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CONFIDENTIAL (FR)

November 15, 1978

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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

	Latest Data			Per Cent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year earlier
				(At annual rate)		
Civilian labor force	Oct.	11-3-78	101.1	2.3	1.8	3.0
Unemployment rate (%)1/	Oct.	11-3-78	5.8	6.0	6.2	6.8
Insured unemployment rate (%)1/	Oct.	11-3-78	3.2	3.4	3.4	3.8
Nonfarm employment, payroll (mil.)	Oct.	11-3-78	86.6	6.0	2.6	4.1
Manufacturing	Oct.	11-3-78	20.4	8.3	2.3	3.3
Nonmanufacturing	Oct.	11-3-78	66.2	5.3	2.7	4.3
Private nonfarm:						
Average weekly hours (hr.)1/	Oct.	11-3-78	35.8	35.8	35.9	36.1
Hourly earnings ($)1/	Oct.	11-3-78	5.82	5.77	5.71	5.36
Manufacturing:						
Average weekly hours (hr.)1/	Oct.	11-3-78	40.5	40.4	40.5	40.5
Unit labor cost (1967=100)	Sept.	10-30-78	165.5	1.5	-.2	5.8
Industrial production (1967=100)	Oct.	11-15-78	148.4	5.7	6.3	6.8
Consumer goods	Oct.	11-15-78	150.2	11.3	6.8	3.7
Business equipment	Oct.	11-15-78	166.8	5.1	7.3	9.3
Defense & space equipment	Oct.	11-15-78	88.1	8.2	10.2	11.7
Materials	Oct.	11-15-78	150.2	4.8	6.2	8.1
Consumer prices (1967=100)	Sept.	10-27-78	199.1	9.1	7.6	8.3
Food	Sept.	10-27-78	215.6	6.2	3.0	10.7
Commodities except food	Sept.	10-27-78	177.2	10.2	7.6	6.6
Services	Sept.	10-27-78	215.7	9.5	9.9	9.0
Producer prices (1967=100).	Oct.	11-2-78	215.0	17.7	10.4	9.6
ustrial commodities	Oct.	11-2-78	214.5	12.4	9.2	8.0
m products & foods & feeds	Oct.	11-2-78	214.4	33.4	13.3	16.1
Personal income ($ bil.)2/	Sept.	10-18-78	1735.6	5.8	9.4	11.5
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Sept.	11-1-78	72.3	1.0	5.0	19.8
Capital goods industries	Sept.	11-1-78	23.6	3.8	9.1	29.2
Nondefense	Sept.	11-1-78	20.0	3.5	10.3	24.1
Defense	Sept.	11-1-78	3.5	5.3	2.9	67.6
Inventories to sales ratio:1/						
Manufacturing and trade, total	Aug.	11-13-78	1.40	1.43	1.41	1.46
Manufacturing	Sept.	11-1-78	1.52	1.51	1.52	1.59
Trade	Aug.	11-13-78	1.30	1.32	1.30	1.33
Ratio: Mfrs.' durable goods inventories to unfilled orders1/	Sept.	11-1-78	.591	.596	.593	.654
Retail sales, total ($ bil.)	Oct.	11-13-78	65.9	-.5	2.4	8.5
GAF3/	Oct.	11-13-78	14.3	-2.8	.6	5.6
Auto sales, total (mil. units.)2/	Oct.	11-7-78	11.2	5.4	2.2	2.8
Domestic models	Oct.	11-7-78	9.2	5.5	1.6	1.1
Foreign models	Oct.	11-7-78	2.0	4.6	4.7	11.7
Housing starts, private (thous.)2/	Sept.	10-18-78	2,073	1.4	-2.4	3.0
Leading indicators (1967=100)	Sept.	10-30-78	138.3	.9	.7	4.4

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic activity continued to expand at a moderate rate over the past month. Employment increased markedly in October following the slow pace during the summer and industrial production continued upward. While total retail sales declined in October, unit auto sales recovered some of their earlier vigor after some hesitation at the beginning of the 1979 model year. Housing starts remained at a high level in September, although new home sales moved down considerably during the summer. For capital spending, recent contracts and orders data suggest further near-term increases; private surveys, however, point to a slowing of growth in plant and equipment outlays in 1979. Incoming price data indicate continued large increases in both food and nonfood sectors.

Employment and Production

Total employment rose strongly in October following small gains in the third quarter. The jobless rate dropped 0.2 to 5.8 per cent, continuing to hover in the range that has prevailed throughout this year. Compared to a year ago, however, unemployment rates for most labor force groups have declined about 1 percentage point.

Nonfarm payroll employment rose more than 400,000 in October, a strong gain even when compared with the first-half surge. Employment growth in the private service-producing sector accounted for about half of the over-all increase. In the goods-producing sector, construction employment increased following two months of decline and manufacturing employment, which had been little changed since April, rose briskly.

CHANGES IN EMPLOYMENT1/
(Thousands of jobs; based on seasonally adjusted data)

	1977	1978 H1	1978 QIII	1978 Sept.	1978 Oct.
		- - - Average monthly changes - - -			
Nonfarm payroll employment 2/	284	380	57	18	430
Manufacturing	66	55	-12	-1	140
Durable	50	43	17	15	136
Nondurable	16	12	-29	-14	4
Construction	30	54	2	-13	59
Private service-producing	170	184	111	108	221
Services and finance	82	78	77	83	70
State and local government	28	47	-41	-69	10
Private nonfarm production workers	215	260	63	72	306
Manufacturing production workers	52	37	-21	-1	125
Total employment 3/	346	368	16	287	324
Nonagricultural	340	343	37	236	355

1/ Changes are from final month of preceding period to final month of period indicated.
2/ Survey of establishments. Not strike adjusted.
3/ Survey of households.

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

	1973 Annual average	1978 QI	1978 QII	1978 QIII	1978 Sept.	1978 Oct.
Total, 16 years and older	4.9	6.2	5.9	6.0	6.0	5.8
Teenagers	14.5	16.9	15.9	16.2	16.6	16.3
20-24 years old	7.8	10.3	9.4	9.4	9.3	8.7
Men, 25 years and older	2.5	3.5	3.3	3.3	3.4	3.4
Women, 25 years and older	4.0	4.9	5.1	5.3	5.0	4.9
White	4.3	5.4	5.1	5.2	5.3	5.1
Black and other	8.9	12.3	12.0	11.8	11.2	11.4
Fulltime workers	4.3	5.7	5.4	5.6	5.5	5.3
White collar	2.9	3.5	3.6	3.6	3.5	3.3
Blue collar	5.3	7.1	6.5	7.0	7.0	6.9
Craft and kindred	3.7	5.1	4.3	4.4	4.7	5.0
Operatives, ex. transport	6.1	8.0	8.0	8.7	8.5	7.7

The surge in factory hiring was concentrated at durable goods producers; gains were especially large in the metals, machinery, and transportation equipment industries. The average workweek in manufacturing rose fractionally to 40-1/2 hours.

Industrial production is estimated to have increased 0.5 per cent in October, a rate only slightly below the average pace over the previous five months. But part of the rise reflected a rebound in autos and coal following the end of the railroad strike. Auto assemblies increased to a 9-1/2 million unit annual rate from an 8.9 million unit rate in September. Moderate advances occurred in both materials and final products. Production of nonauto consumer goods is estimated to have edged up further in October. In addition, production of business equipment rose further, but the increase in both September and October was below the pace earlier in the year.

Capacity utilization in manufacturing appears to have risen slightly in October to about 85.2 per cent, up from 82.9 per cent a year earlier. Nonetheless, over-all utilization rates remain about 2-1/2 percentage points below their 1973 highs.

Personal Income and Consumer Spending

Total personal income grew slowly for the second consecutive month in September, reflecting the small employment gains late in the third quarter. Private wage and salary disbursements advanced at only a $3-1/2 billion rate--well below the average monthly increases of

PERSONAL INCOME
(Based on seasonally adjusted annual rate data)

	1977	1978 QI	1978 QII	1978 QIII	July 78 to Aug. 78	Aug. 78 to Sept. 78
	- - Average monthly change, in billions of dollars - -					
Total personal income	$13.5	$12.4	$16.5	$13.3	$ 8.5	$ 8.3
Nonagricultural income	12.3	15.7	14.1	13.8	9.0	8.2
Agricultural income	1.2	-3.3	2.4	-.5	-.5	.2
Wage and salary disbursements	8.3	13.1	10.6	5.3	1.9	4.3
Private	7.0	12.2	9.6	4.5	1.0	3.5
Manufacturing	2.7	4.0	1.9	1.6	-.6	2.0
Other income	5.7	1.0	6.4	8.3	6.6	4.2
Transfer payments	1.3	1.0	.2	3.4	1.5	.6
	- - Per cent change, compound annual rate 1/ - -					
Total personal income						
Current dollars	11.2	9.5	12.6	9.7	5.9	5.8
Constant dollars 2/	4.1	.2	1.0	2.3	-1.4	-3.3
Wage and salary disbursements						
Current dollars	10.7	16.2	12.5	6.0	2.1	4.6
Constant dollars 2/	3.7	6.3	1.0	-.7	-5.3	-4.4

1/ Monthly per cent changes at annual rates, not compounded; 1977, per cent change from December to December.
2/ Deflated by the CPI for all urban consumers, seasonally adjusted.

