Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Content last modified 6/05/2009.

CONFIDENTIAL (FR)

December 15, 1976

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

TABLE OF CONTENTS Continued

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Nov.	12-3-76	95.9	7.0	1.7	3.0
Unemployment rate (per cent)	Nov.	12-3-76	8.1	7.9[1/]	7.9[1/]	8.5[1/]
Insured unemployment rate (%)	Nov.	12-3-76	5.1	5.0[1/]	4.8[1/]	5.7[1/]
Nonfarm employment, payroll (mil.)	Nov.	12-3-76	79.7	3.9	2.2	2.8
Manufacturing	Nov.	12-3-76	19.1	6.3	1.5	3.1
Nonmanufacturing	Nov.	12-3-76	60.7	3.2	2.4	2.7
Private nonfarm:						
Average weekly hours (hours)	Nov.	12-3-76	36.2	36.1[1/]	36.1[1/]	36.3[1/]
Hourly earnings ($)	Nov.	12-3-76	4.99	4.94[1/]	4.89[1/]	4.67[1/]
Manufacturing:						
Average weekly hours (hours)	Nov.	12-3-76	40.1	39.8[1/]	40.0[1/]	39.9[1/]
Unit labor cost (1967=100)	Oct.	11-30-76	146.2	7.4	5.8	3.0
Industrial production (1967=100)	Nov.	12-15-76	132.0	14.7	2.1	8.0
Consumer goods	Nov.	12-15-76	138.9	21.1	4.1	7.9
Business equipment	Nov.	12-15-76	139.3	25.5	4.6	8.2
Defense & space equipment	Nov.	12-15-76	78.7	3.1	.5	.3
Material	Nov.	12-15-76	133.0	11.8	.0	9.0
Consumer prices (1967=100)	Oct.	11-19-76	173.1	4.2	5.1	5.2
Food	Oct.	11-19-76	182.3	3.3	2.4	1.5
Commodities except food	Oct.	11-19-76	159.1	4.5	5.6	4.9
Services	Oct.	11-19-76	184.0	6.6	6.6	8.2
olesale prices (1967=100)	Nov.	12-3-76	186.9	8.7	8.6	4.0
ndustrial commodities	Nov.	12-3-76	188.1	9.6	11.1	6.6
arm products & foods & feeds	Nov.	12-3-76	180.9	3.3	1.3	-4.2
Personal income ($ billion)[2/]	Oct.	11-17-76	1401.9	8.8	6.1	8.6
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Oct.	12-1-76	47.6	2.1	-1.0	12.6
Capital goods industries	Oct.	12-1-76	15.1	11.8	11.1	27.4
Nondefense	Oct.	12-1-76	12.5	3.3	-1.2	16.8
Defense	Oct.	12-1-76	2.7	81.2	169.0	22.4
Inventories to sales ratio:						
Manufacturing and trade, total	Oct.	12-14-76	1.52	1.51[1/]	1.49[1/]	1.53[1/]
Manufacturing	Oct.	12-1-76	1.67	1.65[1/]	1.62[1/]	1.68[1/]
Trade	Oct.	12-14-76	1.38	1.38[1/]	1.36[1/]	1.39[1/]
Ratio: Mfrs.' durable goods inventories to unfilled orders	Oct.	12-1-76	.859	.854[1/]	.838[1/]	.824[1/]
Retail sales, total ($ bil.)	Nov.	12-10-76	55.6	1.7	1.7	10.0
GAF	Nov.	12-10-76	14.0	1.5	3.4	8.3
Auto sales, total (mil. units)[2/]	Nov.	12-7-76	9.5	.0	-9.5	7.9
Domestic models	Nov.	12-7-76	8.0	4.6	-10.0	4.5
Foreign models	Nov.	12-7-76	1.5	-18.7	-6.5	30.1
Plant & Equipment Expen. ($ bil.)[2/]	1976[3/]	12-6-76	121.23	--	--	7.5
All Industries	QIII '76	12-6-76	122.55	3.8	--	9.3
	QIV '76[3/]	12-6-76	127.87	4.3	--	14.4
	QI '77[3/]	12-6-76	129.38	1.2	--	12.8
	QII '77[3/]	12-6-76	131.28	1.5	--	11.1
ital Appropriations, Mfg.	QIII '76	12-1-76	11,342	-9.2	--	11.4
ousing starts, private (thous.)[2/]	Oct.	11-16-76	1,792	-3.6	29.7	25.2
Leading indicators (1967=100)	Oct.	11-30-76	107.1	.0	-1.7	4.3

1/ Actual data. 2/ At Annual rate. 3/ Planned-Commerce December Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent economic data indicate a further slowing in the pace of economic growth over the past month or two. Strikes have played some part in prolonging the pause. More important, however, appears to be the effort of business in both durable and nondurable goods to adjust to a backup of inventories.

Industrial production is tentatively estimated to have decreased somewhat in October, the first decline in 19 months. Although strike activity accounted for part of the decline, weakness was widespread by industry groups. Auto assemblies were about unchanged at a 7.7 million unit annual rate in October. The resumption of production at some Ford plants was delayed because of unsettled local issues and parts shortages, and there were some cutbacks at GM and AMC to control inventories. Auto assemblies are expected to rise strongly in November. Among other consumer durables, appliance output has shown some improvement but there are indications of reduced production of furniture and some other home goods. Output of nondurable consumer goods, notably apparel, appears to have declined. Production of business equipment in October was apparently about unchanged, restrained by strikes in farm equipment and business vehicles. Among materials, raw steel production was reduced and output of some nonferrous metals was evidently curtailed. Trade sources indicate continued weakness in textile materials output.

With production of materials generally sluggish, and steel output down, the October materials capacity utilization rate probably declined fractionally, remaining near the 80 per cent plateau that was reached last May.

The recent sluggishness of industrial production has been reflected in the relatively slow growth of employment over the past four months. After adjustment for strikes, nonfarm payroll employment rose 42,000 in October. This lowered the average monthly rate of growth since April to about 110,000 less than half the monthly rate from June 1975 to April 1976. The factory workweek edged up slightly in October from September's strike-depressed level, but remains well below the first quarter level.

Employment developments as portrayed in the household survey were also weak. Employment declined slightly, there was a small increase in the civilian labor force in October, and the unemployment rate edged up 0.1 percentage point to 7.9 per cent. At 6.1 per cent, the jobless rate for adult males was at its highest point since December 1975. Although the October rise was concentrated among 20 to 24 year olds, joblessness among men aged 25 and over matched its previous high for the year and was significantly above the average of the first half of the year.

Continuing claims for unemployment insurance under regular State programs have increased about the same amount as total unemployment since last spring and initial claims also have increased.

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

	June 75*- April 76	Apr. 76- Oct. 76	Sept. 76- Oct. 76
Nonfarm Payroll Series			
Total	262	92	-54
(Strike adjusted)	(259)	(108)	(42)
Construction	1	-7	20
Manufacturing	87	1	-146
(Strike adjusted)	(89)	(16)	(-43)
Durable	47	9	-105
Nondurable	40	-8	-41
Trade	57	30	13
Services and Finance	72	62	49
Total Government	38	4	16
State and Local	39	3	13
Household Series			
Total	290	62	-46
Nonagricultural	283	77	-89

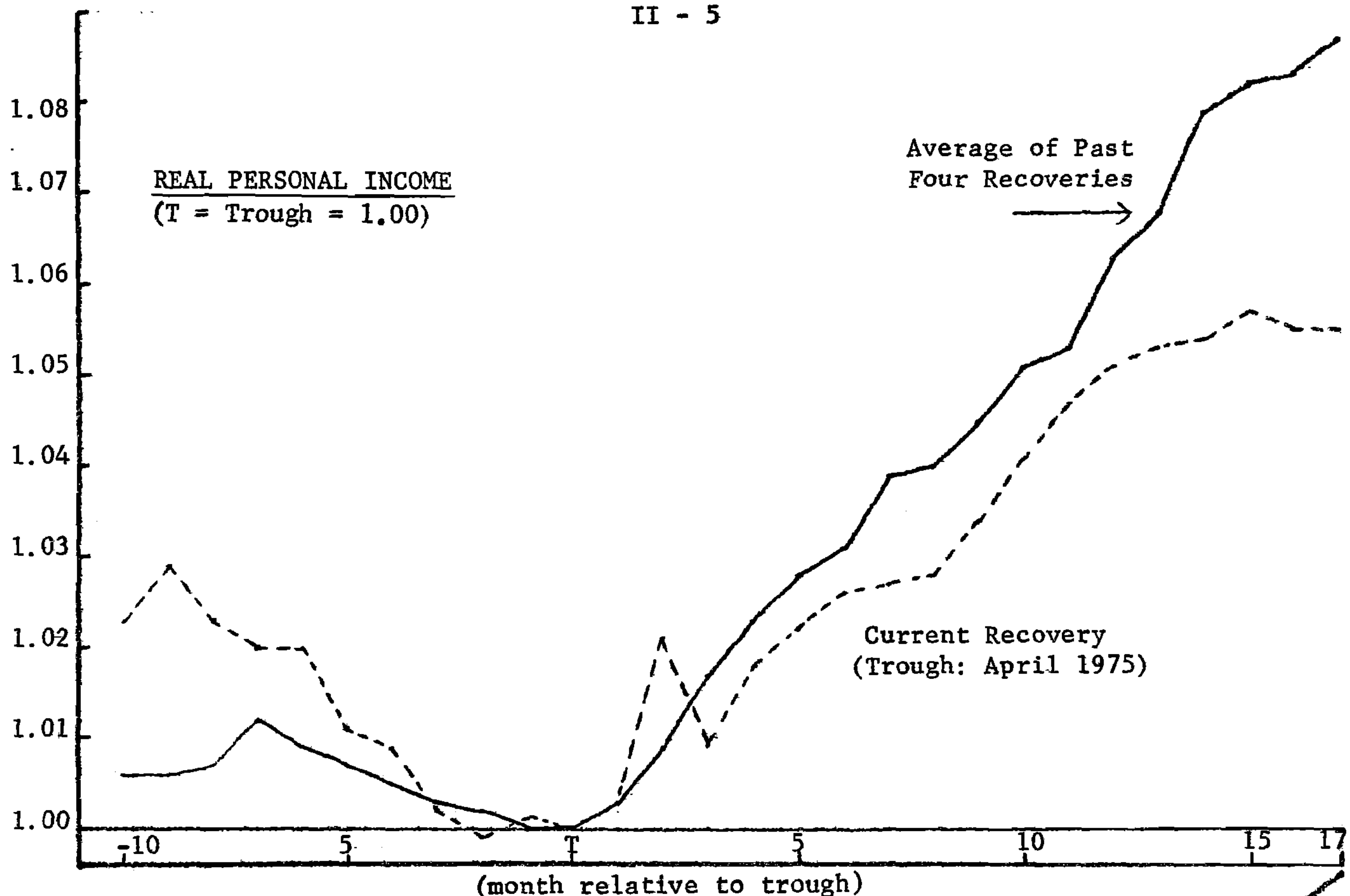
* June 1975 was the cyclical low for total nonfarm payroll employment.

