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Confidential (FR)

Part 2

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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

CONFIDENTIAL (FR)

January 15, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Dec.	1-3-75	91.7	.1	- .6	1.9
Unemployment rate (per cent)	Dec.	1-3-75	7.1	6.5 1/	5.8 1/	4.8 1/
Insured unemployment rate (%)	Dec.	1-3-75	4.7	4.3 1/	3.4 1/	2.7 1/
Nonfarm employment, payroll (mil.)	Dec.	1-3-75	77.7	-10.3	- 5.7	- .3
Manufacturing	Dec.	1-3-75	19.1	-30.8	-19.3	- 5.8
Nonmanufacturing	Dec.	1-3-75	58.6	- 3.5	- 1.0	1.7
Private nonfarm:						
Average weekly hours (hours)	Dec.	1-3-75	36.4	36.2 1/	36.7 1/	37.0 1/
Hourly earnings ($)	Dec.	1-3-75	43.9	8.3	6.5	8.7
Manufacturing:						
Average weekly hours (hours)	Dec.	1-3-75	39.4	39.5 1/	40.0 1/	40.6 1/
Unit labor cost (1967=100)	Nov.	12-31-74	137.2	- 1.8	7.1	9.9
Industrial production (1967=100)	Dec.	1-15-75	118.3	-33.5	-23.2	- 6.5
Consumer goods	Dec.	1-15-75	123.5	-27.5	-16.5	- 5.9
Business equipment	Dec.	1-15-75	128.9	-18.3	-10.3	1.6
Defense & space equipment	Dec.	1-15-75	83.9	1.4	3.9	2.4
Materials	Dec.	1-15-75	117.5	-50.9	-36.5	-10.1
Consumer prices (1967=100)	Nov.	12-20-74	154.4	10.8	12.4	12.1
Food	Nov.	12-20-74	169.2	16.5	18.6	11.9
Commodities except food	Nov.	12-20-74	142.9	9.3	9.5	13.5
Services 2/	Nov.	12-20-74	158.6	9.9	11.4	10.9
Wholesale prices (1967=100)	Nov.	11-12-74	173.5	14.6	15.2	23.5
Industrial commodities	Nov.	11-12-74	166.5	10.3	12.2	27.4
Farm products & foods & feeds	Nov.	11-12-74	193.4	29.9	22.7	14.9
Personal income ($ billion) 3/	Nov.	12-18-74	1182.8	- 2.2	5.3	7.5
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Nov.	1-2-75	43.4	- 3.8	-12.3	- .2
Capital goods industries	Nov.	1-2-75	13.2	3.3	-12.2	- .6
Nondefense	Nov.	1-2-75	10.8	- 4.8	- 8.2	- 2.9
Defense	Nov.	1-2-75	2.4	69.1	-26.6	11.5
Inventories to sales ratio:						
Manufacturing and trade, total	Oct.	12-16-74	1.54	1.51 1/	1.47 1/	1.45 1
Manufacturing	Nov.	1-2-75	1.71	1.65 1/	1.63 1/	1.55 1/
Trade	Oct.	12-16-74	1.43	1.36 1/	1.32 1/	1.33 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Nov.	1-2-75	.720	.705 1/	.678 1/	.717 1/
Retail sales, total ($ bil.)	Dec.	1-10-75	44.8	.7	-3.0	6.4
GAF	Dec.	1-10-75	11.5	.9	-3.0	4.7
Auto sales, total (mil. units) 3/	Dec.	1-7-75	7.2	3.1	-27.0	-26.1
Domestic models	Dec.	1-7-75	6.1	6.5	-24.9	-24.5
Foreign models	Dec.	1-7-75	1.1	-11.7	-36.7	-33.6
Plant & equipment expen. ($ bil.) 4/						
All industries	1975	1-8-75	117.09	-	-	4.6
Manufacturing	1975	1-8-75	49.92	-	-	9.0
Housing starts, private (thous.) 3/	Nov.	12-17-74	990	-10.5	-12.7	-40.9
Leading indicators (1967=100)	Nov.	12-31-74	166.9	- 1.5	- 6.6	- .7

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Incoming data indicate that the economy has been weakening at an accelerating rate in recent months. Sharply reduced retail sales and substantial cuts in employment and industrial production suggest a larger decline in economic activity in the fourth quarter than previously estimated. In addition, business firms have greatly curtailed plans for capital spending in 1975, while business inventory-sales ratios appear to have risen further to unusually high levels at year end--factors portending a weaker outlook for the economy in 1975. On the inflation side, there is added evidence of moderation of price and wage pressures during the past few months.

The recent drop in industrial production has been sharper than the initial decline of any other contraction since World War II. The decline in December is estimated to have been 2.8 per cent--bringing the total reduction since the recent September high to 5.8 per cent. For the fourth quarter as a whole, the drop in industrial production is now estimated to be 12.1 per cent, at an annual rate.

DECLINE IN INDUSTRIAL PRODUCTION FROM THE SEPTEMBER 1974 HIGH COMPARED TO PREVIOUS POST-WAR RECESSIONS
(Per cent change during first three months of decline)

1948	-3.1
1953	-5.2
1957	-4.6
1960	-2.6
1969	-3.5
1974	-5.8

Reductions in production during December were apparently widespread, including consumer goods, business equipment, construction products and industrial materials. Auto assemblies were reduced about one-fifth to a seasonally adjusted annual rate of 5.3 million units, compared to a 7.0 million unit rate in November. This production adjustment, along with a modest pickup in sales, cut dealer auto stocks slightly. But stocks of unsold cars remained at near-record levels at year end, and present auto production schedules for the first quarter of 1975 are at a 5 million unit rate, 27 per cent below that of the fourth quarter. Inventories of appliances and TV sets also recently reached new highs and output of these goods apparently fell further in December. Production of business equipment, which had been expanding earlier this year, is estimated to have declined in each of the past two months.

Output of materials declined about 4 per cent in December with further sharp production cuts in steel and other metals, textiles, paper, chemicals, and rubber products. As a result, the capacity utilization rate for major materials declined sharply to an estimated 76.4 per cent in December, its lowest level since April 1961.

Consumer spending in the fourth quarter was substantially weaker than we had earlier thought. There was an unusually large downward revision of estimated retail sales in November with sales now estimated to be down by about 3 per cent. Large declines occurred in most

major groupings. The advance estimate for December shows a modest increase in total sales but, excluding autos and nonconsumer items sales were unchanged, and declines occurred in food and furniture and appliances. Sales of new domestic-type autos increased to a 6.1 million rate from 5.7 million in November, but this rate was still nearly 25 per cent below the depressed level of December a year ago. Sales of foreign autos fell again to a 1.1 million unit rate in December, down from the 1.8 million unit peak rate in September. Overall, fourth quarter retail sales, in current dollars, were about 3.2 per cent lower than in the third quarter.

Early in January, Chrysler announced plans to rebate between $200 and $400 to purchasers of selected models for a 5 week period ending February 15. The results of this plan and of possible adjustments by other producers are uncertain, but some stimulus to auto sales seems likely.

Real outlays for business fixed investment turned down at mid-year, and there is accumulating evidence that they will continue to weaken in 1975. New orders for nondefense capital goods, dropped an additional 4.8 per cent in November. In real terms, these orders have fallen sharply and are now about the same level as in the first quarter of 1972. Unfilled orders for nondefense capital goods declined in November by about 1 per cent, the first drop in current dollar backlogs since March 1972, but the third successive month of decline

in constant dollars. Commitments for commercial and industrial construction dropped further in November, with floor space contracted off by 10 per cent to a level more than 40 per cent below the July 1973 peak.

The Commerce survey of plant and equipment expenditures for 1975--conducted in late November and early December--shows that businesses now plan only a 4.6 per cent increase in capital outlays for the year as compared with increases at more than twice that rate reported in earlier private surveys. This expected nominal increase very likely implies a significant decline in real terms, although information on respondents' price expectations has not yet been compiled. While the plans of materials producing industries continue to provide support for capital outlays, spending by other manufacturers is off in current dollars. The new Commerce survey also indicates very weak plans outside of manufacturing with the commercial sector, communications, and electric utilities being the major source of this deterioration. This late November-early December survey has been conducted for only six years but has had a very good track record except in 1970--the first year surveyed--when actual outlays fell short of anticipations.

