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Content last modified 6/05/2009.

CONFIDENTIAL (FR)

November 10, 1976

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

TABLE OF CONTENTS

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rate)		
Civilian labor force	Oct.	11-5-76	95.3	1.8	.0	2.3
Unemployment rate (per cent)	Oct.	11-5-76	7.9	7.8 1/	7.8 1/	8.6 1/
Insured unemployment rate (%)	Oct.	11-5-76	5.0	5.0 1/	4.7 1/	6.0 1/
Nonfarm employment, payroll (mil.)	Oct.	11-5-76	79.5	-.8	1.7	2.5
Manufacturing	Oct.	11-5-76	19.0	-9.2	.9	2.6
Nonmanufacturing	Oct.	11-5-76	60.5	1.8	2.0	2.5
Private nonfarm:						
Average weekly hours (hours)	Oct.	11-5-76	36.2	36.0 1/	36.2 1/	36.2 1/
Hourly earnings ($)	Oct.	11-5-76	4.94	4.92 1/	4.87 1/	4.63 1/
Manufacturing:						
Average weekly hours (hours)	Oct.	11-5-76	39.8	39.7 1/	40.2 1/	39.8 1/
Unit labor cost (1967=100)	Sept.	10-29-76	144.5	5.0	3.6	2.9
Industrial production (1967=100)	Sept.	10-15-76	131.3	.0	3.7	7.5
Consumer goods	Sept.	10-15-76	137.3	-8.7	-1.5	6.4
Business equipment	Sept.	10-15-76	136.9	3.5	5.6	6.0
Defense & space equipment	Sept.	10-15-76	79.1	1.5	4.1	-2.6
Material	Sept.	10-15-76	133.1	.9	6.1	10.0
Consumer prices (1967=100)	Sept.	10-21-76	172.5	4.9	5.6	5.5
Food	Sept.	10-21-76	181.8	.0	1.8	2.1
Commodities except food	Sept.	10-21-76	158.5	4.6	6.4	4.8
Services	Sept.	10-21-76	183.0	6.6	6.9	8.3
sale prices (1976=100)	Oct.	11-4-76	185.6	6.9	5.6	3.4
ndustrial commodities	Oct.	11-4-76	186.6	12.3	10.6	6.6
Farm products & foods & feeds	Oct.	11-4-76	180.4	-11.2	-11.4	-5.9
Personal income ($ billion) 2/	Sept.	10-15-76	1392.2	5.8	6.4	9.0
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Sept.	11-3-76	46.8	-2.5	-6.2	10.9
Capital goods industries	Sept.	11-3-76	13.6	-1.2	-5.4	11.2
Nondefense	Sept.	11-3-76	12.1	3.0	2.5	18.8
Defense	Sept.	11-3-76	1.4	-26.3	-42.5	-27.3
Inventories to sales ratio:						
Manufacturing and trade, total	Aug.	10-15-76	1.48	1.48 1/	1.46 1/	1.54 1/
Manufacturing	Sept.	11-3-76	1.65	1.62 1/	1.60 1/	1.70 1/
Trade	Aug.	10-15-76	1.35	1.34 1/	1.34 1/	1.36 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Sept.	11-3-76	.850	.842 1/	.838 1/	.819 1/
Retail sales, total ($ bil.)	Sept.	10-12-76	54.6	.1	1.1	10.0
GAF	Sept.	10-12-76	13.5	.0	2.3	8.0
Auto sales, total (mil. units) 2/	Oct.	11-8-76	9.5	-5.7	-6.7	3.2
Domestic models	Oct.	11-8-76	7.6	-7.4	-12.6	-1.7
Foreign models	Oct.	11-8-76	1.9	2.3	29.1	29.5
Housing starts, private (thous.) 2/	Sept.	10-19-76	1,814	17.6	20.1	39.1
Leading indicators (1967=100)	Sept.	10-29-76	107.9	-.7	-1.2	5.3

ctual data. 2/ At Annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

A significant pickup in the pace of consumer spending occurred in the past two months, while industrial output and total hours worked rose more in November than can be accounted for by the ending of strikes. With the pick-up in retail sales, some progress may have been made in working off excess inventories especially in nondurable goods lines. However, the near term outlook remains clouded by continued large inventories of durable goods. In addition, the recent Commerce survey of plant and equipment spending plans shows disappointingly little strength in the first half of 1977.

Industrial production is estimated to have increased by 1-1/4 per cent in November. More than half of this rise was due to resumption of production following settlements of labor disputes, but moderate increases were widespread among non-affected industries. Consumer goods production increased about 1-3/4 per cent, mainly reflecting renewed production of autos and utility vehicles. Auto assemblies increased 14 per cent to an 8.8 million unit annual rate in November, close to their pre-strike levels. December output schedules call for a 9.2 million unit annual rate, with heavy concentration of production in models that have been in short supply. Production of farm equipment and business vehicles also recovered from strike reduced levels. In addition, there were moderate advances in the consumer durable goods and business equipment sectors not affected by strike activity. Production of consumer nondurables, notably apparel, also advanced. Output of materials also increased with gains throughout the durables group and advances in the paper and chemical industries.

The rise in industrial production in November generated an increase in the level of the newly re-estimated FR series of capacity utilization in manufacturing to 80.5 per cent up from a strike-reduced figure of 79.8 per cent in October. This compares to peacetime cyclical peak rates to 88 to 89 per cent. Thus, there appears to be sufficient capacity presently for appreciable near-term expansion in both advanced and primary processing industries. For industrial materials, the November rate of capacity utilization was nearly 81 per cent, about the average level maintained since May; however, in recent months the utilization rates for textiles and basic metal materials have declined from levels reached earlier in the year.

Stocks continued to accumulate rapidly at the factory level in October, despite a decline in industrial production during that and the preceding month, as shipments of goods slipped further. Book value of manufacturing inventories rose at a $17-1/2 billion annual rate, somewhat slower than the $22 billion September rate, but above the $15 billion monthly average of the third quarter. Durable manufacturers inventories rose even faster in October than in September. Those stocks have been rising for six months, but the September and October rates exceeded those in the previous four months. On the other hand, nondurable stocks rose in October at less than half

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

	1975			1976				
	II	III	IV	I	II	III	Sept.	Oct.
Manufacturing and trade	-15.4	6.2	-.4	21.9	28.3	29.0	39.5	18.4
Manufacturing	-12.5	-6.6	.6	6.3	11.0	14.8	22.1	17.6
Durable	-4.3	-8.6	-3.5	1.8	5.7	6.4	13.3	14.1
Nondurable	-8.2	2.0	4.2	4.5	5.4	8.4	8.8	3.5
Trade, total	-2.8	12.8	-1.0	15.6	17.3	14.2	17.4	.9
Wholesale	-2.7	3.1	-2.0	5.1	9.0	4.3	8.6	3.2
Retail	-.1	9.7	1.0	10.5	8.3	9.9	8.8	-2.3
Auto	.0	5.9	-.9	1.1	.1	4.8	-.9	-5.6

INVENTORY RATIOS

	1974	1975	1976				
	IV	IV	I	II	III	Sept.	Oct.
Inventory to sales							
Manufacturing and trade	1.62	1.52	1.49	1.49	1.51	1.51	1.52
Manufacturing	1.79	1.68	1.63	1.60	1.64	1.65	1.67
Durable	2.25	2.22	2.09	2.03	2.08	2.11	2.14
Nondurable	1.29	1.16	1.15	1.16	1.19	1.18	1.19
Trade, total	1.45	1.36	1.36	1.37	1.38	1.38	1.38
Wholesale	1.24	1.21	1.20	1.22	1.22	1.20	1.22
Retail	1.63	1.48	1.47	1.48	1.51	1.51	1.49
Inventories to unfilled orders:							
Durable manufacturing	.734	.829	.846	.838	.854	.854	.859

the September and third quarter rates. This drop in the rate of accumulation of nondurable inventories was widespread. The total manufacturing inventory-sales ratio rose to about its level at the end of last year. Total trade inventories were essentially unchanged in October as auto stocks declined during the strike and growth of nonauto stocks moderated substantially from the September pace.

Retail sales are estimated to have moved up briskly at almost all major types of stores last month, following a strong (upward revised) October increase. Excluding autos and mainly nonconsumer items, sales in November are estimated to be 1.4 per cent above October with a large gain reported for sales of furniture and appliances as well as another rise in general merchandise. The strike against United Parcel Service in 15 eastern states appears to have had relatively little impact on total sales in November. Compared to the third quarter, sales in November excluding autos and nonconsumer items were up 3.4 per cent--distinctly stronger than gains in the preceding two quarters. Higher spending at general merchandise and apparel stores and at gasoline stations were important sources of strength over this longer period.

The demand for cars as reflected in unit auto sales appears to have about returned to pre-strike levels. Domestic auto sales were at an 8.0 million unit annual rate in November--up from a 7.6 million unit rate in October--and rose further to an 8.7 million annual rate in the first ten days of December. This is close to the average rate

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

	1976		1976			
	I-II	II-III	III-Nov.	Sept.	Oct.	Nov.[a]
Total sales	1.9	1.2	2.6	-1.0	1.1	1.7
(Real*)	1.0	.2	n.a.	-1.9	-.1	n.a.
Total, less auto and nonconsumption items	1.3	1.6	3.4	.3	1.4	1.4
GAF	-.2	2.9	4.7	-1.4	3.3	1.5
Durable	3.4	.2	1.3	-4.0	.6	2.5
Auto	4.5	-.7	.4	-6.2	-.2	3.5
Furniture and appliances	2.7	-.2	3.3	-2.2	2.6	1.9
Nondurable	1.2	1.7	3.3	.5	1.3	1.3
Apparel	-3.2	5.7	1.5	-1.1	2.6	-.7
Food	1.2	1.0	2.1	-.3	1.0	.7
General merchandise	-.1	3.0	5.9	-1.2	3.6	2.0
Gasoline	.0	2.3	2.9	.7	1.4	.9

[a]Advance, partial sample estimate.

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

AUTO SALES
(Seasonally adjusted, millions of dollars)

	1976			1977				
	I	II	III	July	Aug.	Sept.	Oct.	Nov.
Total	10.0	10.3	10.2	10.2	10.5	10.0	9.5	9.5
Imports	1.3	1.4	1.6	1.4	1.6	1.8	1.9	1.5
Domestic	8.7	8.9	8.6	8.7	8.9	8.2	7.6	8.0

