on foreigners. As indicated below, the U.S. trade showing in September and October was the best in many years, with an average surplus of over $6-1/2 billion at an annual rate in those months. A continued large surplus is anticipated for the remaining months of the year.

On the other hand, there has been a sharp decline in net sales of U.S. securities to foreigners. In October net sales of U.S. stocks to foreigners were only $94 million, compared with average monthly sales of $300 million in the third quarter. Brokers report continued net sales in the first part of November but foreigners reportedly sold off stocks during the last week of November. Sales of U.S. bonds to foreigners in October were also substantially below the average monthly amount sold in the third quarter despite a sharp pickup in sales of offshore Euro-bond issues by U.S. corporations. At the same time U.S. purchases of <u>foreign</u> bonds increased substantially in October, reflecting a heavy increase in offerings by Israel and also by Canadian provinces.

Bank-reported claims on foreigners (including liquid claims) increased by about $3/4 billion in October. The increase was about evenly divided between U.S. commercial banks and U.S. agencies and branches of foreign banks. Most of the increase in claims by U.S. commercial banks consisted of export credits and Canadian assets, both of which are exempt from the VFCR program. The increase in claims by foreign agencies was largely in forms subject to the VFCR program, but was considerably less than the increase in borrowings from abroad by those agencies, so that they remained in compliance with the regulations instituted in June. Preliminary data indicate that claims on foreigners reported by U.S. banks increased more slowly in November.

U.S. foreign trade. The U.S. trade position, which has shown steady improvement since early 1973, strengthened further in September and October as large surpluses were posted in each of these months. The September-October average trade surplus of $6-1/2 billion at an annual rate, balance-of-payments basis, represents the best trade showing for a two-month period in the last 8 years. For the first ten months of 1973 the trade balance was about zero, a dramatic turnaround from the $7 billion trade deficit of calendar 1972.

The surpluses in September and October reflected improved trade positions with both the developed and less-developed countries. Our trade deficit with Japan, which has persisted for many years and totaled $4 billion last year, virtually disappeared in these months as exports increased while imports fell. The trade balance with Western Europe, which had shifted from a deficit in 1972 to a sizable surplus in the first half of this year, recorded a substantial further expansion in the surplus in September-October as the advance in exports outpaced the rise in imports. A sharp increase in shipments to Canada and little change in imports resulted in a reduction in our trade deficit with that country.

With respect to the less-developed countries, the expansion in our trade surplus with Latin America in September-October was particularly noticeable as exports to that area rose very sharply. Despite the increase in oil imports from Middle Eastern countries, our trade surplus with them has changed very little in these recent months.

As indicated in the accompanying table, the further improvement in the trade balance in September and October resulted from a continuing large advance in the value of exports and a decline in the value of imports.

CHANGES IN EXPORTS AND IMPORTS (BOP BASIS)

	1972 Year (bil.$)	1973: percent changes			
		Q-I / Q-IV(72)	Q-II / Q-I	Q-III / Q-II	Sept.-Oct. / July-Aug.
EXPORTS					
Total	48.8	+15.9	+9.3	+8.5	+7.7
(volume)		(+11.6)	(+4.3)	(+1.6)	(+4.7)
Agricultural	9.5	+42.2	+8.5	+13.3	+4.9
(volume)		(+25.4)	(-2.8)	(-5.7)	(-2.0)
Nonagricultural	39.3	+9.3	+9.3	+7.2	+8.7
(volume)		(+7.7)	(+6.4)	(+4.0)	(+6.9)
IMPORTS					
Total	55.7	+8.8	+4.3	+2.8	-1.6
(volume)		(+4.9)	(-3.9)	(-0.9)	(-4.1)
Fuel	5.1	+22.2	+19.7	+15.2	+15.1
(volume)		(+17.4)	(+13.0)	(+4.9)	(+6.5)
Other	50.6	+7.5	+2.6	+1.2	-3.9
(volume)		(+3.4)	(-6.1)	(-1.7)	(-5.7)

The commodity pattern of the expansion in exports in September-October has, however, shifted from that of prior months. In the early part of the year, the export advance was led by a sharp upturn in shipments of agricultural commodities. The volume of such exports peaked in the first quarter, but their value has continued to expand because of higher prices, especially for wheat, rice and cotton. Currently deliveries of nonagricultural commodities have taken the lead in the overall export expansion, and have shown particularly sharp increases in recent months, mainly in volume rather than price. Shipments of machinery and nonagricultural industrial materials have been particularly strong. Foreign orders for machinery rose again in October, following a dip in September, and the backlog has increased further.

