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CONFIDENTIAL (FR)

October 11, 1978

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 rate)	
Civilian labor force	Sept.	10-6-78	100.9	3.8	1.2	3.2
Unemployment rate (%)1/	Sept.	10-6-78	6.0	5.9	5.7	6.8
Insured unemployment rate (%)1/	Sept.	10-6-78	3.4	3.7	3.1	3.9
Nonfarm employment, payroll (mil.)	Sept.	10-6-78	86.1	-.8	.5	3.8
Manufacturing	Sept.	10-6-78	20.3	.6	-.7	2.9
Nonmanufacturing	Sept.	10-6-78	65.8	-1.2	.9	4.1
Private nonfarm:						
Average weekly hours (hr.)1/	Sept.	10-6-78	35.8	35.8	35.9	35.9
Hourly earnings ($)1/	Sept.	10-6-78	5.75	5.72	5.66	5.31
Manufacturing:						
Average weekly hours (hr.)1/	Sept.	10-6-78	40.4	40.4	40.5	40.3
Unit labor cost (1967=100)	Aug.	9-29-78	165.1	-9.4	-1.2	6.2
Industrial production (1967=100)	Aug.	9-15-78	146.6	5.8	7.5	6.2
Consumer goods	Aug.	9-15-78	147.3	.8	.8	1.8
Business equipment	Aug.	9-15-78	165.3	13.2	12.7	9.4
Defense & space equipment	Aug.	9-15-78	86.2	11.2	12.4	6.7
Materials	Aug.	9-15-78	148.1	4.1	8.3	7.6
Consumer prices (1967=100)	Aug.	9-26-78	197.6	7.3	8.1	7.9
Food	Aug.	9-26-78	214.5	3.4	6.3	10.4
Commodities except food	Aug.	9-26-78	175.7	5.5	6.7	6.0
Services	Aug.	9-26-78	214.0	10.2	10.2	8.7
oducer prices (1967=100)	Sept.	10-5-78	212.1	9.6	5.5	8.7
Industrial commodities	Sept.	10-5-78	212.3	6.8	7.5	7.3
Farm products & foods & feeds	Sept.	10-5-78	208.6	19.3	-1.3	13.8
Personal income ($ bil.)2/	Aug.	9-18-78	1728.4	5.9	11.0	12.2
					(Not at annual rates)	
Mfrs. new orders dur. goods ($ bil.)	Aug.	10-3-78	71.0	9.0	1.4	19.9
Capital goods industries	Aug.	10-3-78	22.4	15.9	1.0	31.7
Nondefense	Aug.	10-3-78	19.1	11.7	5.2	31.2
Defense	Aug.	10-3-78	3.4	47.5	-17.5	34.1
Inventories to sales ratio:1/						
Manufacturing and trade, total	July	10-3-78	1.43	1.41	1.40	1.46
Manufacturing	Aug.	10-3-78	1.52	1.55	1.52	1.59
Trade	July	10-3-78	1.32	1.31	1.31	1.32
Ratio: Mfrs.' durable goods inventories to unfilled orders1/	Aug.	10-3-78	.597	.598	.594	.655
Retail sales, total ($ bil.)	Aug.	9-11-78	64.6	.8	.6	9.4
GAF3/	Aug.	9-11-78	14.1	-.1	-.6	8.2
Auto sales, total (mil. units.)2/	Sept.	10-6-78	10.6	-10.9	-11.0	2.5
Domestic models	Sept.	10-6-78	8.7	-11.3	-12.1	3.5
Foreign models	Sept.	10-6-78	1.9	-8.9	-5.9	-1.7
Housing starts, private (thous.)2/	Aug.	9-19-78	2,029	-4.7	-1.2	-.4
Leading indicators (1967=100)	Aug.	9-29-78	137.1	.8	.1	4.3

1/ Actual data used in lieu of per cent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Most indicators suggest that economic activity grew at a moderate pace throughout the third quarter. Industrial production is estimated to have moved up in September. Payroll employment, however, has flattened in recent months following the unusually rapid pace of hiring earlier this year. In the fixed investment sector, residential and nonresidential construction activity remained relatively firm and capital equipment shipments and orders rebounded in August. Over-all price increases eased somewhat in recent months as a result of declines for some foods, but a resumption of more rapid price increases is indicated by large increases in September producer prices for foods.

Employment and Production

Employment gains have been modest since June and the unemployment rate has changed little. Total employment, as measured by the household survey, rose 290,000. The unemployment rate edged up to 6.0 per cent in September with little change for most groups of workers. The labor market surveys conducted last month were unaffected by the four-day nation-wide railroad labor dispute late in the month, although there were some temporary disruptions in rail shipments and auto production because of parts shortages.

Nonfarm payroll employment, as indicated by the establishment survey, registered a small decline in September. Employment in the private

CHANGES IN EMPLOYMENT 1/
(Thousands of jobs; based on seasonally adjusted data)

	1977	1978 H1	1978 QIII	1978 Aug.	1978 Sept.
	- - - Average Monthly Changes - - -				
Nonfarm payroll employment 2/	284	380	37	131	-58
Manufacturing	66	55	-11	-30	10
Durable	50	43	19	5	24
Nondurable	16	12	-31	-35	-14
Construction	30		-1	-22	-20
Private service-producing	170	184	87	177	36
	79	84	32	56	-16
State and local government	28	47	-38	2	-84
Private nonfarm production workers	215	260	22	36	-21
Manufacturing production workers	52	37	-18	-44	16
Total employment 3/	346	368	16	156	287
Nonagricultural	340	343	37	183	236

1/ Changes are from final month of preceding period to final month of period indicated.
2/ Survey of establishments.
3/ Survey of households.

SELECTED UNEMPLOYMENT RATES
(Per cent; based on seasonally adjusted data)

	1973 Annual Average	1978 QI	1978 QII	1978 QIII	1978 Aug.	1978 Sept.
Total, 16 years and older	4.9	6.2	5.9	6.0	5.9	6.0
Teenagers	14.5	16.9	15.9	16.2	15.6	16.6
20-24 years old	7.8	10.3	9.4	9.4	9.0	9.3
Men, 25 years and older	2.5	3.5	3.3	3.4	3.4	3.4
Women, 25 years and older	4.0	4.9	5.1	5.3	5.3	5.0
White	4.3	5.4	5.1	5.2	5.2	5.3
Black and other	8.9	12.3	12.0	11.8	11.7	11.2
Fulltime workers	4.3	5.7	5.4	5.6	5.5	5.5
White collar	2.9	3.5	3.5	3.6	3.5	3.5
Blue collar	5.3	7.1	6.5	7.0	7.0	7.0
Craft and kindred	3.7	5.1	4.3	4.4	4.4	4.7
Operatives, ex. transport	6.1	8.0	8.0	8.7	9.0	8.5

service-producing sector increased only 34,000 and employment in the construction industry edged downward for the second consecutive month. Manufacturing employment was essentially unchanged over the month as small gains in durable goods industries were again offset by declines at nondurable manufacturing establishments. The factory workweek, which has been at a relatively high level throughout most of the year, remained at 40.4 hours in September.

Even though the household and establishment employment surveys showed divergent patterns in September, they have been relatively consistent over longer periods. In the first half of 1978, both showed strong gains, and employment levels in both surveys now stand slightly above their respective June levels.

Industrial production for September appears to have increased about 1/4 to 1/2 per cent, close to the August gain, but below the average monthly increase of 0.6 per cent during the first eight months of the year. Production of business equipment, construction supplies, and durable goods materials apparently continued to advance last month, while output of consumer goods appears to have changed little for the fifth consecutive month. With factory production up only moderately in September, the rate of capacity utilization in manufacturing likely remained near 85 per cent. So far in 1978, manufacturing operating rates have risen about 2 percentage points above those that persisted during most of 1977. Although capacity use is now above the post-war average, it remains far below its previous highs, and appreciably so in the materials sector. Despite scattered reports of shortages of selected materials--mainly cement and some types of aluminum shapes used in aircraft production, supplies generally appear to be adequate.

Personal Income and Consumer Spending

Growth of personal income moderated in August, in part reflecting slower employment and wage increases. Private wage and salary disbursements advanced at only a $2.4 billion annual rate--well below the $10.8 billion average monthly increase during the first seven months of the year. Consequently, despite a slowing of the rise in consumer prices, real personal income declined in August. So far this year, real income has advanced at less than half the more than 4 per cent annual rate throughout the first three years of the current expansion.

Total retail sales increased only a little from April through August and weekly data suggest that this trend apparently continued in September. However, the weekly data also indicate that sales at nondurable goods stores increased in September, following three months of little advance. As a result, for the third quarter as a whole it appears that sales excluding autos and mainly nonconsumer items rose by about 1-1/2 per cent--somewhat below the relatively weak average rise over the first half of this year.

PERSONAL INCOME
(Based on seasonally adjusted data)

	1977	1978 QI	1978 QII	June 78 to July 78	July 78 to Aug. 78
	- - Average monthly change, in billions of dollars - -				
Total personal income	$13.5	$12.4	$16.5	$24.2	$ 8.6
Nonagricultural income	12.3	15.7	14.1	25.0	8.8
Agricultural income	1.2	-3.3	2.4	-.8	-.2
Wage and salary disbursements	8.3	13.1	10.6	11.0	3.4
Private	7.0	12.2	9.6	10.0	2.4
Manufacturing	2.7	4.0	1.9	3.5	-.4
Other income	5.7	1.0	6.4	13.9	5.2
Transfer payments	1.3	1.0	.2	8.2	1.4
	- - Per cent change at compound annual rate 1/--				
Total personal income					
Current dollars	11.2	9.5	12.6	17.1	5.9
Constant dollars 2/	4.1	.2	1.0	10.9	-1.4
Wage and salary disbursements					
Current dollars	10.7	16.2	12.5	12.0	3.7
Constant dollars 2/	3.7	6.3	1.0	5.8	-3.6

1/ Changes for year and quarters are from final month of preceding period to the final month of the period indicated. Per cent changes for year and months are not compounded.

2/ Deflated by CPI, seasonally adjusted. Beginning January 1978, deflated by the CPI for all urban consumers, seasonally adjusted.

Total unit auto sales declined in September as sales of domestic units fell to an 8.7 million annual rate--the slowest pace since the weather-affected first two months of the year. Some moderation in auto sales had been expected as consumer surveys suggested that part of the earlier strength may have represented some buying in anticipation of higher prices that borrowed from future sales. It might be noted that the introduction of new models complicates the interpretation of current sales data.

Residential Construction

Recent indicators show that activity in the housing market held up well throughout the summer. Total sales of single-family houses rose to an all-time high in August, sales of new homes edged down for the third consecutive month and all of the September rise was in existing houses. In August, private housing starts were at a 2.03 million unit annual rate, down slightly from the upward-revised July level, and 120 thousand units below the recent peak in the fourth quarter of last year. Nevertheless, total starts held above the 2 million unit rate for the sixth consecutive month. In August, single-family units edged down to a 1.4 million unit annual rate. Starts in the more volatile multi-family sector declined sharply in August, but the July-August average rate remained near the high second quarter rate.

Business Investment

Incoming data on business fixed investment commitments were somewhat mixed in August, but they remain consistent with moderate increases in near-term capital spending.

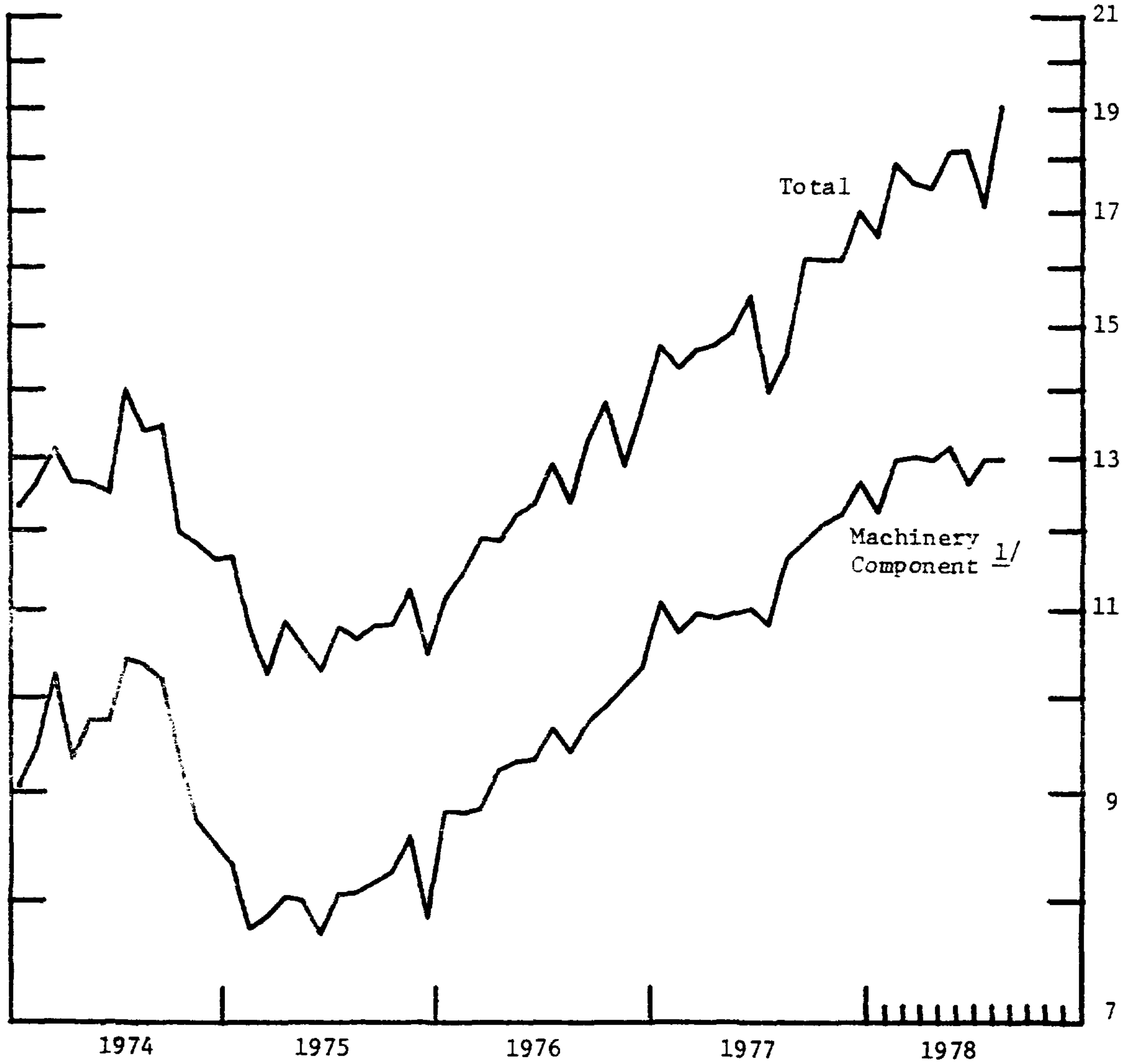
NEW PRIVATE HOUSING STARTS
(Millions of units, seasonally Adjusted Annual Rate)

Shipments of nondefense capital goods rose 3 per cent in August, after little change in the preceding month; the July-August average was up at a 3.9 per cent quarterly rate from the second quarter, about the same as the average rate of increase over the first half of the year. The value of private nonresidential construction put-in-place in August declined somewhat, after rising at a 40 per cent annual rate from February to July.