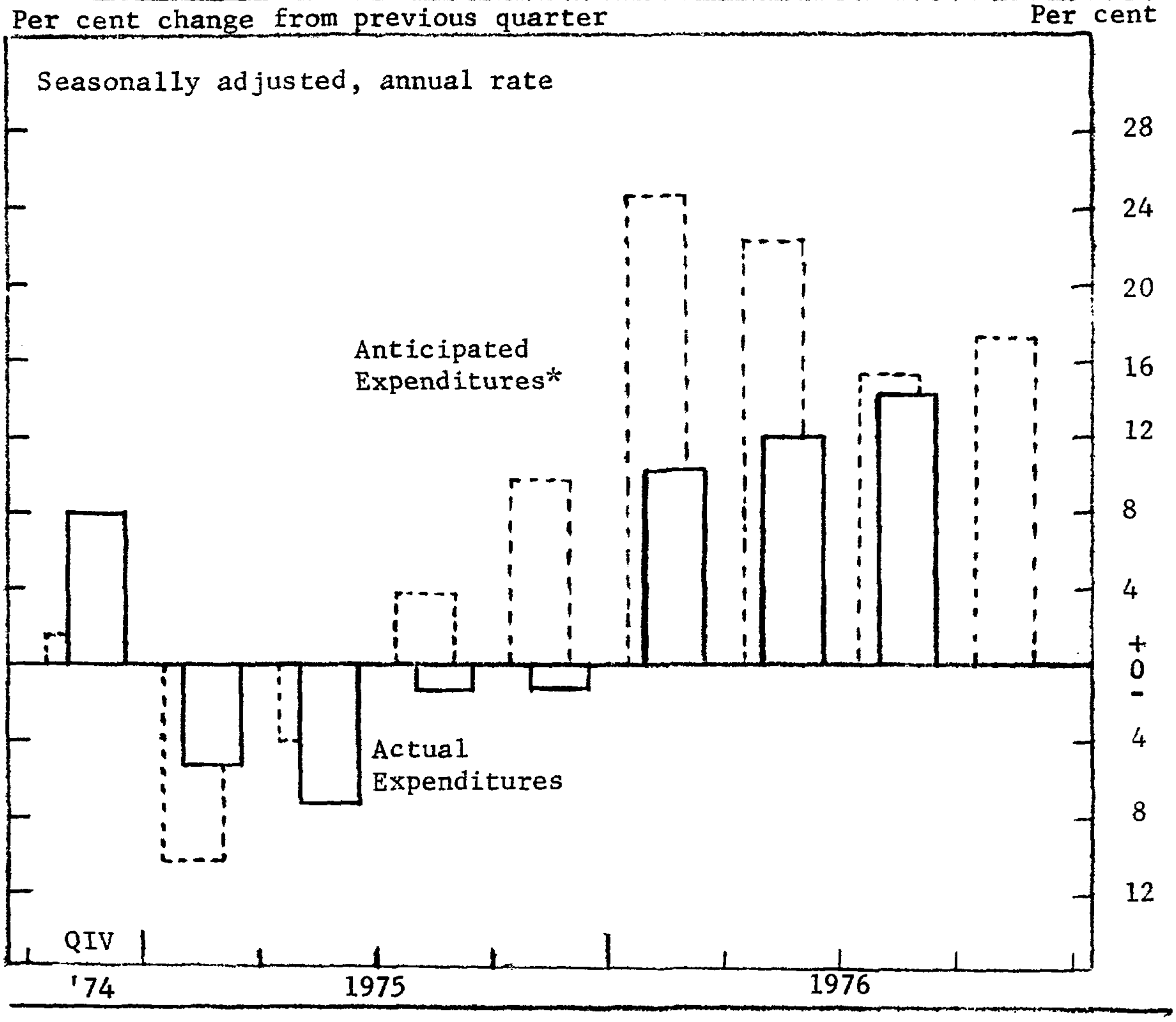
earlier in the year. Strike-related inventory shortages at Ford have held down the sales rate, and sales of General Motors cars were also affected by shortages of some popular intermediate and standard units. Sales in late November and in early December clearly benefited from the newly-authorized cash rebates on subcompacts.

Sales of imported units in November were at a 1.5 million unit annual rate, down from the more than 1.8 million pace of the previous two months. This decline reflects, in part, the conclusion of dealer incentive programs by two producers undertaken during the fall in the face of a heavy inventory hangover at model changeover time. Inventories of imported models remain high, however.

The most recent survey of business capital spending plans for early 1977 shows surprising weakness. The Commerce Department's latest survey of anticipated plant and equipment expenditures--conducted in late October and November--shows business planning to increase capital spending at an annual rate of 17.4 per cent in the fourth quarter of 1976, but only at a 5 to 6 per cent annual rate in the first two quarters of 1977. On the basis of flow data for October, however, it seems likely that there will be another shortfall of actual plant and equipment expenditures from expectations in the current quarter with the shortfall likely to be carried over into the first half of 1977. This pattern has occurred repeatedly in the recent past.

Overall, the Commerce survey suggests a weaker outlook for capital spending than the McGraw-Hill survey, which showed a 13 per

BUSINESS EXPENDITURES FOR PLANT AND EQUIPMENT



*Current quarter anticipations.

Business Expenditures for New Plant and Equipment

(Annual Rate Percentage Changes from Previous Quarter)

	1976				1977	
	I	II	III	IV	I	II
				-----Anticipated[1/]	-----	
All Industry	10.4	11.9	15.0	17.4	4.7	5.9
Manufacturing	20.4	11.6	32.7	10.6	5.4	4.1
Durables	10.6	16.8	36.4	10.4	4.6	14.6
Nondurables	28.4	7.4	30.0	10.6	6.1	-4.4
Nonmanufacturing	3.3	12.0	1.7	22.9	4.1	7.3

[1/] Expenditure plans from Commerce survey conducted in late October and November.

Manufacturers' New Capital Appropriations[1/]

(Per cent change from prior period based on seasonally adjusted quarterly totals)

	1975				1976		
	QI	QII	QIII	QIV	QI	QII	QIIIp
Manufacturing	-10.1	-3.6	-7.3	26.4	-11.9	10.1	-9.2
Ex Petroleum	-16.8	-12.1	-5.5	18.9	1.8	27.5	-18.0
Durables	-28.2	-16.9	-5.8	10.4	18.5	33.3	-15.6
Nondurables	9.0	5.6	-8.1	35.4	-25.9	-7.0	-2.4
Ex Petroleum	3.8	-6.1	-5.2	28.2	-14.2	19.7	-21.5

[1/] Conference Board Survey of 1000 largest manufacturing companies as ranked by total assets.

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

	1976						Oct. 75 to Oct. 76
	QI	QII	QIII	Aug.	Sept.	Oct.	
New Orders Received by Manufacturers							
Total Durable Goods							
Current Dollars	7.0	8.3	-3.0	-.1	-2.9	2.1	12.6
1967 Dollars 1/	5.5	7.5	-4.6	-.6	-3.9	.8	5.4
Nondefense Capital Goods							
Current Dollars	1.6	9.3	4.2	-6.8	2.6	3.3	16.8
1967 Dollars 1/	.1	8.1	2.9	-7.1	1.7	2.6	10.1
Construction Contracts for Commercial and Manufacturing Buildings 2/							
Current Dollars	1.4	11.1	-7.1	-7.1	30.9	4.0	13.8
Square Feet of Floor Space	-8.6	24.1	-3.8	-3.2	-9.5	11.1	1.4
Contracts and Orders for Plant & Equip.3/							
Current Dollars	11.7	3.1	.0	-8.9	3.6	15.1	28.8
1967 Dollars 4/	9.1	2.3	-.5	-8.4	2.6	12.4	20.3

1/ FR deflation by appropriate WPI.

2/ Current Dollar series obtained from FR seasonals. Floor space is seasonally adjusted by Census.

3/ Contracts and orders for plant and equipment (BCD Series No. 10) is constructed by adding new orders for nondefense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and new contracts awarded for private nonbuilding (e.g. electric utilities, pipelines, etc.).

4/ An experimental BCD series.

cent rise for all of 1977. Moreover, newly approved capital appropriations of the 1,000 largest manufacturing companies--which decreased 9 per cent in the third quarter of 1976--also indicate less prospective strength. Excluding the petroleum industry (where appropriations tend to be particularly volatile), the total for manufacturing dropped 18 per cent after a cumulative increase of 54 per cent in the previous three quarters.

Commitments data for business fixed investment remain relatively more promising, but they, too, are showing less bouyancy than earlier this year. New orders for nondefense capital goods rose 3.3 per cent in October to record their ninth increase in the last ten months. While orders continue strong, the rate of increase has been much less since mid-year than in the first half of 1976. The volatile series on construction contracts for commercial and manufacturing buildings rose sharply in October, and in dollar terms these contracts were 14 per cent above their level of a year earlier; but measured in square feet of floor space, they were up only 1 per cent.

Residential construction continues to show surprising strength. Private housing starts in October were only slightly below the strong rate recorded in September. The decline--to a seasonally adjusted annual rate of 1.79 million units--reflected a drop in multifamily starts, which had jumped sharply in September in response to efforts by HUD to encourage activity in this sector.

PRIVATE HOUSING STARTS--HUD ASSISTED PROGRAMS

Type of unit	Number of units (NSA)		Per cent of type	
	Sept.	Oct.	Sept.	Oct.
Multifamily				
Total	44,200	38,700	100	100
HUD Programs	10,039	8,278	23	21
Sec. 8 1/	6,552	5,128	15	13
Sec. 236 1/	2,597	3,150	6	8
Rent supplement	162	0	-	0
Low rent public housing (turnkey)	728	0	2	0
Single-family				
Total	108,900	108,600	100	100
HUD programs (Sec. 235 revised 2/)	760	600	1	1

NOTE: Details may not add to totals because of rounding. Sec. 8 calculated from HUD cumulative monthly totals. Rent supplement excludes Sec. 236. Sec. 235 estimated by HUD.

1/ Section 8 and Section 236 programs provide rental assistance to low and moderate income households.

2/ The section 235 program provides mortgage payment subsidies to enable selected low and moderate income households to purchase homes.

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

	1975	1976					Per cent change in Oct. from:	
	QIV	QI	QII	QIII(p)	Sept.(r)	Oct.(p)	Month ago	Year ago
All units								
Permits	1.11	1.17	1.13	1.34	1.50	1.44	- 4	+29
Starts	1.37	1.40	1.43	1.59	1.86	1.79	- 4	+25
Under construction 1/	1.04	1.06	1.06	1.11	1.11	n.a.	+ 3*	+ 7*
Completions	1.28	1.30	1.33	1.36	1.36	n.a.	- 3*	+ 4*
Single-family								
Permits	.81	.87	.81	.89	.93	.99	+ 7	+25
Starts	1.03	1.12	1.09	1.19	1.29	1.33	+ 3	+22
Under construction 1/	.56	.59	.61	.64	.64	n.a.	+ 3*	+22*
Completions	.91	.97	.99	1.05	1.01	n.a.	- 8*	+ 4*
Multifamily								
Permits	.30	.30	.32	.45	.58	.45	-22	+41
Starts	.33	.28	.35	.40	.57	.46	-19	+37
Under construction 1/	.48	.46	.46	.47	.47	n.a.	+ 3*	- 8*
Completions	.37	.33	.34	.31	.36	n.a.	+16*	+ 3*
MEMO:								
Mobile home shipments	.23	.27	.24	.24	.26	.28	+ 9	+18

* Per cent changes based on September data.
1/ Seasonally adjusted, end of period.

NOTE: Per cent changes are based on unrounded data. A change of less than 1 per cent is indicated by --.

The pace of single-family starts continued to increase in October, reaching a seasonally adjusted annual rate of 1.33 million units. This rate was only 7 per cent below the January 1973 peak, when support under federal subsidy programs was much larger. Meanwhile, sales of both new and existing homes in October, while down from their exceptional pace of September, remained quite strong.

With the exception of the second quarter of 1976, state and local government spending has risen quite modestly of late--up only 0.8 per cent from a year ago in real terms, compared to a long-run average rise of over 3 per cent. Most of the slowdown reflects reduced investment in structures and low employment growth stemming partly from fiscal constraints faced by many units. The latest indicators of state and local government purchases show continued weakness in investment. The value of construction put-in-place fell sharply in October, according to preliminary data, to well below the average for the third quarter. Although state and local employment increased in November, its level was only slightly above that in August. The Federal sector (NIA basis), after having made up during the third quarter some of its earlier shortfall in spending, appears to have reverted to a more modest growth rate of spending in the fourth quarter--when allowance is made for the recent Federal pay raise.

Total employment rose by 360,000 in November--more than offsetting the declines recorded in September and October. However, the civilian labor force, which was virtually unchanged from July to

October, jumped 560,000 in November and the unemployment rate rose 0.2 percentage points to 8.1 per cent--its highest level since December 1975. Over the past six months, household employment has grown by only 430,000, well below the increase in the labor force, and the unemployment rate has increased by 0.8 percentage point. The rise in unemployment over the past half year has been widespread among age-sex and occupation groups. This rise occurred not only among reentrants and new entrants, but also among job losers.