$8-1/2 billion over the last year. While October's income gain should be greater than last month's because of the surge in employment and earnings, real personal income grew at only a 1 per cent annual rate during the first 9 months of the year.

Nevertheless, surveys suggest little erosion of consumer attitudes about present and near-term business conditions. The University of Michigan Survey Research Center's composite index of sentiment was essentially unchanged in October, remaining in the general range reported since March. Furthermore, the Conference Board's index of confidence improved for the third straight month.

Retail sales excluding autos and mainly nonconsumer items declined 0.6 per cent last month following fairly strong increases in August and September. Sales at general merchandise, apparel and furniture and appliance stores all declined substantially in October.

Total auto sales were at an 11.2 million unit annual rate in October, up more than 1/2 million from the previous month but still below the brisk 12 million unit sales pace recorded last spring. Dealers report generally favorable customer reaction to the new domestic models. Sales of imports continued at a 2 million unit pace in October, essentially the same rate recorded since mid-1977.

Business Investment

Incoming data indicate strong capital spending growth at the end of the third quarter as nondefense capital goods shipments increased over 4 per cent in September after a similar rise in August. Nonresidential construction activity has shown continued strength with a 2 per

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

	1978					
	QII	QIII	Oct. from QIII	Aug.	Sept.	Oct.
Total sales	4.7	1.9	.7	2.4	.6	-.5
(Real)1/	2.1	.1	n.a.	1.9	-.2	n.a.
Total, less auto and nonconsumption items	3.9	2.1	.8	1.1	1.5	-.6
GAF	6.1	2.1	-1.3	2.4	1.1	-2.8
Durable	7.3	2.6	.8	4.9	-1.0	-.1
Auto	6.9	.6	-.2	6.5	-2.3	-.8
Furniture & appliances	6.9	3.0	.8	3.7	2.3	-1.9
Nondurable	3.4	1.5	.6	1.1	1.4	-.7
Apparel	6.3	4.6	-.6	5.4	.4	-2.6
Food	3.3	1.2	-.4	.0	1.4	-1.3
General merchandise	5.8	.9	-2.4	.8	.9	-3.3
Gasoline	.1	-.3	1.2	2.2	1.6	-.6

1/ Deflated by all commodities SA consumer price index.

cent advance in September and a 5 per cent increase for the third quarter as a whole. However, business spending for motor vehicles weakened, as truck sales fell sharply in September to their lowest level in a year.

Commitments for near term plant and equipment spending suggest further moderate increases this winter. New orders for nondefense capital goods rose 3.5 per cent in September following a much sharper rise in August. The September gain largely reflected a surge of machinery orders, which had been on a plateau since last February. Over the same period, total bookings were bolstered by gains in commercial aircraft orders; as a result, total nondefense capital goods orders have risen at a fairly strong pace thus far this year.

The immediate outlook for commercial and industrial building also appears bright. The volatile series on nonresidential construction contracts dropped sharply in September due to a substantial decline in awards for power plants. Even so, the total value of contracts awarded in the first nine months of 1978 is 12 per cent above the comparable period of last year. So far this year, gains in contracts for commercial and manufacturing buildings have been particularly impressive, while awards for nonbuilding projects such as electric power plants have decreased markedly.

However, in contrast to the relatively favorable near-term outlook, survey data suggest a slowing of capital spending growth in 1979. The McGraw-Hill survey, which has been the most reliable of the private reports, shows business planning only a 10 per cent year-

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

	1978					QIII 77 to QIII 78
	QI	QII	QIII	Aug.	Sept.	
Current dollars						
Total	11.7	-4.8	11.4	11.7	-.7	24.5
Nondefense capital goods orders	5.6	3.5	5.1	13.3	3.5	26.6
Construction contracts 2/	48.4	-40.2	57.9	4.8	-20.4	15.4
1972 dollars						
Total	9.5	-5.9	8.7	10.7	-.8	15.6
Nondefense capital goods orders	3.5	2.4	2.7	12.2	3.2	17.8
Construction contracts 2/	47.1	-42.3	54.1	3.8	-20.4	5.1

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.

SURVEYS OF PLANT AND EQUIPMENT EXPENDITURES
(Per cent change from preceding year)

	Actual 1977	Planned Spending 1978	Planned Spending 1979	
		August Commerce[1/]	McGraw-Hill	Merrill Lynch[2/]
All Business	12.7	12.3	10	9
Manufacturing	14.6	13.1	10	9
Durables	17.3	14.0	12	8
Nondurables	12.4	12.2	9	10
Nonmanufacturing	11.2	11.7	10	8
Mining	12.4	5.8	8	5
Transportation	-7.0	15.4	14	3
Utilities	15.8	12.2	7	13
Communications	16.2	14.6	10	5
Commercial	9.4	9.2	11	8

1/ Reflects actual expenditures in the first half of 1978.

2/ Confidential results, for internal use only.

over-year gain in nominal capital outlays. The respondents also expect an 8 per cent rise in capital goods prices, suggesting a gain in real investment of only 2 per cent. The over-all results of the Merrill Lynch survey are similar to the nominal McGraw-Hill reading.

Inventory investment continues to show signs of business caution. In September, the book value of manufacturing stocks rose by $14.3 billion--the smallest gain so far this year. Durable goods producers added to inventories at an annual rate of $9.6 billion--about twice the rise at nondurables; this pattern has been characteristic of manufacturing accumulation for over a year. Since the September rise was accompanied by essentially unchanged shipments, the ratio of inventories to sales for all manufacturers edged up, but still remained low on an historical basis. The book value of wholesale trade inventories increased at an annual rate of $13.2 billion in September following much smaller increases over the past four months.

Residential Construction

Housing starts remained virtually unchanged in September for the third consecutive month. At an annual rate of 2.1 million units, they were about 3 per cent below the recent high in the fourth quarter of 1977, while the starts rate in the single-family sector has been unchanged for the last three months. Sales of new units have trended down since May and the inventory of unsold new single-family homes has risen to a 2-1/2 year high. Sales of existing homes registered a moderate decline in September, but the rate continued near the August record.

BUSINESS INVENTORIES
(Annual rate of change in seasonally adjusted book values; billions of dollars)

	1977			1978				
	QII	QIII	QIV	QI	QII	QIII	Aug. 1/	Sept. 2/
Manufacturing and trade	28.3	25.2	17.8	44.2	44.3	n.a.	42.2	n.a.
Manufacturing	15.7	10.2	2.8	16.6	22.8	18.1	20.6	14.3
Durable	7.8	7.7	3.8	13.2	15.9	13.3	16.5	9.6
Nondurable	7.9	2.4	-1.0	3.4	6.9	4.8	4.1	4.7
Trade, total	12.6	15.0	14.9	27.6	21.5	n.a.	21.6	n.a.
Wholesale	2.6	4.7	7.5	19.5	11.8	6.1	7.1	13.2
Retail	10.0	10.3	7.4	8.1	9.8	n.a.	14.5	n.a.
Auto	2.2	1.5	2.9	.9	.2	n.a.	.2	n.a.