Private housing starts dropped below the 1 million unit mark in November as multi-family starts, already very low, continued to dominate the overall decline. Even assuming some upward movement in total starts during December from the exceptionally low November

pace, the fourth quarter average may have only slightly exceeded 1 million units, the lowest annual rate for any quarter in 8 years.

Recently, there has been a reduction of construction materials prices accompaning the virtual elimination of shortages, but this improvement is being offset by increased construction labor costs and residential operating costs--a particularly important consideration for apartment developers.

There are widespread reports of efforts to reduce business inventories, but the sharp decline in final sales suggests an involuntary back-up of stocks in the fourth quarter. Dealer stocks of autos reached record levels, and inventories of many other durable and nondurable goods also became excessive. With inventory-sales ratios continuing to rise from already extremely high levels, businessmen are expected to redouble their efforts to run down excessive stocks in coming months.

The book value of manufacturers inventories increased in November at an annual rate of $23.6 billion, off moderately from the October rise and substantially below the third quarter average growth of $37.7 billion. By stage of processing, the rates of growth of materials and work-in-process stocks continued to fall in November as orders and production were cut back, but the rate of growth of finished goods stocks rose in the face of substantially reduced demand.

The labor market continued to deteriorate very rapidly in December. The unemployment rate rose to 7.1 per cent from 6.5 per

cent in November, with large increases occurring among all major labor force groups. Total employment fell by 550,000, the third consecutive month of decline, while the civilian labor force showed no change. There was also a continued rise in the number of persons working part-time for economic reasons.

Nonfarm payroll employment declined by 675,000 in December following a drop of 465,000 in November--the largest two month decrease in the postwar period. Heavy employment cutbacks occurred in the goods producing sectors, affecting all major industry divisions. The decline in manufacturing payrolls has been particularly severe--505,000 in December and 336,000 in November--and factory jobs at year end were nearly 1.2 million below a year ago. Only State and local government and service employment rose somewhat further in December. A very sharp jump in initial claims toward the end of December suggests another rise in unemployment in January for experienced workers.

Wage rates have shown some signs of moderation recently with easing evident in most sectors, especially trade. The average hourly earnings index rose somewhat faster in December than November--at a 8.0 per cent annual rate--with the largest increases in mining and services. But for the three months ending in December the 7.4 per cent annual rate increase for this index was well under the 11 per cent rate of the six month period ending in September.

While price increases continue at extremely high rates, the overall price measures, available only through November, indicate some moderation in inflation both at the wholesale and retail levels. More recent data from commodity markets show continued improvement. According to the FR basic commodity index, spot prices of industrial materials have declined further, and on January 7 were nearly 30 per cent below last April's peak, at about the level prevailing in October 1973.

Recently there has been a notable improvement in the "industrial commodities" component of wholesale prices. In October and November these prices rose at around a 12 per cent rate--roughly one-third the pace of the previous nine months. Several groups actually declined, including textiles, nonferrous metals, lumber and wood products, while rates of rise were reduced for other materials and some finished goods. However, for a number of commodities, such as chemicals and machinery and equipment, increases remain large and the recently announced increase for steel has not yet been reflected in the WPI industrial commodities index. (The December WPI will be available in the Greenbook Supplement).

Increases in consumer prices have also shown some signs of slowing in response to weaker final sales and reduced rates of inflation at earlier stages of fabrication and distribution. In October and November, price increases for several CPI components, while still very large, were well below the pace recorded in the second and third quarter as shown in the following table:

SELECTED CONSUMER PRICES
(Per cent changes, seasonally adjusted annual rates)

	Nov. 1973-Nov. 1974	1974 March-June	June-Sept.	Sept.-Nov.
Nonfood commodities:				
Apparel	8.8	9.4	12.0	4.8
Gasoline and motor oil	25.2	23.4	- 8.2	-13.9
New cars	11.0	18.3	19.8	8.6 1/
Services:				
Housekeeping and home maintenance	18.9	24.1	22.0	12.0
Medical	12.7	14.9	17.5	11.5
Auto repair, not s.a.	14.6	11.1	23.3	13.2

1/ This figure does not include that part of list price increases which are considered quality improvements on 1975 models.

Food prices continued to rise at a very fast pace--as shown in the price table at the end of this section--but much of the 12 per cent rise in retail food prices over the past year appears related to a widening of the "farm-retail spread"--covering processing and distribution costs and profits--as well as special factors such as the climb in world sugar prices. The USDA's preliminary estimate of the farm value of a market basket of U. S. farm foods for November was less than 2 per cent above a year earlier.

TABLE 1

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

	1974				
	QIII	QIV	Oct.	Nov.	Dec.
Total sales	4.4	-3.2	- .8	-2.9	.7
Durable	5.9	-10.5	-5.4	-4.3	2.3
Auto	10.6	-15.9	-8.3	-7.7	4.6
Furniture and appliance	2.0	-5.1	-4.0	- .3	- .4
Nondurable	3.6	.2	1.3	-2.2	.1
Food	5.0	2.1	.7	.8	- .9
General merchandise	.9	-1.3	- .6	-2.2	1.2
Gasoline	4.7	-2.2	.1	-4.3	- .4
Total, less auto and nonconsumption items	3.4	- .1	.9	-2.0	.1
GAF	1.6	-2.7	-1.4	-2.5	.9
Real*	1.5	n.a.	-1.8	-3.7	n.a.

* Deflated by all commodities CPI, seasonally adjusted.

TABLE 2

SURVEY RESULTS OF ANTICIPATED PLANT
AND EQUIPMENT EXPENDITURES
(Per cent change from prior year)

	1974 1/	1975			
		Rinfret September Survey 2/	Edie November Survey 3/	McGraw-Hill Oct. Survey	Commerce Dec. Survey
All industry	12.2	14.5	8	11.8	4.6
Manufacturing	20.5	23.6	15	21.3	9.0
Durables	17.7	17.2	10	13.5	1.8
Nondurables	23.3	30.2	21	29.2	16.0
Nonmanufacturing 4/	7.1	8.1	3	5.2	1.6
Railroads	26.5	32.7	26	29.1	27.7
Air & other transportation	-1.7	-11.6	27	3.7	3.0
Electric utilities	10.7	7.2	2	.0	1.2
Gas utilities	6.9	16.3	17	11.1	21.9
Communications	7.8	3.8	4	4.0	-1.8 2/
Commercial & other	3.2	10.7	-6	-1.0	-4.3 2/

1/ Estimates based on expectations of businesses as reported in the November Commerce survey.

2/ Confidential results.

3/ A special check-up on September survey; confidential.

4/ Contains industries not shown separately.

TABLE 3

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

	1970	1974				Per cent change in November from:	
	QI	QII	QIII	Oct.(r)	Nov. (p)	Month ago	Year ago
Permits	1.10	1.17	.91	.78	.72	- 8	-47
Starts	1.24	1.57	1.21	1.11	.99	-10	-41
1-family	.69	.98	.87	.78	.78	+ 1	-16
2- or more-family	.55	.59	.34	.33	.21	-37	-72
Under construction 1/	.89	1.48	1.37	1.33	n.a.	- 3 2/	-21 2/
Completions	1.41	1.74	1.56	1.61	n.a.	+ 7 2/	-18 2/
MEMO:							
Mobile home shipments	.37	.44	.36	.25	.22	-12	-56

1/ Seasonally adjusted, end of period.
2/ Per cent changes based on October.

TABLE 4

INVENTORY RATIOS

	1973		1974	
	Oct.	Nov.	Oct.	Nov. (p)
Inventory to sales:				
Manufacturing and trade	1.45	1.44	1.54	n.a.
Manufacturing, total	1.57	1.55	1.65	1.71
Durable	1.88	1.89	2.03	2.14
Nondurable	1.20	1.16	1.21	1.24
Trade, total	1.33	1.33	1.43	n.a.
Wholesale	1.14	1.13	1.21	1.20
Retail	1.46	1.49	1.61	n.a.
Inventories to unfilled orders:				
Durable manufacturing	.73	.72	.71	.72

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

	1974				
	QI	QII	QIII	Oct.	Nov. (p)
Manufacturing and trade	36.5	42.8	59.2	71.9	n.a.
Manufacturing	22.5	28.2	37.7	25.0	23.6
Durable	14.3	17.4	23.3	18.0	12.1
Nondurable	8.2	10.8	14.5	7.1	11.4
Trade, total	13.9	14.7	21.4	46.8	n.a.
Wholesale	8.5	7.7	8.6	13.7	2.5
Retail		7.0	12.8	33.1	n.a.
Auto	-1.6	-1.0	4.0	22.0	n.a.