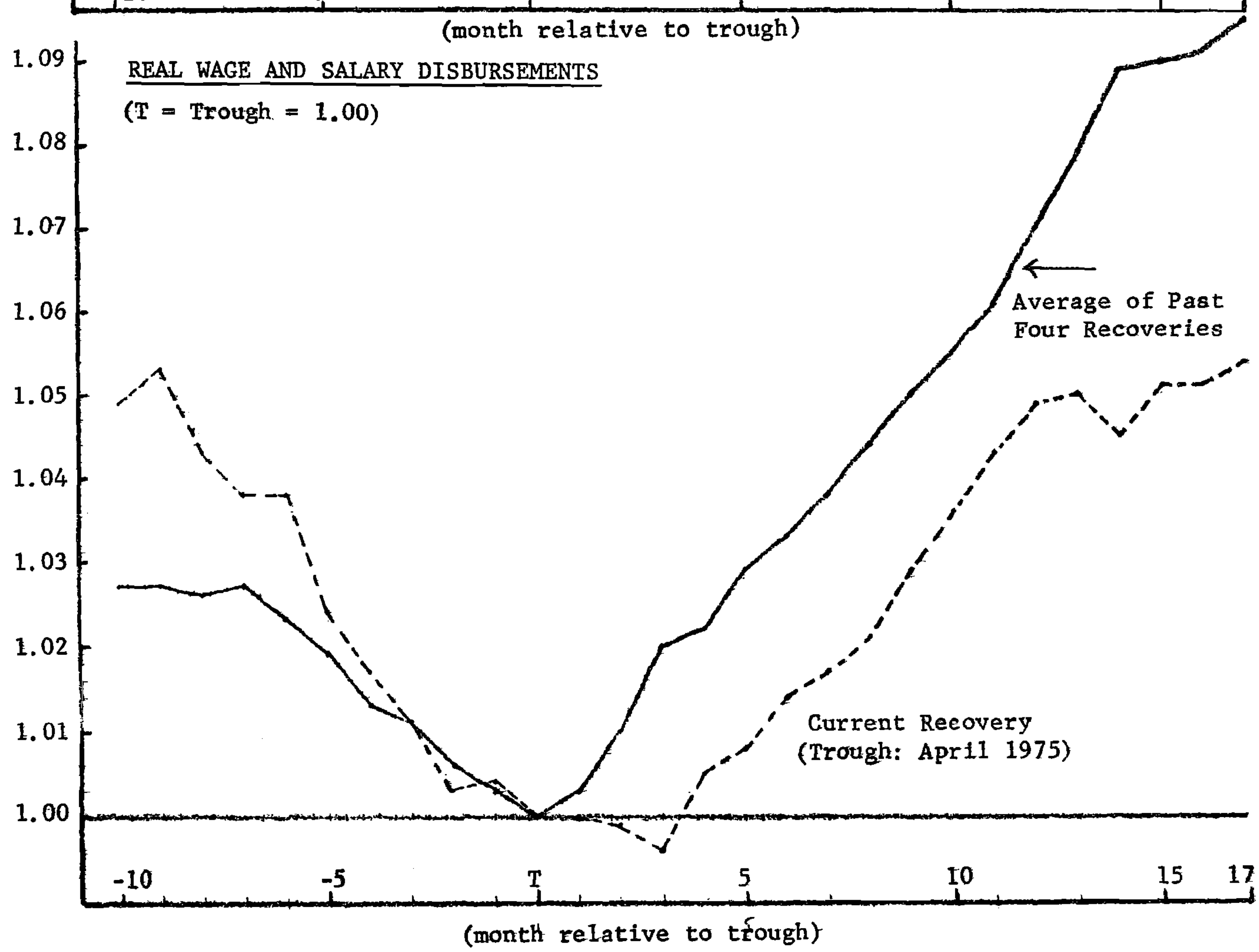
SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

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

Personal income gains, which were relatively strong during the first two quarters of the year, slowed considerably during the third quarter. Strikes, coupled with recent declines in weekly hours and reduced employment in some manufacturing industries, have dampened the growth of wage and salary disbursements, and this may impact consumer spending during the pre-Christmas shopping period. Also, low agricultural prices brought declines in the income of farm proprietors. Offsetting somewhat these elements of weakness was the rise in transfer payments, due to a July cost-of-living increase for Social Security recipients and the continued contribution to income flows of dividend and personal interest payments. In October, the Federal pay raise probably more than offset strike-related losses but the underlying growth of employment and wages indicates a comparatively modest rise in wage and salary disbursements over the month.

In real terms, personal income was practically unchanged in September, and it rose only at a 1.2 per cent annual rate druing the third quarter. Real disposable income per capita was unchanged over the quarter. As the chart on the next page shows, the recovery of real personal income has lagged behind its average path following earlier contractions--with the entire shortfall concentrated in the wage and salary component. With the growth of purchasing power constrained over the past six months by a variety of factors, growth of retail spending has been notably dampened.


REAL PERSONAL INCOME
(T = Trough = 1.00)
Average of Past Four Recoveries
Current Recovery (Trough: April 1975)
1.08
1.07
1.06
1.05
1.04
1.03
1.02
1.01
1.00
-10
5
T
5
10
15
17
(month relative to trough)


REAL WAGE AND SALARY DISBURSEMENTS
(T = Trough = 1.00)
Average of Past Four Recoveries
Current Recovery (Trough: April 1975)
1.09
1.08
1.07
1.06
1.05
1.04
1.03
1.02
1.01
1.00
-10
-5
T
5
10
15
17
(month relative to trough)

PERSONAL INCOME

(Per cent change from previous quarter at a compound annual rate, based on seasonally adjusted data)

	QI	QII	QIII	Aug. 76- Sept. 76*
Current Dollars				
Total Personal Income	10.1	9.5	7.3	5.8
Labor and Nonfarm Proprietors' Income	12.7	9.5	8.2	7.9
Wage and Salary Disbursements	12.6	9.4	7.8	7.6
Other Labor Income	12.2	11.8	12.7	10.1
Nonfarm Proprietors' Income	14.7	8.1	9.1	9.7
Transfer Payments	14.1	-2.1	11.1	4.4
Rents, Dividends, and Personal Interest	11.8	9.0	13.2	15.7
Constant Dollars**				
Total Personal Income	5.5	4.7	1.2	.9
Labor and Nonfarm Proprietors' Income	7.9	4.6	2.0	3.2
Wage and Salary Disbursements	7.7	4.6	1.6	2.5
Addenda: Real Disposable Per Capita Income	5.4	4.0	0.1	n.a.

*Per cent change at an annual rate, not compounded.
**Deflated by the CPI, seasonally adjusted.

Retail sales are estimated by the staff to have risen 0.9 per cent in October--up from a 0.1 per cent rise a month earlier. If autos and mainly nonconsumption items are excluded, the gain was 0.5 per cent as compared with 0.8 per cent in September. The growth was concentrated among soft goods, extending the trend of the third quarter, with apparel and general merchandise showing the largest gains. Spending for furniture and appliances also improved, but the level continues to be rather depressed.

Total unit auto sales were at a 9.5 million annual rate in October, off 7 per cent from the third quarter rate, despite the continued improved sales levels of imports. This was the slowest total sales pace of the year. At a 1.9 million annual rate, sales of imports were up 15 per cent from the third quarter and about equal to the record rate established in the aftermath of the energy crisis.

However, sales of domestic models--at a 7.6 million annual rate--were held down by shortages arising from the Ford strike and production scheduling problems at General Motors. Chevy dealers in the early part of the month reportedly had only two or three of the more popular intermediate- or full-sized 1977 models on hand. Assuming that Ford sales were equal to the industry average, domestic sales in October would have been at an 8-1/2 million annual rate, somewhat below the first half's average rate.

In contrast to favorable consumer attitudes reported by the Michigan Survey Research Center last month, the Conference Board Consumer Survey indicates that households were less optimistic in

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

	1976 I	1976 II	1976 III	1976 Aug.	1976 Sept.	1976 Oct.e
Total sales	3.8	1.9	1.5	1.4	.1	.9
(Real*)	3.4	1.0	-.4	1.0	-.5	n.a.
Total, less auto and nonconsumption items	2.4	1.3	1.7	.9	.8	.5
GAF	1.4	-.2	3.3	2.2	.0	1.6
Durable	7.5	3.4	.9	2.4	-1.3	1.1
Auto	9.1	4.5	.1	3.9	-3.2	1.9
Furniture and appliances	1.0	2.7	.0	.1	-.2	1.1
Nondurable	2.0	1.2	1.7	1.0	.8	.8
Apparel	2.5	-3.4	5.6	.8	-.5	2.7
Food	2.3	1.2	1.2	1.1	1.2	.4
General merchandise	1.2	-.1	3.6	3.2	.2	1.5
Gasoline	2.9	.0	2.8	1.5	-.2	1.2

* Deflated by unpublished FRB price measure.

e Staff estimate from incomplete weekly data. Advance Commerce data should be available November 11.

AUTO SALES
(Seasonally adjusted, millions of dollars)

	1976 I	1976 II	1976 III	1976 June	1976 July	1976 Aug.	1976 Sept.	1976 Oct.
Total	10.0	10.3	10.2	10.5	10.2	10.5	10.0	9.5
Imports	1.3	1.4	1.6	1.4	1.4	1.6	1.8	1.9
Domestic	8.7	8.9	8.6	9.1	8.7	8.9	8.2	7.6

in late September and early October. This index of consumer confidence declined 8.6 per cent from the previous bimonthly survey to the lowest level since the summer of 1975. Appraisals of present business and employment conditions, as well as expectations for the economy six months from now, were notably less favorable.

The rate of accumulation of manufacturers' inventories accelerated somewhat in September. The $16.3 billion annual rate of change brought the third quarter average rate up to $12.9 billion. In addition, growth in retail trade inventories in August was higher than anticipated. The manufacturing inventory/sales ratio rose to 1.65 in September from 1.62 in August. This higher inventory ratio primarily reflected decreased shipments of durable goods; the ratio for nondurables was virtually unchanged. Increases were spread throughout all stages of processing.

Indicators of future capital spending struck a cautiously optimistic note in October. The McGraw-Hill survey of anticipated plant and equipment expenditures for 1977, which was conducted in early October, indicates a moderate acceleration in outlays--to 13 per cent following a gain for 1976 which is likely to be in the neighborhood of 7 to 8 per cent. The increase indicated by this survey is similar to that of the Merrill-Lynch survey reported last month. The McGraw-Hill survey also reported that businesses expect prices for the capital goods they buy to rise 7 per cent in 1977, implying a 6 per cent

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

	1975			1976				
	II	III	IV	I	II	III	Aug.	Sept.
Manufacturing and trade	-18.8	5.4	-1.3	19.5	26.4	n.a.	33.1	n.a.
Manufacturing	-12.5	-6.6	.6	6.3	11.0	12.9	11.4	16.3
Durable	-4.3	-8.6	-3.5	1.8	5.7	4.8	3.4	8.3
Nondurable	-8.2	2.0	4.2	4.5	5.4	8.1	8.0	7.9
Trade, total	-6.3	11.9	-1.9	13.2	15.3	n.a.	21.7	n.a.
Wholesale	-2.7	3.1	-2.0	5.1	9.0	n.a.	5.3	n.a.
Retail	-3.6	8.8	.1	8.0	6.3	n.a.	16.4	n.a.
Auto	-1.7	5.5	.3	-.5	-.8	n.a.	13.3	n.a.

INVENTORY RATIOS

	1974	1975	1976				
	III	III	I	II	III	Aug.	Sept.
Inventory to sales							
Manufacturing and trade	1.52	1.54	1.48	1.47	n.a.	1.48	n.a.
Manufacturing	1.68	1.73	1.63	1.60	1.64	1.62	1.65
Durable	2.10	2.28	2.09	2.03	2.07	2.03	2.10
Nondurable	1.23	1.17	1.15	1.16	1.20	1.18	1.19
Trade, total	1.36	1.37	1.33	1.34	n.a.	1.35	n.a.
Wholesale	1.15	1.23	1.20	1.22	n.a.	1.22	n.a.
Retail	1.54	1.47	1.43	1.43	n.a.	1.44	n.a.
Inventories to unfilled orders:							
Durable manufacturing	.674	.819	.846	.838	.850	.842	.850

Restricted

PRIVATE CAPITAL SPENDING SURVEYS
(Per cent change from previous year)

	1976 1/	McGraw-Hill 1977	Merrill Lynch 2/ 1977	Rinfret 3/ 1977
All Business	7.4	13.0	13.5	10.0
Manufacturing	10.1	15.4	12.2	10.4
Durables	6.9	22.6	21.1	17.9
Nondurables	12.7	9.4	5.0	4.5
Nonmanufacturing	5.5	11.0	14.6	9.6

1/ Results of August Commerce Survey.

