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CONFIDENTIAL (FR)

January 14, 1976

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff

Board of Governors

of the Federal Reserve Board

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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	Dec.	1-9-76	93.3	3.9	.4	1.6
Unemployment rate (per cent)	Dec.	1-9-76	8.3	8.3 1/	8.3 1/	7.2 1/
Insured unemployment rate (%)	Dec.	1-9-76	4.9	5.5 1/	5.8 1/	4.8 1/
Nonfarm employment, payroll (mil.)	Dec.	1-9-76	77.8	3.7	2.5	.1
Manufacturing	Dec.	1-9-76	18.6	5.2	2.9	-3.3
Nonmanufacturing	Dec.	1-9-76	59.2	3.2	2.4	1.2
Private nonfarm:						
Average weekly hours (hours)	Dec.	1-9-76	36.5	36.3 1/	36.1 1/	36.3 1/
Hourly earnings ($)	Dec.	1-9-76	4.67	3.67 1/	4.64 1/	4.38 1/
Manufacturing:						
Average weekly hours (hours)	Dec.	1-9-76	40.3	39.9 1/	39.8 1/	39.4 1/
Unit labor cost (1967 = 100)	Nov.	12-29-75	149.3	5.7	1.6	8.2
Industrial production (1967 = 100)	Nov.	12-16-75	116.8	2.1	9.1	-4.0
Consumer goods	Nov.	12-16-75	127.4	1.9	5.4	.9
Business equipment	Nov.	12-16-75	115.7	2.1	2.8	-11.7
Defense & space equipment	Nov.	12-16-75	80.6	-10.3	-3.9	-3.7
Materials	Nov.	12-16-75	116.4	2.1	17.6	-4.7
Consumer prices (1967 = 100)	Nov.	12-19-75	165.6	8.2	7.3	7.3
Food	Nov.	12-19-75	180.9	6.7	7.9	7.2
Commodities except food	Nov.	12-19-75	152.1	3.2	3.7	6.4
Services 2/	Nov.	12-19-75	172.0	13.4	11.0	8.4
Wholesale prices (1967 = 100)	Dec.	1-9-76	179.7	-5.0	5.4	4.2
Industrial commodities	Dec.	1-9-76	177.3	7.2	9.8	6.0
Farm products & foods & feeds	Dec.	1-9-76	186.7	-30.1	-8.2	-.3
Personal income ($ billion) 3/	Nov.	12-17-75	1290.1	10.2	10.9	8.9
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Nov.	12-31-75	41.3	-2.6	-3.3	-3.3
Capital goods industries	Nov.	12-31-75	12.1	1.6	-2.9	-6.9
Nondefense	Nov.	12-31-75	10.6	-1.3	1.5	-.7
Defense	Nov.	12-31-75	1.5	27.8	-25.4	-35.0
Inventories to sales ratio:						
Manufacturing and trade, total	Oct.	1-9-76	1.52	1.53 1/	1.56 1/	1.54 1/
Manufacturing	Nov.	12-31-75	1.69	1.67 1/	1.72 1/	1.72 1/
Trade	Oct.	1-9-76	1.37	1.36 1/	1.35 1/	1.42 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Nov.	12-31-75	.845	.838 1/	.828 1/	.722 1/
Retail sales, total ($ bil.)	Dec.	1-9-76	52.1	3.5	5.1	15.5
GAF	Dec.	1-9-76	13.4	4.2	6.7	17.6
Auto sales, total (mil. units) 3/	Dec.	1-7-76	9.6	8.9	5.1	33.9
Domestic models	Dec.	1-7-76	8.2	7.8	10.8	35.8
Foreign models	Dec.	1-7-76	1.4	15.6	-19.6	23.3
Plant & equipment expen. ($ bil.) 4/						
All industries	1976	1-13-76	119.68	---	---	5.5
Manufacturing	1976	1-13-76	50.71	---	---	5.0
Nonmanufacturing	1976	1-13-76	68.98	---	---	5.8
Housing starts, private (thous.) 3/	Nov.	12-16-75	1375	-5.6	8.4	35.2
Leading indicators (1967 = 100)	Nov.	12-30-75	102.5	.4	-.1	5.6

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent data suggest a resumption of growth of economic activity following a short pause. Retail sales and industrial production recorded a sizable advance in December, following comparatively moderate advances in October and November. Increased activity in December was accompanied by strong employment gains and longer workweeks.

Indicators of investment spending continue disappointing; both new orders for capital equipment and building contracts for business structures declined in November and have yet to show signs of a sustained recovery. Moreover, the Commerce survey of business spending plans suggests a very slow expansion of spending--5-1/2 per cent in nominal terms for the year as a whole.

Wholesale prices were down slightly in December, owing to a further decline for raw and processed agricultural products. However, prices of industrial commodities continued to rise rapidly in December, despite low rates of capacity utilization and the moderate pace of recovery.

Industrial production is estimated to have risen by 1 per cent in December, about double the upward revised November increase of half a per cent. December gains were widespread and strong. Business equipment production, which had risen only moderately from the spring low through November, is estimated to have moved up nearly 1 per cent in December. Production of consumer goods also is estimated to have risen about as much as the overall index. Widespread advances in the materials and intermediate products groups again contributed heavily to the overall advance of output.

Auto assemblies edged up to a 7.8 million unit annual rate in December and, reflecting the brighter sales picture, producers have tentatively scheduled production at an 8 million unit annual rate for the first quarter.

Capacity utilization in major materials is estimated to have edged up to 81 per cent in December reflecting a rise for the durable goods component. Capacity utilization in manufacturing as a whole also is estimated to have risen in December but remains far below the 1973 high, reflecting the moderate recovery to date of durable goods production.

Nonfarm payroll employment, which had leveled off temporarily in November, rose by 240,000 in December. Expansion resumed in trade (76,000) and State and local government (43,000), after having hesitated noticeably in November. Manufacturing employment rose by about 60,000 (after allowance for changes in strikes) and the average workweek jumped by 0.4 hours. The reported increase in hours may overstate the actual rise, however, because of faulty seasonals.

Despite employment gains totaling about 1-1/2 million since mid year, payroll employment remains more than 1 million below the September 1974 peak. In December, employment in service-producing industries was up significantly from September 1974 but in construction and manufacturing, which are heavily staffed by adult men, the job count was down by 500,000 and 1.5 million, respectively, from September 1974.

Unemployment remained unchanged at 8.3 per cent in December. Jobless rates rose quite sharply for youths and women, the latter reflecting a large labor force increase. For adult men, however,

NONFARM PAYROLL EMPLOYMENT
(Change in thousands, seasonally adjusted)

	Sept. 74 to June 75	June 75 to Dec. 75	Oct. to Nov.	Nov. to Dec.
Nonfarm Total	-2487	1455	3	240
Government	+ 392	308	- 5	40
Private	-2879	1147	8	200
Construction	- 510	- 3	+ 1	-14
Manufacturing	-2004	451	-22	80
Trade	- 266	219	-23	76
Services	+ 104	380	+32	62

NOTE: September 1974 was the specific peak and June 1975 was the specific low for total nonfarm payroll employment.

THE HOURLY EARNINGS INDEX*
(Percent change compound annual rates based on seasonally adjusted data)

	QIV 74 to QI 75	1975 QI to QII	1975 QII to QIII	1975 QIII to QIV
Private nonfarm	8.6	7.5	8.6	7.7
Construction	6.3	8.1	6.6	2.6
Manufacturing	9.5	8.9	8.6	8.2
Trade	8.9	6.1	8.7	7.0
Services	8.7	4.8	7.3	9.7

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

SELECTED UNEMPLOYMENT RATES

(Seasonally Adjusted)

	1974	1975		
	Dec.	May	Nov.	Dec.
Total	7.2	9.2	8.3	8.3
Men 20 years and over	5.3	7.3	6.9	6.5
Women 20 years and over	7.2	8.6	7.8	8.0
Teenagers	18.1	21.8	18.6	19.9
Household heads	4.6	6.3	5.6	5.7
White	6.4	8.5	7.6	7.5
Negro and other races	12.5	14.7	13.8	13.7
State Insured*	4.8	7.0	5.5	4.9

* Per cent of covered workers.

net labor force withdrawals in December brough a drop in their unemployment rate. Total employment of men has shown little net change in recent months and participation of men in labor markets has continued to decline during the recovery.

The rate of wage change was about the same between the third and fourth quarters as earlier in the year. The hourly earnings index, which is very volatile from month-to-month, was unchanged in December, following large increases in October and November. On a quarterly average basis, the index was up at a 7.7 per cent annual rate in the final quarter, compared to annual rates of 7.5 and 8.6 per cent in the second and third quarters, respectively. Wages are expected to come under renewed upward pressure this spring as the collective bargaining calendar brings major renegotiations covering many more workers than during 1975.

Judging from the labor market data, total wage and salary disbursements probably increased strongly again in December. The rate of growth of total payrolls had fallen behind the increase in consumer prices from late 1973 to April 1975. During that period, real wages and salaries declined by 7.2 per cent from its peak level. Between April and November 1975, however, real payrolls recorded a net gain of 1.6 per cent. Although the recent gain was less vigorous than for earlier periods of recovery, it has laid a foundation for continued expansion of real consumer takings in the months ahead.