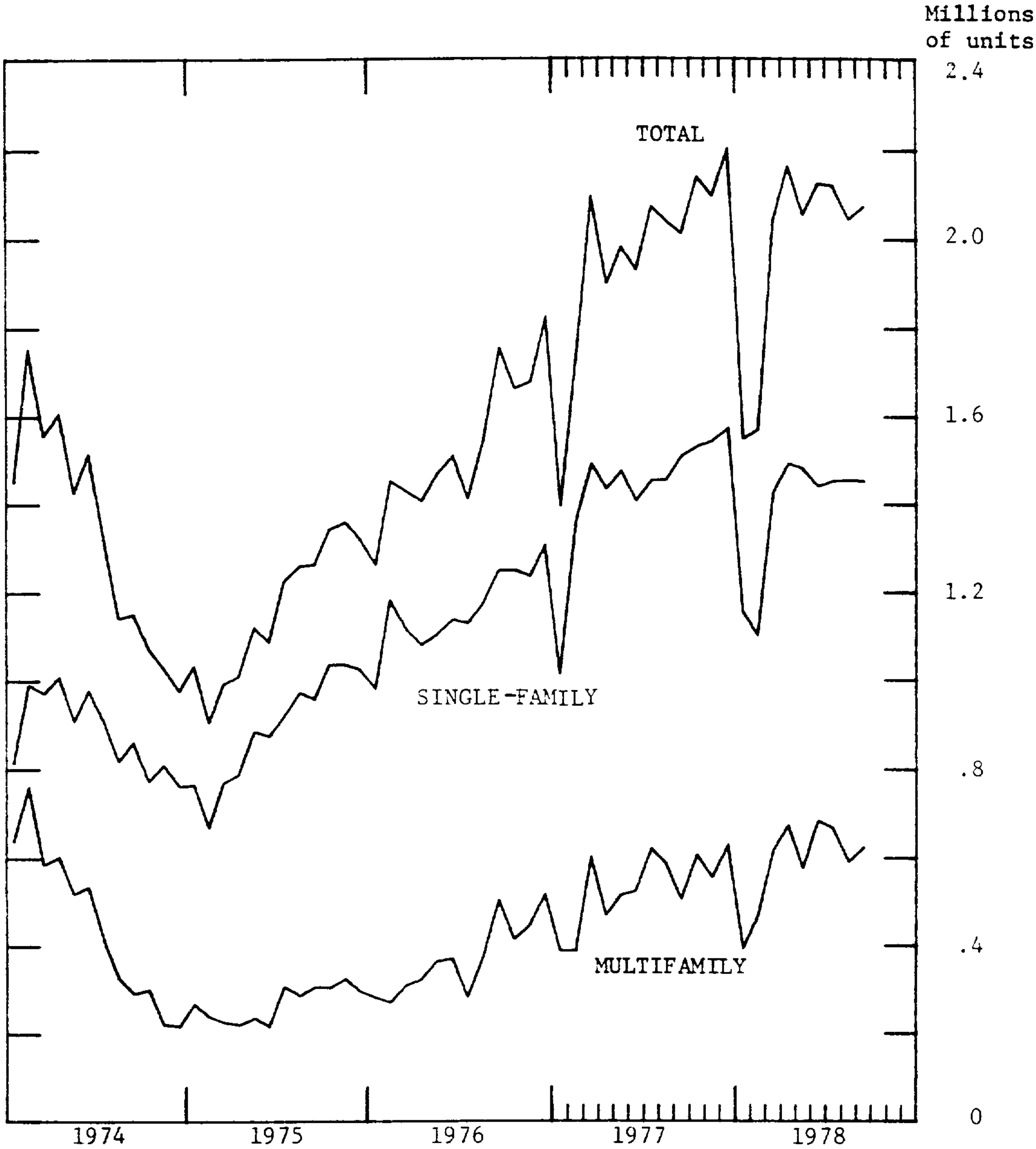
1/ Revised.
2/ Preliminary.

INVENTORY TO SALES RATIOS

	1977			1978				
	QII	QIII	QIV	QI	QII	QIII	Aug. 1/	Sept. 2/
Manufacturing and trade	1.46	1.48	1.44	1.46	1.42	n.a.	1.40	n.a.
Manufacturing	1.60	1.61	1.56	1.56	1.52	1.54	1.51	1.52
Durable	1.96	1.96	1.90	1.90	1.86	1.86	1.82	1.83
Nondurable	1.22	1.22	1.18	1.17	1.15	1.16	1.14	1.15
Trade, total	1.32	1.35	1.33	1.36	1.31	n.a.	1.30	n.a.
Wholesale	1.21	1.24	1.23	1.27	1.20	1.21	1.18	1.20
Retail	1.43	1.44	1.42	1.45	1.43	n.a.	1.42	n.a.

1/ Revised.
2/ Preliminary.

NEW PRIVATE HOUSING STARTS
(Seasonally adjusted annual rates)



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

	1977	1978					Per cent change from:	
	QIV	QI	QII 1/	QIII 2/	Aug. 1/	Sept. 2/	Month ago	Year ago
Single & Multifamily								
Permits	1.79	1.57	1.72	1.63	1.56	1.71	+10	+ 1
Starts	2.15	1.72	2.11	2.08	2.04	2.07	+ 1	+ 3
Under construction 3/	1.25	1.26	1.30	1.32	1.30	1.32	+ 1	+14
Completions	1.69	1.76	1.90	1.95	1.97	1.93	- 2	+ 3
Single-family								
Permits	1.20	1.01	1.11	1.05	1.02	1.10	+ 8	- 4
Starts	1.55	1.23	1.47	1.45	1.45	1.45	--	- 4
Under construction 3/	.77	.78	.77	.79	.79	.79	--	+11
Completions	1.28	1.30	1.43	1.35	1.37	1.41	+ 3	- 4
Multifamily								
Permits	.60	.56	.61	.58	.54	.61	+13	+10
Starts	.60	.49	.64	.63	.59	.62	+ 5	+23
Under construction 3/	.48	.48	.52	.53	.51	.53	+ 3	+19
Completions	.42	.46	.47	.59	.60	.52	-13	+26
Mobile home shipments	.31	.29	.26	.28	.28	.29	+ 2	- 3

1/ Revised.
2/ Preliminary.
3/ Seasonally adjusted, end of period.

The multifamily sector apparently was aided by a substantial end-of-the-fiscal year surge in starts of Government subsidized units. A jump in the starts rate in September brought the average during the first nine months of 1978 to a 587,000 unit annual rate--almost 10 per cent above the pace of last year. Rental markets are very tight in many areas of the nation and there is no indication of the overbuilding of condominium units that characterized the 1973-1974 period. However, there continue to be uncertainties about long-run rates of return due to rising costs for operation, finance and construction.

Government Sector Activity

In the Federal sector, final budget totals for fiscal year 1978 indicate the deficit was $48.7 billion, higher than the $45 billion deficit for the preceding fiscal year. The Administration projects a deficit of $39 billion for fiscal year 1979, including the effects of the Revenue Act of 1978 signed by the President on November 6.

Recent data continue to indicate a moderation of growth of State and local spending. The value of construction put-in-place declined slightly in September for the second month in a row, but remains at a high level following very strong increases last spring and summer. State and local employment was roughly unchanged in October but has declined more than 100,000 since June. Most of this decline has been in the education area and some of it may reflect the effects of Proposition 13 in California.

RECENT 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 Sept.	1978 Oct.
Finished goods	41.2	8.2	5.0	9.6	11.4	5.0	10.4	10.3
Consumer foods	10.3	10.9	2.4	21.2	14.6	-1.0	19.9	20.1
Consumer nonfoods	18.7	8.4	4.3	5.3	11.2	7.6	6.5	7.7
Capital equipment	12.2	5.9	8.4	7.1	8.7	6.4	7.2	7.1
Materials:								
Intermediate 2/	45.5	7.2	5.6	9.2	6.6	6.7	7.7	13.7
Crude nonfood	4.6	7.4	6.6	16.2	11.6	12.2	12.0	25.0
Crude food	6.3	1.7	1.3	40.3	28.1	-9.4	22.7	43.4
Memo: Energy 3/	11.3	19.0	5.1	4.3	10.4	4.8	7.8	7.0

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.

RECENT CHANGES IN CONSUMER PRICES
(Per cent change at compound annual rates; based on seasonally adjusted data) 1/

	Relative importance 2/ Dec. 77	1977 H1	1977 H2	1978 QI	1978 QII	1978 QIII	1978 Aug.	1978 Sept.
All items	100.0	8.9	4.7	9.3	11.4	7.8	7.3	9.1
Food	17.7	13.4	3.0	16.4	20.4	3.0	3.4	6.2
Commodities (nonfood)	41.6	5.8	4.0	6.1	7.2	7.8	5.5	10.2
Services	40.7	9.6	6.3	9.1	11.8	10.3	10.2	9.5
Memoranda:								
All items less food and energy 3/	73.7	7.7	5.2	8.0	9.9	8.3	7.6	8.2
Gas and electricity	3.4	12.2	5.3	12.2	22.1	4.5	3.0	4.0
Gasoline and fuel oil 4/	5.2	11.2	1.4	.2	8.4	12.5	12.4	9.5
Home financing, taxes, and insurance	9.2	15.3	7.3	16.7	21.6	19.3	19.8	16.7

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.

Prices

Prices have continued to rise at a rapid pace at both the consumer and producer levels; consumer prices increased at a 9 per cent annual rate in September, while prices of producer finished goods rose at over a 10 per cent rate in September and October.

The food sector continues to be an important influence on recent over-all price movements. Retail food prices rose at about a 6 per cent annual rate in September, following two months of little change. In addition, producer prices of both crude and finished foods climbed sharply in October for the second month after declining in July and August. Supply conditions for red meat suggest that upward pressure on food prices will continue for some time.

Energy items also have been pushing up the inflation rate. Gasoline and natural gas prices rose sharply in September. Electricity rates, by contrast, receded somewhat in the third quarter, following large increases in previous months. Outside of the food and energy area, retail prices in September increased at an 8 per cent annual rate--about the same as the average pace so far this year.