Nonfarm payroll employment (establishment series) rose 150,000, strike adjusted, in November. Gains in employment occurred in service-producing industries as well as in construction, and mining. Manufacturing employment rose 100,000 in November, but on a strike-adjusted basis factory jobs were about unchanged over the month. The factory workweek rose 0.3 hour to 40.0 hours in November--reflecting in part the end of strikes in autos and agriculture machinery. The November figures leave manufacturing employment and hours virtually unchanged from their levels of last spring before the tire and auto strikes began.

Total personal income rose at a $10.2 billion annual rate in October compared to a $6.2 billion rate in October; the Federal government pay raise accounted for $2.0 billion of this increase, while manufacturing payrolls were essentially unchanged in October. In November, payrolls are likely to be up significantly, reflecting the return of workers involved in labor disputes.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1975			1976				
	QII	QIII	QIV	QI	QII	QIII	Oct.	Nov.
Total, 16 years and older	8.7	8.6	8.5	7.6	7.4	7.8	7.9	8.1
Men, 20 years and older	7.0	7.0	7.0	5.7	5.7	6.0	6.3	6.5
Women, 20 years and older	8.4	7.9	7.9	7.4	7.1	7.6	7.6	7.7
Teenagers	20.2	20.2	19.5	19.4	18.7	18.8	19.0	19.0
Household heads	6.0	5.9	5.9	5.0	4.9	5.3	5.4	5.4
Married men	5.5	5.4	5.1	4.1	4.1	4.4	4.4	4.6
Total, Alternative Seasonal Adjustment Methods								
All Additive Factors	8.7	8.5	8.3	7.9	7.3	7.7	7.7	7.8
1975 Factors	8.7	8.6	8.5	7.8	7.5	7.6	7.9	7.9

CHANGES IN EMPLOYMENT
(average monthly change in thousands; based on seasonally adjusted data)

	June 1975-* Apr. 1976	Apr. 1976- Nov. 1976	Oct. 1976- Nov. 1976
Nonfarm Payroll Series			
Total	257	100	260
(Strike adjusted)	254	98	152
Construction	1	-5	29
Manufacturing	88	6	100
(Strike adjusted)	90	4	-6
Durable	48	19	121
Nondurable	40	-13	-21
Trade	58	18	-19
Services and Finance	70	62	75
Total Government	34	11	41
State and Local	34	11	37
Household Series			
Total	290	104	357

* June 1975 was the specific cyclical low for payroll employment.

Since last spring, however, the growth rate of personal income has slowed considerably. The reduced pace reflects a weaker rise of wage and salary disbursements and a sizeable decline in farm income. The slower advance of wage and salary disbursements was due in part to the auto strike but also reflected smaller increases in employment, no growth in the length of the workweek, and smaller increases in hourly earnings.

In real terms, wage and salary disbursements have risen 6.2 per cent since their trough in July 1975. This compares with a 10.9 per cent increase over the comparable 15 month period of the 1958-59 recovery. Real personal income has risen 4.9 per cent since July 1975; in the first 15 months of the 1958-59 recovery, it increased 8.5 per cent. Furthermore, real personal income is only 1.5 per cent above its previous peak in November 1973 compared to 6.4 per cent at a similar stage in the 1958-59 recovery.

The rate of wage increase over the first 11 months of this year has moderated significantly from the rapid pace experienced in 1974 and 1975. The average hourly earnings index for private nonfarm workers has increased at an annual rate of 6.9 per cent since last December compared with 7.9 per cent and 9.4 per cent for all of 1975 and 1974, respectively. The moderation has been widespread--occurring in all major industries.

CYCLICAL CHANGES IN REAL INCOME*
(cumulative per cent change; based on seasonally adjusted data)

			Personal Income**	Wage and Salary Disbursements**
A. Expansions--15 months after trough				
Trough = 6/49			11.3	12.4
6/54			10.4	10.5
4/58			8.5	10.9
12/60			7.4	7.8
11/70			7.5	7.4
7/75			4.9	6.2
B. 15 months after trough compared to previous peak				
Previous Peak		Trough plus 15 months		
12/48	-	9/50	8.3	8.6
5/53	-	9/55	8.9	7.1
3/57	-	7/59	6.4	4.6
7/60	-	3/62	6.2	5.7
10/69	-	2/72	7.8	5.1
11/73	-	10/76	1.5	-0.3

* November 1973 was the specific high and July 1975 was the specific low for the deflated wasge and salary component.
** Deflated by the CPI, seasonally adjusted.

PERSONAL INCOME
(average monthly change , billion of dollars seasonally adjusted at an annual rate)

	July 75*- July 76	July 76- Oct. 76	Sept. 76- Oct. 76
Total Personal Income	10.7	7.0	10.2
Labor and Nonfarm Proprietors' Income	8.8	7.0	7.8
Wage and Salary Disbursements	7.5	5.8	6.7
Other Labor Income	.7	.7	.7
Nonfarm Proprietors' Income	.7	.5	.4
Farm Proprietors' Income	-.2	-2.9	-.9
Transfer Payments	1.2	1.1	1.7
Rents, Dividends, and Personal Interest	1.4	2.1	1.9

* July 1975 was the specific low for deflated wage and salary disbursements.

Revised figures for nonfarm business sector productivity show a smaller third quarter increase (2.9 per cent annual rate) than previously reported (3.6 per cent annual rate) reflecting a weaker estimate of the output measure. Unit labor costs are now estimated to have increased at a 3.9 per cent rate, compared to a 3.3 per cent advance during the year ending in the second quarter of 1976.

The wholesale price index rose 0.6 per cent in November primarily as a result of a further large advance in industrial commodities. The index of industrial commodities prices has accelerated from a 3 per cent annual rate over the first five months of the year to a nearly 10 per cent rate over the last six months. If fuels and power are excluded, this divergence would narrow and the rates of increase would be about 5 and 7 per cent, respectively. Apart from fuels, higher prices for metals, machinery, transportation equipment, and lumber and wood products have been the prime movers in the advance since May.

The composition of increases in consumer prices appears little changed from June through October, and is characterized by modest advances for food and large increases for energy items. Declining meat prices--the result of abundant supplies--have been the major factor in the favorable performance of food prices. However, consumer food prices are likely to rise more in the next few months as a result

RECENT PRICE CHANGE
(Per cent changes at annual rates; based on seasonally adjusted data)1/

	Relative importance Dec. 75	Dec. 74 to Dec. 75	Dec. 75 to Mar. 76	Mar. 76 to June 76	June 76 to Sept. 76	Sept. 76 to Oct. 76	Oct. 76 to Nov. 76
			Wholesale Prices				
All commodities	100.0	4.2	-1.8	6.6	4.7	7.2	7.8
Farm and food products	22.8	-0.3	-15.8	18.0	-11.0	-11.2	2.7
Industrial commodities	77.2	6.0	3.2	3.6	9.6	12.3	9.6
Excluding fuels and related products and power	66.8	5.1	6.1	3.6	7.6	8.9	5.4
Materials, crude and intermediate 2/	48.1	5.5	3.5	4.3	9.5	11.7	10.9
Finished goods							
Consumer nonfoods	18.7	6.7	0.5	2.3	10.1	8.8	8.0
Producer goods	11.9	8.2	6.8	3.3	5.7	17.2	2.7
Memo:							
Consumer foods	11.1	5.5	-20.5	16.8	-12.2	-4.7	9.5
			Consumer Prices				
All items	100.0	7.0	2.9	6.1	5.8	4.2	
Food	24.7	6.5	-7.9	7.2	1.8	3.3	
Commodities (nonfood)	38.7	6.2	2.9	5.6	6.6	4.5	
Services	36.6	8.1	10.6	6.2	7.1	6.6	
Memo:							
All items less food and energy 2/3/	68.1	6.7	7.7	5.5	6.7	3.6	
Petroleum products 2/	4.5	10.1	-15.7	9.3	15.6	13.6	
Gas and electricity	2.7	14.2	6.4	12.1	13.6	15.5	

1/ Not compounded for one-month changes.
2/ Estimated series.
3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, gas and electricity.

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		November	34.89	14.2	4.3	1.1
Nonborrowed reserves		November	34.82	15.0	4.6	1.1
Money supply						
M1		November	309.8	0.0	4.4	4.8
M2		November	731.9	10.1	11.9	10.5
M3		November	1223.5	11.7	13.9	12.6
Time and savings deposits (Less CDs)		November	422.1	17.6	17.5	15.2
CDs (dollar change in billions)		November	62.1	0.1	-2.3	-19.7
Savings flows (S&Ls + MSBs + Credit Unions)		November	491.5	14.1	16.9	15.8
Bank credit (end of month)		November	770.1	9.4	9.2	5.9
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	12/8/76	4.67	-.31	-.58	-.59
Treasury bill (90 day)	"	12/8/76	4.40	-.47	-.70	-1.22
Commercial paper (90-119 day)	"	12/8/76	4.68	-.40	-.70	-1.25
ew utility issue Aaa	"	12/10/76	7.93	-.38	-.35	-1.44
nicipal bonds (Bond Buyer)	1 day	12/9/76	5.96	-.43	-.56	-1.38
auction yield	(FHA/VA)	12/13/76	8.51	-.16	-.41	-.81
Dividends/price ratio (Common stocks)	wk. endg.	12/8/76	3.94	-.18	.23	-.23
NYSE index (12/31/65=50)	end of day	12/14/76	56.59	1.06	1.02	46.38
Credit demands			Net change or gross offerings			
			Current month		Year to date	
			1976	1975	1976	1975
Business loans at commercial banks		November	1.9	.7	1.8	-6.1
Consumer instalment credit outstanding		October	1.6	1.2	13.7	4.4
Mortgage debt outst. (major holders)		September	5.9	4.5	42.7	28.9
Corporate bonds (public offerings)		November	1.2e	1.7	23.6e	30.9
Municipal long-term bonds (gross offerings)		November	3.2e	2.4	32.2e	28.5
Federally sponsored Agcy. (net borrowing)		November	-.6	.5	2.9	3.1
U.S. Treasury (net cash borrowing)		December	6.5	8.2	69.4	85.4
Total of above credits			19.7	19.2	186.3	175.1

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Domestic securities markets have staged a strong rally in recent weeks. Since the November FOMC meeting, market interest rates have fallen 25 to 60 basis points, dropping to their lowest levels in more than two years. The rally was fueled in part by the further easing of the Federal funds rate from 5 per cent to below 4-3/4 per cent and the cut in the discount rate by one-quarter percentage point. In addition, the weakness of incoming economic indicators--suggesting that private credit demands may not increase markedly in the months ahead--and the sluggish performance of M_1 lent support to the widely-held view that the Federal Reserve might soon lower still further its operating target for the funds rate. An indication of the market's expectation of further easing is that yields on most short-term market securities remain below the Federal funds rate.

Declining interest rates contributed to sustained inflows of time and savings deposits to depository institutions, although some institutions reportedly have taken actions designed to slow deposit growth. Credit flows in mortgage markets remained strong in November, and business and real estate loans at commercial banks continued to expand. Consumer instalment credit growth has remained moderate, reflecting in part the lackluster pace of consumer expenditures for automobiles and other durable goods and the utilization of other sources of funds to make purchases traditionally financed by consumer credit.

New Treasury and State and local government financing remained large in November, but the volume of private domestic long-term bond financing fell off to the smallest monthly total in more than two years. However, the large volume of issues scheduled for December suggests that some private and municipal borrowers have accelerated their long-term borrowing plans to take advantage of the recent declines in interest rates.

Monetary Aggregates and Bank Credit

The level of M_1 was unchanged in November, after growing at a 13-3/4 per cent annual rate in October. Because recent monthly growth rates of M_1 have been quite volatile, a more reliable indicator of the short-run growth trend in this aggregate may be obtained by averaging the rates of growth in the last few months. The average annual rate for the three-month period from September through November, for example, was about 4-1/2 per cent, near the 4-3/4 per cent average for the year ending in November.