TABLE 5

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1973	1974		
	December	June	November	December
Total	4.8	5.2	6.5	7.1
Males 20 years and over	3.0	3.5	4.6	5.1
Females 20 years and over	5.0	5.1	6.6	7.2
Teenagers	14.4	15.6	17.3	18.3
Household heads	2.8	3.1	3.9	4.5
White	4.4	4.8	5.8	6.4
Negro and other races	8.6	8.8	11.7	12.8
White collar workers	3.1	3.1	3.7	4.1
Blue collar workers	5.2	6.2	8.2	9.4

TABLE 6

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(In thousands)

	Employment (Dec. 1974)	Average Monthly Change		
		Dec. 1973-Dec. 1974	June 1974-Dec. 1974	Nov. 1974-Dec. 1974
Total nonfarm	77,726	-17	-116	-674
Goods-producing	23,609	-123	-206	-585
Construction	3,802	-26	-32	-50
Manufacturing	19,141	-99	-174	-505
Service-producing	54,117	+107	+91	-89
Trade	16,906	+7	-21	-136
Services	13,754	+43	+44	+28
State and local government	11,855	+48	+62	+35

TABLE 7

PRICE BEHAVIOR
(Percentage changes, seasonally adjusted annual rates)1/
CONSUMER PRICES

	Relative importance Dec. 1973	Dec. 1973 to Mar. 1974	March to June 1974	June to Sept. 1974	Sept. to Oct. 1974	Oct. to Nov. 1974
All items	100.0	14.2	10.3	14.2	10.3	10.8
Food	24.8	19.4	3.1	12.3	16.0	16.5
Commodities (nonfood)	38.6	16.0	13.7	16.2	6.8	9.3
Services	36.6	9.2	11.0	13.9	10.8	9.9
Addendum						
All items less food and energy2/3/	68.8	8.6	11.9	15.3	10.7	10.6
Petroleum products2/	4.0	99.3	26.6	-4.1	-17.3	2.8
Gas and electricity	2.4	28.2	16.1	20.2	11.9	8.6
		WHOLESALE PRICES				
All commodities	100.0	24.5	12.2	35.2	29.4	14.6
Farm and food products	31.7	10.8	-29.3	59.2	61.5	29.9
Industrial commodities4/	68.3	32.3	35.7	28.3	13.4	10.3
Materials, crude and intermediate	43.5	36.9	40.6	31.7	11.0	8.2
Finished goods:						
Consumer nonfoods	17.6	28.3	25.3	18.5	20.8	4.9
Producer	8.5	13.2	27.2	31.8	29.1	16.6
Consumer foods	14.3	17.3	-16.7	29.4	51.0	42.1

1/ Not compounded for one-month changes.
2/ Confidential--not for publication.
3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, and gas and electricity.
4/ Stage of processing components do not add to the total because they include some items found in farm and food products group.

DOMESTIC FINANCIAL SITUATION

III-T-1

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		December	36.9	16.4	4.4	8.6
Reserves available (RPD's)		December	34.7	9.5	1.2	8.9
Money supply						
M1		December	283.6	2.1	4.0	4.5
M2		December	613.8	2.5	6.8	7.3
M3		December	954.9	4.9	6.8	6.7
Time and savings deposits (Less CDs)		December	330.1	2.9	9.0	9.8
CDs (dollar change in billions)		December	90.3	4.8	5.5	26.5
Savings flows (S&Ls + MSBs)		December	341.1	9.2	6.9	5.6
Bank credit (end of month)		December	686.0	-12.8	-2.8	8.3
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	1/1/75	7.35	-1.67	-3.69	-2.52
Treasury bill (90 day)	"	1/1/75	7.02	-.43	.49	-.46
Commercial paper (90-119 day)	"	1/1/75	9.34	.12	-1.16	.16
New utility issue Aaa	"	1/3/75	-	-	-	-
Municipal bonds (Bond Buyer)	1 day	1/2/75	7.08	.19	.40	1.90
FNMA auction yield (FHA/VA)		1/13/75	9.37	-.15	-.95	.67
Dividends/price ratio (Common stocks)	wk. endg.	12/13/74	5.36	.13	.14	1.72
NYSE index (12/31/65=50)	end of day	1/7/75	37.62	3.17	3.43	-14.89

Credit demands		Net change or gross offerings: Current month 1974	Current month 1973	Year to date 1974	Year to date 1973
Business loans at commercial banks	December	-2.4	.7	25.5	27.0
Consumer instalment credit outstanding	November	-.4	1.7	9.2	19.7
Mortgage debt outst. (major holders)	October	3.0	3.9	38.9	49.5
Corporate bonds (public offerings)	December	2.3e	1.6	25.3e	13.6
Municipal long-term bonds (gross offerings)	December	1.3e	2.1	22.9e	24.0
Federally sponsored Agcy. (net borrowing)	December	.8e	.5	16.2e	16.3
		1975	1974	1975	1974
U.S. Treasury (net cash borrowing)	January	2.8e	-.8	2.8e	-.8
Total of above credits		7.4	9.7	140.8	149.3

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Financial markets continue to reflect the interaction of a marked slowdown in economic activity and an easing in monetary policy. Short-term market interest rates have fallen substantially further on balance since the December FOMC meeting, responding to diminishing short-term credit demands of businesses and consumers, a further significant drop in the Federal funds rate, and an additional 1/2 point reduction in the discount rate to 7-1/4 per cent. Interest rates on residential mortgages also have continued to edge down, as demands for mortgages remain low while savings inflows into non-bank thrift institutions have accelerated further. Bond yields, on the other hand, have changed little on balance in recent weeks, due principally to the exceptionally heavy current and prospective calendar of long-term corporate debt. Prospective borrowing by the U.S. Treasury and State and local governments also has increased substantially because the coincident problems of recession and inflation will reduce tax revenues and raise expenditures.

Growth in monetary aggregates slowed during December, as inflows into demand deposits and time and savings deposits other than large negotiable CD's weakened significantly. Financial intermediaries, in general, appear to have continued following policies designed to improve balance sheet liquidity.

SELECTED SECURITY MARKET QUOTATIONS

	Aug. FOMC Aug. 20	Sept. FOMC Sept. 11	Oct. FOMC Oct. 15	Nov. FOMC Nov. 19	Dec. FOMC Dec. 17	Dec. 30	Jan. 14
Short Term			(Per cent)				
Federal funds (weekly average)	12.23	11.48	10.11	9.34	8.72	7.35 2/	7.23 3/
Treasury bills							
3-month	9.05	9.06	7.74	7.46	6.77	7.11	6.55
6-month	9.13	8.83	7.92	7.37	6.90	7.08	6.51
1-year	8.86	8.63	7.70	7.18	6.57	6.70	6.43
Commercial paper							
1-month	12.00	11.75	9.75	9.13	9.50	9.75	7.75
3-month	11.88	11.75	9.50	8.88	9.25	9.38	7.75
Large neg. CD's 1/							
3-months	12.35	11.85	9.63	8.63	9.15	9.25	7.65
6-months	12.15	12.00	9.50	8.50	8.63	8.75	7.75
Federal agencies							
1-year	9.65	9.77	8.57	8.04	7.38	7.64	7.29 4/
Bank prime rate	12.00	12.00	11.75	10.75	10.50	10.50	10.25
Long Term							
Corporate							
New AAA	10.26	10.27	10.44	9.17	9.51	--	9.45p
Recently offered	10.28	10.30	10.36	9.29	9.59	9.67	9.52p
Municipal (Bond Buyer)	6.73	6.79	6.48	6.53	7.08	7.08	6.99
U.S. Treasury (20-year constant maturity)	8.58	8.59	8.31	7.93	7.82	7.92	7.76 4/
			(Index points)				
Stock Prices							
Dow-Jones	726.85	654.72	658.40	614.05	597.54	603.25	648.70
N.Y.S.E.	39.32	35.82	37.67	36.19	35.58	35.35	38.12

1/ Highest quoted new issues.
2/ Average for statement week ending January 1.
3/ Average for first 6 days of statement week ending January 15.
4/ January 10 quotations.