Thus far in 1978 the total CPI has increased at a 9.5 per cent annual rate, up sharply from the 6.8 per cent rate recorded over 1977. As shown in the following table, the rapid increase in home-ownership costs accounts for 1 percentage point of the 2-3/4 percentage point acceleration in the total CPI this year. The influence

SUMMARY OF ADMINISTRATION'S VOLUNTARY WAGE PRICE STANDARDS

	Standards	Exemptions	Incentives and selected sanctions
Wages:	General standard of a 7 per cent increase including private fringe benefits. 7 per cent annual average for multi-year contracts, including COLA. - First year increases to be less than 8 per cent. - COLA's evaluated assuming 6 per cent rise in CPI.	Workers earning less than $4 per hour. Previously signed contracts. Where justified by changes in work rules. Where justified by equity considerations.	Real wage insurance plan (needs Congressional enactment).
Prices:	General standard of a 1/2 percentage point reduction from 1976-77 average increase. Rent is included. Deceleration of medical care costs by 2 percentage points per year.	Profit margin standard alternative. Greater price reductions required if wages decelerate more than 1/2 percentage point.	Monitoring of largest firms by Council on Wage and Price Stability. Relaxation of restrictions on imports. Exclusion from bidding on government contracts. Review of administratively set minimum prices. Evaluation of regulated rate increases in light of standards.
Profits:	Profit margins can be used as an alternative price standard when unavoidable costs rise rapidly. In such cases profit margins are not to exceed average of best 2 of last 3 years.		

FACTORS CONTRIBUTING TO THE RECENT CPI ACCELERATION

	Relative importance, Dec. 1977	Per cent change, annual[1/] 1977	Per cent change, annual[1/] 1978	Accelera-tion from (1978-1977)	Contribution to accelera-tion in CPI total
				---Percentage	points---
CPI, all items	100.0	6.8	9.5	2.7	2.7
Homeownership	22.8	9.2	13.8	4.6	1.0
Food	17.7	8.0	13.0	5.0	.9
Used cars	3.0	-4.1	11.3	15.4	.5

1/ For 1977 the change shown is from December 1976 to December 1977; for 1978, the change is from December 1977 to September 1978, at compound annual rate.

of higher mortgage rates accounts for over half the acceleration in homeownership costs, and home purchase price increases for much of the remainder. Of the other major contributors to acceleration in the CPI this year, food costs are responsible for about 1 percentage point and used car prices for about 1/2 percentage point.

At the producer level, nonfood finished goods prices rose in October at rates similar to those earlier this year--at an annual rate of nearly 8 per cent for consumer goods and almost 7-1/2 per cent for capital equipment. However, materials prices, both crude and intermediate, accelerated markedly. In particular, prices of construction materials, nonferrous metals, and scrap metal rose sharply.

Wages and Productivity and Costs

On October 24 the President announced an anti-inflation program that includes voluntary wage and price standards backed by limited sanctions, as well as regulatory reform and changes in Federal budgetary policies. The standards, which are summarized on the following page include a proposal for a tax-based incentive program for wage compliance--the real wage insurance plan.

Wage rates so far this year have advanced faster than the President's standards. First-year wage increases negotiated in major collective bargaining settlements during the first nine months of 1978 averaged 7.7 percent; this excludes cost-of-living adjustments, which are included in the President's wage standard. Negotiated increases in combined wages and benefits (contracts covering 5,000 or more workers) averaged nearly 9 per cent in the first year, and 6-1/2 per cent over the contract life (excluding any cost-of-living increases).

Wage rates for nonfarm production workers, as measured by the hourly earnings index, have increased at just under an 8 per cent annual rate since mid-year, the same as in the second quarter. Total compensation increases have remained large; the 9 per cent rate of rise in the nonfarm sector in the third quarter was roughly the same as the rate over the preceding four quarters. The rapid rise in compensation was partially offset by improved productivity. In the private nonfarm sector, output per hour was up at a 3-3/4 per cent rate as growth of labor input slowed sharply. Dsspite the sizable third-quarter increase, output per hour is only fractionally above the level of a year ago, with the bulk of this weak productivity performance occurring outside the manufacturing sector.

MAJOR COLLECTIVE BARGAINING SETTLEMENTS
(Per cent change at annual rates)

	Average adjustment			
				1978
	1975	1976	1977	First 9 months
Wage-rate settlements (1,000 or more workers)				
First year adjustments	10.2	8.4	7.8	7.7
Average over life of contracts 1/	7.8	6.4	5.8	6.5
Wage and benefit settlements (5,000 or more workers)				
First year adjustments	11.4	8.5	9.6	8.8
Average over life of contracts 1/	8.1	6.6	6.2	6.5
Effective wage-rate adjustments (1,000 or more workers)	8.7	8.1	8.0	7.7 2/
Current settlements	2.8	3.2	3.0	2.1 2/
Prior settlements	3.7	3.2	3.2	3.5 2/
Escalator provisions	2.2	1.6	1.7	2.1 2/

1/ Excluding cost-of-living adjustments.
2/ Over the year ending in the third quarter of 1978.

HOURLY EARNINGS INDEX[1/]
(Per cent change at compound annual rates; based on seasonally adjusted data)

	Dec. 76 to Dec. 77	Dec. 77 to Oct. 78	Dec. 77 to Mar. 78	Mar. 78 to June 78	June 78 to Oct. 78
Total private nonfarm	7.4	8.4	9.8	7.9	7.9
Manufacturing	8.2	8.4	9.1	7.2	8.6
Contract construction	4.0	8.2	11.9	9.3	4.7
Transportation and public utilities	9.4	6.2	6.3	7.3	5.4
Total trade	7.5	9.3	12.0	7.5	8.7
Retail trade	7.1	9.2	14.0	6.4	7.8
Services	6.7	7.9	10.6	5.5	7.7

1/ Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

PRODUCTIVITY AND COSTS
(Per cent change from preceding period at a compound annual rates;
based on seasonally adjusted data)

	1977 QII	1977 QIII	1977 QIV	1978 QI	1978 QII	1978 QIII	1977 QIII to 1978 QIII
Output per hour							
Total private business	-1.7	5.1	.4	-4.5	1.2	4.5	.3
Nonfarm business	-1.4	3.7	.5	-3.1	1.7	3.7	.7
Manufacturing	6.4	6.5	-.3	-5.1	8.3	10.0	3.0
Durable	8.9	5.0	-1.1	-6.8	11.3	9.6	3.0
Nondurable	3.1	8.6	1.0	-2.6	3.9	10.6	3.1
Compensation per hour							
Total private business	5.8	9.5	6.7	12.1	8.1	9.8	9.1
Nonfarm business	6.5	8.1	7.6	12.2	8.2	8.9	9.2
Manufacturing	8.2	9.2	8.8	11.6	7.4	10.5	9.6
Durable	9.4	9.0	9.8	10.4	7.5	10.5	9.5
Nondurable	6.0	8.5	6.7	13.6	7.2	9.3	9.2
Unit labor costs							
Total private business	7.6	4.2	6.3	17.4	6.8	5.1	8.8
Nonfarm business	8.0	4.2	7.1	15.7	6.4	5.0	8.5
Manufacturing	1.6	2.5	9.1	17.7	-.8	.5	6.4
Durable	.5	3.8	11.0	18.5	-3.4	.8	6.4
Nondurable	2.8	-.1	5.6	16.6	3.2	-1.2	5.9

III-T-1
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Latest data Level	Net Change from: Month ago	Net Change from: Three months ago	Net Change from: Year ago
	$ billions		Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	OCTOBER	38.5	8.9	2.7	7.4
Nonborrowed reserves	OCTOBER	37.2	2.1	3.2	7.7
Money supply					
M1	OCTOBER	362.0	3.7	8.8	7.8
M2	OCTOBER	867.4	7.0	10.0	8.2
M3	OCTOBER	1484.5	10.2	12.1	9.3
Time and savings deposits (less CDs)	OCTOBER	505.4	9.1	10.9	8.6
CDs 2/	OCTOBER	88.2	0.1	0.8	21.8
Thrift deposits (S&Ls + MSBs + Credit Unions)	OCTOBER	617.0	14.6	15.0	10.9
Bank credit (end of month)	OCTOBER	959.2	9.5	8.3	11.0

Indicator		Latest data Period	Latest data Per cent or index	Net Change from: Month ago	Net Change from: Three months ago	Net Change from: Year ago
Market yields and stock prices						
Federal funds	wk. endg.	11/8/78	9.77	.91	1.93	3.27
easury bill (90 day)	"	11/8/78	8.85	.68	2.09	2.68
rcial paper (90-119 day)	"	11/8/78	10.01	1.19	2.23	3.44
ew utility issue Aaa	"	11/10/78	9.30	—	.49	1.01
Municipal bonds (Bond Buyer) 1 day		11/9/78	6.17	.07	.14	.66
FNMA auction yield (FHA/VA)		11/13/78	10.27	.36	.45	1.41
Dividend price ratio (common stocks)	wk endg.	11/8/78	5.40	.55	.49	.45
NYSE index (12/31/65=50)	end of day	11/13/78	51.83	-7.10	-6.73	-0.54