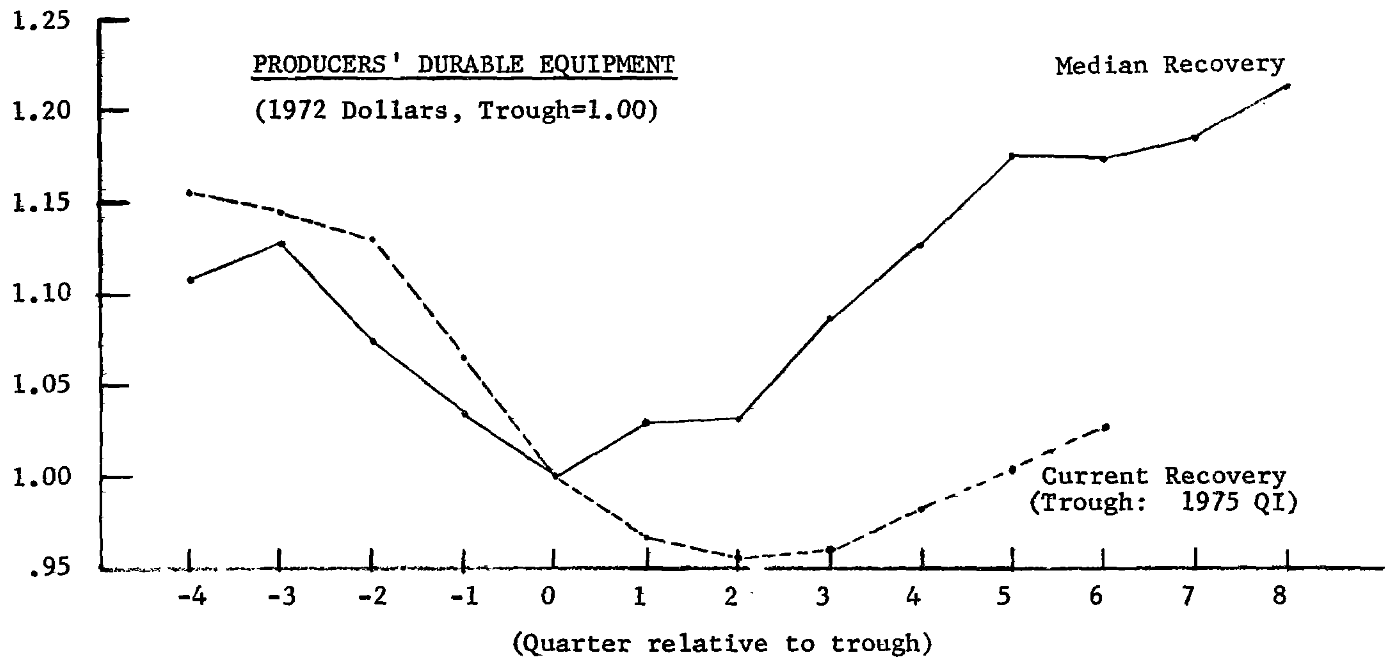
2/ Formerly released under the name of Lionel D. Edie & Co., Inc.

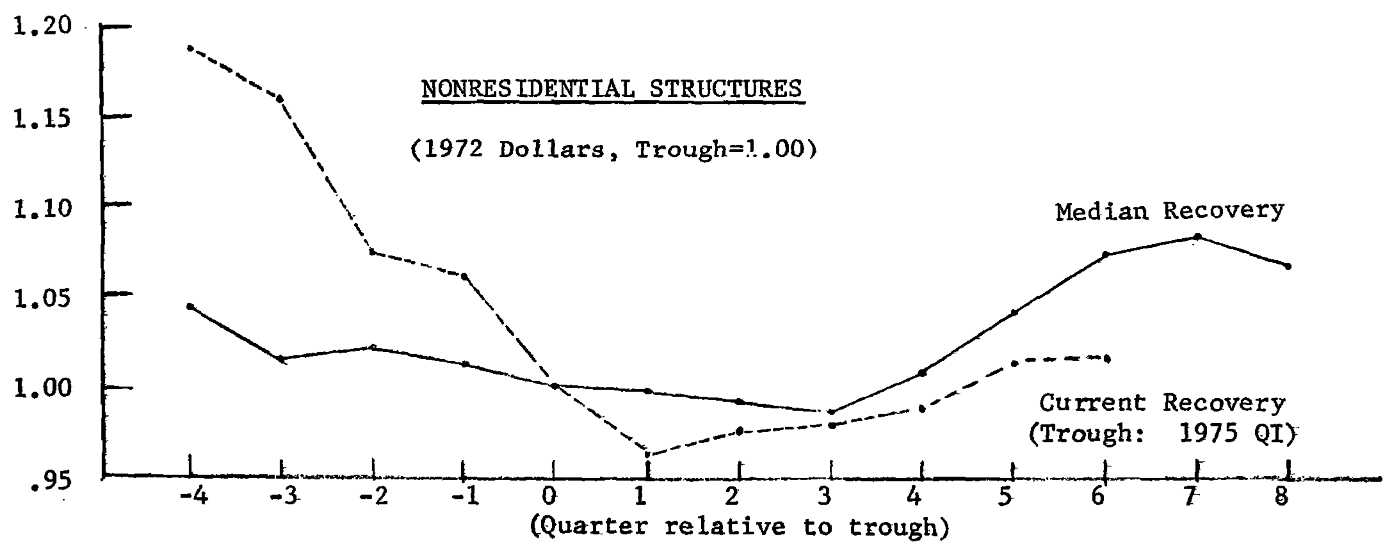
3/ Formerly released under the name of Rinfret-Boston Associates, Inc.

increase in real capital outlays. While price expectations from this survey have not been particularly accurate in the past, they are consistent with the current expectations of machinery producers, who report plans to raise prices for their output by 7 per cent.

Any substantial strength in capital spending will likely be in outlays for equipment, which until now have been the major source of weakness relative to earlier investment recoveries (see Chart 2). New orders for nondefense capital goods--which usually lead expenditures by 6 to 9 months--rose 3.0 per cent in September, after a decline in August. These orders have increased in eight of the last nine months for which data are available.and, in real terms, are 15 per cent above the ordering rate of December 1975.

Conditions in the housing sector have continued to be favorable for moderate expansion as private housing starts rose further in September, raising the third quarter rate about 10 per cent above that of the second quarter. Single-family starts were up by 9 per cent in September. An exceptionally large September increase in multifamily starts is attributed largely to efforts by HUD to speed up starts of HUD subsidized and FHA-insured projects. Because of this special concentration of activity at the end of the quarter, total starts may well have declined in October. However, mortgage and other real estate developments suggest that the over-all third quarter rate of starts can at least be sustained for the fourth quarter as a whole.


1.25
1.20
1.15
1.10
1.05
1.00
.95
PRODUCERS' DURABLE EQUIPMENT
(1972 Dollars, Trough=1.00)
Median Recovery
Current Recovery
(Trough: 1975 QI)
-4
-3
-2
-1
0
1
2
3
4
5
6
7
8
(Quarter relative to trough)


1.20
1.15
1.10
1.05
1.00
.95
NONRESIDENTIAL STRUCTURES
(1972 Dollars, Trough=1.00)
Median Recovery
Current Recovery
(Trough: 1975 QI)
-4
-3
-2
-1
0
1
2
3
4
5
6
7
8
(Quarter relative to trough)

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

	1976						Sep.75 to Sep.76
	QI	QII	QIII	July	Aug.	Sep.	
New Orders Received by Manufacturers							
Total Durable Goods							
Current Dollars	7.0	8.3	-2.9	-3.6	-.1	-2.5	10.9
1967 Dollars 1/	5.5	7.5	-4.5	-4.3	-.6	-3.5	3.7
Nondefense Capital Goods							
Current Dollars	1.6	9.3	4.4	6.8	-6.8	3.0	18.8
1967 Dollars 1/	.1	8.1	3.0	6.3	-7.1	2.1	12.1
Construction Contracts for Commercial and Manufacturing Buildings 2/							
Total	-8.6	24.1	-3.8	-2.5	-3.2	-9.5	-1.5
Commercial	.9	3.0	-1.0	3.3	-11.6	1.1	8.6
Manufacturing	-13.4	25.9	-17.6	-10.8	-15.1	5.0	-2.0
Contracts and Orders for Plant & Equip. 3/							
Current Dollars	11.7	3.1	-.2	-3.0	-8.9	2.8	13.2
1967 Dollars 4/	9.1	2.3	-.8	-2.3	-8.4	1.9	7.4

1/ FR deflation by appropriate WPI.

2/ Floor space data, millions of square feet; components are seasonally adjusted by FR and may not add to total which 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.

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

	QIV	QI	QII(r)	QIII(p)	Aug.(r)	Sept.(p)	Per cent change in Sept. from: Month ago	Year ago
All Units								
Permits	1.11	1.17	1.13	1.32	1.30	1.43	+11	+31
Starts	1.37	1.40	1.43	1.58	1.54	1.81	+18	+39
Under construction 1/	1.04	1.06	1.06	n.a.	1.08	n.a.	+ 1*	+ 4*
Completions	1.28	1.30	1.33	n.a.	1.39	n.a.	+ 7*	+ 9*
Single-family								
Permits	.81	.87	.81	.90	.87	.95	+ 8	+22
Starts	1.03	1.12	1.09	1.20	1.19	1.30	+ 9	+34
Under construction 1/	.56	.59	.61	n.a.	.62	n.a.	+ 1*	+19*
Completions	.91	.97	.99	n.a.	1.08	n.a.	+ 5*	+23*
Multifamily								
Permits	.30	.30	.32	.42	.42	.49	+16	+53
Starts	.33	.28	.35	.38	.36	.52	+46	+54
Under construction 1/	.48	.46	.46	n.a.	.45	n.a.	+ 1*	-11*
Completions	.37	.33	.34	n.a.	.31	n.a.	+15*	-21*
MEMO:								
Mobile home shipments	.23	.27	.24	.24	.25	.25	--	+11

* Per cent changes based on August 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 --.

Outstanding mortgage commitments at savings and loan associations have continued to increase, as savings deposits growth has remained high. Home mortgage interest rates have shown modest declines, and sales of both new and existing homes were up sharply further in September. In rental markets vacancy rates remain quite low, as the volume of apartment unit completions has continued at a slow pace.

The Treasury and OMB now report that the shortfall in Federal spending, during the first nine months of 1976 amounted to $11.4 billion. This measure represents the difference between estimates for this period in the January Budget and actual realization. About a third of the shortfall occurred in the third quarter.

Approximately $3.6 billion of the nine-month shortfall occurred in defense, not counting $1.2 billion of unexpected foreign reimbursements that would make the under-performance of this function even larger. Delays in fiscal year 1976 appropriations and a slowdown in the rate at which the Defense Department incurs obligations were mainly responsible for the decline. Outlays also were reduced by lower than expected veteran's benefits, a shortfall in anticipated Federal highway grants, programmatic delays in energy research and development, unanticipated financial transactions, such as the highly sucessful August Mid-Atlantic oil lease sales, and a host of other items. These spending shortfalls, however, were partially offset by higher health, education, and welfare outlays, as well as some speed-up in disbursement of waste treatment grants.

GROWTH IN FEDERAL OUTLAYS DURING FIRST THREE CALENDAR QUARTERS
(Average quarter to quarter per cent growth rates, at annual rates)1/

Year	Unified Total Outlays 2/	NIA Total Exp.	Purchases	Transfer Domestic	Grants
1971	17.6	8.2	1.9	19.0	20.8
1972	8.7	8.3	4.7	5.8	33.0 3/
1973	11.1	2.3	-2.4	8.2	-15.4 3/
1974	20.1	17.6	11.9	30.1	12.1
1975	21.1	19.7	7.4	27.8	33.7
1976	2.1	5.3	4.3	7.6	4.8

1/ Percentages are annual rates compounded quarterly.
2/ Derived from unadjusted data.
3/ Heavily influenced by the initial effects of General Revenue Sharing.

Shortfall in Federal Budget Estimates
(Billions of dollars, first three quarters of 1976)

Total Shortfall		11.4
Mainly nonfinancial:		9.0
Department of Defense (Military)	3.6	
Energy Research & Development Admin.	.5	
Transportation	.7	
Labor (training and employment)	.5	
Environmental Protection Agency	-.2	
Payments to individuals, including Veterans benefits	1.7	
HEW (Other)	-1.1	
All Other	3.3	
Major Financial Transactions:1/		2.4
Offshore oil receipts	.5	
Foreign Military Sales	1.2	
Asset Sales	.7	

(-) represents an excess of outlays over budget estimates.
1/ Negative outlays.

While recent attention has focused on the shortfall relative to earlier expectations, it should be noted that unified outlays in the third quarter did register a $3 billion gain over the second quarter--the largest quarter-to-quarter rise in almost a year. But since the second quarter spending level was unusually low, the average quarter-to-quarter growth in outlays over the first nine months of 1976 still was very moderate compared to the experience of the last five years (see Table on page II-18). The sluggishness in spending over the first three quarters of 1976 suggests that the slowdown of Federal expenditures may have contributed to the current lull in economic activity.