Short-term markets. Short-term market interest rates backed up temporarily over the latter part of December, mainly in response to aggressive year end window dressing efforts by banks and corporations. Banks issued a large volume of CD's that were bought by corporations who acquired less short-term commercial paper. The resulting upward pressures on commercial paper rates were reinforced as investors grew more apprehensive about the ability of some firms to remain solvent in the eroding economic environment, particularly after Moody's withdrew their rating on Chrysler Financial's commercial paper and downgraded the paper of some other issuers. These special factors were exacerbated by disappointment among market professionals that the Federal funds rate failed to decline as much as anticipated following the December FOMC meeting.

A decidedly more bullish atmosphere has developed in short-term markets since the turn of the year, and short-term rates have fallen sharply. This rally is in part attributable to the unwinding of year-end window dressing, as evidenced in part by a marked slowdown in bank issuance of CD's. More importantly, the decline in rates can be traced to the recent sharp drop in the Federal funds rate, the reduction in the discount rate to 7-1/4 per cent, and growing indications of reduced demands for short-term credit. Private short-term rates are now generally about 125 to 200 basis points lower than at the time of the December meeting, while Treasury bill rates have dropped about 15 to 30 basis points on balance.

Bond markets. Bond yields generally rose in late December, but have since fallen back to levels near or somewhat below those prevailing at the time of the December FOMC meeting. The failure of bond yields to decline more as short-term rates fell is due mainly to the heavy current and prospective volume of corporate bond flotations. The volume of total corporate bonds offered publicly in December was a record for that month, and offerings for both the fourth quarter and 1974 as a whole were also at record highs. The calendar of issues scheduled to be marketed in coming months, moreover, has continued to build. In January, public bond offerings of domestic corporations are expected to total around $3.5 billion, the second highest monthly total on record, and foreign borrowers--mainly official international institutions and Canadian utilities--are expected to add nearly $400 million to this total. Moreover, the likelihood of any appreciable abatement over the foreseeable future appears remote unless yields were to back up significantly.

Conditions in the municipal bond market improved somewhat recently, after New York City announced plans to cut expenditures and to borrow directly from its pension funds. In addition, the volume of new municipal issues brought to market in December and scheduled for January is smaller than earlier in the fourth quarter. But any tendency for yields to decline has been retarded by developing prospects of heavy borrowing by

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

	1974					1975	
	Year e/	Half I	QIII	QIV e/	Dec. e/	Jan. f/	Feb. f/
	Gross offerings, long-term						
Corporate securities Total	3,224	3,072	2,465	4,034	3,650	5,000	4,500
Public bonds	2,134	1,950	1,675	2,867	2,300	3,500	3,200
Private placed bonds	550	570	337	567	900	800	700
Stocks	540	552	453	600	450	700	600
State and local government securities	1,894	2,123	1,400	1,958	1,309	2,000	2,000
	Net offerings, total						
U. S. Treasury	658	501	1,498	3,440	5,100	2,800	3,000
Sponsored Federal agency	1,367	926	2,552	1,008	764	545	643

e/ Estimated.
f/ Forecast.

State and municipal governments because of slackening growth in revenues and higher spending, and by growing market concern over the financial strength of some government units.

Projected financing by the Treasury also has been raised substantially in conjunction with the upward revision in estimates of the Treasury's deficit. The acceleration in borrowing began in early January when the Treasury raised an additional $2.0 billion of new money. This caused yields on Treasury coupon issues generally to advance around 10 to 20 basis points, but they subsequently have

dropped back and on many coupon issues they are now slightly below their mid-December levels. Staff projections indicate that the Treasury will borrow an additional $14 billion between now and mid-April, some $6 billion more than was estimated at the time of the December Greenbook. Pressures from this enlarged Treasury borrowing will be offset, to a minor extent, by further cutbacks in borrowing of Federally sponsored agencies, as their needs for funds are expected to decline further as a result of improved fund flows to financial intermediaries.

Monetary and deposit aggregates. Growth in M_1, after picking up noticeably in November, slowed to an annual rate of only 2.1 per cent in December. Nearly all the growth was in currency, as demand deposits showed little change, which has been true of most months since mid-year. Over the second half of the year, M_1 growth was at a 2.8 per cent rate. For 1974 as a whole, M_1 rose 4½ per cent, more than 1½ percentage points below 1973's increase.

December developments in consumer-type time deposits at banks and nonbank thrift institutions displayed considerable divergence. Inflows into passbook saving accounts at commercial banks remained strong over the month, while in contrast, growth of time deposits other than large CD's dropped off sharply after having improved steadily in several previous months. At savings and loans associations and mutual savings banks combined, on the other hand, deposit inflows accelerated further, to an estimated annual growth rate around 10 per cent.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1974						
	Year p	QII	QIII	QIV p	Oct.	Nov.	Dec. p
	Per cent at annual rates						
M_1	4.5	6.5	1.6	4.0	3.8	6.0	2.1
M_2	7.3	7.7	4.6	6.8	8.3	9.3	2.5
M_3	6.5	6.4	4.0	6.4	6.9	8.5	3.7
Adjusted bank credit proxy	10.1	20.4	6.6	4.2	--	4.9	7.6
Time and savings deposits							
At commercial banks:							
a. Total	15.4	21.3	9.2	12.7	13.8	7.6	16.2
b. Other than large CD's	9.8	8.6	7.3	9.0	12.3	11.8	2.9
At savings and loans 1/	6.9	5.2	3.3	8.8	6.4	8.7	11.2
At mutual savings banks 1/	3.3	1.8	0.4	6.0	3.2	6.6	8.2
Combined 1/	5.8	4.2	2.5	8.0	5.5	8.1	10.3
	Billions of dollars 2/						
Memoranda:							
a. U.S. Government demand deposits	-.2	.7	.3	-1.5	-2.6	.9	-2.8
b. Negotiable CD's	2.2	4.4	1.2	1.8	1.4	-.7	4.8
c. Nondeposit sources of funds	.2	.3	.1	-.1	-.7	-.3	.8

1/ Based on month-end series.
2/ Change in average levels month-to-month or average monthly change for the quarter or year, measured from last month in quarter or year to last month in quarter or year not annualized.
p- Preliminary.

The pickup in growth of deposits at thrift institutions and in savings deposits at commercial banks was consistent with the general decline in short-term interest rates of the past few months, while the response of time deposits other than large CD's at commercial banks to the rate declines was unusual. Staff investigation, including discussion with commercial banks, has failed to uncover reasons for the weakness in this latter deposit category. Whatever the reason, the slow expansion of both demand deposits and bank time deposits other than large CD's held the December growth for M_2 and M_3 to annual rates of about 3 and 5 per cent, respectively, and reduced their growth for the year to 7.3 per cent and 6.7 per cent, respectively.

Banks responded to the slow December growth of demand deposits and consumer-type time deposits by issuing CD's aggressively and expanding their borrowing of Euro-dollars. This was apparently intended to help dress up year-end balance sheets at a time when appearances took on added importance in view of current economic and financial conditions. Major banks used these funds in part to reduce their net Federal funds purchases appreciably, and those outside New York City also built up their Treasury bill portfolios. In addition, member banks reduced their borrowing from Federal Reserve banks to the lowest level in two years.

Enlarged deposit inflows to nonbank thrift institutions have continued to be used to restructure balance sheets. Holdings of liquid assets have been expanded substantially and bank loans reduced. Regular advances from Federal Home Loan banks were reduced again in December, but total advances increased on balance, as S&L's again borrowed funds under the subsidized loan program. Although the commitment phase of this program was completed at year end, about $300 million of outstanding commitments remain to be taken down.