	Net Change or Gross Offerings: Period	Latest Data	Year ago	Year to Date 1978	Year to Date 1977
Credit demands					
Business loans at commercial banks 1/	OCTOBER	2.0	2.6	26.4	19.1
Consumer instalment credit outstanding 1/	SEPTEMBER	3.3	2.4	30.2	22.6
Mortgage debt outstanding (major holders) 1/3/	AUGUST	10.3	9.2	70.6	61.7
Corporate bonds (public offerings)	OCTOBER	1.8e	2.1	17.1e	20.4
Municipal long-term bonds (gross offerings)	OCTOBER	3.2e	3.8	40.2e	39.7
Federally sponsored agcy. (net borrowing)	OCTOBER	2.4	.7	19.5	5.8
U.S. Treasury (net cash borrowing)	NOVEMBER	5.0	8.9	49.7	46.9

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

Interest rates have risen, and stock prices have declined, on balance since the last FOMC meeting, with unusually sharp short-run fluctuations prompted by shifting expectations about monetary policy, inflation, and the exchange value of the dollar. In late October, security yields rose substantially, responding in part to a 50 basis point increase in the Federal funds rate but also reflecting concern about the falling foreign exchange value of the dollar and pessimism regarding the likelihood of success of the Administration's anti-inflation program. On November 1, the Treasury and the Federal Reserve announced actions to strengthen the dollar, including a 1 percentage point increase in the discount rate to 9-1/2 per cent and supplemental reserve requirements on large time deposits. With a concurrent further rise of about 50 basis points in the funds rate, short-term rates generally increased sharply; meanwhile, long-term bond yields fell markedly during the day, and stock prices posted a record increase. In subsequent days, however, most short- and long-term rates moved upward and stock prices drifted lower. Most recently, rates on private short-term instruments were 115 to 160 basis points higher than at the time of the October meeting; increases in Treasury bill rates were much smaller, owing to heavy foreign purchases of both marketable and nonmarketable securities. Most bond yields, though somewhat lower than before the November 1 announcement, have risen 5 to 25 basis points on balance in the intermeeting period. Stock price indexes have fallen 9 to 15 per cent over this period.

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1977 1/		1978 2/					Change from:	
	High	Low	FOMC Sept. 19	FOMC Oct. 17	Oct. 31	Nov. 1	Nov. 14	Sept. FOMC	Oct. FOMC
Short-term rates									
Federal funds 1/	6.65	4.47	8.36	8.78	9.29	9.29	9.72 3/	+1.36	+.94
Treasury bills									
3-month	6.27	4.41	7.95	8.15	8.75	8.85	8.30	+.35	+.15
6-month	6.51	4.55	8.03	8.62	9.23	9.31	9.19	+1.16	+.57
1-year	6.62	4.67	8.03	8.45	9.13	9.16	9.19	+1.16	+.74
Commercial paper									
1-month	6.58	4.53	8.36	8.84	9.13	9.37	10.00	+1.64	+1.16
3-month	6.66	4.63	8.46	8.99	9.40	9.72	10.26	+1.80	+1.27
Large negotiable CDs 4/									
3-month	6.62	4.60	8.65	9.35	10.13	10.25	10.70	+2.05	+1.35
6-month	6.84	4.65	8.90	9.70	11.00	11.00	11.30	+2.40	+1.60
Bank prime rate	7.75	6.25	9.50	10.00	10.25	10.50	10.75	+1.25	+.75
Intermediate- and long-term rates									
Corporate									
New AAA 5/	8.36	7.90	8.74	--	9.23	9.23	9.30p	+.56	--
Recently offered 6/	8.48	7.95	8.73	9.03	9.24	9.24	9.31p	+.58	+.28
Municipal									
(Bond Buyer) 7/	5.93	5.45	6.02	6.10	6.21	6.21	6.17	+.15	+.07
U.S. Treasury (constant maturity)									
3-year	7.39	5.74	8.41	8.54	9.32	9.04	9.04	+.63	+.50
7-year	7.66	6.48	8.41	8.61	9.00	8.68	8.80	+.39	+.19
20-year	7.96	7.20	8.43	8.66	8.90	8.72	8.75	+.32	+.09

	Low 8/	High 8/	FOMC Sept. 19	FOMC Oct. 17	Oct. 31	Nov. 1	Nov. 14	Sept. FOMC	Oct. FOMC
Stock prices									
Dow-Jones Industrial	807.74	985.74	861.57	866.34	792.45	827.79	785.26	-76.31	-81.08
N.Y.S.E. Composite	50.13	56.98	57.84	56.89	51.67	53.79	51.36	-6.48	-5.53
AMEX	110.37	126.86	169.07	163.55	136.75	143.42	138.98	-30.09	-24.57
Keefe Bank Stock 6/	530	633	691	676	694	694	619	-72	-57

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 November 15.
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.

Growth in the major monetary aggregates slowed markedly in October from the rapid pace of the previous month, mainly reflecting sharply reduced inflows of demand and savings deposits at commercial banks. Unusually large inflows to small time accounts--associated with record sales of money market time deposits--enabled banks to finance a moderate expansion of bank credit without increasing significantly their rate of issuance of managed liabilities.

Funds raised by private borrowers during October apparently remained about the same as the volume registered in September. Short-term borrowing by nonfinancial businesses picked up during the month, while gross issues of long-term corporate securities moderated from the September pace. Net mortgage borrowing by households appears to have increased slightly for the third consecutive month, and consumer credit expansion apparently remained near its reduced third-quarter pace. In the public sector, the gross volume of tax-exempt security offerings was somewhat higher than in September, while Treasury borrowing decreased slightly. Net offering of marketable issues from the Treasury in October were much reduced from the volume of the previous month, reflecting in part large foreign purchases of nonmarketable securities.

Monetary Aggregates and Bank Credit

M-1 expanded at a 3-3/4 per cent annual rate in October, off sharply from the extremely rapid 14 per cent rate the preceding month and the slowest pace since March.[1] The slower monthly average growth

1/ Following the pattern of the first month of most other recent quarters since the beginning of 1976, there was a bulge in demand deposits early in October. However, the run-off in these deposits later in the month was more pronounced than in similar periods of previous quarters, and hence the monthly increase for October as a whole was small.

MONETARY AGGREGATES
(Seasonally adjusted)1/

	1978 QI	QII	QIII	Aug.	Sept.	Oct.p	Oct. '77 to Oct. '78p
Major monetary aggregates							
1. M-1 (currency plus demand deposits)	6.2	9.9	7.6	8.5	14.1	3.7	7.8
2. M-2 (M-1 plus time & savings deposits at CBs, other than large CDs)	6.9	7.9	8.9	10.4	12.5	7.0	8.2
3. M-3 (M-2 plus all deposits at thrift institutions)	7.7	7.8	10.1	11.8	13.9	10.2	9.3
Bank time and savings deposits							
4. Total	12.8	10.1	9.5	7.5	13.8	7.9	11.6
5. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2)	7.3	6.4	10.0	11.5	11.8	9.1	8.6
6. Savings deposits	2.6	1.6	1.3	8.1	9.7	-1.6	2.0
7. Individuals 2/	2.4	1.8	2.5	9.9	8.7	-2.9	2.3
8. Other 3/	2.6	0.0	-15.5	0.0	16.2	16.0	-1.9
9. Time deposits	11.4	10.5	17.3	14.2	13.6	17.7	14.4
10. Small time 4/	3.6	6.8	8.5	4.2	11.9	23.5	7.7
11. Large time 4/	26.9	17.3	32.7	31.3	16.4	9.2	28.3
12. Time and savings deposits subject to rate ceilings (6+10)	3.0	3.8	4.4	6.4	10.7	9.4	4.4
Deposits at nonbank thrift institutions 5/							
13. Total	9.0	7.6	11.6	13.9	15.8	14.6	10.9
14. Savings and loan associations	9.0	7.9	12.8	15.6	16.9	15.2	11.5
15. Mutual savings banks	5.8	3.9	7.1	9.7	11.3	10.4	6.7
16. Credit unions	18.2	15.8	13.6	11.7	20.9	n.a.	n.a.
	Average monthly changes, billions of dollars						
MEMORANDA:							
17. Total U.S. Govt. deposits	-1.2	1.1	1.5	0.7	0.8	4.0	0.8
18. Total large time deposits 6/	4.6	2.8	3.1	1.5	3.2	0.9	3.7
18. Nondeposit sources of funds 7/	1.7	0.7	1.2	2.1	1.5	4.0	1.6

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.

of M-1 may in part have reflected an unwinding of transitory special factors--including the effects of early disbursement of Social Security checks and of delays in processing individual tax payments--which boosted expansion in September, as well as a subsequent temporary diminution in the public's deposits associated with the run-up in Treasury balances during October. In addition, the rapid rise in market interest rates over recent months likely has exerted a depressing effect on the demand for cash balances.