Spending by State and local governments also has continued to be sluggish. Construction put-in-place apparently registered a 2-1/2 per cent decline between the second and third quarter. Even if fourth quarter data show improvement, spending on structures by State and local governments will probably be down by almost $2.0 billion for the year. Preliminary employment figures show the number of jobs in State and local government rose by only 13,000 in October after a quarter of no change--when cutbacks in public school employment occurred. Even if employment picks up modestly in the fourth quarter, the yearly increase will be the smallest since the mid 1950's. However, spending in this sector is likely to increase somewhat since counter-cyclical aid funds from the Local Public Works Employment Act will begin to be dispersed later this month.

Wage rates, as measured by the average hourly earnings index, rose at an annual rate of 7.0 per cent in October after increasing only 2.8 per cent in September. Over the first 10 months of the year, wages have grown at a 6.8 per cent annual rate compared with 8.2 per cent and 9.3 per cent for 1975 and 1974, respectively. The third quarter's acceleration in the hourly earnings index, particularly in the manufacturing sector, reflects in part heavy major collective bargaining activity, with some relatively large immediate increases in the rubber and electrical equipment industries. First-year wage adjustments negotiated during the third quarter averaged 10.1 per cent, somewhat above those registered during the first half of the year (8.4 per cent).

Over the past year, labor costs appear to have been exerting only a moderate upward pressure on prices. Nonfarm business productivity increased at a 3.6 per cent annual rate in the third quarter, and has risen at a fairly vigorous rate for three consecutive quarters. With compensation increasing now at a slower pace, unit labor costs continued to grow by less than a 3.5 per cent rate in the nonfarm business sector and fell 1 per cent in manufacturing in the third quarter.

Consumer price increases moderated slightly in September. The 0.4 per cent monthly rise of the CPI follows three months of increases of 0.5 per cent. The improvement was largely due to the unchanged level of food prices which reflected sharp declines for meat and poultry in the past few months. More moderate rates of price increase were also reported for other nondurable goods and for durable goods as price changes slowed or declined for used cars and apparel. The rise of

HOURLY EARNINGS INDEX*
(Per cent change from preceding period, compound annual rate; based on seasonally adjusted data)

	1975 QIII	1975 QIV	1976 QI	1976 QII	1976 QIII	Oct. 75- Oct. 76	Sept. 76- 1/ Oct. 76
Private Nonfarm	8.6	8.3	6.4	6.6	7.2	6.7	7.0
Construction	6.6	4.4	4.9	8.0	5.3	5.5	5.0
Manufacturing	8.6	8.3	6.8	6.5	9.3	7.3	5.0
Trade	8.7	6.4	4.8	5.6	6.6	5.2	3.9
Services	7.3	10.6	8.3	6.5	4.4	7.3	12.1
Transportation and Public Utilities	12.9	11.7	8.1	8.7	7.6	7.7	8.4

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

1/ Monthly change at an annual rate, not compounded.

PRODUCTIVITY AND COSTS
(Per cent change at a compound annual rate, seasonally adjusted)

	QIII 75- QIII 76P	QIV 75- QI 76	QI 76- QII 76	QII 76- QIII 76P
Output Per Hour				
Total private business	3.3	7.4	3.8	3.8
Nonfarm business	3.1	5.8	5.4	3.6
Manufacturing	5.5	5.1	8.7	5.7
Compensation Per Hour				
Total private business	8.5	10.9	7.5	7.4
Nonfarm business	8.0	9.5	8.9	7.0
Manufacturing	7.7	9.7	9.9	4.7
Unit Labor Costs				
Total private business	5.0	3.2	3.6	3.4
Nonfarm business	4.7	3.5	3.3	3.2
Manufacturing	2.0	4.3	1.1	-1.0

p = preliminary.

service prices also moderated slightly to nearly the same rate of change as the nonfood commodity group. Energy price increases continued near a 10 per cent annual rate in September while the nonenergy portion of the CPI has continued to rise in the range of 5 to 6 per cent at an annual rate.

The wholesale price index for industrial commodities rose 1 per cent in October, the largest rise in 12 months. The largest increases were in the fuels and power group, lumber and wood, and, because of the new model cars and trucks, in the transportation equipment group. Among fuels, natural gas prices--whose reporting lags by two months--accelerated very sharply because of regulatory price adjustments scheduled in July.

CONSUMER PRICES
(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	Aug. 76 to Sept. 76
All items	100.0	7.0	2.9	6.1	5.8	4.9
Foods	24.7	6.5	-7.9	7.2	1.8	0.0
Commodities (nonfood)	38.7	6.2	2.9	5.6	6.6	4.6
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	4.3
Petroleum products 2/	4.5	10.1	-15.7	9.3	15.6	10.6
Gas and electricity	2.7	14.2	6.4	12.1	13.6	15.0

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

WHOLESALE PRICES
(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
All commodities	100.0	4.2	-1.8	6.6	4.7	7.2
Farm and food products	22.8	-0.3	-15.8	18.0	-11.0	-11.2
Industrial commodities	77.2	6.0	3.2	3.6	9.6	12.3
Excluding fuels and related products and power	66.8	5.1	6.1	3.6	7.6	8.9
Materials, crude and intermediate 2/	48.1	5.5	3.5	4.3	9.5	11.7
Finished goods						
Consumer nonfoods	18.7	6.7	0.5	2.3	10.1	8.8
Producer goods	11.9	8.2	6.8	3.3	5.7	17.2
Memo:						
Consumer foods	11.1	5.5	-20.5	16.8	-12.2	-4.7

1/ Not compounded for one-month changes.
2/ Estimated series.

III-T-1

SELECTED DOMESTIC FINANCIAL DATA

(Dollar amounts in billions)

Indicator		Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		October	34.50	4.7	1.3	.7
Nonborrowed Reserves		October	34.40	3.7	1.7	1.0
Money supply						
M1		October	310.0	14.5	6.7	5.7
M2		October	725.8	15.7	11.6	10.7
M3		October	1211.6	16.3	14.3	12.6
Time and savings deposits (Less CDs)		October	415.8	16.7	15.4	14.7
CDs (dollar change in billions)		October	62.0	-.4	-7.6	-18.9
Savings flows (S&Ls + MSBs + CUs)		October	485.8	17.0	18.3	15.7
Bank credit (end of month)		October	764.1	12.2	8.8	6.0
Market yields and stock prices				Percentage or index points		
Federal funds	wk. endg.	11/3/76	5.06	-.11	-.30	-.11
Treasury bill (90 day)	"	11/3/76	4.87	-.20	-.28	-.65
Commercial paper (90-119 day)	"	11/3/76	5.00	-.25	-.38	-.88
New utility issue Aaa	"	11/5/76	--	--	--	--
Municipal bonds (Bond Buyer)	1 day	11/4/76	6.34	.01	-.31	-1.18
FNMA auction yield	(FHA/VA)	11/1/76	8.67	-.13	-.34	-.65
Dividends/price ratio (Common stocks)	wk. endg.	11/3/76	3.99	.18	.29	-.15
NYSE index (12/31/65=50)	end of day	11/9/76	53.14	-1.71	-2.16	47.23

Credit demands	Period	Net change or gross offerings: Current month 1976	Current month 1975	Year to date 1976	Year to date 1975
Business loans at commercial banks	October	2.7	1.0	-.1	-6.8
Consumer instalment credit outstanding	September	1.5	1.0	12.1	3.2
Mortgage debt outst. (major holders)	August	4.7	3.6	36.8	24.4
Corporate bonds (public offerings)	October	2.6e	2.4	22.2e	29.2
Municipal long-term bonds (gross offerings)	October	3.4e	2.3	28.8e	26.1
Federally sponsored Agcy. (net borrowing)	October	.9	1.1	3.5	1.6
U.S. Treasury (net cash borrowing)	November	6.1	5.9	61.7	77.2
Total of above credits		21.9	17.3	165.0	154.9

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Aggregate public sector credit demands moderated somewhat in October, but private credit demands expended more than seasonally, despite the current lull in economic activity. Credit demands of businesses increased sharply at banks, and capital market financing also expanded--due in part to an acceleration of borrowing plans by several large corporations. In addition, credit flows in the mortgage market remained strong, and depositary institutions continued to enjoy large deposit inflows.

Although the prime rate was reduced to 6-1/2 per cent in October, in lagged response to previous market rate declines, short-term market interest rates are 10 to 15 basis points higher since the October FOMC meeting. Most longer-term yields also have risen, with the largest increases in the 2- to 5-year maturity area. The back-up in rates occurred as market expectations of further easing in monetary policy were dampened by sizable weekly increases in the narrowly defined money stock during October and the continuation of Federal funds trading around 5 per cent. The broader measures of the money stock also grew more rapidly during October, but most of the acceleration in these measures was attributable to the strength in M_1.

Monetary aggregates and bank credit. After showing little change in September, M_1 rebounded sharply in October, expanding at a 14-1/2 per cent annual rate. Although M_1 moved erratically from week

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

	Oct.'75 FOMC Oct. 21	Aug.'76 FOMC Aug. 17	Sept.'76 FOMC Sept. 21	Oct.'76 FOMC Oct. 19	Oct. 26	Nov. 1	Nov. 9
Short-term							
Federal funds 1/	5.73	5.29	5.21	4.97	4.99	5.06	4.96 5/
Treasury bills							
3-month	5.66	5.15	5.03	4.84	4.90	4.84	4.93
6-month	6.04	5.40	5.23	4.95	5.08	5.03	5.08
1-year	6.28	5.62	5.38	5.10	5.20	5.15	5.22
Commercial paper							
1-month	5.75	5.13	5.00	4.75	4.75	4.88	4.88
3-month	6.13	5.38	5.25	5.00	5.00	5.00	5.13
Large neg. CD's 2/							
3-months	6.38	5.30	5.25	4.90	5.10	5.05	5.10
6-months	6.88	5.65	5.45	5.10	5.35	5.25	5.30
Federal agencies							
1-year	7.17	6.09	5.95	5.53	5.70	5.69p	n.a.
Bank prime rate	8.00	7.00	7.00	6.75	6.75	6.75	6.50
Long-term							
Corporate							
New AAA 1/	9.53	8.49	8.28	8.15	8.28	8.29	--
Recently offered 3/	9.41	8.49	8.30	8.20	8.25	8.27	8.24p
Municipal (Bond Buyer) 4/	7.29	6.60	6.50	6.25	6.30	6.33	6.34
U.S. Treasury (20-year constant maturity)	8.26	7.88	7.71	7.69	7.77	7.69	7.77
Stock prices							
Dow-Jones Industrial	846.82	999.34	1014.79	949.97	948.14	966.09	930.77
N.Y.S.E. Composite	47.91	55.98	57.51	54.18	53.97	55.00	53.14
AMEX	98.57	103.74	104.15	98.56	98.17	99.03	98.61
Keefe Bank Stock	488	609	589	569	583	589	587

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 November 10.
n.a.--not available.
p--preliminary.

to week during September and October, the average growth rate for the two-month period was 7 per cent, about 1 percentage point higher than the average for the preceding eight months. Reflecting the resurgence in the growth of M_1, the broader monetary aggregates also grew more rapidly in October than in September, with M_2 increasing at a 15.7 per cent rate and M_3 at a 16.3 per cent rate.

Inflows of time and savings deposits at banks and thrift institutions (other than large CDs) continued at a rapid pace during October, as yields on open-market instruments remained below the returns available on depositary claims. Although growth in consumer-type time deposits at commercial banks moderated in October, net inflows of savings deposits accelerated to a 29 per cent rate, slightly above the record first quarter average. Deposits at savings and loan associations and mutual savings banks are estimated to have grown at annual rates of 19.1 per cent and 12.3 per cent, respectively, only slightly below their rapid pace in both August and September.

Outstanding negotiable CDs at large banks continued to contract in October, but at a slower pace than in other recent months. For the year to date, CDs have declined by $21 billion, the largest ten-month decline on record. Banks' net use of nondeposit sources of funds, such as Federal funds, Eurodollars, or other borrowings, rose in October after declining in September, but for the two months combined and for the year to date, aggregate use of these sources has shown little net change.