Although growth in M_2 and M_3 was somewhat weaker in November than in the previous month, their expansion was in line with the average growth rates in these aggregates over the past year. All of the moderation in the rate of expansion of M_2--from a 15-3/4 per cent rate in October to a 10 per cent rate in November--was due to the weakness in M_1. Growth in commercial bank time and savings deposits (excluding negotiable CDs at weekly reporting banks) was slightly above the

MONETARY AGGREGATES[1/]
(Seasonally adjusted changes)

	1975	1976							Twelve months ending Nov 76
	HII	HI	QI	QII	QIII	Oct	Nov	Oct-Nov	
	Per cent at annual rates								
M_1 (currency plus demand deposits)	4.7	5.6	2.7	8.4	4.1	13.7	0.0	6.9	4.8
M_2 (M_1 plus time deposits at commercial banks other than large CDs)	8.3	10.4	9.7	10.8	9.2	15.7	10.1	13.0	10.5
M_3 (M_2 plus deposits at thrift institutions)	11.5	11.8	11.2	12.0	11.6	16.5	11.7	14.2	12.6
Adjusted bank credit proxy	3.7	2.4	2.3	2.4	3.8	11.7	13.2	12.5	3.9
Total time and savings deposits at CBs	7.3	6.3	7.2	5.3	7.1	14.0	15.6	14.9	8.0
a. Other than large negotiable CDs	11.4	14.1	15.3	12.5	13.2	17.3	17.6	17.6	15.2
1. Savings deposits	17.0	25.8	28.3	21.7	13.4	30.0	26.2	28.4	24.7
2. Time deposits	7.4	5.4	5.6	5.1	12.7	7.0	10.2	8.6	8.0
a. Savings and loans	18.2	15.5	15.0	15.4	16.5	18.8	14.9	17.0	17.3
b. Mutual savings banks	11.9	9.7	9.1	10.1	12.2	12.6	10.8	11.7	11.4
c. Credit unions	18.6	16.6	16.8	15.8	16.0	19.1	16.2[e]	17.8[e]	17.7[e]
	Billions of dollars (Average monthly changes, seasonally adjusted)								
Memoranda:									
a. Total U.S. Government deposits	0.3	0.4	1.1	-0.4	1.1	0.8	-0.4	0.1	0.3
b. Negotiable CDs	-0.2	-2.1	-3.2	-0.9	-2.7	-0.4	0.1	-0.2	-1.6
c. Nondeposit sources of funds	0.2	--	-0.1	0.1	-0.1	0.8	0.1	0.5	0.1

1/ Half-year and quarterly growth rates are based on quarterly average data.
p--Preliminary
e--Estimated

17-1/2 per cent annual rate of the most recent three-month period. The continued rapid inflows of these deposits may be attributable to the low level of market yields relative to bank offering rates. With the entire yield curve continuing to move downward since the summer, yields on Treasury obligations (of comparable maturities) are now well below the maximum allowable rates for deposits in all maturity categories. However, according to an informal System survey of banks and thrift institutions taken in the first week of December, a significant number of banks throughout the country have either ceased offering longer-term consumer-type time deposits or have reduced their offering rates.1/

Rate cutting by thrift institutions--whose ceiling rates are higher--appears to be even more common than for commercial banks, and deposit flows into these institutions abated somewhat in November for the second consecutive month. On a seasonally adjusted basis, the annual rate of growth of their deposits during November fell to an estimated 13-3/4 per cent from October's 17 per cent rate.2/

1/ About 10 per cent of sampled commercial banks stopped offering longer-term deposits during the last six months, while a slightly higher percentage cut deposit rates on long and short-term deposits over this period. None of the sampled banks has yet reduced rates on savings deposits. A more detailed summary of the survey, conducted by staffs of the Board and the Reserve Banks, will appear in the Supplement.

2/ Problems in seasonal adjustment associated with the seasonal coincidence of disintermediation cycles in 1973 and 1974 may also have resulted in overstating the extent to which deposit growth at thrifts has fallen since the summer.

The weakness in the rate of increase of M_1, as well as the slower deposit inflows at thrift institutions, contributed to a deceleration in the rate of growth of M_3 to a 12 per cent annual rate in November, compared to 16-1/2 per cent in October.

Large negotiable CDs outstanding at weekly reporting banks grew by $1 billion from late October to late November, after declining every month this year except June. This pickup was accompanied by some lengthening in maturities of the certificates sold. In early December, two major banks in New York City took the unusual action of placing through underwriters significant amounts of CDs in the four to five-year maturity range. It has been reported that rates on intermediate-term CDs recently have been attractive in terms of bankers' rate expectations, and that some banks have taken advantage of opportunities to pin down profitable spreads on fixed-rate term loans financed by CDs.

Total bank credit expanded at a 9-1/2 per cent annual rate in November, somewhat lower than the 12 per cent rate in October but still the second highest rate of growth in the last twelve months. Bank holdings of U.S. Government securities increased moderately in November, following two successive monthly declines, but other securities in bank portfolios, mostly tax-exempts, registered a sharp increase. Total loans rose at a 5-3/4 per cent annual rate in November, off substantially from the unusually rapid 18 per cent rate of growth in October. Nearly all of the expansion in loans in November was concentrated in business and real estate loans.

Business Credit

Business loans at commercial banks advanced at a 13 per cent annual rate in November, the third consecutive monthly increase, and such loans are now slightly above the level outstanding at the beginning of the year. However, more than half of this increase (and a smaller share of the October rise) was accounted for by acquisitions of bankers acceptances, which some banks have been using to build up their loan portfolios for year-end statement date and tax purposes.[1/]

Commercial paper issued by nonfinancial corporations rose $200 million, seasonally adjusted, in November, after declining during the previous two months. Despite little net growth in commercial paper in October and November, the total of nonfinancial commercial paper and business loans at banks grew at an annual rate of 14-3/4 per cent during this period. Even after excluding from the business loan increases the unusually large acquisitions of bankers acceptances during the past two months, the average monthly increase in the remaining short-term business credit for October and November is substantially larger than for any two-month period since mid-1974. (See

1/ For ten New York City banks, nearly all of the $1 billion growth (not seasonally adjusted) in business loans for the month was in bankers acceptances.

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

	1975	1976						
	HII	HI	QI	QII	QIII	Sep	Oct	Nov
Total loans and investments 2/	4.5	4.9	5.5	4.3	7.0	5.9	12.2	9.4
Treasury securities	22.1	36.8	44.3	26.3	--	-12.6	-6.4	10.3
Other securities	2.9	-1.0	-4.1	2.2	8.3	8.2	3.3	22.0
Total loans 2/	2.3	1.6	2.1	1.0	8.0	8.7	18.2	5.7
Business loans 2/	-1.2	-4.9	-7.4	-2.2	3.5	6.9	18.6	12.9
Real estate loans	4.3	8.0	8.9	6.9	6.0	8.5	6.7	7.5
Consumer loans	9.3	4.9	4.0	5.7	11.3	11.5	8.9	n.a.
MEMO: Business loans plus nonfinancial commercial paper 3/	-3.1	-1.7	-5.3	1.9	.6	-2.6	16.7	12.7
Short-term business credit less bankers acceptances 4/	-5.2	-.3	-3.5	2.9	-2.2	-8.5	14.5	7.8

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 foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.
3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.
4/ Business loans at commercial banks, plus nonfinancial commercial paper, less acquisitions of bankers acceptances by 155 large banks.
n.a.--not available

the last line of the Commercial Bank Credit table.) The composition and timing of the expansion in short-term business credit is somewhat puzzling. Such growth, however, is consistent with inventory accumulation--perhaps unintended--by business firms that have no alternative source of financing except banks. It also may reflect abatement of balance sheet restructuring by businesses or more aggressive efforts by banks to add to their loan portfolios. Not only has the prevailing prime rate been cut from 7 per cent to 6-1/4 per cent since late September--with one major bank going to 6 per cent--but also there is evidence that banks have eased further their nonprice terms of lending in recent months.[1/2/]

Gross issues of publicly offered bonds by domestic corporations totaled only $1.2 billion during November. This relatively light calendar reflected the low levels of offerings by high-grade industrial concerns and finance companies. (Finance companies had been issuing record amounts of long-term debt throughout most of 1976.) With bond yields at three-year lows, several corporations have accelerated the dates of their offerings or increased the amounts to be borrowed. December's holiday-shortened calendar currently is

1/ A summary of the November 15, 1976 Survey of Changes in Bank Lending Practices will appear in the Supplement.

2/ There have been reports in the press that some banks are more willing to make fixed rate and "cap" loans; at this writing, the Board staff has found no confirmation of these reports.

projected at $2.4 billion, with less than $500 million of the issues carrying ratings of Aaa or Aa. Private placements, normally heavy at the end of the year, are projected to be especially large in December, apparently because institutional investors are aggressively seeking such placements.

The dearth of public offerings of domestic corporate bonds in November was largely offset by a record volume ($1.3 billion) of publicly offered foreign bonds, particularly from the World Bank and several Canadian issuers who were attracted by the relatively favorable interest rates in U.S. markets. Foreign bond offerings (public and private) currently are expected to be a record $9.7 billion in 1976, compared to the previous record of $7.3 billion in 1975.

Yields in private long-term securities markets have moved downward with other market rates since the November FOMC meeting, and are currently at their lowest levels in almost three years. The Board's index of new, Aaa-rated utility bond yields has declined more than 25 basis points since mid-November to just under 8 per cent.

Stock market prices have risen about 5 per cent (NYSE Composite Index) on increased volume since the last FOMC meeting, although most broad stock market indexes remain below levels reached in late September. Utility stock prices have moved higher throughout most of the year--as the industry reported markedly improved profits

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

	1975	1976					
	Year	HI	QIII e/	Oct. e/	Nov. e/	Dec. f/	Jan. f/
		Gross offerings					
Corporate securities--							
Total	4,468	4,667	3,495	4,650	3,100	5,250	4,300
Publicly offered bonds	2,715	2,499	1,568	2,650	1,200	2,450	3,000
by quality 1/							
Aaa and Aa	1,422	1,354	700	1,250	525	625	--
Less than Aa 2/	1,293	1,145	868	1,400	675	1,825	--
By type of borrower							
Utility	925	720	575	850	825	530	--
Industrial	1,430	1,055	515	1,000	325	1,200	--
Other	360	724	478	800	50	720	--
Privately placed bonds	848	1,055	1,293	1,200	1,200	2,000	1,000
Stocks	905	1,112	634	800	700	800	800
Foreign securities--total	606	927	689	339	1,310	500	--
Publicly offered 3/	460	530	409	235	1,310	250	300
Canadian	221	172	175	135	335	125	--
Int'l lending agencies	134	167	167	--	500	--	--
Other	105	191	67	100	475	50	--
Privately placed	146	397	280	104	--	250	--
Canadian	n.a.	348	268	104	--	n.a.	--
Other	n.a.	49	12	--	--	n.a.	--
State and local gov't. securities							
Long-term	2,544	2,886	2,735	3,500	3,200	2,500	2,500
Short-term	2,420	2,147	1,681	1,200	1,170	1,200	1,000
		Net offerings					
U.S. Treasury	7,564	5,128	5,215	1,330	6,423	5,719	6,000
Sponsored Federal agencies	187	207	383	589	-287	181	282

e/ Estimated.
f/ Forecast.
1/ Bonds categorized according to Moody's Bond ratings.
2/ Includes issues not rated by Moody's
3/ Classifed by original offering date.

and as falling interest rates made dividend yields on these stocks relatively attractive--and the NYSE's utility stock index reached its 1976 high in early December. Offerings of new common and preferred stock totaled approximately $800 million in November, and public utilities continued to account for most of the volume.