In August, new orders for nondefense capital goods spurted almost 12 per cent after falling 6 per cent in July. This recent volatility in these orders appears to have been concentrated in non-vehicular transportation equipment, particularly commercial aircraft. On balance, aircraft orders have been strong in 1978, reflecting strong investment spending plans of commercial airlines. In contrast, orders for machinery, which are usually indicative of the underlying trend in the demand for producers' durable equipment, have been flat since February and in real terms have declined by 2 per cent over this period. Additionally, total nonresidential building contracts increased 5 per cent in August; strength was widespread but particularly impressive in the commercial and manufacturing building components. So far this year, contracts for private nonresidential construction have been running about 18 per cent above the comparable period last year.

Inventory accumulation at manufacturing apparently continued the fairly stable trend of the past several months. Stocks

NEW ORDERS FOR NONDEFENSE CAPITAL GOODS
(Millions of dollars, seasonally adjusted monthly rate)



1/ Includes nonelectrical machinery (excluding farm machinery and machine shops), electrical transmission and distribution equipment and industrial apparatus, and other electrical machinery.

CONTRACTS AND ORDERS FOR PLANT AND EQUIPMENT 1/
(Per cent change from preceding comparable period, seasonally adjusted)

	1977		1978				Dec. 77 to
	QIII	QIV	QI	QII	July	Aug.	Aug. 78
Current dollars							
Total	-1.3	5.2	11.7	-4.8	4.2	10.4	11.5
Nondefense capital goods orders	-1.1	10.3	5.6	3.5	-6.0	11.7	12.2
Construction contracts 2/	-2.4	-17.5	48.4	-40.2	94.1	4.8	8.6
1972 dollars							
Total	-3.4	3.2	9.4	-5.6	3.0	9.0	6.3
Nondefense capital goods orders	-3.2	8.2	3.5	2.4	-6.8	9.9	6.6
Construction contracts 2/	-4.0	-19.6	46.5	-40.9	92.8	5.0	5.0

1/ The Commerce Department creates this series by adding new orders for nondefense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and for private nonbuilding projects (e.g., electrical utilities, pipelines, etc.).

2/ FRB staff estimate. Derived by subtracting new orders for nondefense capital goods from the published total for contracts and orders.

rose at a $20.2 billion annual rate in August in book value terms, virtually the same in the first half. Most of the August accumulation was in durable goods, as was the case in the past nine months. By stage of processing inventory investment was rather evenly distributed. Total manufacturing accumulation in August was accompanied by a substantial pickup in shipments (3.3 per cent), and as a result the ratio of inventories to sales remained historically quite low.

Government Sector Activity

In the Federal sector, unified budget outlays in August were around $1 billion higher than staff and Administration expectations. Most of the unexpected spending occurred in the national defense, community development, and education functions. Preliminary data suggest that some of this over-run was partially offset in September, as outlays appear to have fallen short of agency expectations. Federal spending is now expected by the staff to have totaled around $450 billion in FY 1978 and receipts are estimated at about $402 billion. This results in a deficit of approximately $48 billion, about the same as expected a month ago.

Congress has now adopted binding Federal budget totals for FY 1979. The Second Concurrent Budget Resolution sets a ceiling on spending of $487.5 billion, a floor on receipts of $448.7 billion; these would result in a deficit of $38.8 billion. The resolution assumes that the temporary tax cuts scheduled to expire at the end of

BUSINESS INVENTORIES
(Change at annual rate in seasonally adjusted book value; billions of dollars)

	1977				1978			
	QI	QII	QIII	QIV	QI	QII	July 1/	Aug. 2/
Manufacturing and trade	31.0	28.3	25.2	17.8	44.2	44.3	22.5	n.a.
Manufacturing	10.6	15.7	10.2	2.8	16.6	22.8	19.3	20.2
Durable	6.4	7.8	7.7	3.8	13.2	15.9	13.7	18.5
Nondurable	4.2	7.9	2.4	-1.0	3.4	6.9	5.6	1.7
Trade, total	20.4	12.6	15.0	14.9	27.6	21.5	3.2	n.a.
Wholesale	12.0	2.6	4.7	7.5	19.5	11.8	-7.9	n.a.
Retail	8.4	10.0	10.3	7.4	8.1	9.8	11.1	n.a.
Auto	.8	2.2	1.5	2.9	.9	.2	.6	n.a.

1/ Revised.
2/ Preliminary.

INVENTORY RATIOS

	1977				1978			
	QI	QII	QIII	QIV	QI	QII	July 1/	Aug. 2/
Inventory to sales:								
Manufacturing and trade	1.46	1.46	1.48	1.44	1.46	1.42	1.43	n.a.
Manufacturing	1.60	1.60	1.61	1.56	1.56	1.52	1.55	1.52
Durable	1.97	1.96	1.96	1.90	1.90	1.85	1.90	1.84
Nondurable	1.20	1.22	1.22	1.18	1.17	1.14	1.16	1.15
Trade, total	1.33	1.32	1.35	1.33	1.36	1.31	1.32	n.a.
Wholesale	1.24	1.21	1.24	1.23	1.27	1.20	1.19	n.a.
Retail	1.41	1.43	1.45	1.42	1.45	1.43	1.44	n.a.

1/ Revised.
2/ Preliminary.

this year are extended (amounting to $9 billion) and that additional tax cuts totaling $15 billion for FY 1979 or $20 billion on a calendar year basis are enacted by the Congress.

Recent data indicate that growth in State and local government spending in September moderated after rising sharply in the second quarter. Employment by States and localities was down by 85,000, in part due to strike activity as well as an apparent decrease in hiring of teachers for the new school year. State and local construction outlays in August, although down nearly $1.0 billion from July, remained at a high level.

Prices

In August, the rate of inflation at the consumer level continued well below the pace of the first half of 1978 as the CPI rose 0.6 per cent. As in July, the major moderating force was an easing of food prices--especially for fresh vegetables, meat, and coffee. Retail meat prices dropped 4-1/2 per cent in July and August after rising 20 per cent during the first half of this year. The September producer price index, however, indicates that the moderation in food price increases at retail is likely to be short-lived. Prices of both finished consumer foods and crude foods reversed two months of declines and rose close to 2 per cent in September--mainly because of a sharp rise in meat prices.

Prices of consumer nonfood items continued to rise in August at about the same pace as in earlier months. Nonfood commodity prices have been rising at a 6-1/2 per cent annual rate since the first of the year. Service prices, however, continued to rise at a more rapid pace--a 10-1/2 per cent rate so far this year--boosted principally by rapid increases in medical care and mortgage costs.

Producer prices of nonfood finished goods rose 0.6 per cent in September, similar to the average increase so far in 1978; increases were balanced between consumer goods and capital equipment. Prices for intermediate materials continued at about the same pace as earlier this year as a moderation in price increases for steel mill products and construction materials was offset by an acceleration in price rises for paper products and leather. Crude nonfood materials prices rose in September after an August decline.

CHANGES IN PRODUCER PRICES

(Per cent change at compound annual rates; based on seasonally adjusted data)1/

	Relative Importance Dec. 1977	1977 H1	1977 H2	1978 QI	1978 QII	1978 QIII	1978 Aug.	1978 Sept.
Finished goods	41.2	8.2	5.0	9.6	11.2	5.2	-1.2	10.4
Consumer foods	10.3	10.9	2.4	21.2	14.6	-1.0	-18.4	19.9
Consumer nonfoods	18.7	8.4	4.3	5.3	10.5	8.3	5.2	6.5
Capital equipment	12.2	5.9	8.4	7.1	9.1	6.0	4.2	7.2
Materials:								
Intermediate 2/	45.5	7.2	5.6	9.2	6.0	7.3	8.3	7.7
Crude nonfood	4.6	7.4	6.6	16.2	11.9	11.9	-5.8	12.0
Crude food	6.3	1.7	1.3	40.3	28.1	-9.4	-21.1	22.7
Memo: Energy 3/	11.3	19.0	5.1	4.3	9.9	5.3	1.8	7.8

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.
3/ Fuels and related products and power.

CHANGES IN CONSUMER PRICES

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

	Relative Importance Dec. 77 2/	1977 H1	1977 H2	1978 QI	1978 QII	1978 July	1978 Aug.
All items	100.0	8.9	4.7	9.3	11.4	6.1	7.3
Food	17.7	13.4	3.0	16.4	20.4	-.6	3.4
Commodities (nonfood)	41.6	5.8	4.0	6.1	7.2	6.9	5.5
Services	40.7	9.6	6.3	9.1	11.8	9.7	10.2
Memoranda:							
All items less food and energy 3/	73.7	7.7	5.2	8.0	9.9	8.3	7.6
Gas and electricity	3.4	12.2	5.3	12.2	22.1	6.1	3.0
Gasoline and fuel oil 4/	5.2	11.2	1.4	.2	8.4	13.7	12.4
Home financing, taxes, and insurance	9.2	15.3	7.3	16.7	21.6	16.8	19.8

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Based on new index for all urban consumers.
3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, gas and electricity.
4/ Includes motor oil, coal, and bottled gas.

III-T-1
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest Data Period	Latest Data Level	Net Change from: Month ago	Three months ago	Year ago
	$ billions		Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	Sept.	38.2	9.0	5.0	7.5
Nonborrowed reserves	Sept.	37.1	11.9	5.5	6.4
Money supply					
M1	Sept.	361.1	14.8	9.4	8.4
M2	Sept.	862.6	12.8	10.5	8.5
M3	Sept.	1455.9	0.7	7.3	8.3
Time and savings deposits (less CDs)	Sept.	501.5	11.6	11.2	8.5
CDs 2/	Sept.	88.1	1.8	1.4	24.3
Thrift deposits (S&Ls + MSBs + Credit Unions)	Sept.	609.1	15.0	13.5	10.8
Bank credit (end of month)	Sept.	951.7	9.9	10.7	11.3

Indicator		Latest data Period	Latest data Per cent or index	Net Change from: Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	10/4/78	8.85	.58	1.08	2.50
Treasury bill (90 day)	"	10/4/78	8.03	.43	1.04	2.05
Commercial paper (90-119 day)	"	10/4/78	8.64	.57	.86	2.33
New utility issue Aaa	"	10/6/78	9.04	.27	.14	.87
Municipal bonds (Bond Buyer)	1 day	10/5/78	6.07	-.06	-.24	.47
FNMA auction yield (FHA/VA)		10/2/78	9.91	.13	-.11	1.14
Dividend price ratio (common stocks)	wk endg.	10/4/78	5.02	.14	-.36	1.47
NYSE index (12/31/65=50)	end of day	10/10/78	58.84	-1.54	5.29	6.34

	Period	Net Change or Gross Offerings: Latest Data	Year ago	Year to Date 1978	Year to Date 1977
Credit demands					
Business loans at commercial banks 1/	Sept.	1.8	1.5	24.5	16.5
Consumer instalment credit outstanding 1/	Aug.	3.0	2.7	26.9	20.2
Mortgage debt outstanding (major holders) 1/3/	July	8.3	7.9	60.0	52.5
Corporate bonds (public offerings)	Sept.	1.5e	1.9	15.3e	18.3
Municipal long-term bonds (gross offerings)	Sept.	2.3e	4.0	36.6e	35.9
Federally sponsored agcy. (net borrowing)	Sept.	2.1	.6	17.2	5.1
U.S. Treasury (net cash borrowing)	Oct.	6.0	1.9	41.6	38.0

1/ Seasonally adjusted.
2/ $ billions, not at annual rates
3/ Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA, and GNMA.
e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Credit flows to the private nonfinancial sectors of the economy apparently picked up a bit in September from the moderate pace in August. Short- and intermediate-term business borrowing was somewhat larger than in August, but remained substantially below earlier months of the year, and public bond offerings by corporations again were relatively light. In the household sector, growth of consumer credit probably changed little in September, but mortgage lending is likely to have expanded for the second consecutive month, as deposit inflows to thrift institutions increased further. Public sector borrowing, on the other hand, which had been boosted in August by a surge in advance refundings of tax-exempt issues, fell substantially in September. On balance for the third quarter, aggregate credit flows were considerably below the first half pace, primarily due to the reduced pace of business borrowing.