CYCLICAL CHANGES IN REAL WAGES AND SALARIES AND PERSONAL INCOME
(Per cent change based on seasonally adjusted data)

	Duration (months)	Wage & Salary Disbursements	Personal Income
Expansion-First 7 months			
Apr. 1975-Nov. 1975	7	1.6	2.8
Nov. 1970-June 1971	7	2.4	4.0
Dec. 1960-July 1961	7	3.7	4.2
Apr. 1958-Nov. 1958	7	6.2	4.5
June 1954-Jan. 1955	7	4.0	4.4
Contractions			
Nov. 1973-Apr. 1975	17	-7.2	-5.2
Oct. 1969-Nov. 1970	13	-2.0	.4
July 1960-Dec. 1960	5	-2.5	-1.3
Mar. 1957-Apr. 1958	13	-5.6	-1.8
July 1953-June 1954	11	-3.0	-1.3

NOTE: Per cent changes related to the entire time span and are not converted to annual rates. Changes are based on seasonally adjusted estimates which were deflated by the Consumer Price Index. Reference months are based on specific highs and lows for deflated wage and salary component.

Reflecting the growth of income, retail sales rose 3.5 per cent in December, the largest month-to-month increase since July 1973. Increased spending was particularly evident for the more discretionary goods. Sales of the automotive group were up more than 11 per cent and the GAF group--general merchandise, apparel, appliances and furniture--gained 4.2 per cent in December, following a 3.5 per cent rise in November.

Despite the strong December rise, the gain in retail sales in the final quarter was somewhat smaller than earlier in the year. Present data indicate a 2.3 per cent rise for the quarter (1.9 per cent excluding autos and nonconsumption items). Total sales were up 3.4 and 3.9 per cent respectively in the second and third quarters.

Total unit auto sales rose to a 9.6 million unit annual rate in December, 800,000 above the November sales pace and the highest rate for the year. Continuing the pattern of recent months, most of the improvement was due to stronger sales of domestic models, which rose up 600,000 units to an 8.2 million unit rate. Sales of imported cars, which in recent months have been adversely affected by inventory shortages, increased competition from U. S. made small cars, and recent very sharp price increases, rose to a 1.4 million unit rate. Except for November, however, this was the lowest sales rate since the final months of 1974.

Residential construction activity has held the good gains achieved since last spring. Private housing starts in November were at

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

	II	III	IV	Oct.	Nov.	Dec.
Total sales	3.4	3.9	2.3	1.2	.4	3.5
Durable	3.9	5.8	4.1	2.2	.1	5.9
Auto	4.6	7.4	4.0	3.7	-3.3	11.3
Furniture and appliances	4.9	2.3	6.3	1.2	5.3	1.8
Nondurable	3.1	3.0	1.5	.8	.5	2.4
Apparel	3.3	3.0	- .7	- .4	.8	.2
Food stores	1.2	2.8	1.7	2.7	.3	1.2
General merchandise	5.5	2.0	3.6	-1.8	3.8	5.9
Gasoline stations	2.7	6.6	-3.5	-1.7	-1.8	- 1.4
Total, less auto and non-consumption items	3.1	3.1	1.9	.9	1.0	2.2
GAF	5.0	2.3	3.3	-1.0	3.5	4.2
Real*	2.0	1.5	n.a.	.6	.0	n.a.

*Deflated by an unpublished Bureau of Economic Affairs price measure.

AUTO SALES
(Millions of units, seasonally adjusted annual rates)

	I	II	III	IV	Oct.	Nov.	Dec.
Total auto sales	8.3	7.9	9.2	9.2	9.2	8.8	9.6p
Imports	1.7	1.6	1.7	1.3	1.4	1.2	1.4p
Domestic models	6.6	6.3	7.5	7.9	7.8	7.6	8.2
Large	3.6	4.1	4.5	n.a.	4.2	4.3	n.a.
Small	3.0	2.2	2.9	n.a.	3.6	3.3	n.a.

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

	1975					Per cent change in Nov. from:	
	QI	QII	QIII	Oct.	Nov. (p)	Month ago	Year ago
Permits	.69	.90	1.04	1.08	1.12	+ 4	+45
Starts	1.00	1.07	1.26	1.46	1.38	- 6	+35
1-family	.75	.84	.95	1.10	1.03	- 7	+28
2-or more-family	.25	.22	.31	.36	.35	- 2	+62
Under construction 1/	1.12	1.04	1.04	1.07	n.a.	+ 3 2/	-19 2/
Completions	1.39	1.22	1.27	1.09	n.a.	-14 2/	-33 2/
MEMO:							
Mobile home shipments	.20	.21	.23	.23	.24	+ 3	+15

1/ Seasonally adjusted, end of period.
2/ Per cent changes based on October.
NOTE--indicates change of less than 1 per cent.

a seasonally adjusted annual rate of 1.38 million,off slightly from October, but the highest rate since the spring of 1974. Moreover, mortgage commitments outstanding and residential building permits increased in November. Single-family starts were off somewhat in November from the sharply advanced October level while multi-family units held near their improved October performance.

Starts probably averaged somewhat above 1.4 million units in the final quarter, marking the third quarter of recovery from a cyclical low of 1 million unit annual rate in the first quarter.

Recent data suggest that the decline in business investment spending has bottomed out. However, the strength of the prospective upturn has been called into question by the new Commerce survey of <u>anticipated business capital spending plans</u> for 1976, which indicates expected nominal spending increases of only 5-1/2 per cent. This figure falls between the results of the McGraw-Hill survey (8.8 per cent) and the Edie survey (2.9 per cent). This particular Commerce survey, which is only six years old but has a good track record for that period, suggests heavy spending by utilities (18 per cent), a moderate advance in the nondurable manufacturing industries (about 8-1/2 per cent) and no change for durables manufacturing, where demand and production continue relatively slack. Prices of plant and equipment purchased in 1976 are expected by business to rise by nearly 10 per cent, suggesting a real decline if investment spending is not scaled up significantly from advance expectations. Such an upgrading of plans is, of course, typical of cyclical recovery periods.

New Orders Received by Manufacturers
(Per cent change based on seasonally adjusted data)

	August 74 to March 75	March 75 to August 75	August 75 to Nov. 75
Total Durable Goods	-26.9	18.7	-3.3
Excluding Steel and Autos	-22.8	15.2	0.2
Nondefense Capital Goods	-19.3	9.1	1.5

Contracts for Business Structures and New Orders
(Per cent change from previous period)

	1974	1975[1]
Contracts for Business Structures[2]	-15.0	-33.3
Commercial	-18.3	-27.1
Industrial	-15.3	-38.6
Durable Goods Orders	7.7	-10.4
Excluding Steel and Autos	10.0	-10.2
Nondefense Capital Goods Orders	11.7	-11.0

[1] The average for 1975 is based on data through November.

[2] Construction contracts for commercial and industrial buildings as measured by square feet of floor space.

Survey Results of Anticipated Plant
and Equipment Expenditures

(Per cent change from prior year)

		1976			
	1975[1/]	Commerce[2/]	McGraw-Hill	Rinfret-Boston[3/]	Edie[3/]
All Industries	1.0	5.5	8.8	13.5	2.9
Manufacturing	5.0	5.0	8.4	16.5	1.3
Durables	-2.5	0.8	1.0	5.7	-2.8
Nondurables	12.3	8.4	14.7	25.7	4.7
Nonmanufacturing[4/]	-1.8	5.8	9.0	11.3	4.2
Mining	20.3	-4.1	20.6	39.4	5.8
Railroad	-0.1	-9.9	-2.0	22.2	-6.2
Other Transportation	15.0	-13.9	-1.1	-23.9	-34.5
Electric Utilities	-3.4	17.7	13.0	18.3	15.6
Gas and Other Utilities	12.3	20.1	32.1	34.3	23.1
Communications	-6.2	13.3	7.0	4.9	6.3
Commercial and other	-6.3	0.8	5.0	7.4	0.1
Addenda:					
Material Producers	17.7	6.5	12.1	20.6	2.5
Other Producers	-8.3	2.9	3.4	11.3	-0.4

1/ Results of BEA plant and equipment survey taken in late October and November.

2/ Survey taken in late November and December 1975, corrected for systematic bias.

3/ These surveys were made available to the Board on a strictly confidential basis and their results should be restricted to internal use only.

4/ Includes industries not shown separately.

New orders received by manufacturers of durable goods fell by 2.6 per cent in November with the shortfall concentrated among producers of iron and steel and motor vehicle manufacturers and suppliers. Exclusive of autos and steel, orders held near their August 1975 level.

Nondefense capital goods orders fell by 1.3 per cent in November and the backlog of unfilled orders declined for the thirteenth consecutive month. Capital goods orders have shown no indications of a sustained rise since the spring. In real terms, these orders are estimated to have dropped by about one-third from their cyclical peak and to be up by only 5 or 6 per cent from their March 1975 low.

The outlook for business fixed investment was also clouded by a sharp decline in contracts for commercial and industrial buildings (measured in square feet), which offset the increases of the two previous months. Every major category of construction recorded a substantial decline in November. This measure of future expansion of business structures is at its lowest level since 1963.