Other Securities Markets

During the recent rally, some of the largest yield declines were in the intermediate-term Treasury security area--a pattern that has prevailed since rates began their downtrend from the peaks of this past spring. Since late May, for example, yields on three-month Treasury bills and on 20-year issues have dropped around 100 basis points, while the yield on five-year issues has fallen 180 basis points (see yield curve chart). This relative easing of intermediate-term yields may be a reflection of the market's less exuberant view of the likely future course of the economy or of some downward revisions in inflationary expectations. Also, since late May, commercial bank acquisitions of Treasury securities have been concentrated in the intermediate range. These institutions reportedly are feeling considerable pressure to reduce their low-yielding short-term asset positions, especially with year-end statement dates nearing.

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

	Nov. '75 FOMC Nov. 18	Sept. '76 FOMC Sept. 21	Oct. '76 FOMC Oct. 19	Nov. '76 FOMC Nov. 16	Nov. 30	Dec. 7	Dec. 1
Short-term							
Federal funds 1/	5.24	5.21	4.97	5.02	4.78	4.67	4.67 5/
Treasury bills							
3-month	5.47	5.03	4.84	4.83	4.42	4.40	4.34
6-month	5.80	5.23	4.95	4.95	4.57	4.51	4.51
1-year	6.12	5.38	5.10	5.07	4.69	4.64	4.66
Commercial paper							
1-month	5.38	5.00	4.75	4.88	4.63	4.50	4.50
3-month	5.75	5.25	5.00	5.13	4.75	4.63	4.63
Large neg. CD's 2/							
3-months	6.13	5.25	4.90	5.15	4.70	4.63	4.60
6-months	6.70	5.45	5.10	5.30	4.85	4.70	4.70
Federal agencies							
1-year	6.88	5.95	5.53	5.69	5.22	5.14	5.12 (12/10)
Bank prime rate	7.50	7.00	6.75	6.50	6.50	6.50	6.25 (12/13)
Long-term							
Corporate							
New AAA 1/	9.40	8.23	8.28	8.24	7.95	7.93p	n.a.
Recently offered 3/	9.24	8.30	8.20	8.28	8.04	7.97	7.95p
Municipal (Bond Buyer) 4/	7.43	6.50	6.25	6.39	6.16	6.03	5.96
U.S. Treasury (20-year constant maturity)	8.36	7.71	7.69	7.67	7.44	7.31	7.33p
Stock prices							
Dow-Jones Industrial	855.24	1014.79	949.97	935.34	947.22	960.69	980.63
N.Y.S.E. Composite	48.15	57.51	54.18	53.52	54.80	55.63	56.59
AMEX	85.40	104.15	98.56	98.23	98.94	101.42	103.73
Keefe Bank Stock	494	589	569	574	587	600	632

1/ Weekly average.
2/ Highest quoted new issues.
3/ One day quotes for preceding Friday.
4/ One day quotes for preceding Thursday.
5/ Average for first 6 days of statement week ending December 15.

n.a. -- not available.
p -- preliminary.

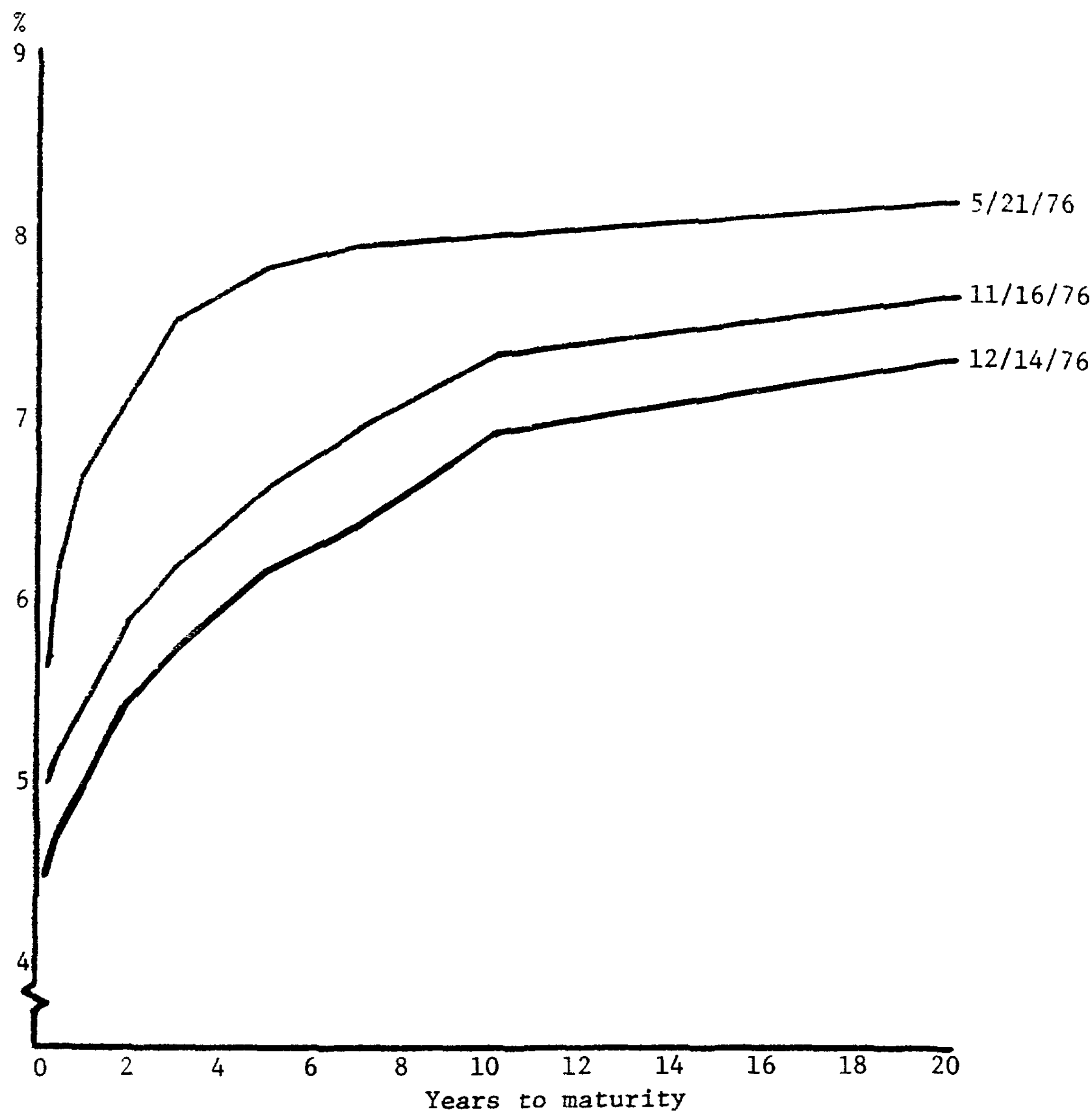
The Treasury has borrowed $5.6 billion of new cash in the market since the mid-November refunding operation and Board staff projections indicate that only a modest amount of new money will be raised over the remainder of this month. About one-fourth of the projected $17.8 billion Treasury borrowing from the public in the fourth quarter is in non-marketable form, reflecting the continued sale of savings bonds as well as significant purchases of special issues by foreign governments and a surge in special issues to State and local governments.[1/]

Sales of municipal bonds in November were $3.2 billion, bringing total long-term tax-exempt financing for the first eleven months to $32.1 billion--already $1.6 billion over last year's 12-month record total. As noted in previous Greenbooks, the heavy volume of bond financing stems, in part, from funding of short-term obligations, financing of nuclear power plants being constructed by State and local government authorities, and the reactivation of borrowing plans disrupted by the New York crisis in 1975.

1/ State and local units may purchase such securities as a temporary interest-bearing repository for their borrowing proceeds. The yields on these special issues are tailored to meet Federal regulations prohibiting State and local governments from realizing arbitrage profits by investing funds obtained at tax-exempt rates in higher yielding Treasury securities.

TREASURY YIELD CURVES

(Based on constant maturity interest rate series -- single day quotations)



Yields on long-term tax-exempt securities have declined appreciably since the last meeting of the FOMC; the Bond Buyer Index now stands at 5.96 per cent, its lowest level since June 1974. The pattern of declining yields in the face of a heavy volume of new issues has existed since early summer and continues to prevail despite the market's initial reaction to the recent decision overturning the 1975 New York Moratorium Act.[1/] Renewed interest in the tax-exempt market by property-casualty insurance companies--and in recent months by commercial banks--has bolstered demand for these securities. New buying support also has come from the recently authorized open-end tax-exempt bond funds. Total assets of these funds have grown rapidly over the last month, reaching about $400 million as of early December.

Mortgage and Consumer Credit

Activity in the mortgage market is estimated to have remained at a high level in November. Despite slower deposit growth at savings and loan associations, outstanding commitments at these institutions continued to increase during October from their record level in September. New issues of GNMA guaranteed mortgage-backed securities

1/ On Friday, November 19, the New York Moratorium Act was overturned by the New York State Court of Appeals. Under the court order, holders of $1 billion of New York City notes can receive principal and interest payment as soon as a payment schedule can be worked out with New York officials. The noteholders are believed to be largely individuals and small banks. The immediate market reaction was limited to a sharp drop on Municipal Assistance Corporation bonds. Prices, however, rebounded quickly the following Monday as market participants viewed the court decision as a reaffirmation of the security behind general obligation bonds.

also remained large in November. The expansion in mortgage credit has continued to be dominated by loans for new and existing single family homes; however, some strengthening in the multi-family sector has also been apparent in recent months, reflecting increased momentum in existing Federal subsidy programs.

Rates on conventional home mortgages in the primary market have fallen less rapidly from their peak in late 1974 than yields on long-term market securities, and downward pressures on mortgage rates have intensified in recent weeks, particularly in the secondary mortgage market. Since the November FOMC meeting, yields have dropped 17 basis points further on government underwritten mortgages in the FNMA auction and by as much as 40 basis points on GNMA guaranteed mortgage-backed securities which compete directly in the bond market. Moreover, trade reports suggest that rate cutting in the primary home mortgage market has broadened significantly--a development which, however, has yet to show up in the regularly published series.

Consumer instalment credit outstanding expanded at an 11 per cent annual rate in October--up moderately from September and slightly above the average of the past year. The commercial bank share of the net expansion declined in October, owing partly to slower growth of bank-card credit outstanding and partly to a pickup in credit expansion by retailers and finance companies.

The growth of total instalment credit outstanding during the past year averaged just under 10 per cent, compared with nearly 15 per cent in comparable periods of previous post-war recoveries. This relatively sluggish expansion may be attributed in part to the slow growth at this stage of the current cycle of purchases for which instalment credit is most often used, particularly consumer durables.[1/] Moreover, households appear to have been liquidating equity in existing homes,[2/] which may have permitted less intensive use of instalment credit for consumer goods purchases.[3/]

1/ Sales of these goods have declined as a proportion of total retail sales during the recent recovery, in contrast to behavior during earlier upswings.

2/ The robust growth in home mortgage credit in recent months has considerably exceeded household net expenditures on homes. See the Greenbook of September 1976.

3/ Automobile credit expansion, in particular, has fallen in relation to automobile sales--in contrast to rising in most recent cyclical upswings. Development of consumer leasing may help to explain the less intensive use of automobile instalment credit.

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

	Average rate on new commitments for 80% loans (Per cent)	Basis point change from month or week earlier	Spread 1/ (basis points)	Per cent of S&Ls with funds in short supply
1976--High	9.10	--	80	11
Low	8.70	--	-20	0
June	8.90	+12	+20	6
July	8.98	+ 8	+26	7
Aug.	9.00	+ 2	+53	7
Sept.	8.97	- 3	+74	9
Oct.	8.90	- 7	+61	8
Nov. 5	8.85	- 5	n.a.	8
12	8.80	- 5	49	7
19	8.80	0	56	6
26	8.80	0	75	6
Dec. 3	8.80	0	83	2
10	8.80	0	n.a.	n.a.