Among industrial materials, there have been increasing exports of chemicals, paper products, steel and nonferrous metals in recent months. The price freeze of June followed by Phase IV in August has held domestic prices for some products below world prices, making export markets more attractive to domestic sellers. Consequently our customary net import position in copper and aluminum has shifted into a net export position in the last few months. In recognition of the tendency for these divergent prices to reduce domestic supplies, the Cost of Living Council removed price controls on copper scrap in July, on fertilizers in October and on many nonferrous metals last week (early December). Another reason for the recent acceleration in nonagricultural exports may have been the expectation that the exchange rate of the dollar had reached its low point and that U.S. goods were as cheap as they would get in term of foreign currencies. The dollar has, in fact, been appreciating since July so that any stimulus to net exports derived from exchange-rate changes may be diminished in the future.

The strong growth in U.S. exports of nonagricultural commodities this year has been accompanied by an improvement in the U.S. competitive position in world trade. In the first half of 1973 (the latest period for which data are available), the U.S. share of the volume of total world trade in manufactured goods and in most major commodity categories rose quite strongly.

Imports in September-October declined from the average level of imports in the two preceding months, while import prices continued to rise. The decline in value was moderated by a sharp rise in the volume and price of fuel imports. The effects of the Arab embargo on oil exports to the United States imposed in mid-October and the surge in oil prices from all foreign sources will not begin to be reflected in the import figures until November.

Aside from fuels, the quantity of imports has declined steadily since the first quarter, and this decline appears to be broadly based among the major import categories except for imports of capital equipment. The rise in imports of capital equipment is of course associated with the acceleration in fixed domestic investment expenditures this year. The fall in the volume of imports of other finished goods -- nondurable consumer goods, automobiles and other durable consumer goods -- may be attributable in large part to the increasing effect of the dollar depreciations of the past two years combined with some supply difficulties by foreign producers as they attempted to meet strong internal demands and perhaps reorient their foreign sales to non-U.S. markets.

Another major element in the declining volume of non-fuel imports has been a very sharp fall in import of industrial materials. While there has been a slackening in the rate of growth in domestic industrial production, the decline in the volume of those imports has been greater than would be expected from that slowdown. World-wide shortages of such goods may partly explain these declines. The difficulty which domestic producers have in passing on the rising cost of these foreign products, a difficulty stemming from the Phase IV price controls (with relatively low base prices from which cost increases have to justified), may be still another reason for the weakness in such imports -- at least in recent months. Another factor may have been the large sale of aluminum from Government stockpiles this year which may have substituted for comparable imports. Through September sales of aluminum from Government stocks totaled about 500,000 tons -- equivalent to about $250 million of imports. In 1972 there were almost no sales of aluminum from Government stocks.

The outlook for a continued improvement in the trade position next year is largely contingent on the effects of the energy crisis on production here and abroad. A prolonged cutback in Arab oil production would probably restrict the growth of industrial output to a greater extent in Japan and Western Europe than in the United States. If output in Europe and Japan declines relative to income and demand, these countries would experience difficulty in exporting, and there would be some increase in their demand for imports, mainly consumer goods or other products not directly used by existing production facilities.

Given the likely "normal" demand for imported oil and the recent increases in oil prices (which would have been only partly offset by an induced decline in import volumes), the Arab embargo, if continued all next year, would reduce potential U.S. imports in 1974 by perhaps $6 billion. Even with the embargo, our oil import bill would rise by about $3 billion from 1973 to 1974.

<u>The impact of oil cutbacks on foreign industrial countries</u>. The background against which the cutbacks in oil supplies are taking place is significantly different abroad than in the United States. First, it had been expected that in most of Europe and, to a lesser extent, in Japan and Canada, excess demand would persist at least through mid-1974 -- even though output growth was expected to slow -- whereas aggregate demand in the United States was expected to become relatively weak. Second, other industrial countries, though more dependent than the United States on imported oil, had fairly large stocks of oil and did not expect longer-run difficulties in satisfying their rising demand for oil. In the United States, the Arab oil embargo has come at a time when oil stocks were in any case relatively low, and when imports of oil were counted on as a vital and rapidly growing source of energy. Third, other industrial countries use much higher proportions of oil than the United States for essential industrial and other purposes.

Several conclusions can be drawn from these differences. The heavier dependence abroad on Arab oil, especially for industry, suggests that the impact of the cutbacks on economic activity will be more severe in other countries than in the United States, even if shorter-lived. And it suggests that other countries will not be able to insulate their industrial sectors to the extent that the United States may be able to do so. Then, in contrast to the United States, where the shortages are expected to affect mainly aggregate demand, the expected reduction in output in foreign industrial countries can be viewed as stemming primarily from supply shortages. This will be especially so if demand abroad is sustained by a general expectation that the oil shortage will be only temporary.