Business inventory decisions remain conservative, but inventory liquidation in manufacturing is apparently nearing an end. The book value of manufacturers' inventories rose at a $2.4 billion annual rate in November. October estimates were also revised up and now show a slight rise. The book value of inventories held by producers of durable goods declined in November for the ninth successive month, but the runoff was only at a $2.8 billion annual rate--slower than October and well below the third quarter rate. Accumulation of nondurable goods stocks continued for the fourth consecutive month. Some additional liquidation of durables is expected but the reduction has been quite sharp and the turn to accumulation may occur earlier than in the recovery from the 1953-1954 recession (12 months) or from the 1957-1958 recession (11 months).

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

	1975				
	I	II	III	Oct.	Nov.
Manufacturing and trade	-10.4	-18.8	5.4	21.4	n.a.
Manufacturing	3.2	-12.5	-6.6	1.2	2.4
Durable	7.6	-4.3	-8.6	-5.1	-2.8
Nondurable	-4.5	-8.2	2.0	6.3	5.3
Trade, total	-13.6	-6.3	11.9	20.2	n.a.
Wholesale	-4.1	-2.7	3.1	1.1	-2.7
Retail	-9.4	-3.6	8.8	19.1	n.a.
Auto	-8.3	-1.7	5.5	4.0	n.a.

INVENTORY RATIOS

	1974		1975	
	Oct.	Nov.	Oct.	Nov.
Inventory to sales:				
Manufacturing and trade	1.54	1.59	1.52	n.a.
Manufacturing total	1.66	1.72	1.67	1.69
Durable	2.06	2.16	2.19	2.26
Nondurable	1.21	1.24	1.15	1.14
Trade, total	1.42	1.46	1.37	n.a.
Wholesale	1.21	1.22	1.22	1.23
Retail	1.59	1.66	1.49	n.a.
Inventories to unfilled orders				
Durable manufacturing	.705	.722	.838	.845

Wholesale prices declined 0.4 per cent in December as a second consecutive monthly decline of farm and food products (off 2.5 per cent) more than offset a rise of 0.6 per cent in industrial commodities prices. Increases were widespread for industrial commodities with fuels, textiles, apparel, building products and papers contributing to the overall increase. Wholesale prices rose by 4 per cent over the year ending in December, a dramatic improvement over the 1974 rise of nearly 21 per cent. On average, prices of farm and food products were about the same as a year earlier, while prices of industrial commodities were 6 per cent higher chiefly reflecting higher prices for fuel, machinery and equipment, transportation equipment, and chemicals. Industrial commodity price increases were comparatively moderate until just before mid-year, a period of slack demand and inventory liquidation. But this was followed by increases at an 8.7 per cent (annual rate) from June through year end.

In November, consumer prices rose 0.7 per cent on average (not annualized). Services rose by 1.1 per cent over the month. Food prices increased at less than half the October rate (0.6 per cent), while the rise in nonfood commodities was a moderate 0.3 per cent for the third successive month. Categories recording the largest increases in November included auto insurance premiums (which accounted for about one-seventh of the November CPI rise), mortgage interest rates, gas, electricity and new car prices. Overall consumer prices rose at a 7.7 per cent rate between June and November--up from the 6.6 per cent rate of increase over the first half of the year.

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

	Relative importance Dec. 74	Dec. 73 to Dec. 74	Dec. 74 to Dec. 75	Dec. 74 to June 75	June 75 to Dec. 75	Nov. 75 to Dec. 75
All commodities	100.0	20.9	4.2	.3	8.3	-5.0
Farm and food products	29.1	11.0	-0.3	-8.0	8.1	-30.1
Industrial commodities	70.1	25.6	6.0	3.4	8.7	7.5
Materials, crude and intermediate 2/	46.0	28.2	5.3	2.1	8.6	9.7
Finished goods						
Consumer nonfoods	17.5	20.5	6.7	3.9	9.6	3.8
Products goods	8.6	22.6	8.2	8.4	7.9	2.1
Memo:						
Consumer foods	13.4	13.0	5.5	3.8	7.2	-15.3

1/ Not compounded for one-month changes.
2/ FR estimate.

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

	Relative importance Dec. 74	Dec. 73 to Dec. 74	Dec. 74 to Nov. 75	Dec. 74 to June 75	June 75 to Nov. 75	Oct. 75 to Nov. 75
All items	100.0	12.2	7.1	6.6	7.7	8.2
Food	24.8	12.2	6.7	4.7	9.2	6.7
Commodities (nonfood)	39.0	13.2	6.3	6.6	5.9	3.2
Services	36.2	11.3	8.1	7.1	9.4	13.4
Memo:						
All items less food and energy 2/3/	68.3	11.3	6.7	6.8	6.6	8.4
Petroleum products2/	4.4	22.8	10.7	9.0	12.7	3.8
Gas and electricity	2.5	19.6	14.8	17.6	11.5	10.2

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.

State and local government demands continue to be stronger than anticipated several months ago. Employment growth has continued at a strong pace since mid year--expanding at an annual rate of about half a million--and new construction spending has held up. Indeed, recent preliminary data suggest that the value of construction spending put-in-place probably increased in the fourth quarter rather than showing the expected decline. Nevertheless, the recent problems of New York, high municipal interest rates, and tight budget positions are expected to have a dampening influence on State and local spending through the first half of next year.

On the Federal government side, the recently signed Revenue Adjustment Act of 1975 provided tax relief roughly in conformance with staff assumptions. The legislation temporarily extends the tax reductions enacted in early 1975 and continues 1975 withholding rates through June. (A detailed description of this legislation is presented in the Appendix.) The staff is now projecting a fiscal year 1976 unified budget deficit of about $73 billion, up by $2.5 billion from the last Greenbook projection. Unified outlays for FY 1976 have been revised upward by $2.0 billion to $372 billion. In early December, the Interior Department raised only $0.4 billion from its sale of offshore oil leases, approximately $2 billion less than was anticipated (receipts from the sale of oil leases are treated as an offset to outlays). Our estimate of outlays is nearly $3 billion below the $374.9 billion target set by the Congress in the Second Concurrent Resolution of December 11, 1975. The major differences are due to assumptions about Congressional spending initiatives for special revenue sharing and public service employment.

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		Dec.	35.1	14.8	8.3	-.3
Reserves available (RPD's)		Dec.	32.8	5.0	2.7	-1.0
Money supply						
M1		Dec.	296.3	-3.2	2.2	4.2
M2		Dec.	667.5	3.2	6.8	8.8
M3		Dec.	1093.9	5.6	8.5	11.4
Time and savings deposits (Less CDs)		Dec.	371.3	8.8	10.6	12.8
CDs (dollar change in billions)		Dec.	83.3	1.9	4.2	-7.0
Savings flows (S&Ls + MSBs + Credit Unions)		Dec.	426.4	9.6	11.2	15.8
Bank credit (end of month)		Dec.	720.7	-8.8	2.6	4.2
Market yields and stock prices			Percentage or index points			
deral funds	wk. endg.	1/7/76	5.12	-.13	-.94	-2.58
asury bill (90 day)	"	1/7/76	5.17	-.45	-1.16	-1.51
ommercial paper (90-119 day)	"	1/7/76	5.44	-.49	-1.39	-2.99
New utility issue Aaa	"	1/9/76	8.85	-.52	-.75	-.77
Municipal bonds (Bond Buyer)	1 day	1/8/76	7.13	-.21	-.35	.14
FNMA auction yield	(FHA/VA)	1/12/76	9.13	-.19	-.82	-.24
Dividends/price ratio (Common stocks)	wk. endg.	1/17/76	3.91	-.26	-.31	-1.34
NYSE index (12/31/65=50)	end of day	1/12/76	50.99	-4.73	-3.66	-12.55
Credit demands			Net change or gross offerings			
			Current month: 1975	Current month: 1974	Year to date: 1975	Year to date: 1974
Business loans at commercial banks		Dec.	-1.4	-1.7	-5.0	27.5
Consumer instalment credit outstanding		Nov.	.8	-.4	2.3	10.8
Mortgage debt outst. (major holders)		Oct.	5.2	2.8	34.5	38.8
Corporate bonds (public offerings)		Dec.	1.8e	2.1	32.6e	25.3
Municipal long-term bonds (gross offerings)		Dec.	2.1e	1.5	30.4e	24.2
Federally sponsored Agcy. (net borrowing)		Dec.	.9	.8	2.2	16.6
U.S. Treasury (net cash borrowing)			1976	1975	1976	1975
		Jan.	6.1e	3.7	6.1e	3.7
Total of above credits			15.5	8.8	103.1	146.9

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

A generally bullish atmosphere has prevailed in financial markets since the mid-December FOMC meeting. Incoming data have reinforced the growing market view that the economy has entered a period of moderate growth during which the external financing requirements of businesses will be rather small and private credit demands as a whole will not be so large as to place strong upward pressure on interest rates. In addition, the sluggish behavior of the monetary aggregates during December--leaving the trend of narrowly defined money below the announced 5 to 7-1/2 per cent growth path--fostered a widespread expectation that the System would be operating to achieve easier money market conditions over the near-term. The reduction in reserve requirements announced on December 24 and the subsequent decline in the Federal funds rate to less than 5 per cent provided further basis for this expectation.