1/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.
n.a. - Not available.

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		
1976--High	171	127	9.31	634	321	9.20	8.44
Low	33	23	8.99	58	32	8.63	7.62
Nov. 1	142	112	9.00	215	73	8.67	8.02
8							8.02
15	141	127	9.00	219	114	8.68	8.02
22							7.84
29	71	58	8.99	60	34	8.63	7.75
Dec. 6							7.62
13	80	68	8.89	36	23	8.51	7.60

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 related 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.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976 1/ QII	QIII	Sept.	Oct.
Total						
Change in outstandings						
$ Billions	9.0	6.8	16.9	16.7	17.8	18.8
Per cent	6.1	4.4	10.5	10.0	10.4	10.9
Bank share (%)	44.4	41.7	40.1	43.8	47.1	42.9
Extensions						
$ Billions	160.0	163.5	182.5	186.8	189.3	192.7
Bank share (%)	45.4	47.2	47.2	47.9	47.8	47.4
Liquidations ($ billions)	151.1	156.6	165.6	170.1	171.5	173.9
Automobile Credit						
Change in outstandings						
$ Billions	0.3	2.6	7.6	7.1	7.3	6.3
Per cent	0.7	5.2	14.2	12.6	10.3	8.9
Extensions						
$ Billions	43.2	48.1	54.6	55.8	57.2	55.0
New-car loans over 36 mos. as % of total new-car loans						
Commercial banks 2/	8.8	14.0	22.4	28.5	--	--
Finance companies	8.6	23.5	32.3	36.2	36.8	36.8
New-car finance rate (APR)						
Commercial banks (36 mo. loans)	10.97	11.36	11.03	11.07	11.07	11.04
Finance companies	12.61	13.11	13.15	13.18	13.21	13.20

1/ Quarterly and monthly dollar figures and related percentage changes are SAAR.
2/ Series was begun in May 1974, with data reported for the mid-month of each quarter. Figure for 1974 is average of May, August, and November.

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

December 15, 1976

IV - T - 1

		1975	1 9 7 6				
		YEAR	Q1	Q2	Q3	Sept.	Oct.
1.	Merchandise exports	107,088	26,836	28,450	29,711	9,875	9,767
2.	Merchandise imports	98,058	28,510	29,735	32,612	10,986	10,622
3.	Trade Balance	9,030	-1,674	-1,285	-2,901	-1,111	-855
4.	Bank-reported private capital flows	-12,840	-2,960	-1,246	-1,621	-739	1,734
5.	Claims on foreigners (increase -)	-13,487	-3,637	-4,764	-3,339	-2,562	-687
6.	Long-term	-2,373	-291	-385	-989	-245	-144
7.	Short-term	-11,114	-3,346	-4,379	-2,350	-2,317	-543
8.	(of which on commercial banks in offshore centers 2/)	(-7,212)	(-3,603)	(-2,393)	(-2,258)	(-2,129)	(279)
9.	Liabilities to foreigners (increase +)	647	677	3,518	1,718	1,823	2,421
10.	Long-term	-300	-91	-25	66	-21	167
11.	Short-term	947	768	3,543	1,652	1,844	2,254
12.	to commercial banks abroad	-666	1,077	2,220	1,941	1,752	2,445
13.	(of which to commercial banks in offshore centers 3/)	(1,798)	(-227)	(1,205)	(299)	(455)	(3,137)
14.	to other private foreigners	1,549	155	468	905	331	-138
15.	to int'l and regional organizations	64	-464	855	-1,194	-239	-53
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,667	430	-592	3,021	827	19
17.	Other private securities transactions (net)	-3,701	-1,538	-1,264	-2,739	-499	-488
18.	Foreign net purchases (+) of U.S. corp. securities	2,505	989	185	67	-45	-151
19.	(of which stocks)	(3,054)	(945)	(189)	(-45)	(-56)	(-225)
20.	U.S. net purchases (-) of foreign securities	-6,206	-2,527	-1,449	-2,806	-454	-337
21.	(new foreign issues on bonds and notes)	(-7,260)	(-2,853)	(-1,622)	(-3,074)	(-489)	(-402)
22.	Change in foreign official assets in the U.S.	5,211	2,329	3,314	1,272	-593	806
23.	OPEC countries (increase +)	5,940	2,230	2,737	1,228	-501	444
'	(of which U.S. corporate stocks)	(1,643)	(555)	591	(374)	(65)	(130)
	Other countries (increase +)	-729	99	577	44	-92	362
26.	Change in U.S. reserve assets (increase -)	-607	-773	-1,578	-408	-324	-81
27.	Other transactions and statistical discrepancy (net payments (-))	240	4,186	2,651	3,376	2,439	-1,135
28.	Other current account items	2,667	1,614	1,987			
29.	Military transactions, net 4/	-883	-5	-13			
30.	Receipt of income on U.S. assets abroad	18,219	5,495	5,462			
31.	Payment of income on foreign assets in U.S.	-12,212	-3,216	-3,305			
32.	Other services, net	2,163	458	715			
33.	Remittances and pensions	-1,727	-483	-441			
34.	U.S. Gov't grants 4/	-2,893	-635	-431			
35.	Other capital account items	-6,952	-2,414	-282			
36.	U.S. Gov't capital, net claims 4/ (increase -)	-1,731	798	-234			
37.	U.S. direct investment abroad (increase -)	-6,307	-1,757	463			
38.	Foreign direct investment in U.S. (increase +)	2,437	-728	547			
39.	Nonbank-reported capital, net claims (increase -)	-1,351	-727	-1,058			
40.	Statistical discrepancy	4,525	4,986	946			
MEMO:							
41.	Current account balance	11,697	-60	702	n.a.	n.a.	n.a.
42.	Official settlements balance	-4,604	-1,556	-1,736	-864	917	-725
43.	O/S bal. excluding OPEC	1,336	674	1,001	364	416	-281

NOTES:

1/ Only trade and services, U.S. Govt. grants and U.S. Govt. capital are seasonally adjusted.

2/ Offshore centers are United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and ermuda).

epresents mainly liabilities of U.S. Banks to their foreign branches in offshore centers which are the nited Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda).

4/ Excludes prepayments for military purchases.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. Since the second week of November, the weighted average exchange value of the dollar has declined by 1/2 per cent.

. The currencies which have shown the largest movement relative to the dollar during the recent period have been the pound and Canadian dollar.

Strong selling pressure on the Canadian dollar was triggered by the November 15 election victory of the French Seperatists in Quebec. The political uncertainty generated by the Quebec situation added to concerns that Canadian inflation rates would continue to exceed those in the United States and that the very high levels of Canadian foreign borrowings might prove unsustainable, and touched off very heavy selling pressure on the Canadian currency. The Canadian dollar depreciated from U.S. $1.02 to a low of U.S. $0.96 on November 30 as trading volume hit record levels. The Canadian dollar has since recovered partially to U.S. $0.98.

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The British pound has appreciated by over 3 per cent during the past month, rising at one point to nearly $1.70.

. Sterling's recent exchange market movements have been most heavily influenced by rumors concerning the continuing negotiations between the British government and the IMF over a $3.9 billion loan to the United Kingdom. The pound's recent rise reflects the apparently successful conclusion of these negotiations, as well as reports that some form of additional assistance may be provided the British to deal with sterling balances. On November 18 U.K. authorities tightened exchange controls by prohibiting U.K. banks from making sterling loans to finance third country trade.

The foreign currency purchase tax and other Italian foreign exchange control measures have helped reduce exchange market supply of lira. An amnesty on repatriations of Italian foreign investments, held in violation of Italian exchange control measures, is estimated to have resulted in capital inflows into Italy in excess of $1 billion. Despite the lira's recent strength, pessimism over the future exchange value of the lira is reflected in the continued substantial discounts on lira for future delivery. The price of lira for delivery in one year, for example, is nearly 17 per cent below the price for immediate delivery.

The currencies of the European joint float have changed little against the dollar over the past month. The mark has remained at the bottom of the snake, occasionally touching its lower intervention limit against the Danish krone.

. The System purchased small amounts of marks, Swiss francs and French francs in the market over the past month, and purchased larger amounts of Swiss francs directly from the Swiss National Bank. These purchases enabled the System to make repayments totaling $73 million equivalent on its Swiss franc swap debt, reducing the total of such debt outstanding to $1,074 million.

After Mexican authorities abandoned their long-standing 8 cent parity for the peso on September 1, they attempted to stabilize the peso's exchange rate, first at about 5 cents and later at just above 4 cents.

. On November 19 rumors of imminent exchange controls and political uncertainty generated by the impending installation of a new Mexican President, brought the flight out of pesos into dollars to a new peak, and Mexican banks began rationing their supply of dollars or ceased selling dollars entirely. On November 22 the Bank of Mexico

announced that

banks would be prohibited from foreign exchange trading, with this activity transferred to stockbrokers. The peso immediately fell to about 3.6 cents with trading characterized by sharp rate movements and wide bid-ask spreads.

Since November 22, the peso has firmed to around 5 cents, a level 38 per cent below its old 8 cent parity.

On November 28, the Australian dollar was devalued relative to the U.S. dollar by 17-1/2 per cent. New Zealand followed the next day with a 7 per cent devaluation of its currency. Subsequently, the Australians have announced two small <u>re</u>valuations, of 2 per cent and 1-1/4 per cent, in accordance with their new policy of smaller, more frequent exchange rate adjustments.

The gold price has moved over a range of $128 to $138 during the past four weeks, with the current $135 level unchanged from that of a month ago. On December 8 the IMF held its fifth gold auction, selling 780,000 ounces at a common price of $137.00. The next IMF auction, also of 780,000 ounces, will be held on January 26. Beginning in March, auctions of 525,000 ounces each will be held by the Fund on the first Wednesday of each month. In the first half of January, the IMF expects to initiate the restitution of 6.25 million ounces of gold to its members in proportion to their quotas. This is the first of four annual restitutions which will total 25 million ounces.

International capital markets. Total borrowing in the markets for medium-term Euro-credits, Euro-bonds, and foreign bonds has continued at a high level. Borrowing in the four months July-October 1976 totalled $18 billion, which at an annual rate was about 10 per cent less than in the first half of this year; seasonal factors explain much of this slowing. Newly-arranged Euro-credits increased sharply in these four months relative to the rate in the first half of the year, as borrowers in industrial and oil-exporting countries as well as in non-oil developing countries stepped up their rate of borrowing. New Euro-bond issues were well-maintained in the July-October period, but foreign bond issues in national markets slowed perceptibly mainly because of reduced Canadian flotations in the U.S. market. Interest rates have eased significantly in all these markets since mid-year, reflecting generally soft demand for credit in the national markets of the industrial countries.