Growth in the major monetary aggregates accelerated again in September following strong increases in August. In addition to faster M-1 growth, large inflows to savings and consumer-type time deposits at banks and thrift institutions continued to bolster expansion in M-2 and M-3.

Short-term market rates generally have risen 25 to 50 basis points further over the intermeeting period. Long-term market yields, which had been comparatively stable despite the large increase in short-term rates in prior weeks, have risen 5 to 30 basis points since the September FOMC, but remain about 15 basis points below the peaks reached

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1977 1/		1978 2/				Change from:	
	High	Low	FOMC August 15	FOMC September 19	Oct. 3	Oct. 10	Aug. FOMC	Sept. FOMC
Short-term rates								
Federal funds 1/	6.65	4.47	7.87	8.36	8.85	8.78 3/	+.91	+.42
Treasury bills								
3-month	6.27	4.41	6.99	7.95	8.16	8.21	+1.22	+.26
6-month	6.51	4.55	7.31	8.03	8.38	8.42	+1.11	+.39
1-year	6.62	4.67	7.67	8.03	8.20	8.27	+.60	+.24
Commercial paper								
1-month	6.58	4.53	7.61	8.36	8.52	8.75	+1.14	+.39
3-month	6.66	4.63	7.76	8.46	8.67	8.87	+1.11	+.41
Large negotiable CDs 4/								
3-month	6.62	4.60	7.80	8.65	8.75	9.13	+1.33	+.48
6-month	6.84	4.65	8.38	8.90	9.30	9.55	+1.17	+.65
Bank prime rate	7.75	6.25	9.00	9.50	9.75	9.75	+.75	+.25
Intermediate- and long-term rates								
Corporate								
New AAA 5/	8.36	7.90	8.81	8.74	9.06	9.04p	+.23	+.30
Recently offered 6/	8.48	7.95	8.89	8.73	9.00	9.05p	+.16	+.32
Municipal (Bond Buyer) 7/	5.93	5.45	6.03	6.02	6.09	6.07	+.04	+.05
U.S. Treasury (constant maturity)								
3-year	7.39	5.74	8.27	8.41	8.50	8.47	+.20	+.06
7-year	7.66	6.48	8.39	8.41	8.55	8.54	+.15	+.13
20-year	7.96	7.20	8.51	8.43	8.64	8.62	+.11	+.19
	Low 8/	High 8/	FOMC August 15	FOMC September 19	Oct. 3	Oct. 10	Aug. FOMC	Sept. FOMC
Stock prices								
Dow-Jones Industrial	807.74	985.74	887.13	861.57	867.90	891.63	+4.50	+30.06
N.Y.S.E. Composite	50.13	56.98	58.48	57.84	57.80	58.84	+.36	+1.00
AMEX	110.37	126.86	161.56	169.07	168.93	171.41	+9.85	+2.34
Keefe Bank Stock 6/	530	633	690	691	677	676	-14	-15

1/ Daily averages for statement week, except where noted.
2/ One-day quotes except as noted.
3/ Average for first 6 trading days of statement week ending October 11.
4/ Highest quoted new issues.
5/ 1978 figures are averages for preceding week.
6/ 1978 figures are one-day quotes for preceding Friday.
7/ 1978 figures are one-day quotes for preceding Thursday.
8/ Calendar week averages.

in July. Expectations of a further tightening in money markets--prompted by the System's recent firming moves and by published data indicating greater strength in the monetary aggregates--apparently have been a key factor in the general advance in market yields. Upward pressures on bond yields also may be the result of accumulating evidence that the pace of inflation and economic activity are slowing less than some had anticipated.

Monetary Aggregates and Bank Credit

Growth in M-1 accelerated to a 14-3/4 per cent annual rate in September from the already rapid 8-1/2 per cent pace of August. Transactions demands for money continued strong, but in addition, two special factors--the early disbursement of social security checks not fully accounted for in seasonal factors, and delays in processing Federal tax payments by individuals due to the unusually large volume--may have acted to boost M-1 growth in September by 2 to 3 percentage points.

On average for the third quarter M-1 expanded at a 7-1/2 per cent annual rate, down somewhat from the preceding quarter but still quite high by historical standards. The moderation in quarterly M-1 growth was accompanied by a much sharper slowdown in GNP expansion, and hence growth in M-1 velocity declined from the unusually high second quarter pace. Wide swings in the quarterly growth rate of velocity typically accompany sharp fluctuations in GNP growth, as money demands tend to adjust with a lag to such movements. On average, the rate of M-1 growth since early 1977 has conformed rather closely with predictions of econometric models relating money to GNP and interest rates.

MONETARY AGGREGATES 1/
(Seasonally adjusted)

	1978 QI	QII	QIII p	July	Aug.	Sept. p	Sept. '77 to Sept. '78 p
Major monetary aggregates							
1. M-1 (currency plus demand deposits)	6.2	9.9	7.6	4.8	8.5	14.8	8.4
2. M-2 (M-1 plus time & savings deposits at CBs, other than large CDs)	6.9	7.9	9.0	8.0	10.4	12.8	8.5
3. M-3 (M-2 plus all deposits at thrift institutions)	7.7	7.8	10.0	9.3	11.8	13.6	9.4
Bank time and savings deposits							
4. Total	12.8	10.1	9.5	10.2	7.5	13.6	12.1
5. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2)	7.3	6.4	9.9	10.3	11.5	11.6	8.5
6. Savings deposits	2.6	1.6	1.3	-4.3	8.1	9.7	2.5
7. Individuals 2/	2.4	1.8	2.5	-0.6	9.9	8.7	3.0
8. Other 3/	2.6	0.0	-15.5	-68.8	0.0	16.2	-4.5
9. Time deposits	11.4	10.5	17.2	22.5	14.2	13.1	14.0
10. Small time 4/	3.6	6.8	8.3	8.5	4.2	11.2	6.1
11. Large time 4/	26.9	17.3	32.7	47.5	31.3	16.4	30.1
12. Time and savings deposits subject to rate ceilings (6+10)	3.0	3.8	4.3	1.2	6.4	10.3	4.0
Deposits at nonbank thrift institutions 5/							
13. Total	8.9	7.6	11.6	11.2	13.9	15.0	10.8
14. Savings and loan associations	9.0	7.9	12.8	12.8	15.6	16.9	11.5
15. Mutual savings banks	5.8	3.9	6.8	6.2	9.7	10.5	6.7
16. Credit unions	18.2	15.8	n.a.	11.8	n.a.	n.a.	n.a.
	Average monthly changes, billions of dollars						
MEMORANDA:							
17. Total U.S. Govt. deposits	-1.2	1.1	1.5	2.9	0.7	0.8	0.4
18. Total large time deposits 6/	4.6	2.8	3.1	4.5	1.5	3.2	4.0
19. Nondeposit sources of funds 7/	1.7	0.7	1.1	0.0	2.1	0.5	1.2

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

1/ Quarterly growth rates are computed on a quarterly average basis.

2/ Savings deposits held by individuals and nonprofit organizations.

3/ Savings deposits of business, government, and others, not seasonally adjusted.

4/ Small time deposits are time deposits in denominations less than $100,000. Large time deposits are time deposits in denominations of $100,000 and above excluding negotiable CDs at weekly reporting banks.

5/ Growth rates computed from monthly levels based on average of current and preceding end-of-month data.

6/ All large time certificates, negotiable and nonnegotiable, at all CBs.

7/ Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money(including borrowings from the Federal Reserve), Eurodollar borrowings, and loans sold, less interbank borrowings.

M-2 expansion increased to a 12-3/4 per cent annual rate in September, buoyed by the faster growth in M-1. Surprisingly large inflows into time and savings deposits subject to rate ceilings (line 12) contributed to continued strong growth in total interest bearing deposits included in M-2 (line 5), and offset a marked deceleration in the large time deposit component of this aggregate (line 11). The unexpected rebound in savings flows at banks in August apparently continued through mid-September. However, these flows are estimated to have tapered off substantially in the last half of the month, as would be expected given the high level of market rates relative to passbook interest rates.

Small time deposits at banks rose at an 8-1/4 per cent annual rate in the third quarter, a pick-up from the first half pace. Inflows of funds to the new 6-month deposit--which now pays the highest yield of all small time deposits--accounted in large part for this recovery. Since June, money market certificate inflows at banks have totaled an estimated $10 billion. During the same period, the volume of other short-maturity (less than 4 years) small time deposits outstanding has dipped sharply, and there has also been a leveling-off in long-maturity deposit growth.

At savings and loan associations, survey results indicate that sales of the money market certificate in September continued above the pace in August, but below that in June and July. Outstanding money market certificate balances at S&Ls stood at approximately $16 billion as of September 20, almost 4 per cent of total deposits at these institutions.

Total deposit growth at thrift institutions continued to accelerate in September, contributing to more rapid growth in M-3. Combined deposit growth of S&Ls and MSBs--at an estimated 16-1/2 per cent annual rate--was the highest in 12 months. The pick-up in deposit growth has enabled S&Ls to reduce their reliance on other sources of funds and to improve their liquidity positions even as mortgage lending activity has increased. Borrowing from FHLBs slowed progressively in August and September, and the average liquidity ratio of insured S&Ls increased in July and again in August (latest data available) to near 9.0 per cent, its highest level since year-end 1977.

Despite increased inflows of demand and savings and small time deposits, commercial banks continued to add to their managed liabilities in September. Total large time deposits increased $3.2 billion--just above the average monthly rise during the second and third quarters. The September expansion in large time deposits largely reflected sales of CDs by a few large banks for end-of-quarter window dressing--a recent practice that has not yet been fully incorporated into seasonal factors. However, banks have been increasing their reliance on managed liabilities--including large CDs and various nondeposit sources of funds--since the first quarter of 1977, and the ratio of such liabilities to total liabilities has retraced about two-thirds of its decline from the 1974 peak.

Bank credit expanded at a 10 per cent annual rate in September following a slow August pace. The weakness in August resulted in part from a sharp decline in the volatile security loan category. In

September, security loans expanded by a small amount, while growth in real estate and business loans moderated. The expansion of investment portfolios also contributed to the more rapid growth of bank credit in September; holdings of U.S. Government securities fell only moderately--following a sharp run-off the previous month--and holdings of other securities grew at almost a 10-1/4 per cent annual rate. The pace of acquisitions of securities in this latter category has been gradually increasing throughout this year, perhaps reflecting demand for tax-exempt assets occasioned by a rise in bank profitability.

Business Credit

Business loans at commercial banks (net of bankers acceptances) grew at a 9 per cent annual rate in September, close to the August pace; on average in the third quarter, business loans increased at a 10-3/4 per cent rate, much slower than in the first half of the year. Since June, the pace of business lending generally has been stronger at small banks than at large ones, and the September growth reflected some acceleration at small banks. Among large banks, business loan growth at New York City banks has considerably outpaced lending activity at the large institutions outside of New York. Informal discussions with senior personnel at several major New York banks suggest that part of this increase reflects spillover effects related to declining liquidity at regional banks. The spillover reportedly has resulted in a rise in loan participations offered by regional respondents, in loan purchases from such

COMMERCIAL BANK CREDIT
(Per cent changes at annual rates, based on seasonally adjusted data)1/

	1978						12 months ending
	QI	QII	QIII	July	Aug.	Sept.	Sept.
Total loans & investments2/	9.7	13.5	10.7	16.7	5.2	9.9	11.3
Investments	3.3	8.6	2.3	9.2	-5.5	3.2	2.3
Treasury securities	—	11.7	-8.5	15.9	-32.5	-8.7	-4.4
Other securities	5.3	6.7	8.8	5.2	11.0	10.2	6.5
Total loans2/	12.3	15.4	14.0	19.6	9.4	12.5	15.2
Business loans	16.3	19.0	11.0	10.8	12.3	9.5	15.3
Security loans	-29.9	62.4	-24.0	54.0	-132.1	12.9	-2.1
Real estate loans	16.1	17.2	17.1	16.9	18.5	15.2	18.2
Consumer loans	14.6	21.0	n.a.	14.9	22.1	n.a.	n.a.
MEMORANDA:							
1. Commercial paper issued by nonfinancial firms3/	-2.5	30.6	23.7p/	56.8	-6.8	20.5p/	17.8p/
2. Business loans at banks net of bank holdings of bankers acceptances	17.8	19.5	10.8	13.7	9.2	9.1	16.0
3. Sum of items 1 & 2	16.1	20.3	11.7p/	16.8	8.0	10.0p/	16.1p/
4. Memo item 3 plus business loans from finance companies	15.5	18.6	n.a.	14.7	7.6	n.a.	n.a.

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

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.

2/ Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, nonconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company.

3/ Measured from end of month.