With demands for business credit no more than seasonal, and with banks, insurance companies and other financial institutions fairly flush with investible funds, market rates of interest have fallen significantly during the intermeeting period--in many instances moving through the lows of 1975. Money market instruments have posted yield declines ranging from 5/8 to 1 percentage point, with CD rates registering the largest reductions. Most long-term yields have fallen roughly 1/4 to 1/2 percentage point. In the stock market, a strong rally has lifted the Dow-Jones industrial average to about 915, its highest level in more than 2 years.

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

	Dec. '74 FOMC Dec. 17	Oct.'75 FOMC Oct. 21	Nov.'75 FOMC Nov. 18	Dec.'75 FOMC Dec. 16	Dec. 30	Jan. 6	Jan.13
Short-term							
Federal funds 1/	8.72	5.73	5.24	5.17	5.18	5.12	4.76 4/
Treasury bills							
3-month	6.77	5.66	5.47	5.51	5.18	5.15	4.83
6-month	6.90	6.04	5.80	5.94	5.46	5.38	5.09
1-year	6.57	6.28	6.12	6.28	5.72	5.62	5.37
Commercial paper							
1-month	9.50	5.75	5.38	5.50	5.50	5.13	4.63
3-month	9.25	6.13	5.75	5.88	5.75	5.38	5.13
Large neg. CD's 2/							
3-months	9.15	6.38	6.13	6.10	5.55	5.45	5.00
6-months	8.63	6.88	6.70	6.70	5.88	5.88	5.40
Federal agencies							
1-year	7.38	7.17	6.88	6.95	6.42	n.a.	n.a.
Bank prime rate	10.50	8.00	7.50	7.25	7.25	7.25	7.00
Long-term							
Corporate							
New AAA 1/	9.59	9.53	9.11	9.37	--	--	8.85p
Recently offered 3/	9.57	9.41	9.24	9.25	9.13	9.10	8.98p
Municipal (Bond Buyer) 3/	7.15	7.29	7.43	7.34	7.30	7.29	7.13
U.S. Treasury (20-year constant maturity)	7.82	8.26	8.36	8.22	8.02	7.99	n.a.
Stock prices							
Dow-Jones	597.54	846.82	855.24	844.30	852.41	890.82	912.94
N.Y.S.E.	35.58	47.91	48.15	46.84	47.37	49.51	50.61
Keefe Bank Stock	403	488	494	449	--	--	520

1/ Weekly average.
2/ Highest quoted new issues.
3/ One day quotes for preceding Thursday.
4/ Average for first 6 days of statement week ending January 14.
n.a.--not available.
p--preliminary.

Monetary Aggregates

M_1 declined at a 3.2 per cent annual rate in December, on a quarterly average basis, this aggregate grew at only a 2.2 per cent annual rate during the final 3 months of 1975. Even after allowance for the likelihood that the shifting of business funds from demand to newly authorized savings deposits accounted for part of the December weakness, the behavior of M_1 relative to interest rates and economic activity over the past several months remains unusual. The staff has undertaken a number of studies in an attempt to discover factors that might explain the recent wekaness of the money stock; to date this research has been successful in accounting for only a small part of the shortfall in M_1.

Growth of M_2 and M_3 slowed markedly in December--and not solely because of the decline in M_1. At commercial banks, time and savings deposits other than large CD's grew at an 8.8 per cent annual rate as compared with a 13.2 per cent rate in November. This deceleration seems notable because a sizable portion of the December rise--perhaps as much as 3 or 4 percentage points--is estimated to have resulted from inflows to corporate savings accounts. Since deposit growth at nonbank thrift institutions appears to have slowed only slightly in December from the strong pace of the preceding month, the weakness in time and savings deposits (ex. large CD's) at commercial banks is surprising. Heavy consumer purchases over the holidays, or the shift of funds to common

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1975 HI[1]	HII[1]	QIII[1]	QIV[1]	Oct.	Nov.	Dec.p	Twelve months ending Dec. 1975 p.
	Per cent at annual rates							
M_1	4.2	6.2	6.9	2.3	-2.4	12.2	-3.2	4.2
M_2	8.5	9.7	10.4	6.4	4.2	12.9	3.2	8.8
M_3 [2]	10.9	12.4	13.2	8.7	7.4	12.4	5.6	11.4
Adjusted bank credit proxy	4.8	3.4	1.4	5.9	5.0	12.8	4.2	4.2
Time and savings deposits at commercial banks:								
a. Total	9.1	6.3	4.9	10.0	13.9	11.3	12.3	8.4
b. Other than large CD's	12.3	12.6	13.2	9.8	9.6	13.2	8.8	12.8
Deposits at nonbank thrift institutions:								
a. Savings and loan associations[3]	17.6	16.1	18.6	13.0	14.4	13.2	11.0	17.6
b. Mutual savings banks[3]	12.0	10.1	11.6	8.4	8.2	8.4	8.4	11.3
c. Credit unions[3]	21.1	n.a.	17.1	n.a.	17.4	16.5	n.a.	19.7[5]
	Billions of dollars[4]							
Memoranda:								
a. U.S. Government demand deposits	.3	-.1	-0.2	--	-0.2	0.7	-0.5	.1
b. Negotiable CD's	-1.0	-.1	-1.7	1.4	2.2	0.1	1.9	-.6
c. Nondeposit sources of funds	-.2	.2	--	0.5	0.9	0.3	0.2	--

1/ Except where otherwise defined, growth rates are based on changes in the average amounts outstanding for the period.
2/ M_3 is defined as M_2 plus credit union shares, mutual savings bank deposits, and shares of savings and loan associations.
3/ Based on month-end series incorporating new (Dec., 1975) seasonal factors.
4/ Changes in average levels month-to-month or average monthly change for the period, measured from last month in period to last month in period, not annualized.
5/ For the twelve months ending November 1975.
p - Preliminary.
n.a. - Not available.

stocks, could have led to some decline in consumer-type time and savings deposit growth, but such an explanation is not easily reconciled with the disparity in the experience of banks versus nonbank thrift institutions. However, nonbank thrift institutions probably were more successful than banks in attracting year-end IRA contributions because of the differential in deposit rate ceilings.

Negotiable CD's at large commercial banks rose nearly $2 billion in early December and remained essentially unchanged thereafter. Rates on CD's of all maturities have fallen 3/4 percentage point or more since mid-December, thereby reducing the wide spreads that had developed between CD and Treasury bill yields when the New York City financial crisis caused investors to reappraise the riskiness of bank liabilities. Recent reports indicate, moreover, that the major New York City banks no longer must pay higher rates for CD funds than do large regional banks, although they still have not regained their previous favored position in this market.

Business Credit

Previous staff projections had indicated that rapidly improving cash flows would about cover business spending on inventories and fixed capital during the second half of 1975. These projections also suggested that businesses would continue to float a considerable volume of long-term debt and equities in order to strengthen balance sheet positions,

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

	1975p	QI	QII	QIIIp	QIVp	Oct.p	Nov.p	Dec.p
Total loans and investments2/	4.2	5.7	4.6	3.6	2.6	6.0	10.5	-8.8
U.S. Treasury securities	59.0	79.5	95.0	26.0	2.6	-31.1	19.2	20.4
Other securities	3.3	.3	7.1	3.9	1.7	14.2	9.9	-18.8
Total loans	-.9	--	-6.7	.2	2.8	9.5	9.4	-10.3
Business loans2/	-2.7	-3.5	-9.8	--	2.5	10.7	6.0	-9.2
Real estate loans	2.2	3.1	1.2	.3	4.3	5.5	2.7	4.5
Consumer loans4/	n.a.	-6.9	-6.5	5.7	n.a.	7.0	1.4	n.a.
Memo:								
Business loans plus nonfinancial commercial paper3/	-3.8	-1.6	-12.1	-.6	-1.0	1.9	.6	-5.6

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 foreign branches, non-consolidated nonbank affiliates of the bank holding companies (if not a bank), and non-consolidated nonbank subsidiaries of holding companies.
3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.
4/ Consumer loans revised in accordance with major revisions in consumer credit statistics.
p - Preliminary.
n.a. - Not available.

with the proceeds used to repay short-term debt or to acquire liquid assets. Recent business credit developments have been broadly consistent with this pattern.

In December, business loans at commercial banks declined $1.6 billion (seasonally adjusted) despite an increase of more than $1 billion in bank holdings of acceptances. Commercial paper issued by nonfinancial firms rose only $500 million. Hence, total short-term business credit outstanding fell at a 7 per cent annual rate during the month, leaving this aggregate slightly lower at year-end, on a seasonally adjusted basis, than it was at mid-year. The weakness in short-term credit demand helped push commercial paper rates in early January below their 1975 lows and precipitated a decline in the bank prime rate to 7 per cent,

Interest rates on corporate bonds have also fallen below their 1975 lows, aided in part by the forecasts of a number of prominent market analysts that the volume of long-term debt sold by businesses in 1976 will be sharply lower than in the past year. During December, gross public bond offerings by domestic corporations totaled $1.75 billion--about the same volume as in November but significantly lower than the average of the preceding 10 months. Some further slackening in the pace of long-term debt issuance currently appears to be in prospect for January and February; continued strength of the bond markets could, however, lead some firms to enlarge scheduled issues or to advance issues now tentatively planned for later months (as occurred to a minor extent during the first week of January).