An attempt has been made to give some quantitative feel to the magnitude of the impact of oil cutbacks on foreign industrial output. It has generally been assumed that (1) oil supplies from the Middle East, excluding Libya, Algeria, Iran, and Iraq, will be cut by 20 per cent of September 1973 levels from November 1973 through June 1974, at which time supplies will revert to the September 1973 levels; (2) alternative sources of oil supply will not be available in significantly greater quantities; (3) major oil companies will tend to divert non-Arab oil to ensure reasonably normal global distribution patterns, although supplies to some countries (notably the Netherlands) will be cut more than to others; (4) inventories of oil will be run down only sparingly, given the uncertain duration of the shortages; (5) given the time horizon assumed (i.e., only to mid-1974), there is limited scope and incentive for adapting production techniques to alternative sources of energy; and (6) some system of allocation will be introduced in every country to try to insulate industry from the cutbacks by cutting back more sharply on non-essential consumption of oil.

Given these assumptions, and the data in Table 1, the following kind of calculation was made for each country. The cutback in oil available to industry was calculated, yielding an estimate of the total energy cutback facing industry. Based on estimates of the relationship between energy requirements and production, a first approximation to the implied cutback in production was derived. Finally, this figure was modified by considerations peculiar to each country, to yield the estimates presented in Table 2. Abstracting in the first instance from the effect of demand shortfalls, it has been estimated that industrial production in the major foreign industrial countries will on average be about 3-1/2 per cent lower in the first half of 1974 than it would otherwise have been. That is, instead of increasing by 3-1/2 per cent, industrial production will remain virtually flat.

The general economic situation seems bleakest in the United Kingdom, where the impact of the oil cutbacks is strongly exacerbated by a myriad of labor disputes. These disputes involve notably the coal miners and electrical power workers -- serious shortages of coal and electric power have already developed -- but also railwaymen, dockworkers, and workers in the chemical industry. Some industrial action may be taken by engineers, as well.

Just in terms of the oil cutbacks themselves, however, the impact is expected to be sharper in Japan than elsewhere. In part this reflects Japan's relatively heavy reliance on petroleum as a

TABLE 1
IMPORTANCE OF PETROLEUM TO INDUSTRIAL OUTPUT[a]
(ratios)

	Imports of crude from participating[b] Arab countries divided by total supply of crude	Industrial consumption of petroleum[c] divided by total industrial energy consumption	Industrial consumption of petroleum[c] divided by total consumption of petroleum
Belgium	.46	.31	.26
France	.46	.42	.35
Germany	.37	.38	.33
Italy	.33	.39	.32
Netherlands	.55	.19	.31
United Kingdom	.50	.47	.40
Japan	.39	.50	.44
Canada	.03	n.a.	n.a.

a/ These ratios, taken from national sources, refer to the most recent periods for which data are available in each country -- typically 1971.

b/ The countries participating in the cutbacks are assumed to be Saudi Arabia, Kuwait, Qatar, Abu Dhabi, Oman, Dubai, and Bahrein. Production in Iraq, Algeria, and Libya has apparently been maintained, in spite of public statements to the contrary.

c/ Excluding use of petroleum as a source of energy for generating electric power.

TABLE 2
EFFECTS OF OIL CUTBACK ON INDUSTRIAL PRODUCTION
(Percentage change from preceding period)

	1973		1974 - 1st half a/		
	1st half	2nd half[a]	Without cutback	With cutback	Effect of cutback
Belgium	2.7	1.8	2.0	1/2	-1-1/2
France	5.4	3.3	2.4	1/2	-2
Germany	6.1	1.4	3.1	0	-3
Italy	0	7.5	5.3	3	-2-1/2
Netherlands	3.6	1.4	3.2	0	-3
United Kingdom	5.8	1.4	2.5	-1/2	-2
Sub-total[b]	5.9	2.6	3.1	1/2	-2-1/2
Japan	10.9	4.8	5.4	-2	-7-1/2
Canada	6.1	1.5	3.4	2-1/2	-1
Total[b]	7.1	3.1	3.6	0	-3-1/2

a/ Forecasts made by F. R. staff, on a seasonally adjusted basis. Seasonal adjustment factors are notoriously bad for the 3rd quarter and tend to lower the second half of the year relative to the first half. Although production will also be affected in November-December 1973, no estimate is made here of that effect.

b/ Weighted by the volume of industrial production in 1970.

source of energy for the generation of electricity. It also reflects the fact that the demand for energy had been expected to rise more rapidly in Japan than elsewhere; since cutbacks are based on September 1973 levels, the shortfall in oil supplies relative to energy demand in 1974 will therefore be relatively great.

The Netherlands also will be affected rather more than others, since the Dutch are in principle -- though apparently not in fact -- being cut off entirely from Arab oil. The embargo of the Dutch, in turn, aggravates the situation in European countries who rely on them for petroleum products -- particularly Germany. Half of Germany's imports of refined petroleum, and a quarter of Germany's imports of crude petroleum, normally come from the Netherlands.