Although commercial banks experienced a slight net outflow from savings accounts in October, following two consecutive months of surprisingly rapid growth of these deposits, sharply accelerated inflows to small-denomination time accounts kept the expansion of total interest-bearing deposits subject to rate ceilings near the rapid September pace. At the same time, issuance of ceiling-free large time deposits included in M-2--which had acted to boost M-2 expansion throughout the first three quarters of the year--slowed, and the rate of growth of the interest-bearing component of M-2 moderated. M-2 growth dropped to a 7 per cent annual rate in October--slightly below the average pace of the past 12 months.

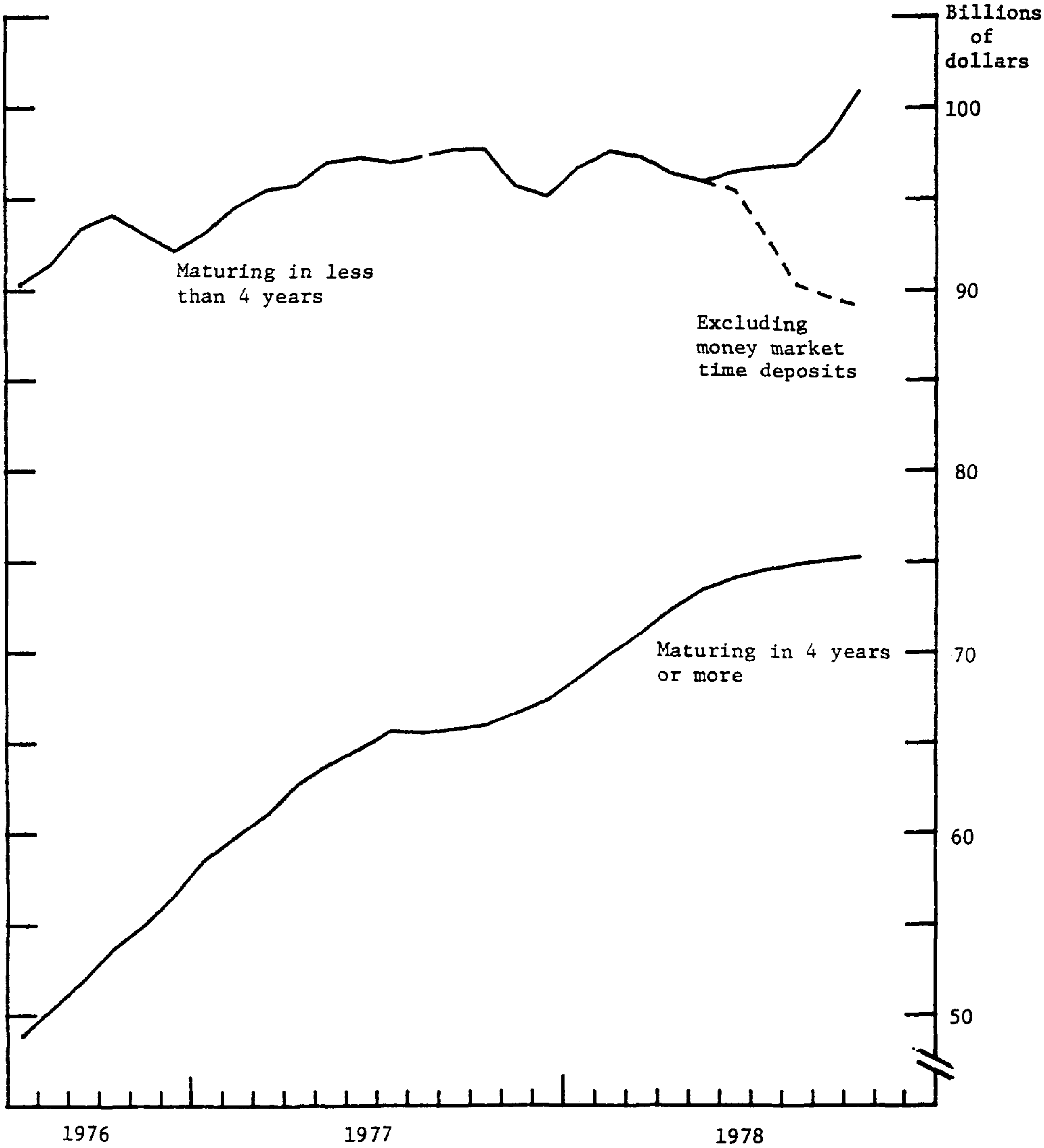
Since early September, rates available on the 6-month money market time deposits (MMTDs) at banks have exceeded ceiling rates on all other small-denomination time deposits, including the recently authorized 8-year certificate. In the 5-month period since MMTDs were introduced in June, these certificates attracted nearly $14 billion, on a not seasonally adjusted basis, while other small time deposits with maturities of less than 4 years declined about $7 billion and inflows to longer-term small time accounts decelerated (see Chart on page 7). The attractive terms on the MMTDs undoubtedly have induced depositors to shift from savings and other time accounts with fixed ceilings; however, time and savings deposits subject to rate ceilings have grown at a substantially more rapid pace since June, suggesting that a part of the sales over this period represented funds that banks otherwise would have lost to market instruments.

At thrift institutions, deposits grew at a 14-1/2 per cent annual rate in October, slightly below the rapid pace of the previous month, and M-3 growth slowed from 14 per cent in September to 10-1/4 per cent last month. The MMTD apparently has augmented deposit flows to these institutions even more than to commercial banks; deposit growth at thrifts averaged 13 per cent at an annual rate from June through October, well above the 8 per cent average monthly growth for the first five months of the year. Over the June-October period, total deposits at S&Ls rose $21-1/2 billion, not seasonally adjusted, and deposits of mutual savings banks grew $3-3/4 billion; growth in MMTDs over the same period was about $25 billion at S&Ls and $8 billion at mutual savings banks.[1]

Total loans and investments at commercial banks grew at a 9-1/2 per cent annual rate in October, slightly below the pace of the third quarter. Bank holdings of Treasury securities declined for the

1/ There have been scattered reports that some thrift institutions recently have begun to de-emphasize the certificates due to their high cost. According to recent surveys, about the same number of thrifts were offering MMTDs in September as in August; but fewer MSBs were reported to be paying the ceiling rate, and S&Ls apparently have cut back on their advertising and promotions.

ESTIMATED LEVELS OF SMALL-DENOMINATION TIME DEPOSITS
BY MATURITY AT ALL INSURED COMMERCIAL BANKS
Monthly averages, not seasonally adjusted



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

		1978						12 months ending
		QI	QII	QIII	Aug.	Sept.	Oct.	Oct.
1.	Total loans & investments 2/	9.7	13.5	10.7	5.2	9.9	9.5	11.0
2.	Investments	3.3	8.6	2.3	-5.5	3.2	-4.6	1.7
3.	Treasury securities	--	11.7	-8.5	-32.5	-8.7	-24.9	-5.1
4.	Other securities	5.3	6.7	8.8	11.0	10.2	7.2	6.0
5.	Total loans 2/	12.3	15.4	14.0	9.4	12.5	14.8	14.9
6.	Business loans	16.3	19.0	11.0	12.3	9.5	10.5	14.8
7.	Security loans	-29.9	62.4	-24.0	-132.1	12.9	-76.6	-6.9
8.	Real estate loans	16.1	17.2	17.1	18.5	15.2	16.2	18.3
9.	Consumer loans	14.6	21.0	17.1	22.1	13.6	n.a.	n.a.
	MEMORANDA:							
10.	Commercial paper issued by nonfinancial firms 3/	-2.5	30.6	18.9 r/	-6.8	6.8 r/	33.9	18.2
11.	Business loans at banks net of bank holdings of bankers acceptances	17.8	19.5	11.0	9.2	9.7	12.3	15.8
12.	Sum of items 10 & 11	16.1	20.3	11.5 r/	8.0	9.5 r/	13.8	16.0
13.	Memo item 12 plus business loans from finance companies	15.5	18.6	9.6	7.6	6.4	n.a.	n.a.

n.a.--not available. r/--revised.

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.

third consecutive month, reaching their lowest level as a proportion of bank credit since May 1975; however, at 9.4 per cent, this ratio remained well above the record low of 7.3 per cent in November 1974. At large banks, Treasury security run-offs were concentrated in bills and may have been associated with their low rates relative to rates on other short-term instruments. Meanwhile, with bank profits rising over the year, acquisitions of other securities--mainly tax exempt issues--continued in October. Business and real estate loans rose more rapidly in October than in September, while security loans outstanding declined.