In recent months, companies with bond ratings of A or less--primarily utilities and financial firms--have accounted for most of the new issue volume. This is in sharp contrast to the pattern observed earlier in 1975 when industrial firms with ratings of Aaa and Aa dominated the bond calendars. The change in the composition of offerings may be largely attributable to a relatively greater need by lower-rated firms for additional balance sheet restructuring, but it also reflects the more receptive market for the debt of such companies.

A record volume of foreign bonds was sold in December as the World Bank marketed a $750 million offering. Foreign bond issuance is expected to run ahead of the average 1975 pace during January and February. Because the Canadian government is maintaining relatively stringent credit conditions as part of its anti-inflation and balance of payments policies, Provincial governments and public utilities in that country continue to find the U. S. market attractive on the basis of cost as well as size.

Other Securities Markets

Yields on Treasury securities have fallen fairly steadily since mid-December. Banks made sizable purchases of Treasury securities in December, as the contraction of loan portfolios and a decline in holdings of tax-exempts released funds for such investment. Additional support for the Government market has been provided by System open

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

	1975				1976	
	Year e/	QIV e/	Nov. e/	Dec. e/	Jan. f/	Feb. f/
	Gross offerings					
Corporate securities--Total	4,358	3,958	3,750	3,550	3,150	3,050
Publicly offered bonds	2,717	1,946	1,700	1,750	1,600	1,600
By quality						
Aaa and Aa 1/	1,422	776	650	625	--	--
Less than Aa 1/	1,295	1,170	1,050	1,125	--	--
By type of borrower						
Utility	925	783	850	625	--	--
Industrial	1,432	767	475	675	--	--
Other	360	396	375	450	--	--
Privately placed bonds	743	946	1,200	1,000	750	750
Stocks	898	1,066	850	800	800	700
Foreign securities--Total 2/	451	634	825	975	580	400
Canadian	213	251	550	100	380	--
Other	238	383	275	875	200	--
State and local government securities						
Long-term	2,535	2,217	2,331	2,050	2,100	2,000
Short-term	2,433	2,266	2,101	2,000	2,000	2,000
	Net Offerings					
U.S. Treasury 2/	7,326 e/	7,931 e/	4,083	9,850 e/	7,700 f/	6,900 f/
Sponsored Federal Agencies	2,247	1,758	352	463	594	604

e/ Estimated.
f/ Forecast.
1/ Bonds categorized according to Moody's bond ratings.
2/ Includes only publicly offered issues of marketable securities.

market operations. In meeting seasonal reserve needs during the latter half of December, the Desk purchased $2 billion of Treasury bills and $300 million of coupon issues.

The staff projects Treasury borrowings of $27 billion in the first 3-months of 1976--a record for any quarter. The Treasury began its task by auctioning $2.0 billion of 4-year notes on December 22 for settlement on January 6, and then took further advantage of the strong market rally with the unexpected announcement of a $2.0 billion, 64-month note issue, auctioned on January 13. An additional $900 million of new money was obtained through the sale of $2.5 billion of 2-year notes on January 14.

Yield indexes for tax-exempt obligations declined in early January, but the improvement was concentrated among highly rated issues. Quality spreads have widened somewhat since the last FOMC meeting. Investors have had to contend not only with the special problems of units in New York State, but with the broader implications of the New York City moratorium and pending bankruptcy legislation. Underwriters' uncertainty regarding the extent of disclosure required by law has prevented some units from marketing obligations. Nevertheless, about $2 billion of State and local issues were sold in December, and comparable volumes are expected in January and February.

Mortgage and Consumer Credit

The average interest rate on new commitments for conventional mortgages at savings and loan associations has continued to edge downward; on January 9 it stood at 9.07 per cent, 18 basis points below the recent high of late October. With deposit inflows remaining strong, S&L's generally have reported the supply of mortgage funds to be adequate relative to demands for funds at going interest rates. At these institutions--which dominated the private mortgage market to an unusual degree throughout 1975--estimated new commitments picked up somewhat in November, and commitments outstanding rose to more than $18 billion, a level 50 per cent above the cyclical low and the highest since mid-1973.

With 9 per cent FHA/VA mortages selling close to par in the secondary market, the ceiling rate on Government-underwritten single-family home loans was cut to 8-3/4 per cent on January 5. On January 6, the Administration announced the release of $3 billion for GNMA purchases of FHA-insured mortgages on new rental apartment projects. These mortgages will bear below-market interest rates of 7-1/2 per cent, and GNMA will begin issuing commitments on January 26.

The rate of expansion of consumer instalment credit outstanding was virtually unchanged in November from the average pace of the preceding 4-months. Automobile loans were the strongest component, accounting for half of the November increase. Credit unions were the leading institutional lender.

CONSUMER INSTALMENT CREDIT

	Change in outstandings (SAAR)		Credit extensions			New-car finance rates 2/
	($ billions)	(Per cent)	Total, SAAR ($ billions)	Bank share (Per cent)	Open-end share 1/ (Per cent)	APR at finance companies (Per cent)
1974 - I	11.1	7.6	165.2	43.8	27.7	12.29
II	14.4	9.7	171.2	43.5	27.6	12.50
III	14.3	9.4	171.3	43.9	29.2	12.84
IV	-1.7	-1.1	156.4	43.5	31.9	13.10
1975 - I	-3.1	-2.0	155.3	43.7	31.2	13.07
II	-1.6	-1.0	159.1	43.6	31.0	13.09
III	9.1	5.8	173.2	44.3	29.9	13.18
Oct.	10.0	6.4	178.0	43.9	30.9	13.15
Nov.	9.6	6.1	178.5	44.4	29.6	13.15p

1/ Open-end credit consists of extensions on bank credit-card and check credit plans, and retail "other consumer goods" credit extensions.

2/ New-car finance rates are end-of-period.

All data are revised, except for new-car finance rates.

INTEREST RATES AND SUPPLY OF FUNDS FOR CONVENTIONAL HOME MORTGAGE AT SELECTED S&L's

End of period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from previous week	Number of Federal Home Loan Bank Districts with funds in short supply
1974--High	10.03	--	12
Low	8.40	--	0
1975--High	9.59	--	10
Low	8.80	--	0
Dec. 5	9.12	0	1
12	9.12	0	1
19	9.08	- 4	0
26	9.09	+ 1	0
Jan. 2	9.10	+ 1	1
9	9.07	- 3	0

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA AUCTIONS OF FORWARD PURCHASE COMMITMENTS						Yields on GNMA guaranteed mortgage-backed securities for immediate delivery 2/
	Conventional			Govt.-underwritten			
	Amount ($ millions)		Yield to FNMA 1/	Amount ($ millions)		Yield to FNMA 1/	
	Offered	Accepted		Offered	Accepted		
1974--High	164	63	10.71	1,155	333	10.59	9.98
Low	14	7	8.47	26	18	8.43	7.79
1975--High	100	51	10.02	643	366	9.95	9.10
Low	10	9	8.96	25	18	8.78	8.01
Dec. 1	74	41	9.38	256	139	9.32	8.57
15	70	31	9.36	287	160	9.31	8.63
29	42	12	9.35	95	53	9.29	8.40
Jan. 12	43	32	9.28	58	32	9.13	8.34

1/ Average gross yields before deducting fee of 38 basis points for mortgage servicing. Data 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.

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

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January 14, 1976

U.S. International Transactions
(In millions of dollars; seasonally adjusted)