MONETARY AGGREGATES[1/]
(Seasonally adjusted changes)

	1975 HII	1976 HI	1976 QI	1976 QII	1976 QIII	1976 Sept.	1976 Oct.	1976 Sept.- Oct.	Twelve months ending Oct. 76
					Per cent at annual rates				
M_1 (currency plus demand deposits)	4.7	5.6	2.7	8.4	4.1	-0.4	14.5	7.0	5.7
M_2 (M_1 plus time deposits at commercial banks other than large CDs)	8.3	10.4	9.7	10.8	9.2	9.5	15.7	12.7	10.7
M_3 (M_2 plus deposits at thrift institutions)	11.5	11.8	11.2	12.0	11.6	13.3	16.3	14.9	12.6
Adjusted bank credit proxy	3.7	2.4	2.3	2.4	3.8	2.3	12.1	7.2	4.1
Total time and savings deposits at CDs	7.3	6.3	7.2	5.3	7.1	9.7	13.7	11.8	7.8
a. Other than large negotiable CDs	11.4	14.1	15.3	12.5	13.2	16.9	16.7	16.9	14.7
1. Savings deposits	17.0	25.8	28.3	21.7	13.4	22.8	29.4	26.4	23.5
2. Time deposits	7.4	5.4	5.6	5.1	12.7	12.0	5.9	9.0	8.1
a. Savings and loans	18.2	15.5	15.0	15.4	16.5	20.7	19.1	20.1	17.2
b. Mutual savings banks	11.9	9.7	9.1	10.1	12.2	13.4	12.3	12.9	11.2
c. Credit unions	18.6	16.6	16.8	15.8	16.0	19.4	16.5[e]	18.1[e]	17.5[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	-0.7	0.8	0.0	0.4
b. Negotiable CDs	-0.2	-2.1	-3.2	-0.9	-2.7	-2.0	-0.4	-0.4	-1.6
c. Nondeposit sources of funds	0.2	--	-0.1	0.1	-0.1	-0.7	0.8	0.0	0.1

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

Recent declines in market rates of interest on CDs and other managed liabilities would appear to make these funds more attractive to banks than consumer deposits, which carry generally higher rates (particularly on longer maturities) and involve larger administrative costs. Nonetheless, banks are continuing to permit these managed liabilities to fall while generally keeping their rates on consumer deposits at the ceilings. Banks are reported to be reluctant to lower consumer deposit rates amid expectations of generally higher interest rate levels in 1977 and in view of stiff deposit competition with thrift institutions. A continuation of the low levels of short-term market interest rates and large inflows of consumer-type deposits at both banks and thrift institutions, however, may cause institutions to withdraw offering longer maturity deposits and curtail advertising, and possibly also to reconsider their policies regarding the maintenance of offering rates at or close to regulatory ceilings.

Total loans and investments of all commercial banks (last-Wednesday-of-the-month series) increased at more than a 12 per cent annual rate in October, the largest monthly gain since mid-1974. As in September, loan growth accounted for all the increase. Business loans showed a particularly sharp rise,[1/] but security loans and loans to

1/ Part of the business loan growth ($300 to $400 million) again reflects unusually large acquisitions of bankers acceptances by several large banks prior to the year-end statement date. As in late 1975, these banks have begun acquiring acceptances in order to bolster the loan base for determining allowable transfers to loan loss reserves for tax purposes. In 1975, purchases were concentrated in November and December, but, reportedly, in order to avert downward yield pressures from their purchases, this year the banks began to implement the policy in September.

nonbank financial institutions also increased substantially. Holdings of investments declined slightly for the first time since January 1975, as a reduction in holdings of Treasury securities more than offset a moderate further rise in holdings of tax-exempt and other securities.1/

Business credit. Although business loans at banks rose $1 billion in September, a large decline in outstanding nonfinancial commercial paper led to a moderate contraction in total short-term business credit. In October, however, the $2.7 billion increase in business loans more than offset a modest contraction of outstanding nonfinancial commercial paper; total short-term business credit thus expanded at about a 16 per cent rate in October, the largest rise since August, 1974.

The size of the October rise in business loans is somewhat puzzling and at this time does not appear fully compatible with other financial and nonfinancial developments. Commercial paper, for example, has remained less expensive than bank credit, even with the decline in the prime rate. Nonetheless, much of the expansion in business lending was concentrated in the major financial centers where principal bank customers generally are presumed to have access to the commercial paper market.

1/ Large banks lengthened the average maturity of their Government security portfolios in October by reducing their holdings of bills and shorter maturity coupon issues while acquiring notes and bonds. These longer-term instruments have become increasingly attractive as Treasury bill rates declined to, and recently below, the lowest ceiling rates on small denomination deposits at banks.

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

	1975	1976					
	HII	HI	QI	QII	QIII	Sept.	Oct.
Total loans and investments[2/]	4.5	4.9	5.5	4.3	7.0	5.9	12.2
Treasury securities	22.1	36.8	44.3	26.3	--	-12.6	-6.4
Other securities	2.9	-1.0	-4.1	2.2	8.3	8.2	3.3
Total loans[2/]	2.3	1.6	2.1	1.0	8.0	8.7	18.2
Business loans[2/]	-1.2	-4.9	-7.4	-2.2	3.5	6.9	18.6
Real estate loans	4.3	8.0	8.9	6.9	6.0	8.5	6.7
Consumer loans	9.3	4.9	4.0	5.7	11.3	11.5	n.a.
MEMO: Business loans plus nonfinancial commercial paper[3/]	-3.1	-1.7	-5.3	1.9	.6	-2.6	16.1

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.
n.a. - Not available.

Lending officers at some of the major banks in New York, Chicago, and San Francisco, who were contacted by System staff, attributed the recent borrowing mainly to selected local influences. These included a strong demand for construction loans on the West Coast and stepped-up seasonal demands for funds in the textile industry in the New York area. These contacts generally did not view the recent strengthening of business lending as necessarily indicating the beginning of a sustainable upturn in business loan demand.

The build-up in short-term business loans may reflect financing needs growing from enlarged inventories. It is also possible that the maturity mix of business borrowing, discussed more fully below, may be in the process of shifting more toward the short-term markets as many businesses complete their balance sheet restructuring and increasingly expect longer-term funds to remain readily available, possibly at lower rates, next year. However, all of these explanations must, for the time being, be considered as conjectural.

Accompanying the large expansion in short-term business credit in October was an increase in longer-term security financings. Gross issues of publicly offered corporate bonds totaled $2.6 billion, as the normal seasonal rise plus three moderately large industrial issues boosted total offerings to their highest level since June. Utilities stepped up the pace of their long-term bond financing, and finance companies again were active issuers. In addition, takedowns of privately placed debt obligations are estimated to be continuing at a record pace.

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

	1975 Year	1976 QI	QII	QIII	Oct.e/	Nov.f/	Dec.f/
		Gross offerings					
Corporate securities--							
Total	4,470	4,618	4,669	3,030	4,400	3,200	3,800
Publicly offered bonds	2,717	2,523	2,474	1,533	2,600	1,400	1,500
By quality 1/							
Aaa and Aa	1,422	1,559	1,148	700	1,250	--	--
Less than Aa 2/	1,295	964	1,326	833	1,350	--	--
By type of borrower							
Utility	925	660	780	575	850	--	--
Industrial	1,432	1,230	880	515	950	--	--
Other	360	633	814	443	800	--	--
Privately placed bonds	848	911	1,148	864	1,000	1,000	1,500
Stocks	905	1,184	1,038	633	800	800	800
Foreign securities-totals 3/	597	1,067	789	691	544	--	--
Publicly offered 4/	451	447	614	422	235	1,260	300
Privately placed	146	620	175	269	309	--	--
State and local gov't. securities							
Long-term	2,544	2,798	2,973	2,709	3,400	3,200	2,500
Short-term	2,420	1,678	2,615	1,687	1,350	1,300	1,200
		Net offerings					
U.S. Treasury	7,564	7,897	2,359	5,215	1,330	6,580	5,600
Sponsored Federal agencies	187	414	0	383	589	-698	390

e/ Estimated.
f/ Forecast.
1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's.
3/ Includes issues of international lending agencies as well as foreign private and official institutions.
4/ Classified by original offering date.

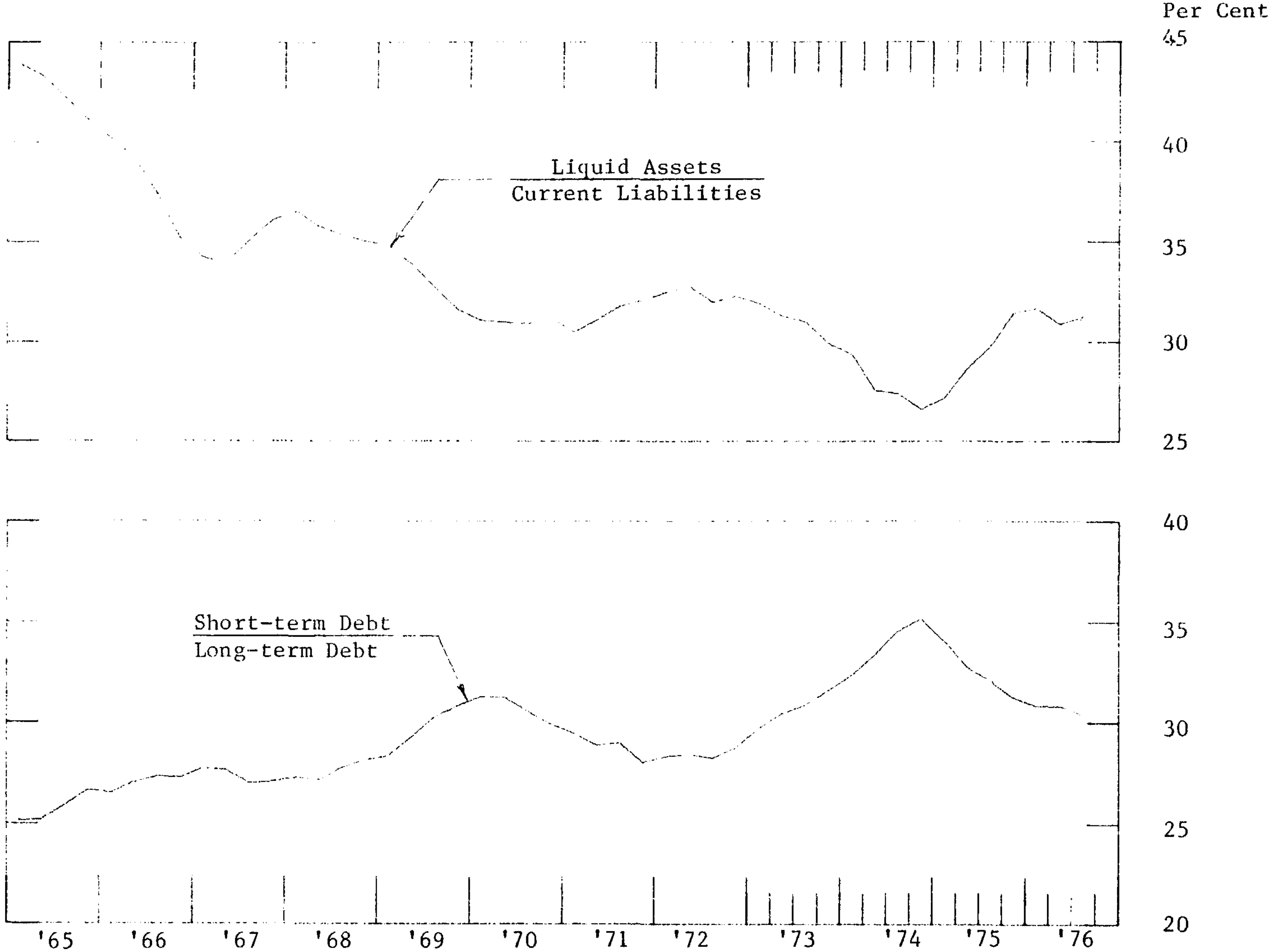
Lower-rated manufacturing and other industrial concerns have been the major recipients of these funds, since third and fourth quality borrowers (roughly akin to A and Baa-rated issuers, respectively) typically account for the overwhelming majority of private placements.

With corporate expenditures for fixed investment increasing at a more modest rate in the current economic upswing than during previous recoveries, corporations have used a large portion of the proceeds from their public and private bond financings to reduce short-term indebtedness and replenish liquid asset holdings. As noted above, this balance sheet restructuring may be nearly completed for many firms, since--as shown in the chart--the ratio of short-term to long-term debt for nonfinancial corporations recently reached its lowest level since mid-1973. Also, the ratio of liquid assets to current liabilities for these companies is estimated to have increased to 31.2 per cent at the end of the third quarter, substantially above its low of 26.6 per cent at year-end 1974 and roughly equal to the average liquidity ratio recorded between 1970 and 1973.

The reduced need for further balance sheet restructuring by higher rated corporations accounts for the curtailed volume of domestic public bond offerings currently expected for the remainder of the year. After allowing for the usual seasonal decline, gross offerings in November and December may be the smallest totals for any two-month period in more than two years.[1/] New stock financings also are expected

1/ Public offerings of foreign bonds however, are expected, to be more than $1.2 billion in November, a record volume for any month.