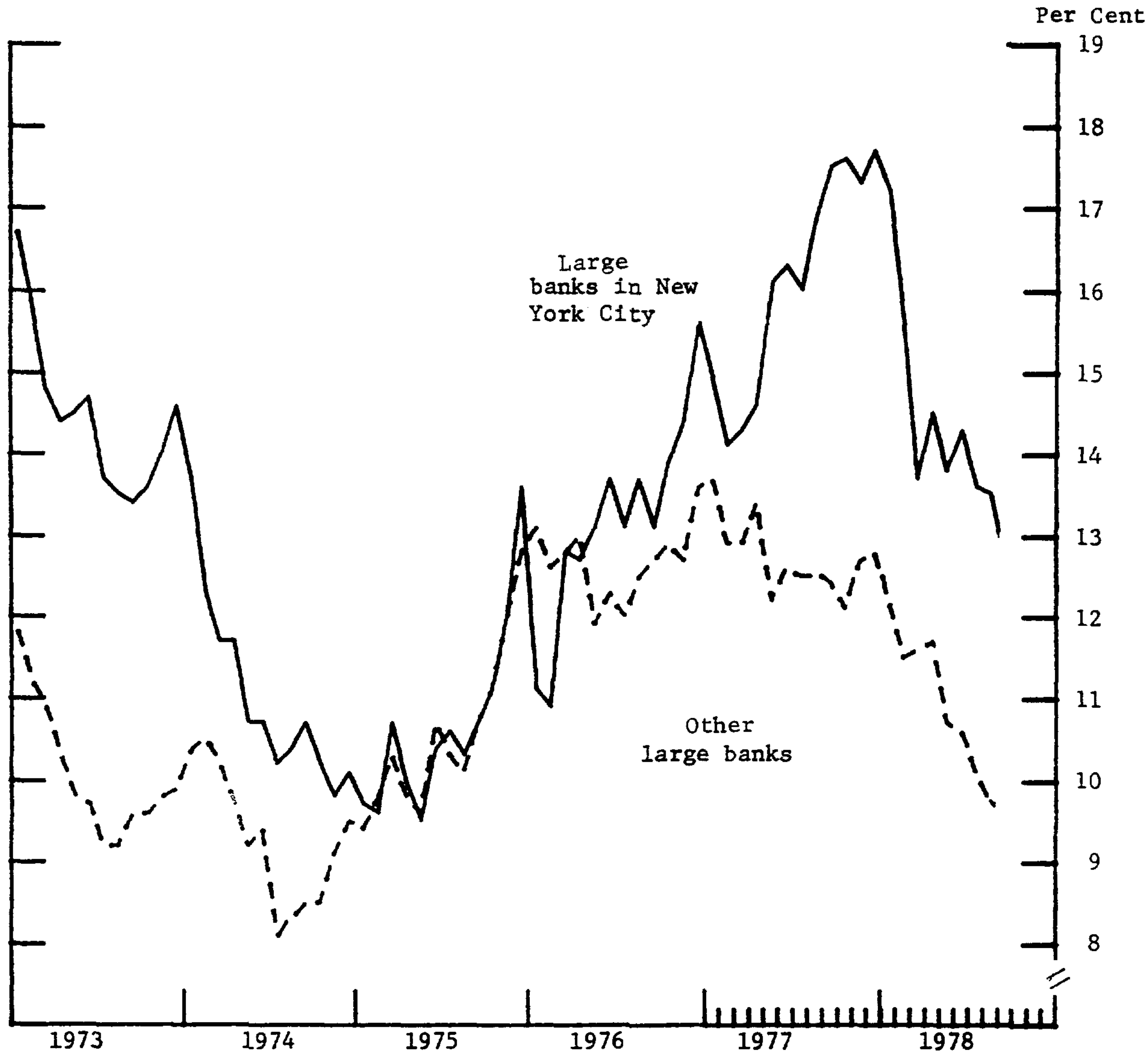
banks, and in direct lending to regional customers that have been referred to New York City banks.

Consistent with these reported developments, the average liquidity ratio at large banks outside New York declined in August to the lowest level since May 1975, though remaining well above the low reached in July 1974 (see Chart on page 10). For banks in New York City the liquidity ratio is much higher than for other large banks, although it too, has fallen in recent months. Meanwhile, survey data for farm-oriented banks in several districts indicate further rises in loan/deposit ratios in August.

Commercial paper issued by nonfinancial businesses grew in September following a slight decline in August. For the quarter, the rate of growth of commercial paper outstanding was somewhat below that of the second quarter, and combined growth of business loans and commercial paper during the third quarter was sharply below the first half pace. Business lending by finance companies also moderated in the third quarter, with latest available data for August showing the smallest advance since September of last year. The August slowdown reflected a drop in wholesale automotive paper resulting from unusually large reductions in auto dealer inventories during the model changeover period.

In long-term markets, gross public offerings of bonds by nonfinancial corporations remained relatively light in September, as a rebound in industrial offerings was partially offset by a more moderate

RATIO OF LIQUID ASSETS TO TOTAL LIABILITIES 1/
AT LARGE BANKS INSIDE AND OUTSIDE NEW YORK CITY
(not seasonally adjusted)



1/ The liquidity ratio is calculated as the sum of Treasury and other securities maturing in one year or less, loans to brokers and dealers and domestic commercial banks, holdings of bankers' acceptances and gross sales of Federal funds, all divided by liabilities less capital accounts, valuation reserves, and demand deposits due to banks.

pace of utility financings (especially telephone issues). As in other recent months, about one-half of the dollar volume of industrial issues were offerings by firms whose debt securities are rated Baa and lower. The volume of offerings by financial firms fell further in September to one of the lowest figures in recent years.

Corporate bond yields have increased approximately 30 basis points since the last FOMC meeting, with the Board's index of newly issued, Aaa-rated utility bond yields climbing to 9.04 in early October, 14 basis points below its July peak. Nevertheless, spreads between yields on Treasury bonds and corporate obligations, which often widen as rates rise, remain relatively narrow.

Stock prices posted sharp gains through most of the third quarter, reaching their 1978 highs in early September before moving somewhat lower. Large institutional investors were active in stock traders in the third quarter as indicated by a near-record volume of block transactions of 10,000 or more shares. Mutual funds were net purchasers of common stock in both July and August (latest available data), after having been net sellers in each month of the preceding 2-1/2 years. In contrast, foreign investors were net sellers of stock in July and August combined, after making substantial net purchases in the second quarter.

Margin credit also has expanded rapidly in recent months, including a record $550 million increase in August (latest available data). The number as well as dollar volume of margin accounts has grown rapidly, suggesting that purchases by individuals probably contributed to the overall increase in stock prices since the spring.

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

	1977	1978					
	Year	H1	QIII e/	Aug. e/	Sept. e/	Oct. f/	Nov. f/
			Gross Offerings				
Corporate securities--total	4,518	3,775	3,513	2,900	3,500	3,900	3,500
Publicly offered bonds	2,016	1,695	1,700	1,500	1,500	2,000	1,800
By quality 1/							
Aaa and Aa	1,089	825	867	1,025	550	--	--
Less than Aa 2/	927	870	833	475	950	--	--
By type of borrower							
Utility	692	525	770	825	600	--	--
Industrial 3/	700	583	530	450	750	--	--
Financial	624	587	400	225	150	--	--
Privately placed bonds	1,501	1,263	1,180	800	1,200	1,000	1,000
Stocks	1,001	817	633	600	800	900	700
Foreign securities--total	621	640	317	185	400	--	--
Publicly offered 4/	437	466	183	125	325	750	300
Privately placed	184	174	134	60	75	--	--
State and local gov't. securities--total	5,771	6,162	6,109	7,964	4,800	5,500	4,300
Long-term	3,891	4,050	4,107	6,161	2,300	4,000	3,000
Short-term	1,880	2,112	2,002	1,803	2,500	1,500	1,300
			Net Offerings				
U.S. Treasury	3,433	2,382	3,609	5,900	2,481	1,500	10,700
Sponsored Federal agencies	601	2,012	2,101	2,804	2,229	585	1,139

1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's.
3/ Includes equipment trust certificates.
4/ Classified by original offering date.
e/ Estimated.
f/ Forecast.

Major stock price indexes of NYSE-listed securities currently show year-to-date gains of 7 to 12 per cent, and are close to or above their highs in the current expansion, reached at year-end 1976.[1] Stock price indexes of American Stock Exchange-listed issues and those traded in the over-the-counter market are near record highs. The recent sharp increase in prices of ASE-listed stocks has produced a substantial rebound in their price-earnings ratios, but these ratios are still under the levels recorded in the early 1970's (see Chart on page 14). The average price-earnings ratio for the S&P 500 stock price index is currently above 9, as compared to its long-run average of approximately 13. Although the rise in price-earnings ratios for the stocks of smaller companies has induced some increase in the number of new offerings by such firms, the current low level of stock prices continues to discourage the raising of funds in equity markets. Stock offerings for the year to date are lagging even the reduced pace of 1977.

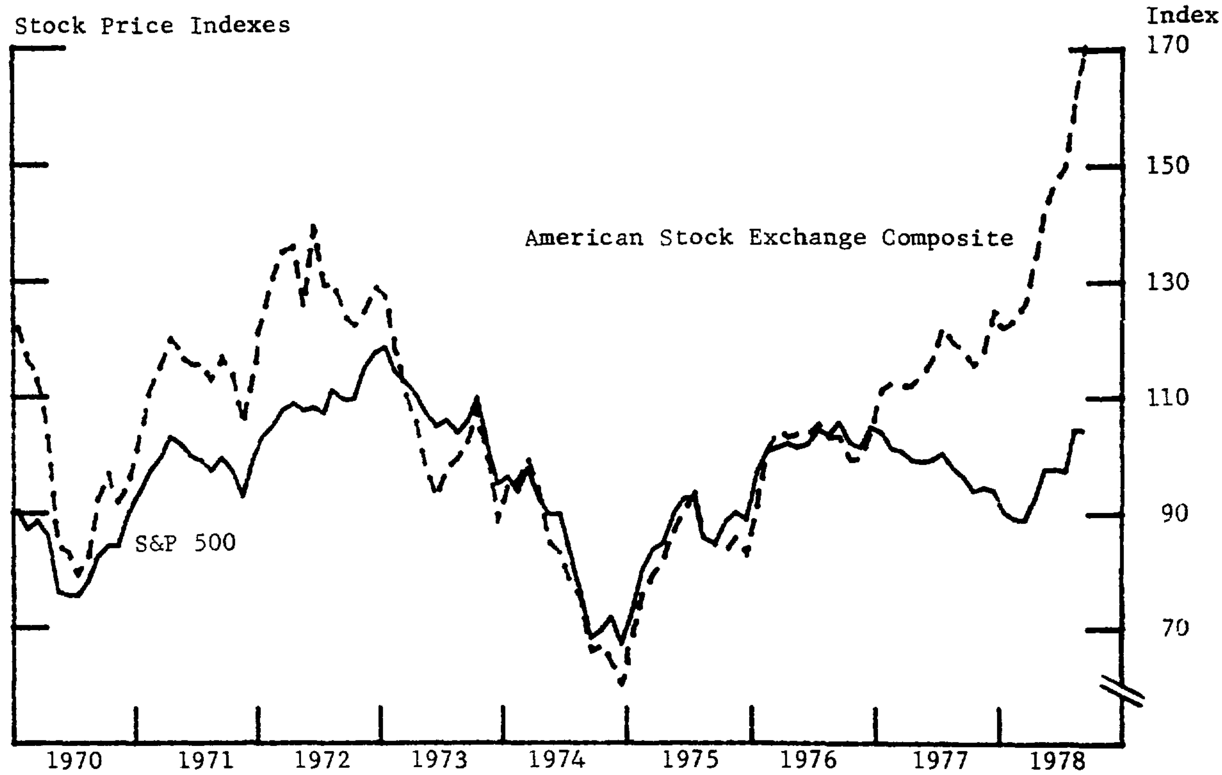
Government Finance

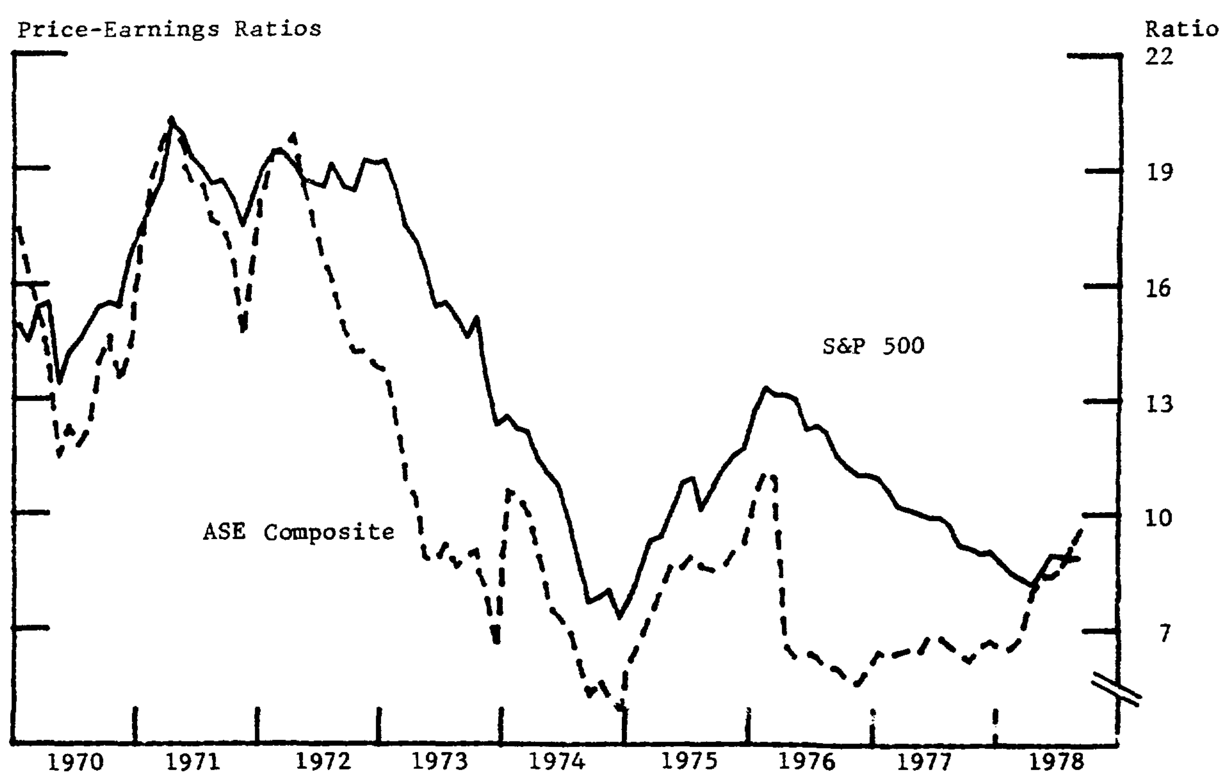
Gross offerings of tax-exempt bonds in September totaled $2.3 billion, sharply below August's record $6.2 billion. The decline largely reflects a drop in advance refunding issues--from $2.8 billion in August to only $35 million in September--following the implementation of new Treasury regulations on September 1 that greatly reduced the attractiveness of such operations.