Banks' issuance of managed liabilities in October remained at about the same high rate as in other recent months, although the composition shifted somewhat. Over the first nine months of the year, large time deposits accounted for about three-fourths of the average \$4-3/4 billion monthly increase in managed liabilities. In October, however, total large time deposits increased less than \$1 billion, as banks raised \$4 billion from nondeposit sources. In late October and early November, weekly reporting banks both inside and outside New York City sharply increased their issuance of negotiable CDs, reportedly in association with their revised expectations concerning further advances in interest rates over the coming months, but perhaps in part to finance advances to banking offices abroad.

Business Finance

Borrowing by nonfinancial firms at banks and in the commercial paper market accelerated to a 13-3/4 per cent annual rate of growth in

October, while the gross volume of long-term security offerings declined. Bank business loans (net of holdings of bankers acceptances) expanded at a 12-1/4 per cent annual rate, above the 11 per cent rate in the third quarter, but below the average rate over the last year.[1] In contrast to the pattern over most of the third quarter, the strength in business loans was concentrated at large banks--particularly those outside New York City--as growth at small banks fell to the slowest pace since May.[2]

Commercial paper issued by nonfinancial firms rose $500 million during October, somewhat greater than the average monthly increase in the previous two quarters, and reportedly due to continued heavy issuance by industrial corporations and several foreign concerns. The most recent data for business credit at finance companies indicate a $300 million decline for September--the first monthly drop in a year--as larger-than-

1/ Unlike the experience in October of the preceding three years, no unusually large increase in holdings of bankers acceptances--which are classified as business loans on bank reports--acted to boost the seasonally adjusted level of business loans at commercial banks. On a last-Wednesday basis, large banks added only $200 million in acceptances in October compared to an average $750 million during 1975-1977. Increased business lending at large banks this year has reduced their need to build up their acceptance portfolios in order to boost loan loss reserves for tax write-offs. Previous year-end build-ups and subsequent run-offs in the early months of the following year of bankers acceptances held in portfolio had masked underlying movements in business lending activity.

2/ Term loans as a proportion of total commercial and industrial loans at large banks fell during September and October, after rising for several months. The proportion of long-term loans made at fixed rates had declined sharply between May and August (most recent data), particularly at large banks outside of New York. Such developments may have reflected tighter balance sheet positions at these banks as well as their concern over future increases in interest rates.

CORPORATE AND FOREIGN SECURITIES: GROSS OFFERINGS
(Monthly totals or monthly averages, in millions of dollars)

	1977	1978					
	Year	H1	QIII e/	Sept. e/	Oct. e/	Nov. f/	Dec. f/
			Seasonally adjusted				
Corporate securities--total	4,518	3,587	4,510	4,506	3,760	4,175	3,675
Publicly offered bonds	2,016	1,489	2,317	1,969	1,619	2,025	1,750
Privately placed bonds	1,501	1,366	1,307	1,502	1,425	1,325	1,250
Stocks	1,001	732	886	1,035	716	825	675
			Not seasonally adjusted				
Publicly offered bonds	2,016	1,695	1,726	1,500	1,800	1,900	1,400
By quality 1/							
Aaa and Aa	1,089	820	870	550	950	--	--
Less than Aa 2/	927	875	856	950	850	--	--
By type of borrower							
Utility	692	525	770	600	1,100	--	--
Industrial 3/	700	578	540	750	400	--	--
Financial	624	592	416	150	300	--	--
Foreign securities--total	621	640	371	400	750	475	--
Publicly offered 4/	437	466	183	325	750	425	300
Privately placed	184	174	188	75	0	50	--

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.

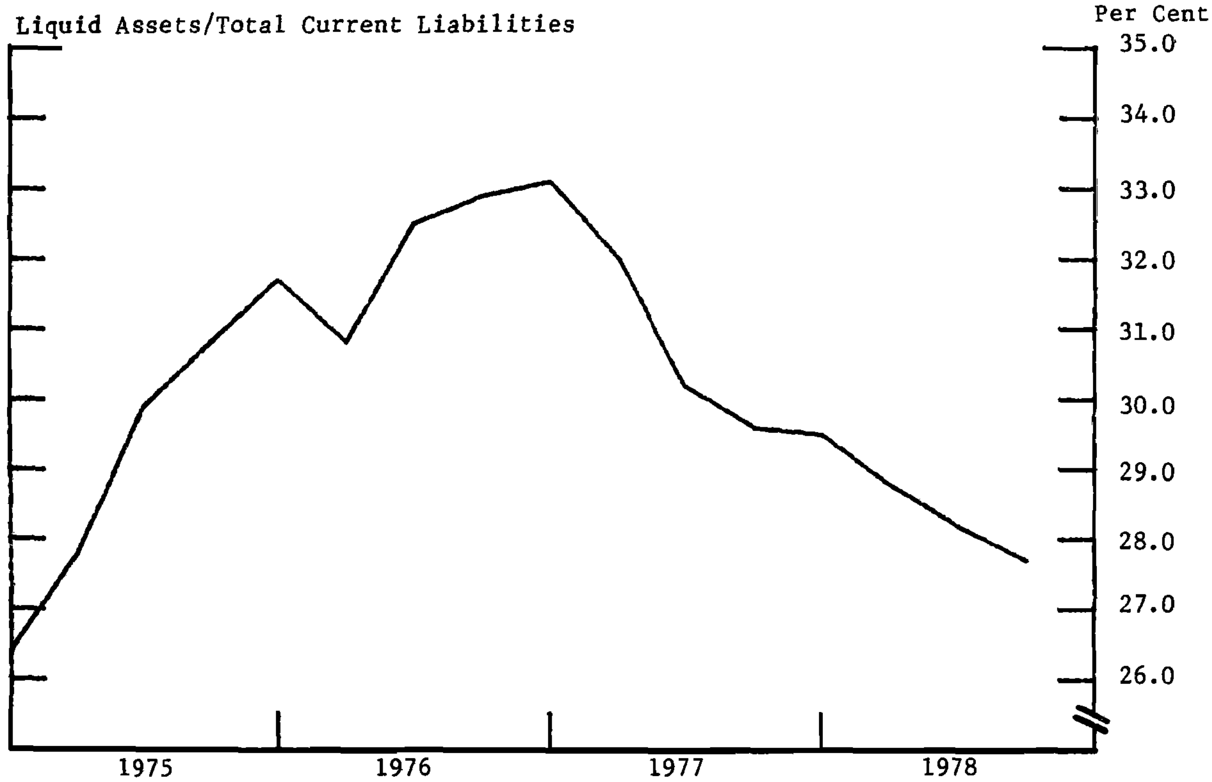
usual reductions in auto dealer inventories associated with the model change-over period resulted in a large decline in automotive lending. Net expansion of business credit at finance companies for the entire third quarter totaled only $400 million, the smallest quarterly increase since the final three months of 1975. Total short- and intermediate-term business credit expanded at a 9-1/2 per cent annual rate in the third quarter, considerably below the 17 per cent pace for the first half of the year.

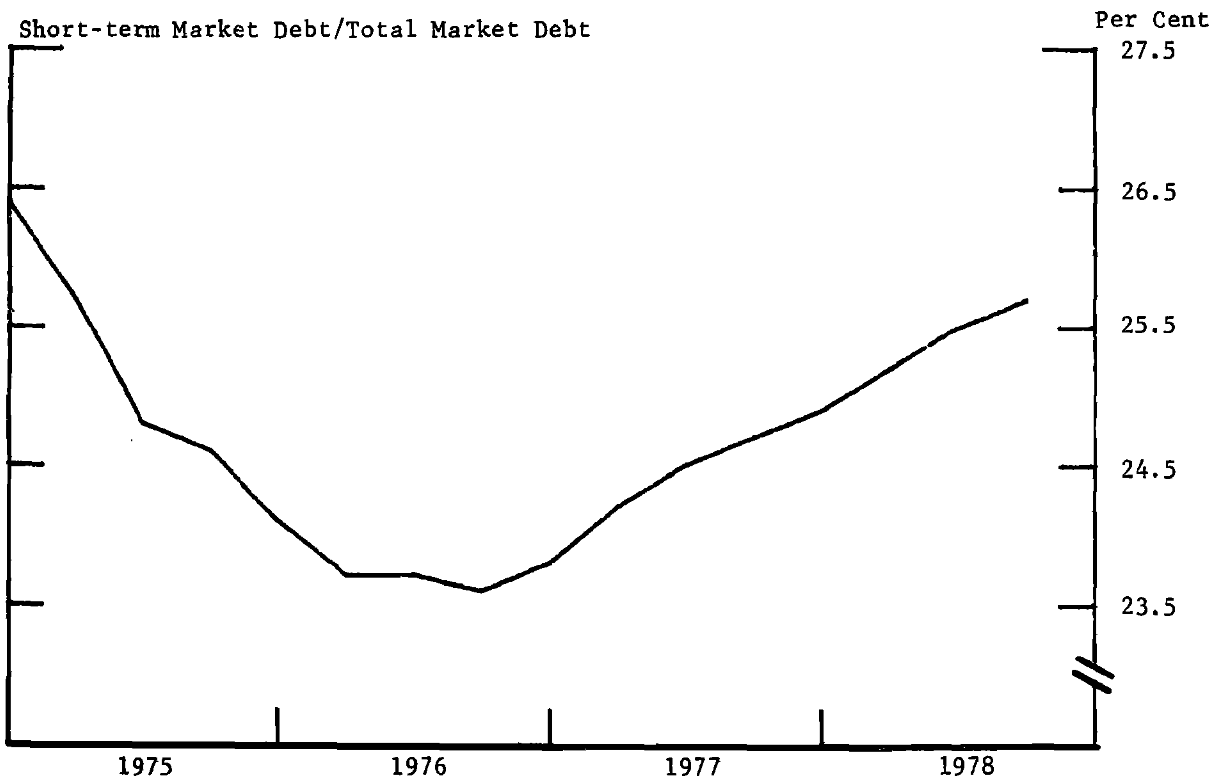
Gross public offerings of bonds by nonfinancial corporations increased less than seasonally in October. Several large, highly rated issues by electric and gas companies and communication firms accounted for the majority of the October slate, while public offerings of bonds by industrial concerns were relatively light. Public offerings by financial corporations rebounded somewhat in October, but remained below their levels earlier this year.