LIQUIDITY MEASURES OF NONFINANCIAL CORPORATIONS



Liquid assets include currency, demand and time deposits, U.S. Gov't. securities, State and local obligations, and open market paper. Short-term debt consists of short-term bank loans, open market paper, finance company loans, U.S. Gov't loans, and construction loans. Current liabilities include short-term debt plus trade debt plus profit taxes payable.
Flow of Funds data, seasonally adjusted. Data for 1976-Q3 are preliminary.

to be appreciably lower in the next two months than during the first half of 1976, but this reduction is attributable mainly to the recent drop in stock prices. Major stock price indexes reached a yearly high in late September, but they have since declined more than 7 per cent.

Corporate bond yields have backed up about 5 to 10 basis points since the October FOMC meeting. Underwriters encountered buyer resistance on several aggressively priced new issues in mid-October, and a number of syndicates were forced to terminate their pricing restrictions with sizable unsold balances. The tone of the market improved near month-end, however, when additional new issues were priced more liberally and the forward calendar appeared quite modest.

Municipal and U.S. Government securities markets. New municipal bond offerings were $3.4 billion in October, considerably above the average monthly pace of $2.7 billion in the third quarter. The large October volume boosted total offerings in the first ten months of 1976 to nearly $29 billion, almost $3 billion ahead of last year's record pace. The increase in offerings is attributable mainly to continued funding of short-term debt, the reactivation of borrowing plans disrupted by the New York City crisis, and appreciably enlarged borrowing by several municipal power authorities that are financing the construction of nuclear generating plants.1/

1/ These units borrowed $450 million in 1974 and $1.4 billion in 1975. Through the end of October, these power authorities have borrowed $2.3 billion and plan to borrow an additional $400 million by year-end.

Tax-exempt bond yields have increased a little since the October FOMC meeting, although spreads between higher-and lower-rated bonds have narrowed somewhat of late. The improvement of these risk premiums can be attributed, in part, to the large purchases of longer-term tax-exempt bonds by property-liability insurance companies, commercial banks, and the newly-authorized municipal bond mutual funds. In the last several weeks, efforts by investors to achieve a high yield on their tax-exempt portfolios reportedly have led them to make heavier purchases of lower-rated issues.

The Treasury has raised $3.8 billion of new money since the October FOMC meeting, with the majority of the funds ($2.5 billion) acquired in the mid-November refunding. Thus far in 1976, the accompanying table shows that over 90 per cent of the increase in marketable securities outstanding has been in coupon issues, but the most recent refunding was much less aggressive with respect to debt maturity lengthening than were those in May and August. The long-term note carried, for example, a maturity of 7 years rather than 10 years, and was sold by auction instead of the fixed-price subscription basis. The popularity of the earlier subscription offerings resulted in a significant portion of the total funds being raised by longer-term note issues. The increased reliance on shorter-term notes in the current refunding resulted, on the other hand, in a relatively small increase in the average maturity of the debt.

CHANGES IN TREASURY DEBT OUTSTANDING IN 1976, BY MATURITY
(Not seasonally adjusted, billions of dollars)

	Year to date 2/		I		II		III		IV 2/	
	Dollar change	% of mktble change	Dollar change	% of mktble change	Dollar change	% of mktble change	Dollar change	% of mktble change	Dollar change	% of mktble change
Total public debt	65.1		23.9		19.9		14.3		7.1	
Nonmarketable 1/	14.2		1.8		12.6		-.8		.6	
Marketable	50.9	100	22.1	100	7.3	100	15.1	100	6.2	100
Bills	4.0	8	5.7	25	-1.9	-26	.3	2	--	--
Coupons	46.7	92	16.4	75	9.2	126	14.9	98	6.2	100
Within 1 year	-.3	-.1	-1.6	-7	2.4	33	1.6	11	-2.7	-44
1 - 5 years	29.0	57	11.6	52	3.1	42	4.1	27	10.2	165
5 - 10 years	16.5	32	6.0	27	3.2	44	8.5	6	-1.2	-19
Over 10 years	1.3	3	.4	2	.4	6	.6	4	-.1	-2
Average length, end of period	(3 YRS-1 MO) 3/		(2 YRS-10 MOS)		(2 YRS-11 MOS)		(3 YRS-1 MO) 3/			

Source: Treasury Department, Survey of Ownership

1/ Includes a small amount of non-interest-bearing debt.
2/ Through November 15. Partly estimated by FR staff.
3/ End of August.

Mortgage and consumer credit markets. Activity in the mortgage market remained strong in October. Mortgage acquisitions of S&L's continued at a rapid pace and new issues of GNMA-guaranteed mortgage-backed securities also remained quite large. Outstanding mortgage commitments at S&L's reached a new high of $22.5 billion at the end of September. Increases in mortgage credit have remained concentrated in loans for the purchase or construction of homes, but there has been some strengthening in the multifamily component recently. This activity has been bolstered by two Federal programs aimed at stimulating the lagging multifamily sector.1/

Average interest rates on new commitments for long-term conventional home mortgages at S&L's have moved down 10 basis points since the last FOMC meeting, but changes in secondary market yields have been mixed. Strong demands for funds to purchase new or existing homes have limited reductions in primary mortgage rates even though the supply of funds to this market has increased; average rates have come down by only about 25 basis points during the past year as net lending has increased by about one-third.

Consumer instalment credit outstanding increased at a 10.4 per cent annual rate in September, up slightly from August, but still about equal to the average growth rate over the past year. Commercial banks accounted for nearly half of the increase in outstandings, with automobile financing again contributing more than half of the bank increase.

1/ The two Federal programs are: (1) a GNMA Tandem Plan under which GNMA purchases FHA-insured long-term mortgage loans at below-market interest rates, and (2) the "section 8" rental-assistance program for low- and moderate-income housing.

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

End of period	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	--	-17	0
June	8.90	+12	+20	6
July	8.98	+ 8	+26	7
Aug.	9.00	+ 2	+53	7
Sept.	8.97	- 3	+77	9
Oct. 1	8.90	- 7	+61	10
8	8.95	+ 5	+69	11
15	8.95	0	+80	11
22	8.95	0	+67	11
29	8.90	- 5	+60	8
Nov. 5	8.85	- 5	--	n.a.

1/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.

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	121	9.31	634	321	9.20	8.44
Low	33	23	9.00	58	32	8.67	7.89
Oct. 4	154	94	9.07	124	62	8.80	8.06
12							7.96
18	144	121	9.02	111	45	8.70	7.89
26							8.02
Nov. 1	142	112	9.00	215	73	8.67	8.02
8							8.02

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.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976 1/ QII	QIII	Aug.	Sept.
Total						
Change in outstandings						
$ Billions	9.0	6.8	16.9	16.7	16.8	17.8
Per cent	6.1	4.4	10.5	10.0	10.0	10.4
Bank share (%)	44.4	41.7	40.1	43.8	36.9	47.1
Extensions						
$ Billions	160.0	163.5	182.5	186.8	188.2	189.3
Bank share (%)	45.4	47.2	47.1	47.9	47.7	47.8
Liquidations ($ billions)	151.1	156.6	165.6	170.1	171.4	171.5
Automobile Credit						
Change in outstandings						
$ Billions	0.3	2.6	7.6	7.1	7.5	7.3
Per cent	0.7	5.2	14.2	12.6	10.7	10.3
Extensions						
$ Billions	43.2	48.1	54.6	55.8	56.5	57.2
New-car loans over 36 mos. as % of total new-car loans						
Commercial banks 2/	8.8	14.0	22.4	28.5	28.5	--
Finance companies	8.6	23.5	32.3	36.9	37.1	37.8
New-car finance rate (APR)						
Commercial banks (36 mo. loans)	10.97	11.36	11.03	11.07	11.07	11.07
Finance companies	12.61	13.11	13.15	13.19	13.18	13.23

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/)

November 10, 1976

IV - T - 1

	1975	1976				
	YEAR	Q1	Q2	Q3	AUG.	SEPT.
chandise exports	107,088	26,836	28,450	29,678	9,881	9,845
rchandise imports	98,058	28,510	29,735	32,553	10,574	10,963
3. rade Balance	9,030	-1,674	-1,285	-2,875	- 693	-1,118
4. Bank-reported private capital flows	-12,840	-2,907	-1,079	-575	-1,219	368
5. Claims on foreigners (increase -)	-13,487	-3,582	-4,665	-2,614	764	-1,800
6. Long-term	- 2,373	- 250	- 338	-1,016	- 570	- 276
7. Short-term	-11,114	-3,332	-4,327	-1,598	1,334	-1,524
8. (of which on commercial banks in offshore centers 2/)	(-7,212)	(-3,575)	(-2,421)	(-1,391)	(1,485)	(-1,324)
9. Liabilities to foreigners (increase +)	647	675	3,586	2,039	-1,983	2,168
10. Long-term	-300	-91	23	66	23	-21
11. Short-term	947	766	3,563	1,973	-2,006	2,189
12. to commercial banks abroad	-666	1,074	2,232	2,265	-1,922	2,099
13. (of which to commercial banks in offshore centers 3/)	(1,798)	(-230)	(983)	(854)	(-1,891)	(785)
14. to other private foreigners	1,549	156	476	902	284	329
15. to int'l and regional organizations	64	-464	855	-1,194	-368	-239
16. Foreign private net purchases (+) of U.S. Treasury securities	2,667	453	-586	3,007	783	817
17. Other private securities transactions (net)	-3,701	-1,495	-1,318	-2,744	-444	-504
18. Foreign net purchases (+) of U.S. corp. securities	2,505	1,030	130	67	45	-45
19. (of which stocks)	(3,054)	(943)	(100)	(16)	(-5)	(-56)
20. U.S. net purchases (-) of foreign securities	-6,206	-2,525	-1,448	-2,811	-489	-459
21. (new foreign issues of bonds and notes)	(-7,168)	(-2,830)	(-1,622)	(-3,037)	(-560)	(-462)
22. Change in foreign official assets in the U.S.	5,211	2,466	3,155	887	813	-662
23. OPEC countries (increase +)	5,940	2,231	2,737	1,183	1,001	-500
24. (of which U.S. corporate stocks)	(1,643)	(555)	(591)	(374)	(93)	(65)
25. Other countries (increase +)	-729	235	418	-296	-188	-162
26. Change in U.S. reserve assets (increase -)	-607	-773	-1,578	-408	-320	-32
27. Other transactions and statistical discrepancy net a ments	240	3,930	2,691	2,708	1,080	1,423
2 her 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. Govt. 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	4,730	986			
IEMO:						
41. Current account balance	11,697	-60	702	N/A	N/A	N/A
42. Official settlements balance	-4,604	-1,693	-1,577	-479	-493	986
43. O/S bal. excluding OPEC	1,336	538	1,160	704	508	486

NOTES:

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

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

3/ Represents mainly liabilities of U.S. Banks to their foreign branches in offshore centers which are the United Kingdom, Bahamas, Panama and other Latin America (mainly Cayman Islands and Bermuda).

4/ Excludes prepayments for military purchases.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. In the four weeks since the last green book the British pound has fluctuated sharply, the Mexican peso has been allowed to depreciate a second time, and parities within the European joint float have been realigned. On a trade-weighted basis the dollar's value has risen 1/2 per cent.

The pound has been extremely sensitive lately to news reports about possible changes in U.K. government economic policies. Sterling fell 5 per cent in late October to a record low of about $1.57 following reports that one of the IMF's conditions for a drawing by Britain was that the pound be allowed to drop to $1.50. In early November sterling recovered about 3 per cent following comments by Chancellor Healey that the government might take further steps to cut public sector borrowing.

. On the latter date the Mexican authorities again allowed the peso to fall, this time stabilizing it around the 4 cent level -- a 50 per cent depreciation from its pre-September 1 parity against the dollar.

Central rates within the European joint float were realigned on October 18 -- the mark was revalued 2 per cent against the Netherlands guilder and Belgian franc, 4 per cent against the Norwegian krone and Swedish krona, and 6 per cent against the Danish krone. However, due to capital reflows out of Germany and the existence of a ±2-1/4 per cent intervention band around the central rates, changes in market exchange rates since the realignment have been much smaller than the changes in central rates. Vis-a-vis the mark, the Danish krone has declined only 1-3/4 per cent, and the other snake currencies have remained essentially unchanged.