Credit developments. Business and consumer credit demands appear to have weakened significantly further in December. At commercial banks, total loans declined sharply on an end-of-month basis, reflecting reductions in loans to consumers, financial institutions, and, in particular, business firms. Bank investment holdings also declined somewhat, so that total bank credit contracted sharply. This reduction followed modest growth over the two preceding months, and as a result, bank credit declined in the fourth quarter for the first time since the third quarter of 1969.

The drop in business loans at banks was part of a general contraction in short-term credit demands, as businesses also sharply reduced borrowing in the commercial paper market at year end, when investors reduced their holdings for window dressing purposes. Short-term borrowing weakened progressively over the fourth

COMMERCIAL BANK CREDIT 1/
(Seasonally adjusted changes at annual percentage rates)

	1974						
	Year	QII	QIII	QIV	Oct.	Nov.	Dec.
Total loans and investments 2/	8.0	12.0	5.6	-3.8	--	4.2	-15.6
U.S. Treasury securities	-7.6	--	-29.8	-28.4	-57.5	-9.7	-19.5
Other securities	6.7	10.8	--	6.8	11.4	7.8	.9
Total loans 2/	10.3	13.8	11.2	-4.1	2.9	4.5	-19.7
Business loans 2/	16.0	22.9	14.0	- .2	11.1	5.8	-17.4
Real estate loans	9.8	14.2	6.0	4.7	2.8	4.7	6.5
Consumer loans	3.6	4.4	7.2	-2.8	1.4	-4.3	-5.7
MEMO:							
Business loans plus non-financial commercial paper	17.9	24.9	18.1	1.8	15.9	9.7	-19.8

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

COMMERCIAL PAPER
(Seasonally adjusted, billions of dollars)

	Net change, 1974							Amount outstanding
	Year	QII	QIII	QIV	Oct.	Nov.	Dec.	12/31/74
Total commercial paper outstanding	8.3	.3	5.0	.4	.9	.4	-.9	50.3
Bank-related	3.4	.9	1.6	-.3	-.2	.2	-.3	8.3
Nonbank-related	4.9	-.6	3.4	.7	1.1	.2	-.5	42.0
Financial	.3	-1.9	1.0	-.3	.2	-.5	.1	28.6
Nonfinancial	4.6	1.3	2.4	1.0	.9	.7	-.6	13.4

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.

quarter of 1974, reflecting not only the further decline in economic activity, but also continued substitution of long-term for short-term credit.

The decline in business loans at banks in December was concentrated at institutions outside New York City; business loans at New York City banks increased sharply over the month. This divergence probably was attributable in part to the lower prime rate posted by several leading banks in the city.[1/] But, there also were reports that major regional banks were enforcing highly restrictive lending policies and suggesting to some of their national customers that it would be desirable for them to borrow elsewhere. Finally, business loans in New York City may have gained some strength because customers of these banks switched their borrowing from the commercial paper market.

Total consumer instalment credit outstanding declined at a record $4.8 billion seasonally adjusted annual rate in November, and, as noted above, consumer loans at banks declined further in December. These declines reflect a sharp cutback in credit extensions for all types of new consumer borrowing except for open-end instalment accounts. The drop in new loan extensions since mid-summer has been most prominent for automobiles and personal loans, but mobile home financing also has declined noticeably. The fall in consumer loans is associated mainly

1/ While First National City Bank was the only bank with a 10 per cent prime rate, several other large New York banks had posted prime rates of 10-1/4 per cent, which were generally a quarter of a point under the rates charged by banks in other sections of the country.

with the marked weakening in consumer demands for goods and services purchased with credit. However, financial institutions are reported to be responding to the progressive slowdown in economic activity and rise in unemployment by imposing significantly tighter lending standards and curbing promotional activity. Moreover, some finance companies have indicated that they will no longer acquire mobile home paper.

With the continued strengthening of fund flows into nonbank thrift institutions, the tone of the mortgage market has gradually improved this winter, and mortgage interest rates have edged down further. Net mortgage debt formation, however, is estimated to have moderated significantly again in the fourth quarter. Field reports indicate that thrift institutions recently have begun to bid more actively for permanent mortgages; also, with new borrower applications for mortgage credit being limited by the weak economy, thrift institutions are reported to have increased their purchases of GNMA-guaranteed mortgage-backed securities. But a significant pickup in commitment activity is not yet evident.

CONSUMER INSTALMENT CREDIT

	Credit volume (SAAR, $ billions)		New-car finance rate (Finance companies, end of period, APR)
	Outstandings, Net change	Extensions	
1972	16.0	143.0	11.92
1973	20.1	165.1	12.42
1974 - I	8.8	164.3	12.34
II	14.0	172.9	12.50
III	14.1	172.5	12.84
Oct.	4.8	163.5	12.97
Nov.	-4.8	151.3	13.06

CONVERNTIONAL 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)	Federal Home Loan Bank districts with funds in short supply
1974--High		10.03 (9/27)	--	94 (11/15)	12 (May, July-Oct.)
Low		8.40 (3/15, 3/22)	--	-106 (7/12)	0 (Feb. -Mar.)
Dec.	6	9.69	-3	19	12
	13	9.63	-6	4	10
	20	9.58	-5	7	9
	27	9.56	-2	n.a.	9
1975--Jan.	3	9.56	0	n.a.	9
	10	9.49	-7	4	5

1/ Average mortgage return, before deducting servicing costs, minus average yield on new issues of Aaa utility bonds paying interest semi-annually and with 5-year call protection

FNMA AUCTION RESULTS
HOME MORTGAGE COMMITMENTS

Date of auction	Government-underwritten Amount (In $ millions) Offered	Accepted	Average yield	Conventional Amount (In $ millions) Offered	Accepted	Average yield
1974--High	1,155 (3/25)	333 (3/25)	10.59 (9/9)	164 (4/18)	63 (4/8)	10.71 (9/9)
Low	26 (11/18)	18 (11/18)	8.43 (2/25)	14 (10/21)	7 (11/18)	8.47 (3/11)
Oct. 7	46.6	29.7	10.32	26.1	23.3	10.46
21	34.5	26.0	10.11	14.1	12.2	10.27
Nov. 4	47.8	24.7	9.93	20.4	12.1	10.11
18	25.7	17.6	9.81	20.6	6.8	9.92
Dec. 2	52.5	23.3	9.61	24.0	12.0	9.80
16	49.6	43.3	9.52	20.1	18.5	9.72
30	35.7	31.8	9.47	17.2	10.1	9.59
Jan. 13	25.3	21.2	9.37	17.9	14.9	9.50

NOTE: Average secondary market yields are gross before deduction of the fee of 38 basis points paid for mortgage servicing. They reflect the average accepted bid yield for home mortgages assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA commitment fees and FNMA stock purchase and holding requirements on 4-month commitments. Mortgage amounts offered by bidders relate to total bids received.

INTERNATIONAL DEVELOPMENTS

CONFIDENTIAL (FR)