Publicized medium-term Euro-credits arranged in July-October amounted to $9.7 billion, almost 20 per cent above the rate in the first half of 1976. Loans to industrial countries of $4.0 billion in fact exceeded the first-half total by a considerable margin. Spain raised $1.2 billion, of which $1 billion was obtained by the Spanish Government in July; British public sector borrowers, who had been out of the market for some time until

Borrowing in International Capital Markets
(in billions of dollars)

	1974	1975			1976		
	Year	Year	1st H	2nd H	1st H	Q-3	Oct.
I. Medium-term Euro-credits: total[1/]	28.5	20.6	8.5	12.0	12.3	4.7	5.0
Industrial countries	19.0	6.4	2.8	3.6	3.6	2.5	1.5
Denmark	.4	.3	0	.3	.4	0	0
France	3.3	.5	.4	.1	.7	.1	0
Spain	1.1	1.0	.5	.6	.3	1.1	.1
United Kingdom	5.7	.6	.3	.4	1.0	.3	.6
Other	8.5	4.0	1.6	2.2	1.2	1.0	.8
Oil-exporting countries	.8	3.2	1.4	1.8	1.7	.4	1.1
Algeria	0	.5	.1	.4	.4	.1	0
Indonesia	.4	1.6	1.1	.5	.3	*/	0
Iran	.1	.3	0	.2	.7	.2	.1
Venezuela	.1	.2	.2	0	0	0	0
Other	.2	.6	0	.6	.3	.1	1.0
Other developing countries	7.2	7.9	2.6	5.3	4.7	1.6	2.0
Argentina	.5	*/	*/	*/	.1	.1	.5
Brazil	1.6	2.1	.7	1.4	1.2	.7	*/
Mexico	1.5	2.2	.7	1.5	.7	.4	.9
Philippines	.9	.3	.1	.1	.7	.1	.1
Other	2.7	3.3	1.1	2.3	2.0	.3	.5
Socialist countries and org.'s	1.1	2.7	1.1	1.6	1.4	.2	.3
Int'l org.'s & other	.4	.4	.3	.1	.9	*/	.1
II. Euro-bonds: total	4.5	10.2	5.6	4.6	8.4	3.1	1.0
By borrower: Canada	.4	1.2	.3	.9	1.9	.6	.2
France	.3	1.3	.8	.5	.8	.3	.1
Japan	.2	1.2	.6	.6	.7	.3	.1
Other	3.6	6.5	3.9	2.6	5.0	1.9	.6
By currency:[2/] U.S. dollar	3.1	4.8	2.0	2.9	5.3	2.4	.6
German mark	.6	2.9	2.3	.6	1.7	.5	.3
Other	.8	2.5	1.3	1.2	1.7	.2	.1

(continued on next page)

III.	Foreign Bonds:	total	7.8	11.9	5.1	6.9	9.6	3.4	0.9
	By borrower:	Canada	2.0	3.4	1.3	2.0	3.4	1.1	0.3
		IBRD	3.1	2.4	.6	1.7	1.6	0.5	0
		Other	2.7	6.1	3.2	3.2	4.6	1.8	0.6
	By market:2/	U.S.3/	3.6	6.8	2.7	3.8	5.4	2.0	0.4
		Switzerland	1.0	3.4	1.4	2.0	2.6	1.1	0.4
		Other	3.2	1.0	.8	.9	1.6	.4	.1
IV.	Total Borrowing (I+II+III)		40.8	42.7	19.2	23.5	30.3	11.2	6.9

1/ Publicized credits of over one-year maturity.
2/ Breakdowns may not add to totals because of lack of comprehensive revised data.
3/ Figures differ from those from U.S. sources.
*/ Less than $50 million.
Source: World Bank.

last May, raised credits of $300 million in July (National Water Council) and $500 million in October (Electricity Council). The smaller industrial countries also stepped up their rate of borrowing, particularly Ireland ($400 million) and Greece ($308 million). The Government of Denmark, an active borrower in the first half, did not arrange Euro-currency credits in the period under review but subsequently arranged a $400 million credit in early December to replenish its external reserves.

The $1.5 billion raised by oil-exporting countries nearly equalled their first-half total; Venezuela, which had not borrowed in this market since early 1975, arranged a $1 billion loan in October to pay off short-term debts.

The non-oil developing countries arranged $4.1 billion of medium-term Euro-credits in July-October, which was a higher rate than in the first half. (Some part of the new loans was to meet maturing debt.) Loans to Argentina and Mexico were particularly large. In October Argentina effectively completed negotiations with U.S. banks for a $500 million loan (although the agreement has not yet been formally signed). This is part of a $1.3 billion package that Argentina is negotiating to stretch out maturities on its external debt and that will include loans from European, Canadian and Japanese banks and a $300 million IMF drawing. Credits arranged by Mexico in July-October of $1.3 billion were nearly double the first-half amount and included an $800 million loan to the Mexican Government from a syndicate of U.S., Canadian, and European banks for which funds were fully committed in October although formal signing did not occur until mid-November. One-half of this loan was for five years and one-half for seven years. Brazilian borrowing continued to be heavy in the third quarter. Brazil is currently negotiating two loans from European banks totalling $920 million, but part of this package may be in domestic currencies.

Socialist countries and organizations arranged $540 million of new Euro-credits in July-October, principally for Hungary, Czechoslovakia, and Bulgaria; this amount was at a lower rate than borrowing by this group in 1975 and the first half of 1976. In December new credits were negotiated by Hungary and Poland for about $350 million.

Since June the volume of Euro-credits arranged has been encouraged by declining lending rates. 3-month deposit rates are now about 5 per cent compared with a 5.7 per cent average for the first half of this year. Spreads over deposit rates on Euro-dollar loans have also tended to narrow slightly in recent months.

New issues of <u>Euro-bonds</u> of $4.1 billion in the period under review were at about a 25 per cent slower rate than in the first half of the year, mainly because of seasonal factors. Flotations by Canadian borrowers, however, declined more than did total issues. Australian recourse to the Euro-bond market increased sharply when the Government floated a $300 million issue in September in three tranches of 7-, 10-, and 15-year maturities. The average final maturity of new issues in July-October was 7.26 years, slightly below the second quarter when maturities began to lengthen but still well above the 6.91 years of the first quarter. Yields in the secondary market eased after mid-year; yields on dollar bonds of U.S. compares at the end of October were down about 40 basis points from the first-half average.

<u>Foreign bond</u> issues, totalling $4.3 billion, were down one-third from their first-half rate, a decline apparently more than seasonal. Canadian and World Bank issues declined more than those of other borrowers.

U.S. International Transactions. Major developments in the U.S. international accounts in October were the continuation of a large trade deficit, and the emergence of a net inflow of funds on bank-reported private capital transactions.

Nonagricultural exports declined slightly in each month from August to October, following a period of substantial growth in the first seven months of the year. The pattern of a strong growth in these exports earlier in the year, followed by a slowdown more recently, was wide-spread geographically. Shipments to most industrial countries leveled off and in some cases declined slightly, while shipments to non-oil developing countries dropped more noticeably.

The recent decline was more pronounced in volume terms, as nonagricultural export prices, which had been flat earlier in the year, rose 3.3 per cent during the three months ending in October. The largest volume declines were in machinery and automotive products. The slowdown in auto exports and in exports to Canada, which receives most of our automotive exports, was largely a result of the UAW strike against Ford Motor Company in September-October. These exports had increased in earlier months in anticipation of the strike. More broadly, the recent movements in U.S. exports reflect the pattern of growth in activity abroad, which has slackened noticeably in recent months, following a surge in the early stages of the upturn.

Looking to the near future, available indicators give conflicting signals. While recent movements in export shipments and foreign activity suggest weakness and the currency depreciations in Canada and Mexico are likely to reduce exports, export orders for durable goods, especially for machinery, are up strongly. In July-October, new orders for machinery (which account for 35 per cent of nonagricultural exports) were 25 per cent above the second quarter in constant dollars and 34 per cent above the first quarter.

Agricultural exports have increased steadily throughout the year, with a particularly large rise in October, reaching a record level of $28.4 billion (seasonally adjusted annual rate). Most of the increase has been in volume, as prices have remained fairly stable in 1976. The sharp rise in October resulted from a large increase in the volume of corn exports to Europe, particularly to those areas that had been severely affected by the drought earlier this year. Weekly data on shipments for November suggest that agricultural exports will be down from the October peak.

Nonfuel imports in October declined slightly from September levels. After increasing steadily through July, the volume of nonfuel imports has eased in recent months with the slowdown in the growth of U.S. economic activity. This pattern held across most import categories except capital goods and automotive products. Capital goods imports have continued to increase, in line with the moderate but steady growth in domestic business fixed investment expenditures, while automotive products have dropped off much more sharply than other imports in recent months. Most of the drop in automotive imports (largely from Canada) is related to the Ford strike. Automotive imports from other areas have been fairly steady on balance

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

	1975	1976						
	Year	1Q	2Q	3Q[r]	July	Aug.	Sept.[r]	Oct.
EXPORTS	107.1	107.3	113.8	118.8	119.4	118.6	118.5	117.2
Agric.	22.2	21.3	23.5	25.3	25.4	25.3	25.2	28.4
Nonagric.	84.8	86.1	90.3	93.6	94.0	93.3	93.3	88.8
IMPORTS	98.1	114.0	118.9	130.4	132.3	127.2	131.8	127.5
Fuels	28.5	31.8	36.5	39.9	40.2	40.2	38.7	36.4
Nonfuels	69.5	82.3	82.5	90.6	92.1	87.0	93.1	91.1
BALANCE	+9.0	-6.7	-5.1	-11.6	-12.9	-8.6	-13.3	-10.3

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

Index Numbers 1973=100

	1975	1976						
	Year	1Q	2Q	3Q	July	Aug.	Sept.	Oct.
NONAGRIC. Exports								
Price	144.1	150.3	152.4	153.9	152.4	153.0	156.5	157.4
Volume	110.1	107.0	110.8	113.6	115.4	114.0	111.6	105.5
NONFUEL Imports								
Price	140.9	138.6	141.7	144.1	143.4	143.9	145.1	145.1
Volume	80.2	96.6	94.7	102.2	104.6	98.3	104.3	102.1

this year, with increases in shipments from Japan offsetting declines in shipments from Europe. There has been a pickup in new foreign car sales in recent months, which has been stimulated by improvements in price and quality incentives relative to domestic competition. The increase in sales has largely come out of inventories that were built up earlier in the year.

The growth of fuel imports has eased off in the last few months with the volume of oil imports dropping from a rate of about 8-1/2 million barrels per day during the summer months to still high rates of 7-1/2 to 8 million barrles per day in September and October. Fuel imports are likely to remain at these rates through the end of the year as stockpiling continues in anticipation of an OPEC price increase. The average price of imported oil has inched up throughout the year and in October was $12.25 per barrel.

Bank-reported capital transactions showed a large net inflow of funds in October, following a smaller net outflow in September (revised from the net inflow reported last month). The increase in bank-reported claims fell off from the rates of earlier months, and bank-reported liabilities to private foreigners rose more strongly. After adjusting for the understatement of outstanding claims due to over-the-weekend arbitrage between the Federal Funds and Eurodollar markets, the net inflow of funds in October may have been on the order of $250 to $750 million. The inflow represents, in part, U.S. banks' substitution of near term Euro-dollar funds raised by their overseas branches for maturing certificates of deposit. These Euro-dollar funds are of less than 30 days maturity -- a range where U.S. head offices are unable to compete directly because of the prohibition on interest payments.

New issues of foreign bonds in the United States were down slightly in October, but are expected to be about $2.5 billion in the fourth quarter, a rate equal to that of the first three quarters. The relative yield on Canadian issues has responded adversely to the political situation in Quebec. However, there has been only a slight drop-off in Canadian issues in the United States during the fourth quarter. Another development related to foreign long -term issues in the United States is that Venezuela, the first OPEC member to enter the U.S. market in recent years, plans to float a five year $75 million public issue in the first quarter of 1977.

Foreign official assets in the United States increased by $800 million in October. Holdings of OPEC official agencies accounted for more than half of the increase, and an increase in liabilities to Italy accounted for most of the remainder.

Fiscal Policy in Foreign Industrial Countries. Until recently, the stance of fiscal policy in the major foreign industrial countries has been directed towards reducing the stimulus provided during the 1974-75 recession. In Japan and Germany, these efforts have been relaxed somewhat, in response to the pause in economic activity, and may soon be reversed. In Italy and the United Kingdom, the move towards reduction in fiscal stimulus has become more pronounced, due to unusually high rates of inflation and associated pressures on exchange rates. Canada and France show few signs of changes in fiscal posture in either of these directions.

Policy makers are faced with a set of circumstances that gives no clear indication of the appropriate fiscal stance. The most recently available data point to a continuation of the pause in the recovery, at levels of activity and employment that are well below potential. This suggests that a move towards fiscal stimulus might be in order. However, changes in labor force characteristics and in the productivity of the capital stock (resulting from higher oil prices, environmental considerations, changes in the composition of demand, etc.) hamper calculations of the gap between potential and actual GNP, and therefore, of the proper fiscal action.