The light supply of new issues, and continued demand reported for property/casualty insurance companies, commercial banks, and individ-

1/ The Dow-Jones Industrial index, however, remains well below its year-end 1976 high.

STOCK PRICES AND PRICE-EARNINGS RATIOS
Monthly Averages





uals, contributed to a relatively favorable price performance in municipal bond markets. Since the FOMC meeting the Bond Buyer Index has risen only about 5 basis points, while indexes of taxable yields have increased 15 to 30 basis points.

The Treasury raised $2.5 billion of new cash in September, with the bulk of the funds obtained through offerings of marketable coupon issues. A 15-year bond auction late in the month contributed $1.5 billion, with another $700 million coming in the regular auction cycle of two-year notes. The remainder ($300 million) was financed by additions to the 52-week bill auction. The outstanding supply of Treasury bills remains close to its beginning-of-year level, but net issuance of marketable coupon issues has amounted to $28.6 billion for the year to date. This coupon financing has been concentrated, however, in the regular cycle issues of 2, 4, and 5 years, and as a result the average maturity of the publicly held debt has risen this year by only two months, to 37 months.

Mortgage Markets

The volume of net mortgage lending apparently picked up somewhat further in September, raising the third quarter average slightly above the reduced first half pace. Lending by commercial banks remained quite strong, and loan growth at S&Ls probably increased. Mortgage commitments outstanding at S&Ls expanded in August (latest data available) after declining for 7 consecutive months, as new commitment activity increased to the highest level for the year.

In late September, average rates on new commitments for 80-percent, 30-year conventional home mortgages at sampled S&Ls began to edge up--reaching close to 9-7/8 per cent in early October, after remaining stable at 9-3/4 per cent for the past 3 months. At the same time, rates on short-term construction loans to builders, as well as the costs to mortgage companies of carrying loan inventory, have risen further due to increases in the bank prime rate and commercial paper rates.

In secondary markets, yields on GNMA-guaranteed mortgage-backed securities have backed up about 25 basis points in recent weeks, in line with movements in intermediate-term Treasury yields. Moreover, expectations of further rate increases on GNMA securities and upward movements of primary mortgage rates apparently led to a surge in the volume of bids in FNMA's October 2 auctions of forward commitments to purchase home mortgages; average yields on accepted bids rose by about 10 basis points.

Consumer Credit

Consumer instalment credit outstanding appears to have expanded less rapidly during the third quarter--at an annual rate of about 16 per cent compared with near 19 per cent during the first half--despite continued strong advances in the automobile component. Changes in various terms of lending in the last three years--in particular, longer loan maturities (which enlarge the amount of finance changes included in a contract) and reduced downpayments--apparently have caused auto credit to continue expanding more rapidly than auto sales and prices. Some tightening of such credit terms, however, may have begun during the second quarter. The average maturity of new-auto contracts at commercial banks

INTEREST RATES AND SUPPLY OF MORTGAGE FUNDS
AT SELECTED S&Ls

Period	Conventional home mortgages: 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[2/] with mortgage funds in short supply
1977--High	9.00	—	+92	22
Low	8.65	—	+37	2
1978--High	9.80	—	+101	69
Low	9.00	—	+30	19
1978 Apr	9.43	+18	+51	54
May	9.68	+25	+66	67
June	9.73	+ 5	+57	64
July	9.75	+ 2	+67	62
Aug	9.80	+ 5	+100	57
Sep 1	9.75	- 5	+95	60
8	9.75	0	+98	57
15	9.75	0	+101	58
22	9.75	0	+85	57
29	9.78	+3	+72	60
Oct 6	9.85	+7	+81	65

1/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.
2/ Per cent reporting supply of funds slightly or substantially below normal seasonal patterns.

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) Offered	Amount ($ millions) Accepted	Yield to FNMA[1/]	Amount ($ millions) Offered	Amount ($ millions) Accepted	Yield to FNMA[1/]	
1977--High	416	278	9.21	885	570	8.98	8.43
Low	123	83	8.81	50	35	8.45	7.56
1978--High	717	363	10.21	1011	605	10.02	9.20
Low	75	48	9.28	130	80	9.13	8.43
1978 Sep 5	199	126	10.01	351	155	9.78	8.92
11							8.89
18	285	157	10.01	367	181	9.79	8.90
25							9.10
Oct 2	396	167	10.10	682	279	9.91	9.13

1/ Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, reflect the average accepted bid yield for home mortgages, assuming a prepayment period of 12 years for 30-year loan without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total eligible bids required.
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.

decreased slightly, and the proportion of finance company new- and used-auto contracts with low downpayments also turned down (see Chart on page 20). However, auto loan maturities at finance companies continued to lengthen a bit and auto loan rates remained unchanged.

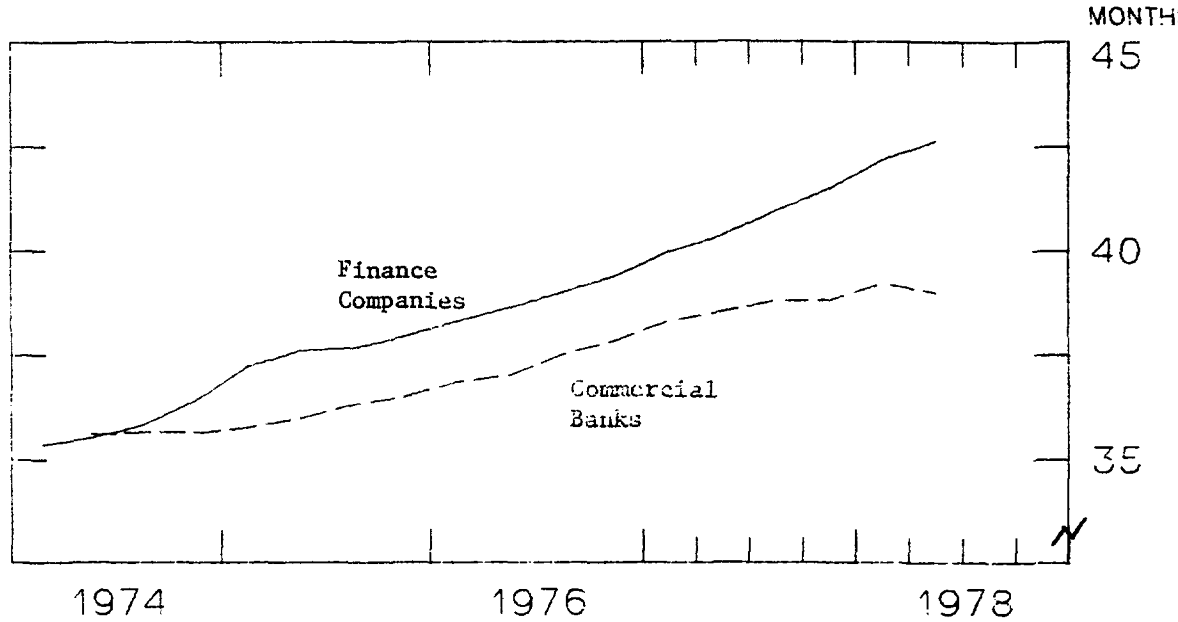
CONSUMER INSTALMENT CREDIT[1/]

	1975	1976	1977	1978 Q1	1978 Q2	1978 July	1978 Aug
Total							
Change in outstandings							
Billions of dollars	7.4	20.0	30.8	36.6	45.5	39.6	35.8
Per Cent	4.7	12.3	16.9	17.2	20.4	16.9	15.1
Bank share (per cent)	39.4	53.9	50.8	48.3	51.4	58.0	55.1
Extensions							
Billions of dollars	163.9	192.4	226.0	245.4	268.5	268.0	271.6
Bank share (per cent)	47.2	48.9	49.1	49.1	49.8	50.7	50.7
Liquidations							
Billions of dollars	156.6	172.4	195.3	208.8	223.1	228.4	235.8
Ratio to disposable income	14.4	14.5	15.0	15.0	15.6	15.8	16.1
Automobile Credit							
Change in outstandings							
Billions of dollars	3.2	10.2	13.2	15.2	20.2	18.2	17.4
Per cent	6.1	18.3	20.1	19.2	24.4	20.6	19.3
Extensions							
Billions of dollars	51.5	62.8	73.1	77.9	87.5	85.9	88.8

1/ Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.

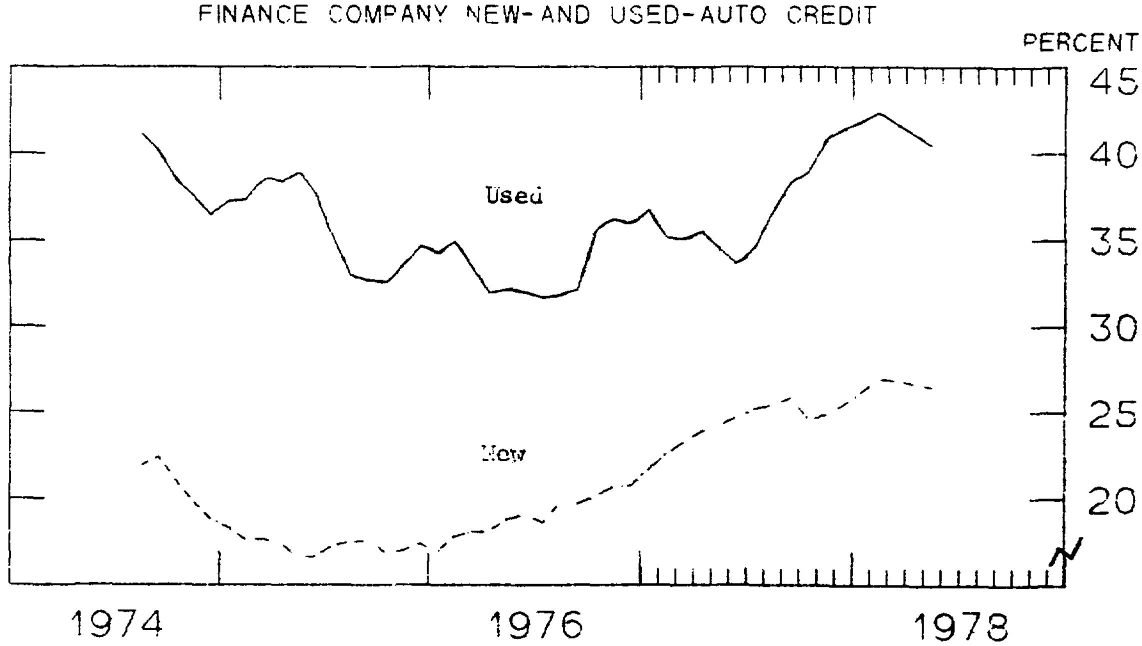
AVERAGE MATURITY ON NEW-AUTO CONTRACTS

AT COMMERCIAL BANKS AND FINANCE COMPANIES



PROPORTION OF LOW-DOWNPAYMENT CONTRACTS

FINANCE COMPANY NEW- AND USED-AUTO CREDIT



Note: Low downpayment contracts are those for which credit extended equals 100 per cent or more of dealer cost (new) or wholesale value (used).