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1/15/75

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

	1973r/	1974p/			
	YEAR	1Q	2Q	3Q	NOV.*
Goods and services, net 1/	4,327	2,897	-184	-339	
Trade balance 2/	471	-74	-1,631	-2,557	-245
Exports 2/	70,277	22,299	24,089	24,634	9,018
Imports 2/	-69,806	-22,373	-25,720	-27,191	-9,263
Service balance	3,856	2,971	1,447	2,218	
Remittances and pensions	-1,943	-390	-467	-468	
Govt. grants & capital, net	-3,471	-1,218	-855	-776	
U.S. private capital (- = outflow)	-14,167	-8,606	-10,016	-3,662	
Direct investments abroad	-4,872	-627	-1,527	-1,971	
Foreign securities	-807	-646	-313	-300	
Bank-reported claims -- liquid	-1,103	-2,232	-1,236	-320	32
" " " other	-4,839	-2,979	-6,233	-1,535	-1,602
Nonbank-reported claims -- liquid	-841	-372	95	610	
" " " other	-1,704	-1,750	-802	-146	
Foreign capital (excl. reserve trans.)	12,254	7,241	5,311	4,134	
Direct investments in U.S.	2,537	1,281	1,677	-50	
U.S. corporate stocks	2,758	376	12	84	-71
New U.S. direct investment issues	1,223	24	67	13	
Other U.S. securities (excl. U.S. Treas.)	69	287	340	73	
Liquid liabilities to:	4,246	4,699	2,838	3,848	1,561
Commercial banks abroad	2,982	4,644	1,944	2,748	1,210
Of which liabl. to branches 3/	(309)	(3,379)	(-982)	(-442)	(2,149)
Other private foreign	887	640	602	879	270
Intl. & regional organizations	377	-585	292	221	81
Other nonliquid liabilities	1,420	574	377	167	
Liab. to foreign official reserve agencies	5,095	-832	4,883	1,331	1,132
U.S. monetary reserves (increase, -)	209	-210	-358	-1,003	91
Gold stock	--	--	--	--	--
Special drawing rights	9	--	-29	-123	--
IMF gold tranche	-33	-209	-244	-728	-59
Convertible currencies	233	-1	-85	-152	150
Errors and omissions	-2,303	1,118	1,686	783	
BALANCE (deficit -)					
Official settlements, S.A.		1,042	-4,525	-328	
" " , N.S.A.	-5,304	1,495	-4,105	-1,584	-1,223
Net liquidity, S.A.		-1,053	-6,222	-4,466	
" " , N.S.A.	-7,606	-223	-6,607	-5,743	
Liquidity, S.A. 4/		-3,657	-7,363	-4,176	
" , N.S.A.	-9,550	-2,969	-7,797	-5,412	-2,784
Basic balance, S.A.		1,795	-2,479	-3,581	
" " , N.S.A.	-1,026	2,192	-2,435	-5,994	

* 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/ 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

Foreign exchange markets. From mid-December to year-end, exchange market trading was quite light and fairly sizeable daily fluctuations occurred largely because commercial banks were unwilling to take new positions before January 1. Since the beginning of 1975, exchange market activity has returned to more normal levels, with fluctuations diminished.

During the past 5 weeks, the weighted average value of the dollar declined about 2 per cent, with the decline occurring fairly steadily throughout the period. By the end of the first week in January, the effective depreciation of the dollar since May 1970 was 19 per cent. This exchange value was lower than any registered during 1974 and was the largest since October of 1973. The easing in U.S. money market rates and the recent cut in the U.S. discount rate were major factors in the easing of the dollar. The asymmetry of central bank intervention may have also contributed to the dollar's decline, as the December-January sales of dollars by countries whose currencies tended to weaken against the dollar exceeded by more than $3/4 billion the purchases of dollars by Germany, Switzerland, and France, whose currencies have tended to appreciate. Net System intervention during December-January has amounted to sales of approximately $45 million equivalend of DM and Swiss francs.

From the middle of December through the beginning of 1975, the Swiss franc showed the greatest strength in exchange markets, appreciating nearly 3-1/2 per cent on a weighted average basis. The strong demand for Swiss francs in December came from Swiss banks, which traditionally reduce

their foreign currency assets at year-end because of seasonal currency demand and for window dressing purposes. With the passing of year-end, the Swiss franc has declined slightly, with a strong push from the BNS, which purchased dollars (sold Swiss francs) in the exchange markets for the first time in two years, and which also imposed additional controls on Swiss banks' forward foreign exchange contracts. On January 8, the BNS announced that Swiss banks must reduce the volume of their forward contracts to sell Swiss francs to non-residents with a maturity of 10 days or less, to less than 50 per cent of the amount they had outstanding on October 31, 1974. Since Swiss banks only report at month-end on their foreign exchange positions, banks may have been able to circumvent earlier constraints on forward sales, by using contracts with very short maturities.

From mid-December until December 31, the date on which U.S. citizens could once again legally own gold, the price of gold in London rose from roughly $180 to more than $197, as dealers acquired stocks in anticipation of U.S. demand. The volume of U.S. purchases, however, proved to be much less than anticipated and the price of gold fell to the low $170's in the first week of January. Trading in gold remained light as market participants awaited the results of the Treasury's auction of 2 million ounces of gold on January 6. In that auction, there were bids for less than 1 million of the ounces offered. The Treasury decided to sell 750,000 of the ounces for which there were bids, resulting in a cut-off price of $153. The average price of the gold sold was approximately $165, with the largest purchaser being a German bank, which bought over 400,000 ounces. Since the auction, the gold price has generally fluctuated between $175 and $180.

Euro-dollar market. After showing little change or even rising in the last three weeks of December, Euro-dollar deposit rates have come down sharply since the beginning of 1975 in response to declining market rates in the United States. The 3-month rate of 8.56 per cent on January 15 was down 165 basis points from the average for the week of December 11. The drop was slightly more than the decline in U.S. 60-89 day CD rates, but the Euro-dollar rate remained more than a percentage point above the CD rate. The overnight Euro-dollar rate fluctuated around 7 per cent on January 13-15 compared with 8.14 per cent in the week of December 11. This was a somewhat smaller decline than the fall of about 160 basis points in the Federal funds rate. The cost of overnight Euro-dollars to U.S. banks (adjusted for reserve requirements) exceeded the cost of Federal funds by about 50 basis points on January 13-14.

U.S. banks' gross liabilities to their foreign branches rose from $2.8 billion in the week of December 4 to $4.2 billion in the week of December 18, then decreased to $3.6 billion in the week of January 8.

The cost to nonbank borrowers of short-term Euro-dollar loans has fallen by about the same amount as commercial paper rates in the United States in the past five weeks. But with the prime rate set by the majority of U.S. banks falling only 1/4 per cent, the cost of the Euro-dollar loan relative to short-term bank credit in the United States declined about 1-1/2 per cent between December 6 and January 14.

In the London Euro-currency market, expansion of deposits resumed in the fourth quarter but at a slow pace. External liabilities of U.K. banks in dollars and other foreign currencies, which had fallen from

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

Average for month or week ending Wednesday	(1) Over-night Euro-$	(2) Federal Funds	(3) Differ-ential (1)-(2)(*)	(4) 3-month Euro-$ Deposit	(5) 60-89 day CD rate	(6) Differ-ential (4)-(5)(*)
1974-Sept.	11.07	11.34	-0.72 (0.69)	12.41	11.17	1.18 (1.35)
Oct.	9.77	10.06	-0.27 (0.56)	10.95	9.40	1.45 (1.68)
Nov.	9.22	9.45	-0.23 (0.57)	10.08	8.88	1.20 (1.31)
Dec.	8.48	8.53	-0.05 (0.69)	10.28	8.96	1.32 (1.64)
1974-Dec. 4	9.34	9.02	0.32 (1.13)	10.81	9.15	1.66 (2.02)
11	8.14	8.87	-0.73 (-0.02)	10.21	8.88	1.33 (1.65)
18	8.39	8.72	-0.33 (0.40)	10.21	8.89	1.32 (1.64)
25	8.14	8.45	-0.31 (0.40)	9.97	8.94	1.03 (1.33)
1975-Jan. 1	8.40	7.35	1.05 (1.78)	10.23	9.00	1.23 (1.55)
8	8.07	7.70	0.37 (1.07)	9.72	7.88	1.84 (2.19)
15p/	7.24	7.25	-0.01 (0.62)	8.66	7.53	1.13 (1.40)

*/ Differentials in parentheses are adjusted for the cost of required reserves.
p/ Preliminary.

SELECTED EURO-DOLLAR AND U.S. COSTS FOR PRIME BORROWERS
(1974 and 1975; Friday dates)

	Dec. 6	Dec. 20	Jan. 10	Jan. 14d/
1) 3-mo. Euro-$ loana/	11.50	11.00	9.81	9.69
2) 90-119 day com'l. paperb/	9.25	9.38	7.75	7.88
3) U.S. bank loan:				
a) predominant prime rate	10.50	10.50	10.25	10.25
b) with 15% comp. bal's.c/	12.35	12.35	12.06	12.06
c) with 20% comp. bal's.c/	13.13	13.13	12.81	12.81
Differentials:				
(1) - (2)	2.25	1.62	2.06	1.81
(1) - (3a)	1.00	0.50	-0.44	-0.56
(1) - (3b)	-0.85	-1.35	-2.25	-2.37
(1) - (3c)	-1.63	-2.13	-3.00	-3.12

a/ 1-1/8 per cent over deposit bid rate.
b/ offer rate plus 1/8 per cent.
c/ prime rate adjusted for compensating balances.
d/ Tuesday.