. Relative to the dollar, the snake currencies as a group have appreciated about 1 per cent.

On October 18 the Italian authorities allowed the two-week 10 per cent tax on the purchase of foreign exchange to expire. During the next week the lira fell almost 3 per cent

. Subsequently, on October 25, the authorities re-imposed the tax on foreign exchange purchases at a 7 per cent rate, to be in effect for a maximum of four months.

.

The Japanese yen has declined 2-1/2 per cent against the dollar since the beginning of October,

Earlier in the year the yen appreciated 6-1/3 per cent,

.

. The System purchased a net $7 million of marks. On November 12 the System will make the final $27.4 million equivalent payment on the Belgian franc swap debt from 1971.

At the fourth IMF gold auction on October 27, the average accepted bid was about $118. (This compares with prices of about $126, $122, and $109, in that order, at the first three auctions.) Subsequently the price was bid up sharply and it is currently (as of November 10) $136, about $21 above its level four weeks ago. The fifth auction will be held on December 8. The Fund is presently studying a proposal to hold smaller, more frequent auctions.

OPEC investment flows. In the third quarter of 1976 the OPEC surplus on goods and services appears to have increased from the rates of the preceding two quarters, and may have been about $11 billion in the third quarter compared with a $10 billion quarterly rate in the first half of the year. Oil production and shipments continued to rise in the third quarter in response to increasing economic activity in oil-consuming countries, and were further accelerated by expectations of a substantial oil price rise at the beginning of 1977. OPEC imports probably rose less than exports in the third quarter. The OPEC investible surplus was not much smaller than the surplus on goods and services since OPEC grant aid probably did not exceed $0.3 billion. The principal changes in the third quarter in the pattern of identifiable OPEC investment flows were a smaller increase in additions to deposit and security holdings in the United States and (probably) to

Estimated Disposition of OPEC Surpluses
(in billions of dollars)

		1974	1975		1976		
		Year	Year	2nd Half	Q-1	Q-2	Q-3
I.	In United States	12.0	10.0	4.8	2.1	5.2	1.6
	A. Short-term assets 1/	9.3	0.3	1.5	0.4	0.5	0.3
	B. Treasury bonds and notes	0.2	2.0	0.7	0.9	1.4	0.8
	C. Other deposits and securities 2/	1.3	4.0	2.0	1.2	2.2	0.5
	Total deposits and securities	10.8	6.3	4.2	2.5	4.1	1.6
	D. Direct investment	0.3	1.0	0.6	-1.4	0	n.a.
	E. Other 3/	0.9	2.7	n.a.	1.0	1.1	n.a.
II.	In United Kingdom	7.2	0.2	-0.5	-0.3	-0.5	-0.7
	A. Liquid sterling assets 4/	5.3	0	-0.7	-0.4	-1.2	-0.7
	B. Other loans and investments	1.2	0.2	0.2	0.1	0.7	n.a.
III.	In Euro-currency Markets	24.5	9.1	3.0	0.9	2.8	2.3 5/
	A. United Kingdom	13.8	4.1	2.0	-0.1	2.3	1.3 5/
	B. Other centers (est.) 6/	10.7	5.0	1.0	1.0	0.5	1.0 5/
IV.	International Institutions	3.3	3.5	1.7	1.5	0.1	-0.1
	A. IBRD bonds	1.5	0.9	0.1	0.3	0.1	0.1
	B. IMF Oil Facility	1.8	2.6	1.6	1.2	7/	-0.2
V.	Total Identified Above	47.0	22.3	9.0	4.2	7.6	3.1
VI.	All Other (residual)	10.6	10.3	7.1	5.1	2.1	7.6
VII.	Total=Investible Surplus	57.6	32.6	16.1	9.3	9.7	10.7
VIII.	OPEC Grant Aid	2.4	2.4	0.9	0.7	0.3	0.3
IX.	Surplus on Goods and Services 8/	60.0	35.0	17.0	10.0	10.0	11.0

1/ Principally Treasury bills, repurchase agreements, bank deposits and CD's.
2/ Long-term bank deposits, corporate and Federal agency bonds, and equities.
3/ Real estate, prepayments of imports, debt repayment, and miscellaneous investments.
4/ Treasury bills and bonds, bank and other deposits.
5/ July-August only.
6/ Including domestic-currency bank deposits in centers other than the United Kingdom and United States.
Less than $50 million.
8/ With oil receipts on a cash basis.

Euro-currency holdings, and smaller but still very heavy net drawdowns of liquid sterling assets in the United Kingdom. Unidentified investments increased sharply in the third quarter.

OPEC money-market and portfolio security holdings in the United States rose $1.6 billion in the third quarter, much less than the increases of $2.5 billion and $4.1 billion (revised) in the first and second quarters respectively. Much of the third-quarter drop-off from the second-quarter inflow reflected a special factor in the second quarter, viz. the $1.4 billion addition to these holdings with proceeds of a partial disinvestment of one OPEC country in a U.S. oil company. Most of the reduction in the third-quarter inflows was in Treasury bonds and other long-term securities.

These additions to money-market and portfolio securities in the United States appear to have been equivalent to about 15 per cent of the OPEC investible surplus in the third quarter, down from about 25 per cent in the first quarter and 45 per cent in the second. For the first half of 1976, the additions to money market and portfolio security holdings, direct investment (which was negative), and other OPEC investments in the United States (estimated at $2.1 billion, the content being indicated in the footnote to the table) are estimated at $7.3 billion; all together, these seem to have been the equivalent of close to 40 per cent of the first-half OPEC investible surplus, a percentage higher than for any other half-year since the emergence of the massive OPEC surpluses in 1974. Estimates for direct investment and the other investments are not, however, available for the third quarter.

During the third quarter the OPEC countries drew down sterling balances held in the United Kingdom (deposits, Treasury bills and Government bonds) by £ 420 million; all of the decline was in official holdings. These drawdowns were equivalent to $700 million at the dollar/sterling exchange rate prevailing at the end of the third quarter. (This figure is strictly confidential until published by the Bank of England in its December Quarterly Bulletin.) While still very heavy, this was less than the $1.2 billion reduction in the second quarter. For the first nine months of the year the liquidation of sterling balances by OPEC holders has totalled $2.3 billion, and these sales have been a major contributor to British reserve losses and the decline of the sterling exchange rate this year. Changes in other types of OPEC assets in the United Kingdom in the third quarter are not fully known; however, loans of non-sterling currencies from OPEC governments to public sector borrowers in the U.K. did not increase in July-August following their $0.6 billion second-quarter rise.

Among other uses of the OPEC surplus in the third quarter, purchases of IBRD bonds were again $0.1 billion. OPEC outstanding loans to the IMF Oil Facility fell $0.2 billion in the third quarter as borrowers from the Oil Facility made their first repayments. It is estimated that net additions to OPEC-owned Euro-currency deposits rose $2.3 billion in July-August. However, the increase for the third quarter may have been less than for those two months, and was probably less than the $2.8 billion increase in the second quarter, because OPEC holders as a group tend to draw down Euro-currency deposits quite sharply in the third month of each quarter.

U.S. International Transactions. Data for the third quarter indicate: (a) a widening of the U.S. merchandise trade deficit; (b) a rate of net bank-reported private capital outflows at about half that in the second uarter; and (c) the continuation of a high level of new foreign bond flotations in the U.S. market.

The merchandise trade deficit for the third quarter was $11.5 billion at a seasonally adjusted annual rate (international accounts basis), compared with a deficit of $5.9 billion in the first half of 1976. The increase in the deficit resulted from a larger growth in the volume of imports than of exports, as both import and export prices continue to advance slowly.

U.S. Merchandise Trade, International Accounts Basis
(billions of dollars, seasonally adjusted annual rates)1/

	1975					1976				
	Year	1Q	2Q	3Q	4Q	1Q	2Q	3Q	Aug.	Sept.
EXPORTS	107.1	108.1	103.4	106.2	110.6	107.3	113.8	118.7	118.6	118.1
Agric.	22.2	24.2	19.5	22.3	23.0	21.3	23.5	25.3	25.3	25.2
Nonagric.	84.8	83.9	83.9	84.0	87.7	86.1	90.3	93.4	93.3	93.0
IMPORTS	98.1	102.3	90.3	97.9	191.7	114.0	118.9	130.2	126.9	131.6
Fuels	28.5	27.8	26.7	30.0	29.5	31.8	36.5	39.9	40.2	38.7
Nonfuels	69.5	74.5	63.9	67.9	72.2	82.3	82.5	90.3	86.7	92.8
BALANCE	+9.0	+5.8	+13.1	+8.3	+8.9	-6.7	-5.1	-11.5	-8.3	-13.4

Index Numbers 1973=100

	1975					1976		
	Year	1Q	2Q	3Q	4Q	1Q	2Q	3Q
EXPORTS								
Value	150.0	151.4	144.8	148.7	154.9	150.3	159.4	160.2
Price 2/	142.0	143.8	142.8	142.0	142.7	145.0	146.4	148.1
Volume	105.6	105.2	101.4	104.8	108.5	103.7	108.9	112.2
IMPORTS								
Value	139.1	145.1	128.0	138.8	144.2	161.8	168.7	184.7
Price 2/	162.4	164.8	166.2	160.4	160.5	164.0	167.0	169.5
Volume	85.6	87.9	77.0	86.4	89.8	98.6	101.0	109.0

1/ Details may not add to totals because of rounding.
2/ As measured by the unit value index.

Agricultural exports in the third quarter were 5.4 per cent larger in volume than in the second quarter. Shipments of soybeans and cotton to Japan were especially strong, as were grain and cotton shipments to developing countries in Asia and Africa. Agricultural export prices rose 2 per cent in the third quarter, the first price increase recorded in seven quarters, reflecting the midyear peak in spot agricultural prices.

Nonagricultural exports grew 3.4 per cent in the third quarter, only slightly below the 4.9 per cent increase in the second quarter, despite the slower than expected expansion in foreign economic activity. Most of the increase was in volume, as prices rose only by 1 per cent. New orders for machinery exports increased by 24 per cent in the third quarter, compared with a 7 per cent increase in the second quarter.

Fuel imports in the third quarter were $39.9 billion, 16 per cent above the average rate the first half of 1976. The increase in the volume of petroleum imports from 7.7 million barrels per day (mbd) in the second quarter to 8.5 mbd in the third quarter, a level well above that required to maintain current consumption, appears to be stockpiling in anticipation of a possible OPEC price hike.

Nonfuel imports rose 9 per cent in value terms from the second quarter to $90.3 billion in the third quarter, while in volume terms the increase was 7 per cent. Every major commodity category registered an increase. Imports from non-oil-exporting developing countries have increased substantially throughout 1976, largely in the form of industrial supplies and consumer goods. By contrast, U.S. exports to those countries have remained level, possibly reflecting their adjustment to large current account deficits.

Bank-reported private capital transactions produced a reduced net capital outflow fo $600 million during the third quarter as compared to a quarterly average net outflow of $2 billion in the first half of 1976. During September U.S. banks reported a net capital inflow of $400 million. The reduction in net bank-reported capital outflow during the third quarter coincided with the tentative upturn in domestic demand for bank credit, the continuation of weak credit demand in other industrialized countries, and possibly the closer examination by banks of LDC credits.

Most of the increase in gross short-term claims and liabilities recorded for the third quarter arose from the recording of overnight money-market arbitrage transactions conducted by banks on the last day of the quarter. These transactions involve the transfer of Federal funds balances from member banks to the U.S. offices of foreign banks, through the intermediation of the overseas offices of U.S. and foreign banks. This money-market arbitrage activity increased claims and offsetting liabilities by about $1 billion at the end of September, with the claims being shown against Caribbean banking centers and the liabilities appearing to banks in Canada and the Netherlands. This form of arbitrage activity occurs weekly on each Thursday, and is motivated by an opportunity for member banks to reduce the cost of reserve requirements.

New issues of foreign bonds in the United States were $3 billion in the third quarter, considerably above the second-quarter rate, slightly above that of the first quarter. Canadian issues of $1.4 billion were above the second quarter level of $900 million, but below the first quarter rate.