		1974	1 9 7 5				
		YEAR	Q-1	Q-2	Q-3	Oct.*/	Nov.*/
1.	Trade balance	-5,277	1,830	3,378	2,026	809	715
2.	Merchandise exports	98,309	27,188	25,692	26,716	9,299	9,182
3.	Merchandise imports	103,586	25,358	22,314	24,690	8,490	8,467
4.	Net service transactions	9,102	1,348	1,637	2,521		
5.	Balance on goods and services 1/	3,825	3,178	5,015	4,547		
6.	Remittances and pensions	-1,721	-448	-462	-426		
7.	Gov't grants and capital, net	-4,342	-1,201	-1,075	-1,184		
8.	Bank-reported private capital, net change	-2,663	-5,609	-4,416	3,433	-4,066	2,553
9.	Claims on foreigners (inc. -)	(-19,482)	(-3,727)	(-3,782)	(-786)	(-2,452)	(-552)
10.	Short-term	-18,307	-3,329	-3,421	-190	-2,132	-368
11.	Long-term	-1,175	-398	-361	-596	-320	-184
12.	Liabilities to foreigners (inc. +)	(16,819)	(-1,882)	(-634)	(4,219)	-1,614	3,105
13.	Long-term liabilities	9	-39	-287	-114	-78	20
14.	Short-term liabilities 2/	16,810	-1,843	-347	4,333	-1,536	3,085
15.	to commercial banks abroad	(12,621)	(-2,818)	(175)	(2,429)	(-1,848)	(3,741)
16.	(to which liab. to branches) 3/	(2,349)	(-1,184)	(224)	(-43)	(1,602)	(1,267)
17.	to other private foreigners	(2,870)	(104)	(144)	(713)	(117)	(254)
18.	to int'l regional organizations	(1,319)	(871)	(-666)	(1,191)	(195)	(-910)
19.	Private transactions in securities, net	-1,318	-1,368	-323	35	-39	-379
20.	U.S. purchases (-) of foreign securities	(-1,990)	(-2,021)	(-1,001)	(-998)	(-508)	(-715)
21.	of which: New bond issues	(-2,373)	(-2,142)	(-1,256)	(-1,264)	(-457)	(-857)
22.	Foreign purch. (+) of U.S. corp. securities	(672)	(653)	(678)	(1,033)	(469)	(336)
23.	Stocks	544	961	895	1,288	365	304
24.	of which by OPEC	(216)	(324)	(319)	(360)	(130)	(122)
25.	Bonds (includes U.S. Govt. agencies)	128	-308	-217	-256	104	32
26.	U.S. direct investment abroad, (inc. -)	-7,455	-1,041	-2,304	-668		
27.	Foreign direct investment in U.S., (inc. +)	2,224	340	679	-124		
28.	Nonbank-reported: liquid claims, (inc. -)	-133	318	126	-548	-191	
29.	other claims, (inc. -)	-3,004	231	-110	341		
30.	liabilities, (inc. +)	1,493	272	313	-450		
31.	Changes in liab. to foreign official agencies	9,831	3,586	1,743	-4,577	1,857	-628
32.	OPEC countries (inc. +) 3/	10,025	270	961	1,716	679	-283
33.	Other countries (inc. +)	-194	3,316	782	-6,293	1,178	-345
34.	Changes in U.S. reserve assets (inc. -)	-1,434	-325	-29	-342	-194	-81
35.	Gold	--	--	--	--	--	--
36.	Special drawing rights	-172	-4	-16	-25	-21	--
37.	Reserve position in the IMF	-1,265	-307	-7	-95	-7	-71
38.	Convertible currencies	3	-14	-6	-222	-166	-10
39.	Errors and omissions	4,698	2,067	843	-37		
	Memo:						
40.	Official settlements balance, S.A.		-3,261	-1,714	4,919		
41.	N.S.A.	-8,397	-2,214	-1,290	3,051	-1,663	709
42.	O/S bal. excluding OPEC, S.A.		-2,991	-753	6,635		
	N.S.A.	1,628	-1,944	-329	4,767	-984	426

*/ Not seasonally adjusted (except for merchandise trade data lines 1-3).
1/ Differs from "net exports" in the GNP account. The GNP basis excludes U.S. Government interest payments for foreigners from service imports and special military exports to Israel.
2/ Includes transactions in U.S. Treasury bonds and notes.
3/ Not seasonally adjusted. p = preliminary.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. The value of the dollar on a weighted average basis has changed very little since December 10; it is now only 1/4 of a per cent below its value at that time. Some downward pressure on the dollar developed after the start of the new year, as U.S. interest rates led foreign interest rates downward,

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. The weakness of the lira, which has been apparent for several months, was recently exacerbated by Italy's internal political difficulties.

On December 30, the Swiss franc swap contract was rewritten to reflect the two devaluations of the dollar in 1971 and 1973. The rewriting raised the dollar amount of the swap drawing from $971 million to $1,167 million, and resulted in a loss of $196 million for the System.

The System purchased a net $11.5 million equivalent of Swiss francs during the period to be held in balances, pending an agreement with the Swiss authorities on how swap losses during the floating rate period will be shared. The System also purchased $27.4 million equivalent of Belgian francs during the period, and used $18.1 million of them to reduce the swap debt in that currency. And the System purchased a net $8 million equivalent of marks, bringing total balances in that currency to about $70 million equivalent.

As U.S. interest rates declined during the period, Euro-dollar rates also moved downward. In the 3-12 month maturities, Euro-dollar rates fell 1-1/4 percentage points, while in the shorter maturities the decline was 1/4-1/2 points. A weighted average of foreign short-term interest rates also declined during the period, but by a smaller amount than dollar interest rates.

The price of gold dropped about $9.00 during the period to $130.35 per ounce. Most of this decline occurred during the last week, as the IMF's Interim Committee reached final agreement on the auction of 18 to 25 million ounces of the Fund's gold over the next four years.

U.S. International Transactions. Data available for November indicate (1) a small reduction in the large U.S. trade surplus, (2) large net inflows of funds reported by banks, and (3) a continuation of large U.S. purchases of new foreign bond issues. Data recently released for the third-quarter balance of payments as a whole show an increase in the net surplus on military and service transactions and sharp declines in both U.S. direct investment abroad and foreign direct investment in the United States.

Merchandise trade. The trade balance for November recorded a substantial surplus of $8.6 billion (seasonally adjusted annual rate), down $1.1 billion from the upward-revised October surplus, but slightly higher than the third quarter average.

U.S. MERCHANDISE TRADE
(values in billions of dollars, seasonally adjusted annual rates)

		1975					
	1974	I	II	III	Oct. & Nov.	Oct.	Nov.
EXPORTS	98.3	108.8	102.8	106.9r	110.9	111.6r	110.2
Agric.	22.4	25.1	19.4	22.0	23.8	24.5r	23.1
Nonag.	75.9	83.7	83.4	84.9r	87.1	87.1r	87.1
IMPORTS	103.6	101.4	89.3	98.8	101.7	101.9r	101.6
Fuel	27.4	27.9	24.6	30.0	31.6	32.2r	31.0
Nonfuel	76.2	73.5	64.7	68.7	70.1	69.6r	70.6
BALANCE	-5.3	7.3	13.5	8.1r	9.1	9.7r	8.6
VOLUMES (1974=100)							
Ag. Exports	100	105.2	88.7	103.3	113.2	115.4	111.0
Nonag. Exports	100	95.5	94.2	95.8r	97.7	98.6	96.9
Fuel Imports	100	97.8	87.0	107.5	111.7	114.8	108.5
Nonfuel Imports	100	86.6	74.9	83.3	85.5	84.2	86.8

r = revised

Agricultural exports declined in November after a spurt in October, partly reflecting this year's earlier-than-usual corn harvest and shipments. For October and November combined, agricultural exports climbed 10 per cent above their third-quarter volume, while falling slightly in unit value. The value of agricultural exports is projected to decline gradually in the first half of 1976, as volumes fall from the high levels recorded in the fourth quarter and unit values reflect more fully the fourth-quarter declines in cash prices of major export crops.

The volume of nonagricultural exports was 2 per cent higher in October and November than in the third quarter, as exports of consumer goods increased nearly 5 per cent, exports of both machinery and nonagricultural industrial supplies rose 2 per cent, and exports of automotive products fell 4 per cent. None of the major categories of these exports showed any large change in unit value between the third quarter and October-November. New foreign orders for U.S. durable goods (excluding motor vehicles and aircraft) showed little change in either value or estimated volume between the third quarter and October-November.

The volume of fuel imports declined sharply in November and is expected to fall further in December, reflecting a readjustment of inventories in the United States following several months of abnormally high arrivals of products exported from OPEC countries before price increases became effective on October 1. (The normal shipment period is 4 to 6 weeks.) The unit value of fuel imports increased from $11.30

per barrel in October to $11.55 in November, and is expected to reach the range of $12.30 in December or January, when the full effects of the October price increases appear.

The volume of nonfuel imports in October-November was 3 per cent higher than in the third quarter, with a steady upward trend since August, apparently reflecting the upturn in U.S. income and economic activity. With the exception of automotive products, all major categories of nonfuel imports increased in volume during this period, led by a 12 per cent jump in capital goods and a 9 per cent climb in consumer goods (except foods). Automotive imports from Canada in October-November were 8 per cent below their third quarter volume; new car imports from other countries have held steady at their third-quarter volume, but are expected to increase sharply during the first quarter of 1976, as importers begin a new model year with very low inventories of 1975 cars. The unit value of nonfuel imports fell slightly in October-November, as prices of imported nonfuel industrial supplies, capital goods (excluding automotive products), and foods, feeds and beverages fell below their third-quarter levels, while prices of automotive products and consumer goods (except foods) increased.

Bank-reported private capital transactions for November showed a net inflow of $2.6 billion (monthly rate), following a large $4.1 billion net outflow in October, despite the absence of any significant changes in interest differentials during November. Claims on foreigners increased by $0.6 billion, after a $2.5 billion increase in October, with two-thirds of the November increase in short-term maturities. Liabilities to foreigners increased by $3.1 billion in November, as usual almost entirely short-term. Much of this increase was reported by U.S. agencies and branches of foreign banks, presumably vis-a-vis their home offices, and is typical of the erratic fluctuations in monthly data on short-term liabilities. Both the November outflow and the October inflow would have been smaller, however, in the absence of net official purchases of dollars in October and sales of dollars in November.

Transactions in securities (other than U.S. Treasury issues) showed, on balance, a net outflow of nearly $400 million in November, mainly reflecting U.S. purchases of $850 million of new foreign bond issues and foreign purchases of $300 million of U.S. stock. New foreign bond issues in the United States rose further to over $1 billion (preliminary data) in December, including $750 million of IBRD issues, but are expected to fall to a more normal level in January. Impressions gathered from brokers suggest that foreigners increased their net purchases of U.S. stocks in December and early January.

U.S. liabilities to foreign official agencies, apart from OPEC, declined by over $300 million in November, following an increase of $1.2 billion in October. Liabilities to official OPEC institutions also declined by roughly $300 million in November, following a large $700 million increase in October.