$107.9 billion at the end of April to $106.2 billion at the end of September, moved up to $108.5 billion at the end of November, according to pre-publication figures furnished on a confidential basis by the Bank of England. Euro-currency deposits of oil-exporting countries in London continued to rise much more rapidly than total Euro-currency deposits there, advancing from $15.0 billion at end-September to $16.8 billion at end-November. But this was considerably slower than the average rise of $1.3 billion per month in the second and third quarters.

The BIS estimates that Euro-currency deposits of oil-exporting countries with banks in eight European countries rose $16-17 billion in the first nine months of 1974. Since U.K. statistics show a $10.4 billion rise in London, Continental centers appear to have received about $6 billion of OPEC deposits in that period. For the full year 1974 the U.S. Treasury provisionally estimates that the OPEC countries increased their Euro-currency deposits (in all centers) by $21 billion, an amount equal to about one-third of those countries' $60 billion estimated surplus on goods and services last year.

U.S. International Capital Transactions. Preliminary data for December indicate that foreign official holdings of U.S. assets may have increased by $1.4 billion. Data on the country composition of this increase are not available except for foreign official holdings at the Federal Reserve Bank of New York. At that bank total official holdings declined by about $1 billion, and the holdings of oil-exporting countries declined by about $200 million. after having increased by about $1 billion per month over the preceding five months. These estimates imply a substantial increase in foreign official holdings at commercial banks, and probably largely by the oil-exporting countries.

Bank-reported private capital transactions in November (the latest month for which data are available) showed on a net basis a negligible outflow following four months of irregular net inflows; a $1.6 billion increase in bank lending to foreigners was offset by an equal increase in borrowing abroad by banks. U.S. agencies and branches of foreign banks recorded most of the increase in bank lending abroad. Because of the volatile nature of the series, especially for agencies and branches, the November increase in bank claims on foreigners should not necessarily be interpreted as evidence of a renewal of substantial bank lending abroad. November did see, however, a return of Japan as a borrower after several months of Japanese repayments of earlier loans. Substantial increase in claims on France and the United Kingdom were also recorded. U.S. agencies and branches of foreign banks reduced their

foreign liabilities by $2.3 billion, thus generating a net outflow for these institutions of $3.6 billion. Other U.S. banks meanwhile increased their liabilities by $3.9 billion in November with over $2 billion of that increase representing a increase in liabilities to their foreign branches. Liabilities to U.S. foreign branches had been reduced by $4.5 billion in September and October combined. The combined net flow for the entire banking system, which better indicates the effect of external transactions than the individual components, showed little net change for the month.

CHANGES IN BANK-REPORTED CLAIMS ON AND LIABILITIES TO PRIVATE FOREIGNERS*
(Billions of dollars, not seasonally adjusted)

	July	Aug.	Sept.	Oct.	Nov.p
Claims (increase -)	-1.3	-1.5	1.3	-0.1	-1.6
U.S. Banks	-1.9	0.7	-0.2	-1.0	-0.3
Agencies and Branches	0.6	-2.2	1.5	0.9	-1.3
Liabilities (increase +)	1.9	3.2	-1.3	0.4	1.5
U.S. Banks	0.5	3.2	-1.9	-1.4	3.9
Agencies and Branches	1.4	--	0.6	1.8	-2.3
Net Claims (increase -)	0.6	1.7	--	0.3	--
U.S. Banks	-1.4	3.9	-2.1	-2.4	3.6
Agencies and Branches	2.0	-2.2	2.1	2.7	-3.6

* The breakdown between U.S. Banks and U.S. Agencies and Branches of Foreign Branches is partially estimated using VFCR data. Agency liabilities may include some official accounts.

p=Preliminary.

In November, private transactions in securities resulted in a net outflow of about $200 million, down from $300 million in October. Foreigners were net sellers of U.S. stocks for the second consecutive month. U.S. net purchases of foreign securities were small in November. U.S. residents were net sellers of foreign (particularly Japanese) stocks and purchased $75 million of foreign bonds. It is reported that U.S. private purchases of foreign bonds were over $300 million in December, including a $98 million issue by the European Coal and Steel Community. Such purchases are projected to amount to perhaps $800 million in January as the result of two issues by the World Bank totaling $500 million and several Canadian bond issues.

U.S. merchandise trade. The U.S. trade deficit in November was $3 billion (at a seasonally-adjusted annual rate (balance of payments basis), almost unchanged from the $3 billion October deficit but down substantially from the $10.2 billion deficit of the third quarter. The reduction in the October-November deficit resulted primarily from a $5.5 billion increase in non-agricultural exports, while agricultural exports rose by $1.3 billion. Total imports declined by $.5 billion, with a $1.8 billion decrease in fuel imports more than offsetting a $1.3 billion increase in non-fuel imports. The October-November trade balance excluding fuel imports and agricultural exports showed a surplus of $3.6 billion, following five consecutive quarters of declining deficits.

Slightly more than half of the increase in the October-November value of non-agricultural exports reflected an increase in export unit values, but the 4.2 percent increase in unit values in October-November was less than the increases of the second and third quarters of 1974. Exports of capital goods accounted for the bulk of the increase in non-agricultural exports. The increase in export sales and new orders for most capital goods categories probably reflects both increased export supply, as U.S. domestic demand has slackened, and some increase in foreign demand. Coal exports increased in October-November over the third quarter of 1974 at a $1.4 billion annual rate; the increase was equally attributable to increases in unit values and volume. Coal shipments reflect some purchases in anticipation of the coal strike, and the final estimates of fourth quarter coal shipments will probably be lower.

The value of October-November agricultural exports increased as a 9.5 percent rise in unit values more than offset a decline in seasonally-adjusted volume. The unit value index for agricultural exports has been increasing without interruption since June, for a total increase of 16 percent between June and November.

U.S. exports to Europe, Canada, Japan, and Latin America increased fairly uniformly in October-November compared to the third quarter. The increase in U.S. exports of capital machinery was also uniform over major regions. Exports to the oil-exporting countries

(excluding Canada) continued to rise sharply, with exports in October-November about double their 1973 levels.

The six percent decline in the value of fuel imports in October-November from the level of the third quarter of 1974 was attributable to a 4.7 percent decline in the real volume of imports and a smaller decline in unit values. This decline in imports occurred at the same time that U.S. domestic production fell by 1.8 percent. However, it will require a longer period of observation to determine whether this decline in imports is a further lagged response of consumption to high oil prices, or due instead to declining economic activity in the United States.

The increase in the value of non-fuel imports in October-November over the third quarter largely reflected an increase in iron and steel imports, about evenly divided between increases in unit values and volumes. The increase in such imports in November alone reflected higher increases in the volume and, to a lesser degree, the prices of imports of sugar, cocoa, and coffee.

Monetary Conditions in Major Foreign Industrial Countries.

Monetary conditions in the last few months reflect the effects of the anti-inflationary monetary policy begun in 1972 or 1973, and widespread declines in economic activity, and recent reversals of policy in some countries. Last autumn, short-term interest rates began a general decline from exceptionally high levels. (See Table.) This decline has continued in most of the major industrial countries -- Germany, Canada, France, and after reversals at the end of the year, in the United Kingdom and Italy. But in Japan rates have recently risen slightly.

There are several reasons for these diverse interest rates movements. First, the monetary authorities in some countries, for example, Germany and Canada, have moved toward a policy of ease in order to counter weakening economic activity. Elsewhere, as in Japan and Italy, the authorities are still primarily concerned with balance-of-payments deficits or inflation. Second, the weakness in economic activity, by reducing the growth of the demand for credit has reduced pressure on interest rates. In France and the United Kingdom this weakness in activity has reduced the demand for credit below permissible ceilings. However, because of the high rate of inflation, credit demand in nominal terms has risen strongly enough in Italy and Japan to be effectively constrained by credit ceilings, despite the decline in real activity.