At the same time, rates of increase in prices in 1977 are expected to remain between six and ten per cent -- somewhat lower in Germany, higher in the United Kingdom and Italy -- representing at best gradual improvement over 1976. Thus, there is considerable caution in all countries about renewing inflationary pressures and expectations. In addition, several countries must cope with adverse current-account and exchange-rate developments, suggesting a more restrictive policy stance.

Finally, public budget deficits -- even measured in relation to GNP -- generally remain high compared with the years prior to 1975. Problems of financing these deficits, and the adverse effects of the size of these deficits *per se* on confidence and expectations, suggest to some policy makers that a fiscal stimulus which would increase these deficits in the short run might be ineffective.

In 1975 the combined effects of the reaction of automatic stabilizers to declines in real GNP, discretionary fiscal measures, and high rates of inflation resulted in huge increases in central government budget deficits measured in current prices. Measuring the deficits in 1974 prices gives some idea of the contribution of inflation in magnifying the difference between nominal expenditures and nominal revenues (Table I). In 1976 projected budget deficits remain in the area of the 1975 absolute levels, except in France, where a large decline is expected. In terms of the ratio to GNP, there has not been much change except for France and Italy. For those countries where 1977 estimates are available, the size of the deficits are expected to decline somewhat in real terms, and in relation to GNP.

There has been considerable variability in the extent to which central government borrowing requirements have been financed by central banks and the private banking system. The proportion financed by the central bank has been highest in Italy (60 per cent in 1975, 80 per cent so far in 1976), and was also important in both France and Japan in 1975 (over 40 per cent), with private banks accounting for somewhat smaller shares. In 1976 the pattern is much the same in Japan, while in France the shares

Table I
Central Government Budget Deficits
(Current Prices 1/, Constant Prices 2/, and as a Percentage of GNP)

	1974	1975	1976 3/	1977 3/
Canada 4/				
Current Prices	1.2	4.1	5.0	n.a.
Constant Prices	1.2	3.7	4.1	n.a.
Deficit/GNP	0.8	2.5	2.7	n.a.
Japan 4/				
Current Prices	2864	6251	7600	8100
Constant Prices	2864	5836	6684	6672
Deficit/GNP	2.2	4.3	4.7	4.4
France				
Current Prices	-4.3	39	23	10
Constant Prices	-4.3	34.2	17.6	7.4
Deficit/GNP	-0.3	2.7	1.3	0.5
Germany				
Current Price	10.3	35	34.3	28.2
Constant Prices	10.3	32.3	30.7	24.2
Deficit/GNP	1.0	3.4	3.0	2.3
Italy				
Current Prices	8962	16500	14000	13900
Constant Prices	8962	14077	10200	8500
Deficit/GNP	9.0	14.7	10.3	8.6
United Kingdom 4/				
Current Prices	5.1	8.8	10.4	n.a.
Constant Prices	5.1	6.9	7.2	n.a.
Deficit/GNP	6.3	8.7	9.8	n.a.

1/ Billions of local currency
2/ Billions of local currency, 1974 prices.
3/ Forecast.
4/ Fiscal year beginning in April of year cited.

of both the central and private banks have declined sharply. Non-bank domestic sources have accounted for much of the borrowing requirement in Canada and the United Kingdom in 1975 (70 and 60 per cent respectively) and again in 1976. Private banks have met most of the financing requirement in Germany, where "overborrowing" in late 1975 substantially eased the problem of financing this year's deficit, and allayed fears that crowding out would occur in 1976.

To provide an indication of the changes in fiscal stimulus associated with the budget deficits since 1975, Table II gives percentage changes in central government expenditures and revenues, and in actual and potential GNP, all measured in current prices. One measure of changes in the impact of the budget on GNP is based on the concept of the cyclically neutral budget -- one in which expenditures grow at the same rate as potential GNP, while revenues maintain a fixed relationship to actual GNP, so that the budget balance (in relation to GNP) moves counter-cyclically. Changes in the ratio of expenditures to potential GNP or revenues to actual GNP would then represent further stimulus or restrictiveness, according to the directions of the movements. Where the movements are in the same direction (e.g., expenditures increasing more than potential GNP and revenues increasing more than actual GNP), the magnitude of the changes, and a weighting scheme, are necessary to determine the net stimulus.

By these criteria, it is evident that fiscal policy in 1975 provided a substantial stimulus compared with 1974 in Canada, Japan, France, Germany, and Italy. In the United Kingdom, proportionate changes in expenditures and revenues were close to those of potential and actual GNP

Table II
Annual Percentage Changes in Expenditures, Revenues, Actual and Potential GNP 1/

		1975/74	1976/75 2/	1976/74	1977 2/
Canada 3/:	Expenditures	18.6	13.4	34.5	n.a.
	Revenue	6.2	15.4	22.6	n.a.
	Actual GNP	11.5	15.0	28.2	
(4.0, 5.4)	Potential GNP	15.2	14.2	31.6	
Japan 3/:	Expenditures	9.0	18.1	28.7	15.8
	Revenue	-10.2	16.7	4.8	20.0
	Actual GNP	9.5	12.7	23.4	11.8
(6.0, 7.4)	Potential GNP	13.5	12.6	27.8	13.2
France:	Expenditures	22.0	9.0	33.0	6.8
	Revenue	-1.2	26.6	25.0	8.8
	Actual GNP	10.6	15.5	27.7	13.0
(4.0, 5.4)	Potential GNP	18.6	14.1	35.2	12.8
Germany:	Expenditures	19.4	5.7	26.2	5.4
	Revenue	1.0	8.0	9.1	11.2
	Actual GNP	4.6	9.1	14.1	9.0
(4.0, 4.4)	Potential GNP	12.6	7.6	20.9	8.2
Italy:	Expenditures	44.0	23.0	77.1	18.0
	Revenue	29.5	33.0	72.1	19.5
	Actual GNP	13.2	21.2	37.1	19.3
(3.5, 4.7)	Potential GNP	21.6	20.5	46.5	24.2
United Kingdom 3/:	Expenditures	30.0	17.7	53.0	n.a.
	Revenue	22.9	17.5	44.4	n.a.
	Actual GNP	24.8	15.0	43.5	
(2.0, 2.7)	Potential GNP	30.0	16.0	51.6	

1/ Numbers in parentheses give assumed growth rates of potential GNP (real) and trend growth rates for 1963-4 to 1973-4, respectively.
2/ Forecasts and preliminary budget data.
3/ Fiscal year, beginning in April of year cited.

respectively, but on balance the stimulus in 1975 was a bit greater than in 1974. In 1976 budgetary stances tended to be more neutral or contractionary than in 1975 in the sense that expenditures rose about as much as, or less than, potential GNP while revenues generally increased about as fast, or faster than actual GNP. The single clear exception is Japan, where the changes in potential and actual GNP were about the same, expenditures rose more than revenues, and both rose more than GNP, imparting further stimulus to the economy. The direction of change in the United Kingdom is difficult to identify, since expenditures and revenues increased more than potential and actual GNP (respectively), by broadly similar magnitudes.

While 1976 budgetary stances generally reduced the fiscal stimulus provided during 1975, changes in expenditures and revenues for the 1975-76 period as a whole indicate an overall expansionary stance in Canada, Germany, and Japan. In the United Kingdom and France, the pattern of increase in expenditures and revenues was on balance roughly neutral. In Italy, large increases in revenues and expenditures relative to both potential and actual GNP make it difficult to characterize fiscal policy.

Budgets for 1977 are currently under debate in Germany, France, and Italy (where the fiscal years begin in January) and are still in the planning stages in the United Kingdom, Canada, and Japan (where the fiscal years begin on April 1). Preliminary budget forecasts indicate generally reduced stimulus, with expenditures in most cases rising less than potential GNP, and revenues rising in relation to actual GNP. Partially in response to the urging of international creditors, recently announced fiscal policy measures of a discretionary nature in the United Kingdom and Italy are restrictive, reflecting the need to bring rates of inflation down towards those of other major industrial countries and thereby restore some stability to exchange rates. In Germany and Japan, the prolonged pause in economic activity has prompted consideration of expansionary measures.

In the United Kingdom attention has focused on the public sector borrowing requirement (PSBR), which amounted to £10.6 billion (about $22.5 billion or 10 per cent of GDP) in the fiscal year ending in March 1976. According to recent forecasts, the PSBR is expected to be slightly higher (about £11 billion) in the current fiscal year, an improvement, however, of nearly £1 billion compared with the original budget estimate. In July, the U.K. government announced plans to cut public sector spending in 1977-78 by £1 billion and increase revenues by about £900 million through an increase in employers' social security contributions. Further measures in conjunction with the IMF negotiations are scheduled to be announced on December 15 (evening). (A summary of these measures will appear in the Greenbook Supplement.)

In Italy a series of measures was announced in October and November that would increase revenues by some 5 trillion lira (nearly $6 billion). Prior to these measures, the 1977 deficit had been forecast at nearly 14 trillion lira (8.6 per cent of forecast GNP), slightly higher than the projected deficit for 1976. The measures include increased excise taxes, indirect taxes and prices for public utilities (3 trillion lira); an acceleration of income tax payments so that part of the tax on 1977 incomes will be paid in 1977 rather than 1978 (1.5 trillion lira) and increases in public administrative charges (0.5 trillion lira). New estimates of the 1977 budget figures incorporating these steps have not yet been announced.

In France, a supplemental budget was announced in September 1976 that called for FF9.4 billion ($1.9 billion) of expenditures in the form of transfer payments, but provided for tax increases that would match the spending increases, so that the projected FF15 billion deficit remained unchanged. A second supplemental budget introduced in November provided for further spending of FF12.1 billion, and tax increases and spending cuts totalling only FF4.1 billion, thereby increasing the deficit for this year to FF23 billion, ($4.6 billion or 1.3 per cent of GNP) compared with FF39 billion last year. According to President d'Estaing, these measures covered spending that had been agreed upon before the launching of the counter-inflation program in September, rather than new measures for the sake of stimulus. Programs announced in conjunction with the 1977 budget call for steps to stimulate investment, a reduction in the value-added tax, increases in corporate income taxes, and a shift in the income tax burden from lower to higher income brackets. The proposed budget is in balance, as were the proposed budgets for 1975 and 1976; supplementary budgets announced over the course of the year may well alter the balance.

In Germany, the strong fiscal stimulus imparted to the economy in 1975 has been partially reversed in the 1976 and proposed 1977 budgets in an effort to reduce the central government deficit and alleviate the effects of the deficit on confidence and expectations. The draft budget incorporates tax increases expected to yield DM4.5 billion ($1.8 billion) and provides for a relatively slow growth in public expenditure. Plans for an increase in the basic VAT rate from 11 to 13 per cent have been shelved until at least 1978. The recently released report of the German Council of Economic Experts advocates a "medium term growth and stability program" that would liberalize depreciation allowances, increase research expenditures, lower interest rates for new and small firms, and increase federal assistance to combat structural unemployment. The cost of the program would be DM3 billion (0.3 per cent of GNP). An announcement of possible policy initiatives is expected later this week.

In Japan a seven point stimulative program was announced on November 12, providing for an acceleration of public works expenditures, the revival of ¥400 billion ($1.3 billion) in railway and communications fixed capital expenditures, loans for housing projects, accelerated investment of ¥800 billion ($2.7 billion) by the electric power industry, loans to small enterprises, and measures to promote exports and employment. Most observers expect the program to have only a moderate impact on the economy, which has sharply slowed its rate of advance since the late spring. A supplementary budget providing for further spending increases is presently being compiled. If the economy continues to remain sluggish in the coming months, it is expected that the government will reduce the personal income tax burden, as it has done in each of the past four years.