U.S. International T ions
(in million of dollars; receipts, o rease in liabilities, +)

	1976	1977		1978				
	Year	Year	Q4	Q1	Q2	June	July	August
1. Trade balance 1/	-9,353	-31,059	-10,170	-11,201	-7,802	-1,857	-3,532	-1,960
2. Merchandise exports	114,694	120,585	29,457	30,664	35,067	12,121	11,534	12,441
3. Merchandise imports	-124,047	-151,644	-39,627	-41,865	-42,869	-13,978	-15,066	-14,401
4. Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)	-9,935	-3,907	-5,142	-6,031	3,778	609	326	539
Through interbank transactions with								
5. a) Own offices in foreign countries	-6,282	-2,717	-5,545	-3,346	4/	4,702	-2,670	1,163
6. b) Unaffiliated banking offices in foreign countries	-3,220	-2,203	-147	-2,369	4/	-3,093	3,029	-35
Through nonbank transactions								
7. a) Claims on nonbanks in foreign countries (increase, -)	-3,142	-423	-487	-180	4/	-1,131	-554	-1,089
8. b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	2,709	1,436	1,037	-136	4/	131	521	500
9. Private securities transactions, net	-4,697	-2,081	-242	406	882	-16	-1,843	-88
10. Foreign net purchases of U.S. corp. bonds	397	1,549	223	133	179	169	50	268
11. Foreign net purchases of U.S. corp. stocks	853	1,325	580	341	1,018	54	-44	-102
12. Foreign net purchases of U.S. Treasury securities	2,783	569	-297	881	796	468	-1,568	-108
13. U.S. net purchases (-) of foreign securities	-8,730	-5,524	-748	-949	-1,111	-707	-281	-146
14. Change in foreign official reserve assets in U.S. (increase +)	13,091	35,406	15,152	14,899	-5,568	-293	3,522	2,113
By Area								
15. G-10 countries and Switzerland	3,922	29,414	14,476	12,312	-3,085	1,098	2,475	3,721
16. OPEC	6,802	5,989	757	1,354	-2,389	-726	269	-1,481
17. All other countries	2,367	3	-81	1,233	-94	-665	778	-127
By Type								
18. U.S. Treasury securities	9,315	30,218	12,900	12,964	-5,589	-322	2,459	1,328
19. Other 2/	3,776	5,188	2,252	1,935	21	29	1,063	785
20. Change in U.S. reserve assets (increase -)	-2,532	-237	-2	246	328	102	32	48
21. All other transactions and statistical discrepancy	13,426	1,878	404	1,681	8,382	1,455	1,495	-652
MEMO:								
Current account 3/	4,339	-15,265	-6,959	-6,854	-3,261			

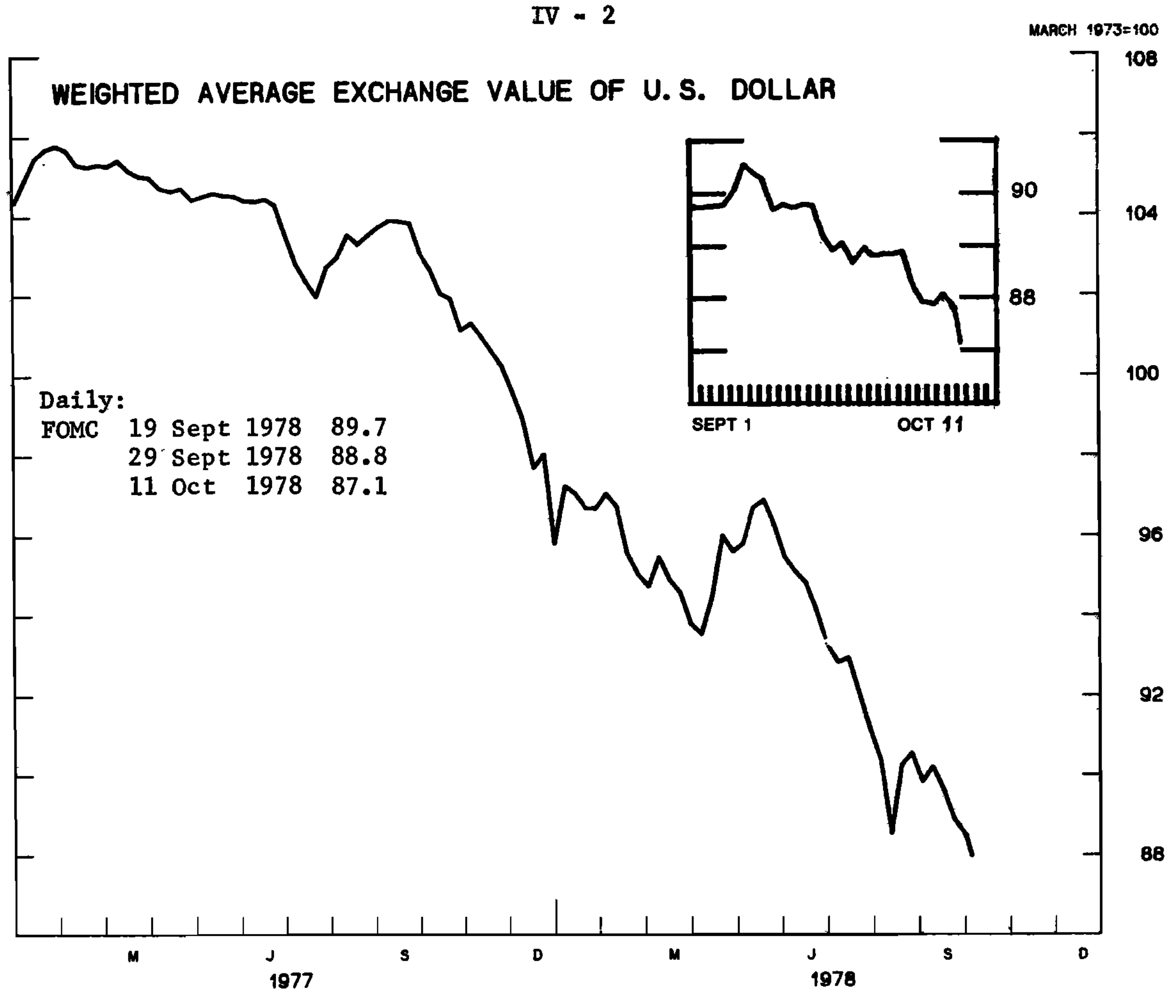
1/ International accounts basis, seasonally adjusted.
2/ Includes deposits in banks, commercial paper, bankers' acceptances, and borrowing under repurchase agreements.
3/ Seasonally adjusted.
4/ Data not shown separately because of break in series.

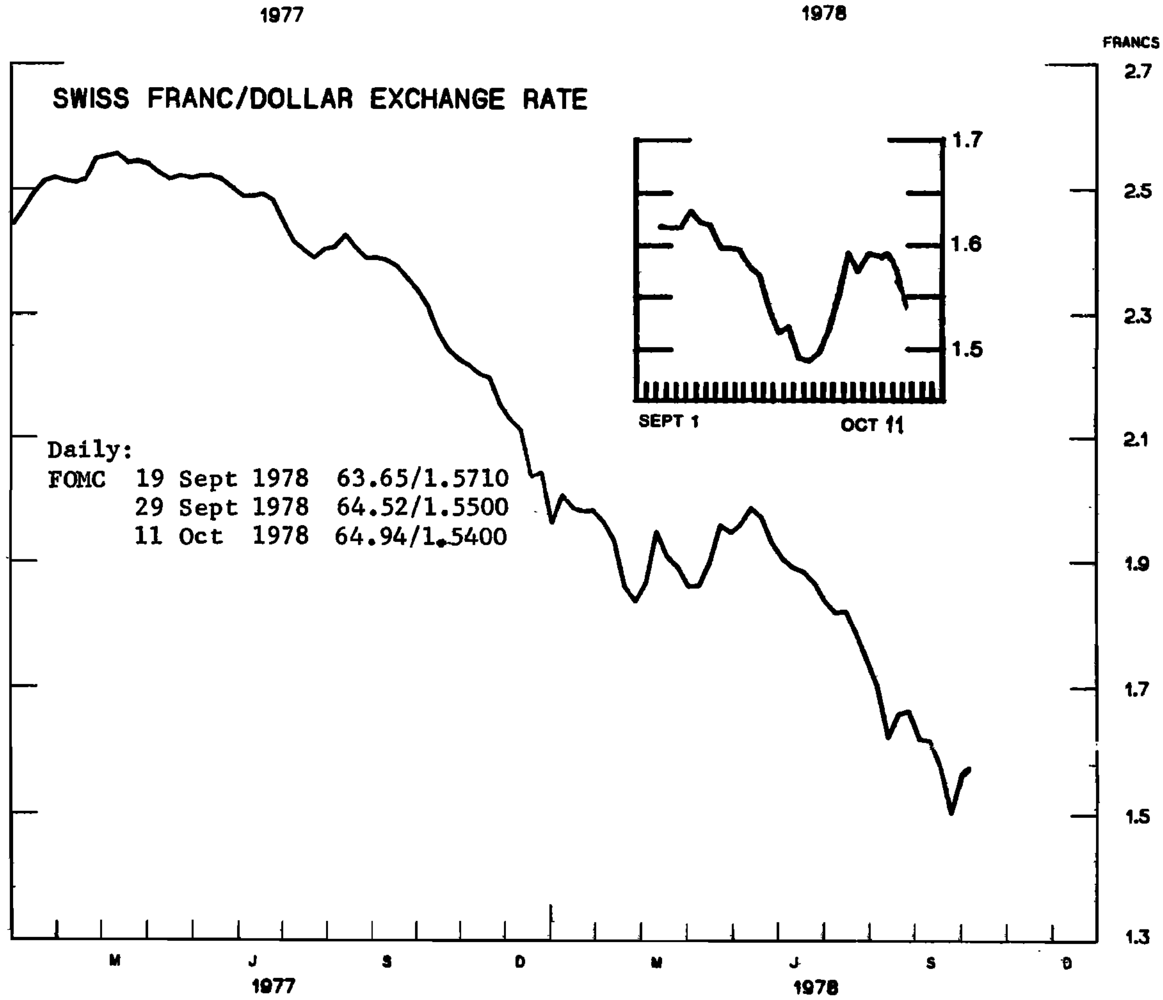
INTERNATIONAL DEVELOPMENTS

<u>Foreign exchange markets</u>. Exchange markets have remained unsettled during the past four weeks; rates have fluctuated widely, particularly for the Swiss franc, and pressures have continued to mount within the EC snake. The value of the dollar has fallen fairly steadily since mid-September with its cumulative decline during the month amounting to about 3 per cent. The reported decline in the trade deficit in August and the increase in short-term U.S. interest rates were not sufficient to overcome market concern with the U.S. inflation rate and expectations that particular currencies would appreciate. The weighted average value of the dollar is currently about 9 per cent below its level in late May and 16 per cent lower than it was a year ago.

Attention in exchange markets in the past several weeks has focussed on the Swiss franc and on the German mark and its partner currencies in the snake. Within a two-week period starting in mid-September, the Swiss franc appreciated over 8.5 per cent against the dollar and 6 per cent against the mark. In late September, the Swiss National Bank indicated it would intervene energetically to restore the Swiss franc to more acceptable levels, particularly against the German mark.

the Swiss franc declined over 9 per cent against the mark;


WEIGHTED AVERAGE EXCHANGE VALUE OF U.S. DOLLAR
MARCH 1973=100
108
104
100
96
92
88
90
88
SEPT 1
OCT 11
Daily:
FOMC 19 Sept 1978 89.7
29 Sept 1978 88.8
11 Oct 1978 87.1
M
J
S
D
M
J
S
D
1977
1978


SWISS FRANC/DOLLAR EXCHANGE RATE
FRANCS
2.7
2.5
2.3
2.1
1.9
1.7
1.5
1.3
1.7
1.6
1.5
SEPT 1
OCT 11
Daily:
FOMC 19 Sept 1978 63.65/1.5710
29 Sept 1978 64.52/1.5500
11 Oct 1978 64.94/1.5400
M
J
S
D
M
J
S
D
1977
1978

initially it also dropped sharply against the dollar, but the dollar's continuing weakness has left the Swiss franc 4-1/2 per cent higher than in mid-September. As part of its strategy to reduce upward pressure on the Swiss franc, the BNS also announced that it is going to subsidize imports. In addition it will reduce by half the quantity of capital conversions of foreign borrowings of Swiss francs that must be done with the BNS, in effect reducing official sales of dollars and raising the quantity of Swiss francs offered in the market. It also announced that it was removing one of its earlier exchange restrictions by permitting foreigners to reinvest their Swiss franc proceeds from the sale of Swiss bonds.

Pressures within the snake intensified throughout the past month, as expectations grew that the German mark would be revalued, at least within the context of the proposed new European monetary arrangement. The German mark was at the top of the snake with the Dutch guilder, Belgian franc, and Norwegian and Danish krone at their bottom limits through most of this period.

. The Dutch increased their discount rate by 1 percentage point and other short-term money market rates sharply in an effort to reduce exchange-rate pressures. On October 11, the Belgian National Bank announced it was effectively reducing its first tranche discount quotas, so that any further borrowing by commercial banks will have to be made at the Lombard rate, which was raised to 8-1/2 per cent. The central banks of Norway and Denmark have also raised their short-term interest rates.

. The New York Desk has been both a buyer and seller of dollars, as it intervened in support of the dollar but continued to acquire mark balances when possible for use in swap repayments. Net purchases of dollars (sales of DM) by the United States totalled approximately $200 million; these purchases made the System increase swap drawings in marks to $3/4 billion equivalent, and the ESF increased its, to $412 million equivalent. In addition, the Desk intervened on behalf of the System

to sell Swiss francs during New York trading. The System's swap drawings in Swiss francs now equal about $270 million equivalent.

U.S. bank lending abroad. U.S. banks' claims on countries other than international financial centers increased more slowly in the first half of 1978 than in the first half of 1977, even after adjusting for the estimated effects of extensive reporting changes.

According to published data, claims on countries other than international financial centers (i.e., other than G-10 countries, Switzerland, and offshore banking centers) were only slightly higher in June 1978 than six months earlier. After allowance for the effects of changes in reporting systems, it appears that these claims increased about 7 per cent. This compares with 9 per cent in the period from December 1976 to June 1977. Claims on oil-exporting countries, non-oil LDCs, and Eastern Europe all appear to have risen more slowly this year than last. The increase in claims on non-oil LDCs in the first half of this year seems to have been 3-4 per cent, down from 6 per cent in the year-earlier period. The decrease largely reflected an absolute decline in claims on Mexico, as Mexican borrowings continued, at least through the first quarter, to be shifted from U.S. to non-U.S. banks.