France, along with the United Kingdom, is considered "friendly" by the Arab countries, so that delieveries of Arab oil to them will probably not be cut as much as deliveries to other countries. Italy typically exports a large volume of refined petroleum products, and the Italian Government has announced that they would cut these exports to some extent to meet domestic requirements.

Canada, unlike the other major foreign industrial countries, is not a net importer of crude petroleum. Crude petroleum is exported from the Mid-western part of Canada and imported into the Eastern part. Since a small amount of the imported oil comes from Arab countries participating in the cutbacks, and some of the Venezuelan oil normally imported may be diverted to the United States, oil shortages may develop in Eastern Canada. However, the Government is trying to devise some means of transporting oil from Western Canada to meet at least part of this shortage. More significant from the point of view of Canadian economic activity will be the impact of the expected slowdown in the United States.

The estimates cited in Table 2 probably represent a fairly optimistic assessment of the likely impact of the oil cutbacks on foreign industrial output. Several factors could be operating to yield a more severe impact. Even purely in terms of supply constraints, on which the above estimates are primarily based, bottlenecks could well occur in particular industries which would have serious repercussions in other industries.

Equally important, there may be significant shortfalls in demand. Specifically, demand shortfalls could occur in particular industries -- such as the automobile, travel and hotel industries -- leading to pockets of unemployment and secondary income effects. More generally, the increase in uncertainty caused by the oil cutbacks could lead to sharply lower investment and consumer demand. The fall in real income and wealth, derived both from higher oil prices and from declines in the prices of equities, will tend to reinforce consumers' hesitancy to spend.

Finally, recent information suggested that most policy-makers abroad view the present situation as requiring continued restrictive measures. A recent (and highly confidential) study prepared by the E.C. Commission forecast that a 20 per cent shortfall in petroleum in relation to current requirements would lead in 1974 to a 10 per cent reduction in industrial production, a 2 to 3 per cent fall in real GNP, an increase in the level of unemployment from 2 to 4-5 per cent, and an additional 1 to 1-1/2 per cent increase in the general price level. This forecast -- which takes account only of production decreases triggered directly by supply limitations -- seems excessively gloomy, but it reinforces the Commission's view that inflation still is the major policy issue facing Community countries. If this view is adopted by national authorities, demand reductions may combine with supply constraints to reduce the growth of output further. In this connection, measures recently taken by German authorities to encourage investment may be significant, although German policy on balance remains quite restrictive.

The degree to which output is demand-constrained or supply-constrained has an important bearing on the outlook for foreign trade, in general, and U.S. trade in particular. If, as is generally assumed here, supply constraints dominate in most foreign countries, excess demand would spill over into a greater demand for imports, especially of finished manufactured goods. Thus, the expectation that U.S. exports of finished manufactured goods will not rise above previously forecast levels is based on an assessment of limited U.S. ability or willingness to supply them, rather than on the state of foreign demand.

The foreign demand for imports of industrial materials is even more difficult to assess. As a first approximation, it may be argued that the demand for industrial materials will be cut back in proportion to the cutback in industrial production. On the other hand, it seems likely that given the uncertainty about the duration of the oil shortage firms may want to build up inventories of industrial materials to ensure their availability when full production is resumed; the current rise in prices of raw materials suggests that such hoarding may be taking place. The demand for industrial materials would in this case not be reduced so much, and supply constraints in the United States and elsewhere might be the determinant of trade.

Supply constraints also affect foreign industrial countries' ability to supply exports generally. Layoffs in the foreign automobile industry seem to be related primarily to demand shortfalls abroad, so that foreign automobile producers may be able to satisfy at least part of a projected increase in U.S. demand for small cars. Other industries abroad, however, may be supply-constrained to a greater extent. As a rough guide, foreign exports might fall below previously projected levels in about the same proportion as industrial production falls below previously projected levels. If authorities abroad take actions to ensure that domestic production goes first to supply domestic users with only a residual available for export (e.g., by the use of export controls, as some countries have done in the case of petroleum products already), the cutback in exports from foreign industrial countries could be correspondingly higher. On the other hand, controls on prices for domestic sales, such as those in force in the United Kingdom, tend to provide an incentive to export products rather than to sell at home.

It should be noted that interrelationships among countries are hardly taken into account in this analysis. Cutbacks in demand and supply conditions in one country can have strong repercussions on other countries, in terms of domestic output (and prices) and even more pronounced effects in terms of trade. Differences among countries in supply and demand conditions in particular industries may also be important, and may greatly disrupt normal trading patterns.

Finally, no account has been taken of possible difficulties in world shipping. If the supply of bunker fuel is reduced and poorly distributed, the volume of world trade will be reduced, with some countries being disproportionately affected, unless countries quickly cooperate to ease the situation. Difficulties with shipping are reportedly already important for Japan.