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

	Short-term Rates						Long-term Rates					
	1973	1974					1973	1974				
	Dec.	June	Sept.	Dec.	Latest	(date)	Dec.	June	Sept.	Dec.	Latest	(date)
U.K.	16.19	13.00	12.00	13.12	12.38	(1/10)	12.21	15.41	15.07	17.44	16.79	(1/10)
Germany	13.00	9.60	9.70	8.30	7.60	(1/13)	9.51	9.87	9.82	9.43	9.26	(1/8)
France	11.88	14.50	13.38	11.88	11.75	(1/14)	9.46	10.87	11.05	10.92	10.93	(1/3)
Italy	8.50	20.00	17.75	17.25	15.75	(1/13)	7.38	9.78	10.44	--	--	Sept.
Belgium	7.95	11.50	12.00	11.00	11.00	(1/8)	7.92	8.86	9.12	9.03	--	end Dec.
Netherlands	6.41	7.00	7.38	6.69	6.69	(1/3)	8.39	9.62	9.48	8.72	8.95	(1/3)
Switzerland	5.50	6.50	7.00	7.00	7.00	(1/14)	6.30	7.24	7.41	7.14	--	(12/13)
Japan	12.00	12.63	13.00	13.50	--	(12/27)	9.61	9.96	10.53	--	10.88	end Nov.
Canada	9.50	11.00	11.38	10.50	8.50	(1/13)	7.72	9.46	9.67	8.77	8.64	(1/3)
U.S.	7.36	7.38	6.44	7.57	6.66	(1/13)	6.87	7.62	7.94	7.37	7.32	(1/10)

Notes:
Short-term rates: U.K. - 90-day local authority deposits; Germany - 3-month interbank loan rate; France - call money rate against private paper; Italy - 3-month interbank rate; Belgium - rate on 4-month Treasury bills; Netherlands - 3-month Treasury bill rate at mid-month; Switzerland - 3-month deposit rate; Japan - call money rate, unconditional; Canada - Canadian finance company paper; U.S. - U.S. Treasury bill.
Long-term rates: U.K. - 3-1/2% war loan; Germany - 6% public authority bond yield; France - public sector bonds; Italy - composite yield on all bonds except Treasury bonds (monthly average); Belgium - long-term government bonds, composite yield; Netherlands - average of three 4-1/4 - 4-1/2% government loans; Switzerland - Swiss government composite yield; Japan - 7-year industrial bonds; Canada - Government long-term average yield; U.S. - Government 10-year constant maturity bond yield.

Long-term rates have either declined by less than short rates or remained flat; in some countries long rates have risen in the last few months, with the British rates recently reaching historic highs before receding in January. Equity prices in all the major industrial countries fell in 1974 with the sharpest drop in the United Kingdom and the smallest in Germany. The fall in equity prices, while clearly a reflection of widespread business pessimism, was also due to the movement by investors out of equities into competing fixed-interest assets.

Changes in interest rate structures can cause divergent movements in the growth of M_1 and M_2, making it difficult to characterize the overall movement of the aggregates. But it appears that the general policy of restricted growth in the aggregates begun in 1972 or 1973 continued generally through 1974.

In the last few months discount rate reductions have taken place in a number of countries -- Germany, Canada, France, Italy, the Netherlands, and Denmark. For most countries these changes did not signify a liberalization of policy; rather they tended to follow changes in market conditions or were intended to change the psychological climate.

Several countries have recently moved away from the restrictive monetary policies which were designed to combat the extremely high rates of inflation. The most active steps towards

easing have occurred in Germany. The reversal of policy began in the early summer after the June 26 Herstatt failure and has intensified since late October. The German authorities have a freer hand to ease policy because of Germany's relatively low rate of inflation and its strong balance-of-payments position.

In early July, in the wake of Herstatt, the standard Lombard facility of central bank advances was re-introduced after a year's suspension. In early September minimum reserve requirements were cut by 10 per cent and by a further 8 per cent in early October. In addition, the deposit requirement on German non-bank borrowing abroad (Bardepot) was dropped in mid-September.

As part of their overall policy to stimulate a declining economy, the authorities are engaging in a significant monetary easing. Since late October the Bundesbank has twice reduced discount and Lombard rates (the first cut in the discount rate since February 1972), producing a total reduction for each rate of 1 percentage point. The discount and Lombard rates are now 6.0 and 8.0 per cent respectively. In an important announcement in early December the Bundesbank set an 8 per cent target growth rate for "central bank money"(defined as currency in circulation plus minimum required reserves on domestic liabilities adjusted for changes in required reserve ratios)during 1975 which is intended to allow "monetary scope" for the desired increase in real output while curbing inflationary expectations.

The rate of growth of M_1 has recently accelerated and in the 6 months ending in November rose 12.6 per cent (seasonally adjusted, annual rate). But the quasi-money component of M_2 has fallen because of the decline in interest rates and M_2 has not shown a clear growth pattern.

The effect of the policy changes (as well as the weakness of activity) has been a significant decline in short and long-term interest rates. Also the decline in the stock market has reversed itself since early October and stock prices have recovered by about 10 per cent.

In Canada, monetary policy had been tightened from early 1973 to the summer of 1974. As part of the policy response to the weakness in economic activity, and following the decline in market interest rates in both Canada and the United States, the Bank of Canada twice reduced bank rate by one-half a percentage point, in November 1974 and January 1975. Following these actions, the chartered banks announced reductions in lending and deposit rates. Canadian interest rates have declined significantly since last summer, and in the last month the short rate fell by 2 percentage points.

Monetary policy in the United Kingdom appears to be one of moderate easing. Short-term interest rates have declined sharply from the very high levels of last spring, although the authorities are constrained by the need to continue to encourage capital inflows

and are reluctant to allow the short-term rate to decline much further. Long-term rates had been generally climbing since the beginning of 1972, and the rate on government bonds (the gilt-edge rate), which earlier this month was close to 18 per cent, is now 16.8 per cent. The very high level of the long-term rate, and the fact that it is much higher than the short rate (12.4 per cent on January 10), seems to be explained by fears of continuing and accelerating inflation. The steady slide of stock prices (the Financial Times industrials index declined 53 per cent in 1974) mirrors the depressed state of the gilt-edge market and of business confidence.

The growth of money supply was relatively slow in 1974 compared to 1973. This is probably due to the weak state of the economy rather than a restrictive policy: the banking system has excess reserves and is well within the ceilings on the growth of deposit liabilities.

The slow growth of the money supply also reflects considerable non-bank purchases of gilt-edge securities in the past year. However, with a heavy public sector borrowing requirement in the year ahead, the Bank of England may now purchase government securities because of concern with the liquidity of the private corporate sector whose bonds have tended to be crowded out by previous government borrowing.

In France the authorities have slightly eased a restrictive monetary policy and the current stance might be characterized as accomodating. French policy has been primarily implemented through

the use of credit ceilings. The weakening in economic activity has reduced the demand for credit below the permissible ceilings; this is in contrast to last spring when the credit ceilings were widely violated. The fall in interest rates that began last autumn is continuing, also indicating the effect of the decline in economic activity on the demand for credit. The authorities have recently cut the discount rate from 13 per cent to 12 per cent. Some other recent steps are intended to direct credit into certain sectors -- e.g. automobiles and construction -- but are not a general loosening of policy.

In Italy the authorities continue to follow a restrictive policy, although the recent reduction in basic discount rate from 9 per cent to 8 per cent and liberalization of credit ceilings for certain customers perhaps means that a slight easing has taken place. But these steps seem more designed to channel credit towards certain uses -- housing, public works and exports -- rather than a general liberalization. The recent sharp fall in short-term interest rates may be a reflection of these steps, but is probably also a response to the strong current downturn in economic activity. Any overall monetary liberalization is limited by the global credit ceiling contained in the Letter of Intent to the IMF in connection with the stand-by credit.

In Japan the restrictive policy begun in 1973 has continued through 1974 and the growth of M_1, M_2 and commercial bank credit has continued to decelerate through 1974. Despite the weakness of economic activity, the demand for credit has matched the quarterly credit

ceilings imposed by the Bank of Japan. There recently has been a slight liberalization of the quarterly credit ceilings, but the authorities appear determined to keep policy tight until the size of the 1975 spring wage boosts is known and inflation is under control.