Comparison of June data with figures for earlier dates is complicated by two reporting changes. Beginning in June claims reported by domestic offices of U.S. banks exclude customer claims, which formerly were included. At the same time, the number of foreign branches reporting to the System has been reduced as a result of a rise in reporting exemption levels. Together these changes seem to have reduced total claims on all types of borrowers by $10-11 billion.

U.S. Bank Claims on Foreigners
(in billions of dollars)

	1976 Dec.	1977 June	1977 Dec.	June 1978 Actual	June 1978 Adjusted[1/]
I. Countries Other Than International Financial Centers	76.2	83.2	92.3	94.8	99.0
Smaller developed countries	15.1	16.9	19.0	20.9	21.5
Greece	1.7	1.8	2.2	2.3	
Spain	2.8	3.2	3.5	3.9	
Scandinavia[2/]	3.6	4.2	4.7	5.6	
South Africa	2.2	2.3	2.4	2.4	
Oil-exporting countries	12.6	15.0	17.6	18.8	19.8
Indonesia	2.2	2.2	2.2	1.9	
Middle East	4.2	5.5	6.9	8.0	
Venezuela	4.1	4.6	5.5	5.6	
Non-oil developing countries	43.3	45.8	49.3	48.6	51.0
Argentina	1.9	2.1	2.9	3.0	
Brazil	11.1	11.8	12.7	13.3	
Mexico	11.7	12.2	11.9	10.9	
Korea	3.1	3.4	3.9	3.6	
Philippines	2.2	2.3	2.5	2.7	
Taiwan	2.3	2.7	3.1	2.6	
Other					
Eastern Europe	5.2	5.5	6.4	6.5	6.7
II. International Financial Centers[3/]	126.3	129.5	141.3	139.0	145.0
III. Miscellaneous and Unallocated	5.4	5.1	5.3	8.1[4/]	8.2
IV. Grand Total	207.8	217.8	238.9	241.9	252.2

1/ Actual data adjusted for estimated effects of reporting changes occuring in the second quarter of 1978.
2/ Denmark, Finland, Norway.
3/ G-10 countries, Switzerland, and offshore banking centers.
4/ The rise from December 1977 mainly reflects certain changes in reporting instructions for foreign branches.

General note: These data include claims of domestic offices and foreign branches of U.S. banks, exclude claims of U.S. agencies and branches of foreign banks, and are adjusted to exclude claims between offices of the same parent bank.

U.S. International Transactions. The U.S. merchandise trade balance in August was in deficit by $23.5 billion at an annual rate compared with a July deficit rate of $42.4 billion. In July and August combined, the deficit was $33 billion, up only slightly from the second-quarter rate. Data which have recently become available show a sharp drop in the second-quarter U.S. current-account deficit, to $13 billion at an annual rate, less than half the deficit rate in the first quarter. This reflected both a decline in the trade deficit from the record high rate in the first quarter and strong dollar earnings of U.S. direct foreign investments.

Official foreign assets in the United States (excluding OPEC) rose by $2.5 billion in July and $3.7 billion in August

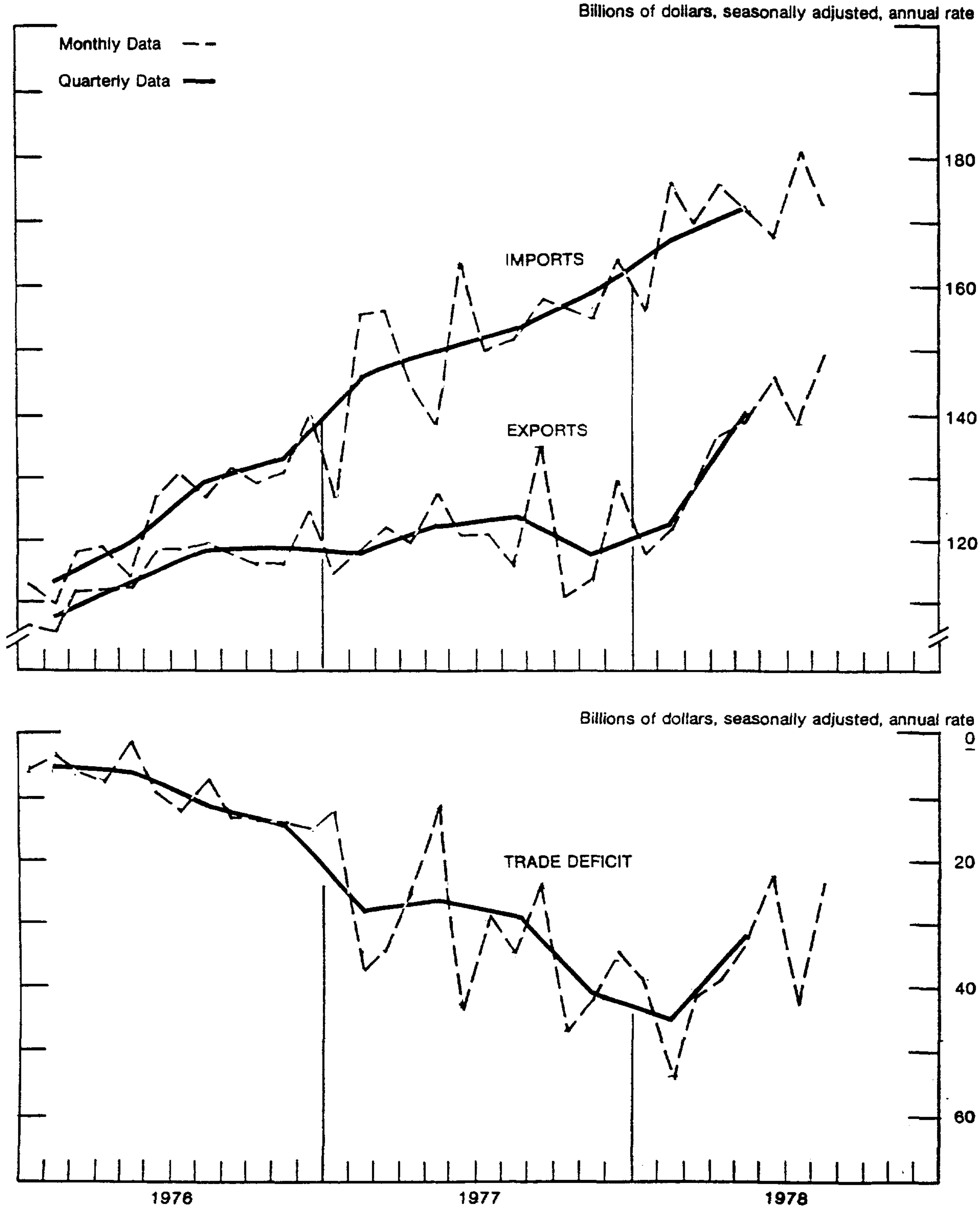
. Partial data indicate that these holdings declined in September but increased sharply in early October

. The outflow of OPEC funds, about $1.5 billion in August, slowed in September. For the year through September, the outflow of OPEC funds from the United States amounted to approximately $3 billion compared with an inflow of $5.2 billion in the year earlier period.

October 11, 1978

U.S. Merchandise Trade

International Accounts Basis



U.S. International Transactions Summary
(in billions of dollars, (-) = outflow)

	1977 Year	1977 Q-4	1978 Q-1	1978 Q-2	1978 June	1978 July	1978 Aug.
1. Trade balance 1/	-31.1	-10.2	-11.2	-7.8	-1.9	-3.5	-2.0
2. (annual rate)		(-40.8)	(-44.8)	(-31.3)	(-22.3)	(-42.4)	(-23.5)
3. Private capital trans. adj. 2/	-5.9	-2.9	-7.4	5.2	-.7	-.2	.5
4. Private capital as rept. net	-5.9	-5.4	-5.6	4.7	.6	-1.5	.5
5. Reporting bias 3/	--	2.5	-1.8	.5	-1.3	1.3	--
6. OPEC net investments in U.S.	6.0	.8	1.4	-2.4	-.7	.3	-1.5
7. Other foreign official assets	29.4	14.4	13.5	-3.2	.4	3.2	3.6
8. U.S. reserve assets	-.2	*	.2	.3	.1	*	*
9. All other 4/	1.8	-2.1	3.5	7.9	2.8	.2	-.6
10. Not seasonally adjusted	1.8	-3.2	3.4	7.4	3.2	1.0	.2
Seasonal component 5/	--	1.1	.1	.5	-.4	-.8	-.8
Memorandum:							
11. GNP net exports of goods and services	-10.9	-4.7	-6.0	-2.6	n.a.	n.a.	n.a.
12. Current account balance	-15.3	-7.0	-6.9	-3.3	n.a.	n.a.	n.a.

1/ Seasonally adjusted.
2/ Includes bank-reported capital, foreign purchases of U.S. Treasury securities, and other private securities transactions.
3/ Adjustment for reporting bias in bank-reported data associated with week-end transactions. See page IV 10-11 in the June 1976 greenbook.
4/ Includes service transactions, unilateral transfers, U.S. government capital, direct investment, nonbank capital transactions, and statistical discrepancy.
5/ Equal but opposite in sign to the seasonal component of the trade balance.
*/ Less than $50 million.

The sharp drop in the merchandise trade deficit in August resulted mainly from an increase in nonagricultural exports and a decrease in nonpetroleum imports from rates recorded in July. For

July-August combined nonpetroleum imports increased slightly faster than nonagricultural exports, more than accounting for the marginal rise in the deficit from the second-quarter rate.

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

	1977	1977				1978				
	Year	1Q	2Q	3Q	4Q	1Q	2Q[r]	July & Aug.	July	Aug.
EXPORTS	120.6	117.9	122.5	124.0	117.7	122.7	140.3	143.9	138.4	149.3
Agric.	24.4	24.9	26.0	23.9	22.7	26.0	32.0	32.0	30.3	33.7
Nonagric.	96.2	93.0	96.5	100.2	95.1	96.6	108.3	111.9	108.2	115.6
IMPORTS	151.7	146.0	149.0	153.1	158.6	167.5	171.5	176.8	180.8	172.8
Petroleum	45.0	46.3	46.1	45.2	42.3	39.8	43.2	42.3	41.1	43.4
Nonpetrol.	106.7	99.7	102.9	107.8	116.3	127.7	128.2	134.5	139.7	129.4
BALANCE	-31.1	-28.1	-26.5	-29.0	-40.8	-44.8	-31.2	-33.0	-42.4	-23.5

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

The value of nonagricultural exports in July-August increased by over 3 per cent from the rate in the second quarter. Most of the increase was in capital goods, particularly civilian aircraft. U.S. aircraft exports, while volatile month-to-month, are expected to show a strong upward trend over the next year, as aircraft companies report increased foreign orders.

The value of agricultural exports in July-August was unchanged from the second-quarter rate. A sharp drop in the volume and value of soybean exports was offset by increased U.S. shipments of wheat, cotton, and tobacco. Export unit values for most agricultural commodities fell sharply in July, following predictions of bumper crops here and abroad, but rebounded somewhat in August.

In late September, President Carter announced an export promotion plan. It consists mainly of a small increase in government subsidized financing of U.S. exports, mainly through the Ex-Im bank and the Commodity Credit Corporation, to be implemented fully by 1980. It also includes a call for the reduction of regulatory impediments to exports and an increase in the export promotion activities of the State and Commerce Departments. Without a significant change in U.S. regulations governing the export of military equipment and nuclear reactors, the plan is unlikely to increase U.S. exports by more than $1 billion per year by 1980, less than 0.6 per cent of the current annual rate of U.S. exports.

Nonpetroleum imports increased in value in July-August by about 5 per cent over the second quarter rate. A rise in volume accounted for three quarters of the increase. The sharpest rise was in imports of capital goods, in part machine tools and office machines. On a seasonally adjusted basis, strong July increases in steel and foreign car imports were partly reversed in August but remained above average monthly rates in the second quarter.

The value of oil imports in July-August increased slightly over the rate in the first half of 1978. The volume of oil imports averaged 8.7 million barrels per day (mbd.) for the two months, compared with 8.5 mbd in the first half of 1978. The average price of a barrel of imported oil rose marginally in August to $13.28.

Data released recently by the Department of Commerce showed a sharp drop in the U.S. current account deficit to $13 billion at an annual rate in the second quarter from a $27.4 billion rate in the preceding quarter, partly as a result of a much smaller trade deficit. In addition, earnings of U.S. direct investments abroad were stronger than expected, perhaps as a result of an increase in the dollar value of foreign profits because of the dollar's depreciation. Military goods shipments also increased sharply in the second quarter. In addition, net travel receipts increased as U.S. travelers spent less abroad and foreign travelers spent more here than in the previous quarter.

Bank-reported private capital transactions in August resulted in a net inflow of $0.5 billion. U.S. banks increased their borrowing from foreign banks (including their own overseas branches) by somewhat more than they increased their net lending to nonbank foreigners. Part of the strength in loans to nonbank foreigners is attributable co intervention related borrowing of the Government of Canada. For July and August, private capital transactions reported by banks showed a net capital inflow at a somewhat reduced rate compared with the sizeable inflow in the second quarter.

In August, private securities transactions resulted in a net outflow of about $90 million. Foreigners sold (net) about $100 million of U.S. corporate stock in August and $50 million in July, after net purchases of over $1 billion in the second quarter. In August, net sales of U.S. corporate stocks by Swiss and German brokers and investors of about $250 million were partially offset by net purchases originating in the United Kingdom and offshore financial centers. In the first three quarters of 1978, new securities issued in the United States by foreigners and international organizations totaled $5.5 billion, $700 million less than in the comparable period last year. This fall-off reflects the decision by the World Bank to abstain from new dollar borrowings.