It is anticipated that in the fourth quarter between $2.5 and $3 billion of new foreign security issues will be sold in the United States, and including $500 million in a two-tranche issue by the World Bank in mid-November. It is expected that Canadian borrowers will issue $1.4 billion of new bonds in the fourth quarter; a substantial part of this activity will represent the moving forward of borrowing dates from 1977 to take advantage of what are seen as favorable market conditions. New issues of $475 million have already been announced for the fourth quarter by three non-Canadian borrowers who have initiated regular U.S. borrowing programs since the termination of U.S. capital controls in 1974: Australia ($200 million), France ($125 million), and the European Coal and Steel Community ($150 million). Reportedly, the acceptability to U.S. investors of such prime foreign borrowers has improved recently, with a considerable part of several recent foreign bond issues having been purchased by U.S. investors.

The increase in foreign official assets in the United States in the third quarter was $900 million, considerably less than the $3.2 billion inflow during the second quarter. New OPEC financial investments in the United States declined to $1.2 billion from $2.2 and $2.7 billion in the first and second quarters, respectively.

<u>Economic Activity in Foreign Industrial Countries</u>. Recent indicators show that economic recovery in the major foreign industrial countries continues to be slow and uneven. There are as yet no general signs that the pause which set in earlier this year has come to an end. In several of the major countries, the pause commenced in the second quarter of this year, following two quarters of rapid expansion of industrial production and gross national product. In others, such as Japan and Italy, output continued to rise at a rapid pace during the second quarter, and the pause commenced during the summer months. Incomplete data for the third quarter show that industrial output fell below the second quarter average in several important countries and was moving erratically in others.

Table 1 summarizes recent quarterly movements in industrial production for the six major foreign countries. Despite the strength of recovery in the last half of 1975 and the early part of this year, output has not yet regained its pre-recession peak. On a weighted average basis, output in August was still 2.8 per cent below the peak recorded in the fourth quarter of 1973. In addition, unemployment rates are everywhere much higher than at the onset of the recession, having come down only slightly from peaks reached, in most cases, during 1975.

Table II shows movements in available national accounts data through the second quarter of this year. These data also indicate that the major components of GNP have moved irregularly over the past several quarters in each of the major foreign countries. Although national authorities had, earlier this year, forecast a pause in activity, the slowdown actually experienced has been greater than was anticipated. Stimulative measures

Table I
Industrial Production in Major Industrial Countries
(Percentage Change from Previous Period - S.A.)

	1975 Q1	1975 Q2	1975 Q3	1975 Q4	1976 Q1	1976 Q2	1976 Q3	Levels (1970 = 100) Peak (Quarterly)	Levels (1970 = 100) Trough (Quarterly)	Levels (1970 = 100) Latest Month
France	-3.1	-2.9	-1.2	3.9	5.5	0.6	2.2 2/	125.0 (74.III)	109.7 (75.III)	125.0 (Aug.)
Germany	-2.1	-1.6	0.3	3.6	2.8	2.7	-0.9	113.7 (73.IV)	103.0 (75.II)	113.0 (Sept.)
Italy	-0.8	-2.8	-1.9	5.7	2.6	4.9	-0.3	122.9 (74.II)	104.7 (75.III)	125.4 (Sept.)
United Kingdom	-0.3	-4.1	-0.7	0.9	1.2	0.5	-1.6 2/	110.7 (73.III)	99.4 (75.III)	100.8 (Aug.)
Canada	-2.7	-0.7	-0.4	1.2	3.0	1.4	-0.5 2/	128.4 (74.I)	120.3 (75.III)	127.4 (Aug.)
Japan	-7.6	3.1	2.0	0.8	5.8	5.4	0.9	131.9 (73.IV)	105.9 (75.I)	124.7 (Sept.)
Major Foreign Countries 1/	-3.4	-1.1	0.0	2.5	4.0	2.8	0.1	121.4 (73.IV)	107.9 (75.II)	117.9 (Aug.)
United States	-9.1	0.9	5.5	2.4	2.9	1.8	1.4	122.4 (74.III)	105.1 (75.I)	121.9 (Sept.)
Major Industrial Countries 1/	-6.4	0.0	2.9	2.4	3.4	2.3	0.8	121.7 (73.IV)	106.8 (75.II)	120.0 (Aug.)

1/ Weighted by 1975 real GNP/GDP.
2/ Three months ending in August.
National Sources: latest data are preliminary.

Table II

Real GNP and Components in Major Foreign Countries 1/
(Percentage change from previous period, S.A.)

	1975 Q3	1975 Q4	1976 Q1	1976 Q2
Germany - GNP	0.6	3.1	1.6	0.6
Private Consumption	0.8	1.4	1.0	-0.1
Public Consumption	0.9	0.5	2.3	-1.7
Fixed Investment	1.8	3.0	-0.3	2.0
Foreign Balance	1.9	2.2	2.3	2.0
United Kingdom - GDP 2/	-0.7	0.7	1.3	-0.8
Private Consumption	-0.8	-0.2	1.2	-0.9
Public Consumption	2.1	1.0	-0.6	1.3
Fixed Investment	2.8	-3.2	0.1	-2.5
Foreign Balance	0.3	1.8	2.5	1.2
Japan - GNP	0.9	0.7	3.2	1.1
Private Consumption	1.4	0.2	3.4	0.5
Public Consumption	1.5	0.6	1.5	1.3
Fixed Investment	-0.6	-0.3	3.5	0.5
Foreign Balance	3.3	4.2	5.3	5.4
Canada - GNP	1.5	0.1	2.7	0.0
Private Consumption	2.8	1.2	0.6	1.7
Public Consumption	2.1	-3.3	3.0	-0.6
Fixed Investment	2.7	2.2	-1.1	0.9
Foreign Balance	5.1	5.7	6.1	5.5
Italy - GDP 3/	-0.6	2.9	1.8	2.3
France - GDP 3/	-0.2	3.0	1.6	0.6e

1/ Foreign balance is expressed as per cent of GNP/GDP in previous period.
2/ "Average" estimate by Central Statistical Office.
3/ Component details not available.

e = staff estimate.
National Sources: 1976.II data are preliminary.

taken during 1974 and 1975 appear to have worn off, and other factors have caused the rebound to lose momentum. In most foreign countries -- including those whose recent performance would be considered strong and whose inflation rates are relatively low -- there are renewed doubts about the sustainability of the present upturn. The most recent OECD estimates suggest that real gross national product of the 6 large foreign countries increased by 6-3/4 per cent, seasonally adjusted at an annual rate, in the first half of 1976 compared with the second half of last year. The present forecast is for aggregate growth at a rate of slightly less than 3 per cent in the second half of 1976. Both figures are lower than envisaged as recently as July, and divergences across countries from these averages will be greater than previously expected.

The economic slowdown raises particularly difficult policy problems for some countries with depreciating currencies and high inflation rates. Several have found it necessary to tighten monetary and fiscal policy, or to introduce or reinforce incomes policies. These measures may have an adverse effect on short-term economic performance, but are considered important for restoring consumer and business confidence, stabilizing the exchange markets, and bolstering recovery prospects over the longer horizon.

Recent economic experience in France has been marked by a general slowdown in activity. Industrial production grew slowly during the second quarter, but rose by more than expected in July/August, for which output data are released jointly. October surveys by the Statistics Office indicate that the orders situation and investment prospects are weak.

Recent price data show some acceleration of the inflation rate. Unemployment is near the million mark, about 4.2 per cent of the labor force, and is expected to rise somewhat during the winter.

The new government under Prime Minister Barre has introduced a new set of economic policies to cope with these problems. To fight inflation, a temporary price freeze and tighter credit ceilings have been imposed. Other elements of the Barre policy package, however, can be viewed as expansionary. Certain taxes have been raised, but the value-added tax is scheduled to drop from 20 per cent to 17.6 per cent, effective January 1, 1977, and the net effect is expected to be stimulative. Public sector companies plan to increase their investments by 15 per cent in 1977; a $500 million "anti-recession fund" has been created; and proceeds from national bond issues will be used to aid investments by small companies. Real GDP may increase by around 5 per cent this year, although next year's gain is expected to be lower.

In Germany industrial production reached a trough in July of last year and began to rise, strongly, earlier than in most other major countries. Movements in industrial production since the spring have been erratic, however, and the output index in September was at the same level as in April. Surveys of consumer and business sentiment show small increases in pessimistic responses. From the beginning of the year through August, the volume of new domestic orders had stagnated, but the September figures show renewed upward movement. New foreign orders have been rising, especially in July, when several massive contracts were booked. The German external accounts remain robust, and the trade and current surpluses appear to be strengthening. Profitability of firms has also improved, so investment prospects are relatively good. On balance, it can be expected that industrial output will rise slowly for the rest of this year and into 1977. GNP should increase by around 5-3/4 per cent in 1976.

Unemployment poses a troublesome issue in Germany -- the seasonally adjusted rate fell only 0.2 percentage points between January and October, and unemployment is increasingly viewed as a structural phenomenon. The government has made available funds totaling about $650 million to combat this problem in 1977.

The Italian situation remains problematic. Preliminary second quarter national accounts data (prepared by an economic institute) show that GDP rose for the third consecutive quarter, but movements of industrial production during the third quarter were highly uneven. The rate of inflation remains uncomfortably high and appears to be rising further. Italy's external situation is particularly troublesome, and the authorities have resorted recently to taxes on the sale of foreign exchange, import deposits and other ad hoc measures to restrain selling pressure on the lira. Exports have not responded as much as expected this year to the depreciation of the lira, which also has been a source of concern. Largely in response to external problems, monetary policy has been tightened severely -- including increases in interest rates and reserve requirements -- and new credit ceilings have been mandated. In early October the government imposed new taxes and a variety of price adjustments for public services, and it took the first steps toward modifying the extensive cost-of-living escalator mechanism. Real GDP may rise by around 4 per cent in 1976, but the 1977 increase is expected to be much lower.

In the United Kingdom industrial output has been essentially flat since the final months of 1975. Small increases in April and May were erased by subsequent declines, and total output continues to hover at about the 1970 average level. Since the onset of the recession, Great Britain's unemployment rate has crept upwards gradually, and in October it stood at 5.4 per cent. A modest gain in real GDP was recorded in the first quarter of 1976, but this was followed by a decrease in the second. Both personal consumption and fixed investment fell in the second quarter, as did the net foreign surplus (national accounts basis). Partial data for the third quarter indicate that, despite the depreciation of the pound sterling, export volumes dropped somewhat.

Despite the precarious domestic situation, U.K. authorities are not planning stimulative measures; rather, policy measures are concentrated on bringing the high and slightly accelerating inflation rate under control. Discount and other interest rates are presently at record high levels and, under a policy package set forth in July, a reduction in the budget deficit has been promised -- but not until the fiscal year beginning April 1977. Further restrictive measures may be required as a condition for additional assistance to the United Kingdom from the IMF. On balance the short-term outlook is not encouraging. Growth of real GDP will probably be less than 1 per cent this year and is projected to be in the 2-3 per cent range in 1977.

Canadian industrial output began to recover in the fourth quarter of last year and grew steadily through May. Since then it has moved erratically. The Canadian pause is also evident in national accounts data: real GNP grew quite strongly in the first quarter but showed no change in the second. Personal consumption has continued to increase, however, and partial data indicate that in the third quarter real GNP will move upwards again. Partly as a result of profits controls, which are part of the incomes policy package introduced in October 1975, the outlook for new manufacturing investment is questionable. Indeed, some investment programs by Canadian companies appear to have been relocated to the United States because of these controls and labor costs which exceed U.S. levels. Nonetheless, leading indicators suggest that slow real growth will continue through the first half of 1977.

Japanese industrial production rose sharply between January and April of this year and has moved indecisively since. It fell somewhat in both August and September and remains appreciably below the peak recorded late in 1973. Because of the very strong gains in the first half, however, industrial output in 1976 will probably exceed the 1975 level by around 13 per cent. Real GNP continued to rise in the second quarter, but gains in personal consumption and fixed investment were much smaller than in the first quarter. Large wage bonuses expected by Japanese workers at the end of this year may help bolster personal consumption expenditures over the next few months. The external surplus remains strong, but has declined since mid-year and may continue to abate in the near future. As in other countries, the Japanese unemployment rate has fallen back only very slightly during the recent recovery, but at 2.0 per cent (in September) is still the lowest of the major countries. No major policy measures have taken in the past six months, but recently the Japanese Federation of Economic Organizations has called for certain stimulative measures, including lower taxes.

The economic situation in the smaller industrial countries continues to lag behind developments in the major countries, but the pause in the recovery is evident there, too. Between August and October several of these countries took policy steps -- largely tightening of monetary policy and, in Denmark, imposition of some wage and profits controls -- to combat inflation. Restrictive measures adopted by smaller countries associated with the European snake arrangement were also influenced by exchange-rate considerations.