Data for December indicate a net decline of roughly $400 million in official holdings of dollars at the New York Fed, with liabilities to official OPEC agencies increasing by roughly $400 million. A large decline in liabilities to official agencies in Australia accounted for most of the difference,

, as uncertainties during the Australian election period induced a speculative attack on the Australian dollar, which is currently pegged to a basket of other currencies.

Recently published <u>third-quarter data</u> for the entire balance of payments show a surplus of $10.1 billion (seasonally adjusted annual rate) on net military and services transactions, compared with $6.5 billion in the second quarter. Over half of the increase was in military items, as military sales jumped sharply, in part due to an unusual bunching of shipments. The balance on goods and services continued in large surplus, registering $18.2 billion in the third quarter after reaching a peak of $20.1 billion in the second quarter.

U.S. direct investment outflows and foreign direct investment in the United States both fell sharply in the third quarter, in each case reflecting a shuffling of funds between parent firms and subsidiaries, rather than any major change in long-run investment patterns. Net direct investment in the third quarter was an outflow of nearly $800 million, compared with quarterly outflows averaging roughly $1.25 billion during 1974 and the first half of 1975.

Monetary and financial conditions in major foreign countries. Domestic money-market conditions in major foreign countries during 1975 followed broadly developments in U.S. markets. In the first half of the year short-term interest rates abroad continued the sharp decline that had begun in 1974. Since mid-year, interest rates in Canada and the United Kingdom have risen significantly, but elsewhere they have risen only slightly or have continued to decline. In the past two weeks, rates in many countries have declined. Yields on long-term fixed-interest assets also declined on balance in 1975 -- except in Canada -- though the decline in these yields was much smaller than the decline in short-term rates. Prices of foreign equities, like stock prices in the United States, rose considerably in early 1975 but then generally held steady, at least until recently. The rate of growth of the monetary aggregates in most countries has been restrained by the weak private-sector demand for credit. The stance of monetary policy to date has been generally accommodative, although monetary authorities in many countries are concerned that the existing high degree of bank liquidity will make control of monetary aggregates difficult this year, when economic activity and the demand for credit are expected to strengthen.

Although short-term interest rates in most countries have risen somewhat from their 1975 lows, they remain well below their levels at the beginning of 1975; the decline of almost 10 percentage points in Italy (from an exceptionally high level) is especially striking. Only in Canada and the United Kingdom have rates tended to increase significantly (and, in the British case, erratically) in the second

SHORT-TERM AND LONG-TERM INTEREST RATES

	Level (per cent per annum)					Change (percentage points)	
	end 1974	1975 low (date)	end-Nov. 1975	end-Dec. 1975	Latest (date)	end 1974 to 1975 low	1975 low to latest
Short-term rates: 1/							
Canada	10.50	6.25 (Feb. 28)	9.38	9.25	9.25 (Jan. 13)	-4.25	+3.00
France	11.88	6.00 (Oct. 2)	6.50	6.44	6.00 (Jan. 14)	-5.88	0
Germany	8.30	3.50 (Aug. 21)	4.10	4.20	3.90 (Jan. 14)	-4.80	+0.40
Italy	17.25	7.25 (Nov. 13)	7.63	7.63	7.63 (Jan. 13)	-10.00	+0.38
Japan	13.50	7.50 (Nov. 28)	7.50	7.50	7.50 (Jan. 14)	-6.00	0
United Kingdom	12.44	9.19 (Apr. 23)	11.50	10.81	10.13 (Jan. 13)	-3.25	+0.94
United States	8.94	5.25 (June 21)	5.75	5.25	5.00 (Jan. 13)	-3.69	-0.25
Long-term rates: 2/							
Canada	8.85	8.14 (Feb. 14)	9.58	9.51	9.49 (Jan. 2)	-0.71	+1.35
France	10.93	9.89 (Oct. 17)	9.97	9.91	9.94 (Jan. 2)	-1.04	+0.05
Germany	9.43	7.44 (Aug. 26)	7.79	7.74	7.50 (Jan. 9)	-1.99	+0.06
Italy	12.65	11.18 (March)	11.46	--	11.46 (Nov.)	-1.47	+0.28
Japan	9.60	9.02 (Dec.)	9.17	9.02	9.02 (Dec.)	-0.58	0
United Kingdom	17.20	13.11 (Mar. 20)	14.57	14.48	13.41 (Jan. 9)	-4.09	+0.30
United States	7.93	7.63 (Feb. 21)	8.35	8.03	7.93 (Jan. 12)	-0.30	+0.30

1/ The short-term rates quoted are generally 3-month rates: interbank rates for France, Germany, Italy, and the United Kingdom; the finance company paper rate for Canada; and the CD rate for the United States. For Japan, the call money rate is quoted.

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

half of the year. In those two countries the authorities have considered it essential to maintain interest rates substantially above rates on dollar-denominated assets to help finance large current account deficits without too great a depreciation of their currencies. Interest rates elsewhere, except in Germany and Switzerland, are also at or above U.S. and Euro-dollar rates, but the differential is relatively small.

The trend of long-term yields in 1975, though generally downward, has been less pronounced and less uniform. In Canada, as in the United States, yields now are actually above year-earlier levels. In the United Kingdom yields have fallen considerably but remain high. In other countries, the net decline in yields over the year was about 50 to 150 basis points.

The downward shift of the yield curve in all countries -- despite the persistence of expectations of high inflation rates -- and its steeper slope reflect the generally high degree of liquidity both of the banking sector and of the private nonbank sector. The steeper slope of the yield curve also reflects (1) a widespread expectation of rising interest rates as economic activity -- and hence the demand for credit -- increases this year; and (2) the attempts to finance very large public sector deficits by the issuance of long-term debt. Actually, the financing of government deficits has generally proved to be somewhat easier than had previously been expected, partly because the expected size of government borrowing requirements has declined somewhat in some cases (Germany and the United Kingdom), but also because the authorities have been able to sell large amounts of long-term debt and Treasury bills to nonbanks with relatively little increase in yields.

The decline in interest rates, which, as indicated, was especially sharp in the latter part of 1974 and in early 1975, gave a considerable boost to equity prices early last year. However, as signs of economic recovery and improved corporate profits were pushed further into the future, and as the decline in interest rates levelled out, equity prices stopped rising (and actually fell in Italy and the Netherlands). Equity markets -- except in Germany and Australia -- remained sluggish until recently, when as in the United States, equity prices moved higher, particularly in the United Kingdom.

The weakness of aggregate demand, especially in the private sector, has tended to moderate the growth of the money stock during 1975. In Germany, for example, although the growth rate of "central bank money" during 1975 was, at an estimated 9-1/2 per cent, above the Bundesbank's target rate of 8 per cent (principally because currency in circulation increased rapidly), the level of M_2 was actually no higher in November 1975 than it was a year earlier. In the second half of 1975 there was some acceleration in the rate of growth of the aggregates in Germany and in France, reflecting perhaps the beginning of an upturn in activity and, in the case of France, large cash disbursements by the Government resulting from the September reflationary package. Growth of the aggregates in Canada and Italy has been relatively high throughout most of the year; the 5-1/2 per cent increase in Canadian M_1 recorded

GROWTH OF THE MONEY STOCK IN MAJOR INDUSTRIAL COUNTRIES
(percentage change; SAAR)

		1974 Q4 from 1973 Q4	Latest 3 months from: Same Period, Year Earlier	Previous 3 months	Latest Month
Canada	M_1	7.2	18.7	21.7	Nov.
	M_2	19.3	17.6	21.9	
France	M_1	14.2	15.9	22.2	Oct.
	M_2	17.9	17.5	22.2	
Germany	M_1	11.0	16.4	24.0	Nov.
	M_2	4.3	-0.3	13.4	
Japan	M_1	11.1	8.5	-4.4	Nov.
	M_2	11.2	13.6	11.9	
United Kingdom	M_1	6.2	17.8	15.8	Nov.
	M_3	12.8	10.0	10.9	
United States	M_1	5.2	4.5	2.3	Dec.(p)
	M_2	7.7	8.7	6.5	

Sources: Various national sources.

in November alone was distorted by the recent postal strike,[1] but M_1 grew at a 20 per cent annual rate from January through October.

In Japan, the relative rates of growth of M_1 and M_2 have been affected by anticipation of the recent decline in interest rates (particularly the rate on time deposits), which has induced a shift from sight to time deposits. Abstracting from that shift, growth rates for both M_1 and M_2 have been moderate, by Japanese standards at least. Growth of the aggregates in the United Kingdom, especially in the later part of the year, has also been moderate. Indeed, the Bank of England now finds itself in the unaccustomed position of being criticized for insufficient growth of the money stock. In Switzerland, the central bank's target of 6 per cent for the growth of M_1 (year over year) may not be reached; in the first 10 months, the rate of increase was only 4.2 per cent.

Monetary authorities in some countries have acted in recent months to lower interest rates and generally to ease the stance of monetary policy. Since monetary policy abroad was last described in detail in the Greenbook (in August), the Bank of Japan has lowered its discount rate, eased restrictions on capital inflows, lowered reserve requirements, and announced some easing of credit controls. Authorities in virtually every other country also reduced their discount rates, the latest reduction being that of the Swiss National Bank on January 12

1/ The timing of many payments was delayed and money was accumulated temporarily in demand deposit accounts, while those who failed to receive payments drew on bank loans to finance their operations.