Foreign official assets in the United States (excluding OPEC holdings) in August increased by $3.7 billion.

. Foreign official assets in the United States are likely to have declined slightly in September but rose sharply in early October

<u>OPEC banking and security holdings in the United States</u> fell by $1.5 billion in August after increasing slightly in July and falling by $2.4 billion in the second quarter. In August, OPEC countries were net sellers of U.S. corporate stocks for the first time in several years. In September, OPEC holdings at the Federal Reserve Bank of New York fell by a further $700 million.

Foreign Economic Developments. Prospects for foreign GNP growth have improved marginally for 1978 but appear about unchanged for 1979, as compared with the staff view last month; for both years, however, growth is weak by historical standards.

The major components of this outlook are the somewhat higher-than-expected growth of GNP in Germany, the United Kingdom and Canada. Japanese attempts to achieve higher growth rates continue to be impeded by difficulties Japan faces in simultaneously achieving higher GNP and lower export growth. The 1978 growth outlook for Italy, Switzerland, Sweden and the Benelux countries remains below the average for major foreign countries. The unemployment picture continues mixed, with unemployment rates increasing since the first quarter of 1978 in all major foreign countries except Germany and the United Kingdom. Industrial production generally advanced at slower rates in the second quarter than in the first; in Canada, however, this was not the case and higher second quarter rates of increase continued into July and August. The combined trade account surplus of six major foreign countries rose from $11.7 billion in the first quarter to $13 billion in the second quarter; this surplus has fallen by about $3 billion in July (excluding Italy, for which July data are not yet available). Rates of inflation, as measured by the CPI, continue to run ahead of first quarter 1978 rates in all major countries except Germany, but rate of advance have slackened in recent months.

Notes on Individual Countries. It continues to appear likely that Japan will meet neither its goal of a 7 per cent rate of GNP growth in the year ending March 1979 (FY 1978) nor its goal of reducing its

Real GNP and Industrial Production in Major Industrial Countries
(percentage change from previous period, seasonally adjusted)

					1977		1978		1978				
		1975	1976	1977	Q3	Q4	Q1	Q2	April	May	June	July	August
Canada:	GNP	1.3	5.5	2.7	0.3	1.5	0.7	1.1	*	*	*	*	*
	IP	-5.4	5.1	4.0	0.7	1.4	0.6	1.4	0.6	-0.9	1.2	1.2	n.a.
France:	GDP	-0.5	5.8	2.0	0.4	0.5	1.8	n.a.	*	*	*	*	*
	IP	-8.9	9.8	1.5	-0.5	-0.8	2.7	0.8	1.6	-3.1	-0.8	n.a.	n.a.
Germany:	GNP	-2.5	5.6	3.1	0.2	1.5	-0.1	2.1	*	*	*	*	*
	IP	-5.5	7.7	3.1	0.3	1.1	-0.3	-0.6	0.9	-0.9	2.6	1.7	-1.7
Italy:	GDP	-3.5	5.7	1.7	-0.5	-0.1	1.8	0.4	*	*	*	*	*
	IP	-9.2	12.4	1.1	-0.8	-2.1	5.5	-2.2	-3.3	1.4	-0.9	0.4	n.a.
Japan:	GNP	1.5	6.3	5.2	0.1	1.5	2.5	1.1	*	*	*	*	*
	IP	-11.1	11.1	4.2	-0.1	1.5	2.9	1.7	0.1	0.3	0.0	-0.8	0.9
United Kingdom:	GNP	-2.0	2.3	1.0	0.2	0.1	0.8	1.6	*	*	*	*	*
	IP	-4.9	0.5	0.4	1.0	-0.6	1.0	1.0	1.8	-2.0	1.4	0.4	n.a.
United States:	GNP	-1.3	5.7	4.9	1.4	0.8	0.0	2.1	*	*	*	*	*
	IP	-8.9	10.1	5.6	1.1	0.6	0.2	3.1	1.6	0.5	0.7	0.7	0.5

*GNP data are not published on monthly basis.

Consumer and Wholesale Prices in Major Industrial Countries
(percentage change, from previous period or as indicated)

					1977		1978			Latest 3 Months from:		
		1975	1976	1977	Q3	Q4	Q1	Q2	Q3	Previous 3 Months (at Ann. Rate)	Year Ago	Latest Month
Canada:	CPI	10.8	7.5	8.0	2.2	2.2	1.8	2.4	2.5	10.5	8.6	September
	WPI	6.5	4.3	9.1	0.9	1.1	2.6	2.8		7.6	7.0	July
France:	CPI	11.7	9.6	9.5	2.4	1.9	1.6	2.9		11.7	9.4	August
	WPI	- 5.7	7.4	5.6	-0.9	0.0	1.2	2.0		7.0	5.0	August
Germany:	CPI	5.9	4.6	3.9	0.2	0.2	1.3	0.9	-0.1	- 0.3	2.3	September
	WPI	3.4	5.8	1.8	-1.8	-0.9	1.0	0.3	-0.6	- 2.3	- 0.3	September
Italy:	CPI	16.9	16.8	18.4	2.5	3.3	2.6	3.0		9.3	11.4	August
	WPI	8.5	22.9	17.4	1.5	2.0	2.1	2.3		7.3	8.5	August
Japan:	CPI	12.1	9.7	8.3	0.3	0.8	0.9	2.0	0.8	3.1	4.3	September
	WPI	3.0	5.0	1.9	0.5	-0.7	-0.5	-0.3		- 4.8	- 3.6	August
United Kingdom:	CPI	24.2	16.6	15.8	1.6	1.5	1.7	2.7		8.9	8.0	August
	WPI	24.1	16.4	19.2	3.3	1.6	2.5	2.0	2.1	8.6	8.5	September
United States:	CPI	9.1	5.7	6.5	1.5	1.1	1.7	2.6		11.0	7.9	August
	WPI	9.2	4.6	6.1	0.2	1.1	2.4	3.0	1.5	6.3	8.7	September

Trade and Current-Account Balances of Major Industrial Countries[a/]
(billions of U.S. dollars; seasonally adjusted)

		1975	1976	1977	1977 Q1	1977 Q2	1977 Q3	1977 Q4	1978 Q1	1978 Q2	1978 May	1978 June	1978 July	1978 Aug.
Canada:	Trade	-0.6	1.2	2.2	0.8	0.2	0.4	0.7	1.3	0.5	0.3	0.0	-0.1	0.2
	Current Account	-4.7	-3.9	-3.9	-0.8	-1.2	-1.2	-0.7	-0.5	-1.2	*	*	*	*
France:	Trade	1.5	-4.2	-2.2	-1.1	-0.7	-0.5	0.1	-0.1	0.3	0.0	0.1	0.2	n.a.
	Current Account	0.0	-6.0	-3.3	-1.3	-0.8	-0.8	-0.3	0.2	n.a.	*	*	*	*
Germany:	Trade	15.3	13.5	16.5	3.7	4.2	3.7	4.8	4.3	5.0	1.4	2.0	1.3	2.0
	Current Account[b/]	4.1	3.9	3.9	1.0	1.1	-2.0	3.8	1.6	2.0	0.2	1.0	1.0	0.0
Italy:	Trade	-3.4	-6.5	-2.5	-1.3	-0.8	-0.2	-0.2	-0.1	0.5	-0.1	0.4	n.a.	n.a.
	Current Account[b/]	-0.6	-2.9	2.3	-0.9	0.2	2.4	0.7	0.3	n.a.	*	*	*	*
Japan:	Trade	5.0	9.9	17.5	4.2	4.4	4.2	4.6	7.4	6.9	2.1	3.0	2.1	2.1
	Current Account	-0.7	3.7	11.0	2.3	2.8	2.7	3.1	5.5	5.1	1.4	2.4	1.5	1.5
United Kingdom:	Trade	-7.1	-6.3	-2.9	-1.7	-1.2	-0.1	0.1	-1.1	-0.2	-0.4	-0.2	-0.3	0.1
	Current Account	-3.7	2.0	0.3	-0.8	-0.6	0.9	0.9	-0.6	0.4	-0.2	0.0	-0.1	0.3
United States:	Trade	9.0	-9.3	-31.1	-7.0	-6.6	-7.3	-10.2	-11.2	-7.8	-2.7	-1.9	-3.5	-2.0
	Current Account	18.4	4.3	-15.2	-2.7	-2.7	-2.9	-7.0	-6.9	-3.3	*	*	*	*

a/ The current account includes goods, services, and private and official transfers.
b/ Not seasonally adjusted.
* Comparable monthly current-account data are not published.

Growth of Money Stock in Selected Industrial Countries

	1978 (percentage change from previous month, seasonally adjusted monthly rates)								Percentage change in latest 3 months from same period year earlier
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	
Canada(M_1)	-1.0	1.1	-0.7	-0.4	3.1	0.8	1.0	1.4	9.8
France(M_2)	0.7	1.9	0.4	1.3	0.3	1.0	n.a.	n.a.	13.6
Germany(CBM) 1/	1.8	1.0	0.4	0.4	0.9	1.0	0.3	1.4	11.4
Japan(M_2)	0.6	0.9	1.0	2.2	0.2	1.4	1.1	n.a.	11.7
Switzerland(M_1) 2/	0.2	2.0	6.6	0.3	-0.6	-0.1	n.a.	n.a.	16.9
United Kingdom(£M_3)	2.4	2.4	0.6	2.5	0.9	0.3	1.1	-1.0	15.3
United States(M_1)	0.9	0.0	0.3	1.6	0.6	0.6	0.4	0.7	8.8
(M_2)	0.8	0.4	0.4	0.9	0.6	0.7	0.7	0.9	8.2

1/ Central Bank Money, equal to currency plus non-currency components of M_3 weighted by their reserve requirements as of January 1974.

2/ Not seasonally adjusted.

current account surplus. Domestic demand in the second quarter of 1978 grew at a 9 per cent annual rate, while a decline in net exports reduced real GNP growth to 4.4 per cent (s.a.a.r.). The most recent Japanese target for the current-account surplus is about ¥ 2.7 trillion for the current fiscal year -- about $13 billion equivalent when converted at the ¥ 200=$1 exchange rate for the remainder of the fiscal year, as assumed by the Japanese. Reflecting declining trade surpluses, the current-account surplus fell to about $1.5 billion per month in both July and August. While these surpluses are less than the record $2.3 billion surplus in June, they are still sufficiently large to make it doubtful that the $13 billion target for the year will be met, since the surplus for the first five months of the current fiscal year is already $8 billion.

The decline in Japanese export volume, which in August was nearly 5 per cent below its average level in the last quarter of 1977, reflects both the continued influence of past exchange-rate changes and negotiated restrictions. As a consequence, industrial production has been flat since recording strong gains in the first quarter, while unemployment continues to be a serious problem, remaining at the high, for Japan, 2.3 per cent level it reach in May.

The German outlook for 1978 has improved marginally, largely because of higher-than-expected growth of industrial production and GNP in the second quarter. A major source of GNP growth in the second quarter was continued strong construction activity, while rising domestic order figures and strong loan demand point to strengthening of other domestic demand components. Industrial production advanced strongly in June and July after a slight decline in the first five months of 1978, but then declined again in August; the German industrial production index has recently been revised with unusual frequency. In contrast, foreign demand has not been a contributing factor to this improved picture: the foreign contribution to real GNP fell slightly in the second quarter and was significantly lower for the first half of 1978 than the first half of 1977. The German current-account balance was zero in August, with July-August running at a $1.5 billion quarterly rate, about unchanged from the first quarter of 1978.

Canadian domestic activity appears to be quite strong so far in the third quarter. Industrial production rose by 1.2 per cent in July -- following a similar rise in June -- and now stands about 5-1/2 per cent above a year earlier. Gross fixed capital formation, which was quite strong during the second quarter, may continue to grow in real terms during the third quarter according to an investment survey by the Canadian Conference Board. Reflecting these factors, real GNP is expected to rise by 1 to 1-1/2 per cent during the third quarter of this year. Consumer prices fell in September, after advancing at nearly a 10 per cent annual rate in the second quarter.

In the United Kingdom, real GNP rose sharply in the second quarter of 1978. The year-over-year rate of price increase during the current recovery has moderated as well. Wages, however, increased about 15 per cent between July 1977 and July 1978, roughly twice the rate of increase in consumer prices during the period. Recent anti-inflation measures undertaken by the U.K. government include a nonstatutory limit of 5 per cent annually on wage increases granted after the beginning of August. While these limits lack the force of law, the government has previously enforced them by withholding government assistance and orders. The government has also extended the limit on the growth of bank liabilities. The latter is intended to keep monetary growth within the overall target range of 8-12 per cent for sterling-denominated M3 for the year ending in April 1979; **in August 1978, sterling M3 fell about 1 per cent.**

The weakness of the recovery in Italy was confirmed by the July industrial production index, which rose slightly but remains below the first-quarter level. Consistent with this evidence, the latest official government forecast indicated that GDP for 1978 would be only 2 per cent above last year's level.

French Economics Minister Monory announced last week that the growth rate of M2 in France would be 11 per cent in 1979, compared with a 12 per cent target rate this year. Ceilings on the growth of bank credit -- which are designed to achieve the money growth objective -- are to be announced soon.

Norway enacted a fifteen month wage and price freeze effective September 15, with the announced support of trade unions; this follows the recent introduction of similar measures by Denmark. The outlook for economic activity in the Benelux countries remains bleak, but there is an improving price outlook. The Netherlands has raised discount rates in response to recent weakness of the guilder against the DM in the snake. The Swiss government announced a variety of new measures on October 2 aimed at halting Swiss franc appreciation while liberalizing capital-market controls (discussed above).