(from 3 to 2-1/2 per cent). Canada is the major exception; the Bank of Canada's discount rate was actually raised in September, from 8.25 to 9 per cent, to help keep the growth of M_1 "within reasonable limits". Bank of England's minimum lending rate was also raised sharply in October, from 11 to 12 per cent, but has since fallen back in quarter-point jumps to 11 per cent; the initial rise in the minimum lending rate was sufficiently high to generate expectations of subsequent declines, enabling the Bank to sell huge quantities of long-term government debt.

In Germany, the banks' free liquid reserves have risen sharply, and in July-October the Bundesbank supported the government bond market to an unprecedented extent. In mid-December the Bundesbank announced its target for growth of "central bank money" for 1976: although the target rate of 8 per cent is unchanged from last year, the shift in the basis of calculation to the change from the average of one year to the average of the next, rather than the change from December to December, results in an effective lowering of the target rate. The Swiss National Bank, the only other foreign central bank that announces an explicit target for the money stock, recently announced that the target rate of growth of M_1 would be 6 per cent in 1976, as it was in 1975 (but, as noted above, the 1975 target may not be reached.)

Monetary reform negotiations. The IMF Interim Committee met in Jamaica January 7-8 and approved a package of measures including: a more detailed agreement on the utilization of part of the IMF's gold; amendments to the IMF Articles of Agreement; expansion of IMF quotas; and a temporary relaxation of the limits the IMF currently imposes on loans from its regular resources. These agreements conclude a second phase of the monetary reform negotiations begun in 1972 and continued on a reduced scale after mid-1974.

The Interim Committee decided that the Fund should implement quickly the agreement of August 31, 1975, to sell 25 million ounces of Fund gold for the benefit of developing countries. Such sales are now to be made by public auction over a four-year period. The Committee accepted the recommendation reached last month by the G-10 countries that the Bank for International Settlements be permitted to bid in these auctions. (Upon his return to France, Finance Minister Fourcade announced that France will buy gold on the occasion of the Fund's first auction.) Profits from IMF gold sales are to be channeled to a newly established Trust Fund and utilized for balance-of-payments assistance on concessional terms to low-income countries.

The most publicized of the amendments to the IMF Articles endorsed by the Interim Committee were the revised provisions on exchange rate arrangements. The proposed new Article IV, which is a slight modification of the version negotiated by the United States and France in November, stresses the objective of achieving greater stability in the exchange-rate system, but relates this goal to the achievement of greater underlying stability in economic and financial factors. The United States would retain a veto, based on its voting share in the IMF, over any return to a generalized system of par values.

As a companion measure to the expansion of quotas agreed last fall, the Interim Committee agreed that all members should make their currencies usable in Fund lending operations within six months. This measure has particular significance for the OPEC countries, many of whom have refused to provide low-interest funds (currently 3.5 per cent per annum) for use in financing the IMF's regular lending operations.

Pending adoption of the enlarged IMF quotas -- a process that may take two years -- the Interim Committee agreed to expand by 45 per cent countries' access to the Fund's regular credit tranches. This temporary measure will cushion the effects of the termination of the IMF Oil Facility in the spring of this year. The Oil Facility has been the principal source of financing for the record drawings from the IMF of some $8 billion over the past two years. The temporary expansion of credit tranches agreed in Jamaica may increase drawings by non-oil developing countries by about $1.5 billion during 1976. Access to IMF credit by other member countries (including Italy, the United Kingdom, and several smaller OECD countries that face large payments deficits) will also be increased. Increased utilization of IMF credit in 1976, however, is not expected to strain the roughly $10 billion of usable resources the IMF has available from past subscriptions.

APPENDIX A*
TECHNICAL NOTE ON THE RECENT REVENUE ADJUSTMENT ACT OF 1975

The implementation of the Revenue Adjustment Act of 1975, adopted by Congress in the final days of its recent session, is complicated by the fact that legislation which was originally prepared to achieve a tax cut for the full year 1976 was changed so that the tax reductions would apply only to the first six months. These changes arose out of a compromise between Congress and the Administration. The shortening of the effective tax cut period introduced a number of arithmetic complications into the specifics of the Act.

In order to limit the impact on withholding taxes to six months, the Act contains clauses which in effect reduce the annual tax cuts to half their proposed original value, but then make the cuts effective for the entire 1976 calendar year. Withholding schedules, however, reflect the full cut over a period of six months. Such an approach was necessary because it is difficult to administer a change in tax liabilities that applies to a taxable period of less than one year. As finally enacted, therefore, the Act lowers 1976 tax liabilities by $8.4 billion. At an annual rate, the effective size of this tax cut is, of course, $16.8 billion--of which $1.9 billion represents lower business taxes.

Compared to the tax cut of last spring, the new legislation actually represents a somewhat larger (annual rate) reduction for individual tax liabilities (excluding last spring's rebate of 1974 taxes). This larger cut is necessary to keep withholding rates unchanged throughout the year, since the earlier adjustment in withholding schedules allowed taxpayers to realize a one-year tax cut over a period of only eight months.

Table 1 compares the estimated effects of the new Revenue Adjustment Act with those of last spring's Tax Reduction Act. To make the comparison clear, all changes are shown on an annual rate basis, although if withholding rates are allowed to rise next June, the effects would be smaller. The estimates shown were prepared by the staff of the Joint Committee on Internal Revenue Taxation. For the new legislation, these are expressed in terms of taxes on 1976 incomes, whereas the impact of last spring's legislation is shown in terms of taxes on 1975 incomes.

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Table 1
Comparison of the Revenue Adjustment Act of 1975 and
the Tax Reduction Act of 1975
($ billions)

Revenue Adjustment Act of 1975 (Dec., '75)			Tax Reduction Act of 1975 (Mar., '75)		
Individuals		$14.9	Individuals		$19.8
(a)	Increases the minimum standard deduction from $1,300 to $1,700 for single persons and to $2,100 for joint returns, and raises the percentage standard deduction from 15 per cent to 16 per cent with a maximum of $2,400 for single persons and $2,800 for joint returns	(4.0)	(a)	Raised the minimum standard deduction from $1,300 to $1,600 for single persons and to $1,900 for joint returns, and increased the percentage standard deduction from 15 per cent to 16 per cent with a maximum of $2,300 for single persons and $2,600 for joint returns	($2.6)
(b)	Provides a (non-refundable) tax credit of $35 per exemption or a credit equal to 2 per cent of the first $9,000 of taxable income (whichever is larger)	(9.5)	(b)	Provided a (nonrefundable) tax credit of $30 per exemption	(5.2)
(c)	Continues the refundable earned-income credit of 10 per cent with a maximum credit of $400	1/ (1.4)	(c)	Introduced a refundable earned-income credit of 10 per cent with a maximum credit of $400	2/ (1.5)
(d)	Not continued		(d)	Provided a 5 per cent tax credit on the purchase price of a new home, with a maximum credit of $2,000	(0.6)
(e)	Continuation required no new legislation		(e)	Liberalized the provisions for child-care deductions on a permanent basis	(.1)

1/ It is estimated that roughly $1.0 billion will be paid to non-taxpayers. This portion will be treated as an increase in outlays rather than as a reduction in taxes.

2/ About $1.2 billion is expected to be paid to non-taxpayers; thus, it is estimated that taxes will be reduced by $.3 billion.

Revenue Adjustment Act of 1975 (Dec., '75)		Tax Reduction Act of 1975 (Mar.,'75)	
Individuals		Individuals	
(f) Nothing comparable		(f) Provided a rebate on 1974 individual income tax liabilities, and a one-time $50 social security cash payment	1/ (9.8)
Business	$1.9	Business	$2.8
(a) Continuation of 10 per cent investment credit through 1976 required no new legislation: qualified investment must be placed in service (not just ordered)before 1977		(a) Raised the investment tax credit from 7 per cent (4 per cent in the case of public utilities) to 10 per cent for items placed in service before 1977	(3.3)
(b) Extends the 1975 changes in the corporate tax rate and surtax exemption	(1.9)	(b) Increased the corporate surtax exemption from $25,000 to $50,000,and reduced the corporate tax rate from 22 per cent to 20 per cent on the first $25,000 of profits	(1.5)
(c) Continuation of tax increases required no new legislation		(c) Permanently increased taxes by repealing gas and oil depletion allowances, and by strengthening the rules for use of the foreign tax credit	(-2.0)
Total	$16.8	Total	$22.6

1/ The total cost of the $50 cash payments was $1.7 billion, and was classified as a Federal outlay.

NOTE: In the actual writing of the Revenue Adjustment Act, Congress took into account that the changes in tax law provisions, while conceptually designed to reduce withholding taxes for only 6 months, will nonetheless affect the taxes on income received throughout 1976. Accordingly, the written Act provides increases in the minimum standard deduction for the 1976 tax year to only $1,500 and $1,700 for persons filing single and joint returns, respectively, rather than to $1,700 and $2,100 as shown above and originally proposed. Also, the individual tax credit was actually set at $17.50 rather than at $35.00, and the earned-income credit was set at 5 per cent rather than at 10 per cent. Similar adjustments were made to the percentage standard deduction and to provisions affecting the taxes of small corporations.