Since early 1977, nonfinancial corporations have met a higher proportion of their financing needs by increasing their reliance on short-term borrowing and by limiting their acquisition of liquid assets. As a result, measures of liquidity for nonfinancial corporations--such as the ratio of liquid assets to total current liabilities and the ratio of short-term debt to total debt--have retraced nearly all of the improvement that was recorded in the first two years of the current expansion (see Chart on page 13).

During the second half of October, stock prices fell in heavy trading, with shares of smaller firms posting the largest declines. The American Stock Exchange index decreased about 20 per cent over this period,

LIQUIDITY MEASURES FOR NONFINANCIAL CORPORATIONS[1/]





1/ Liquid assets include cash and 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 1978-Q3 are preliminary.

and the New York Stock Exchange index dropped over 12 per cent. The downward trend in stock prices generally, and in those of smaller firms particularly, probably reflected investors' increasing concern over inflation and the depreciation of the dollar. The actions announced November 1 were favorably received, and the Dow Jones Industrial Average registered a record single-day increase of 35 points. Since then, however, all of this gain has been reversed, as market participants apparently grew more pessimistic about the near-term probability of a recession.

Institutional activity, as indicated by large block transactions, continued to dominate trading in late October; however, fragmentary evidence suggests that individual investors accounted for a larger proportion of trading activity during this period than earlier in the year. Some of this increased individual activity may have been associated with the reportedly large number and amount of margin calls prompted by the sharp drop in stock prices. Over $300 million of margin debt was liquidated in October--the largest monthly decline since the end of 1973.[1] As stock prices stabilized in early November, the number and dollar volume of margin calls declined substantially.

Government Securities Markets

Rates on short-term government securities have increased less than other money market rates since mid-October, reflecting in part

1/ The fall in stock prices had a marked impact on the quality of margin credit; over October, the proportion of margin debt in accounts in which customer equity positions amounted to less than 40 per cent of the value of the underlying collateral rose to 47 per cent from 15 per cent at the end of September. Brokers customarily issue margin calls when customer equity positions fall to around 30 per cent.

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

	1977	1978					
	Year	H1	QIII	Sept.	Oct.e/	Nov.f/	Dec.f/
		Seasonally adjusted					
State and local government securities, gross offerings							
Total		5,807	6,321	3,998	5,170	5,400	5,150
Long-term		3,913	4,352	2,468	3,230	4,000	3,600
Short-term		1,894	1,969	1,530	1,940	1,400	1,550
U.S. Government securities, net offerings							
U.S. Treasury1/		3,654	3,080	2,904	-325	745	3,362
Sponsored agencies		2,320	1,641	1,635	307	1,480	658
		Not seasonally adjusted					
State and local government securities, gross offerings							
Total	5,770	6,198	6,012	4,276	4,700	5,100	4,000
Long-term	3,891	4,086	4,183	2,300	3,200	3,800	2,800
Short-term	1,879	2,112	1,829	1,976	1,500	1,300	1,200
U.S. Government securities, net offerings							
U.S. Treasury1/	3,422	2,382	3,560	2,483	1,823	2,700	5,550
Sponsored agencies	601	2,012	2,130	2,334	647	1,094	97

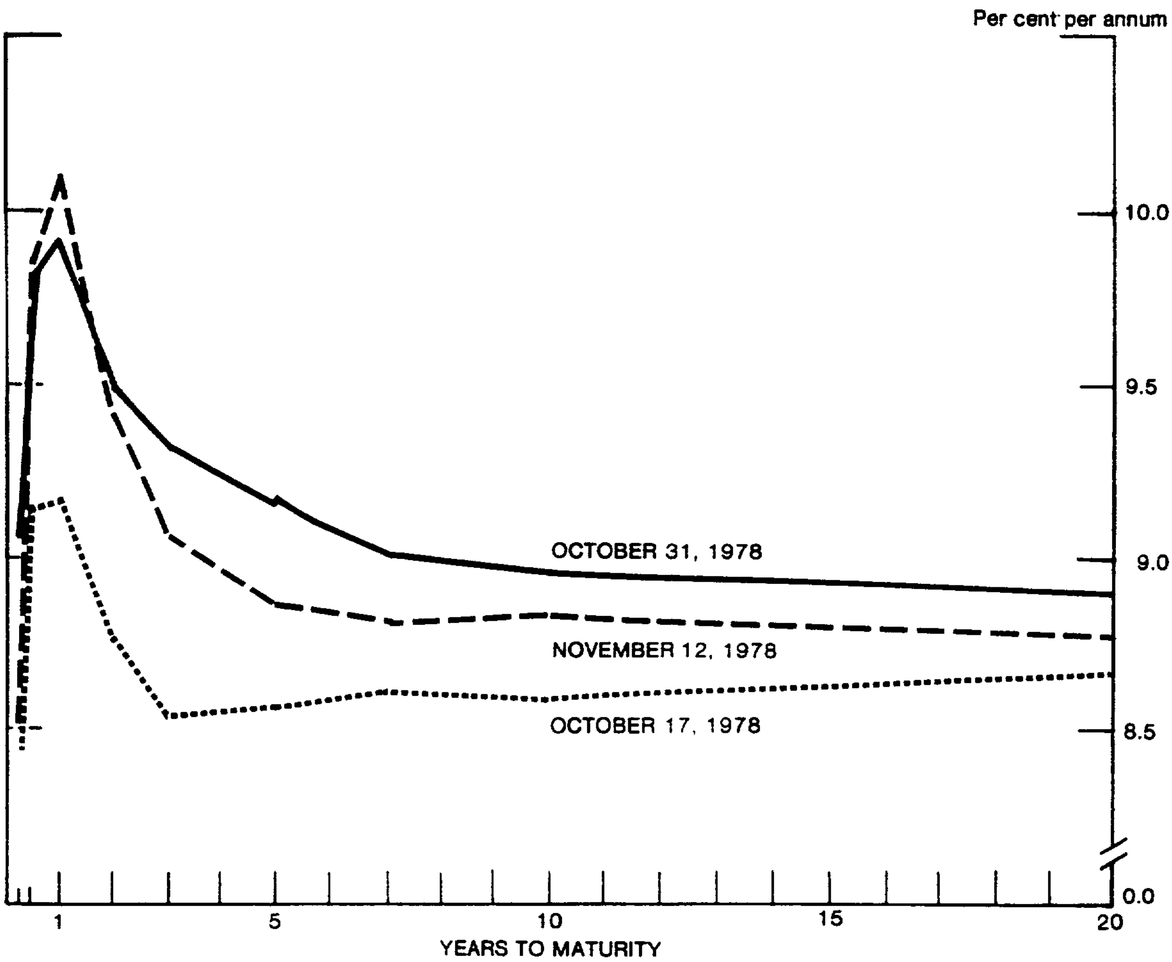
e/ Estimated.
f/ Forecast.
1/ Marketable issues only.

substantial purchases of bills by foreign official institutions.[1] Even so, rates on short-term Treasury issues generally rose more than long-term government yields in this period. The more pronounced downward slope of the yield curve which has emerged since November 1 suggests that the announced actions to reduce inflation and support the dollar have strengthened investors' beliefs that short term interest rates will decline in the near future (see Chart on page 17).

Offerings of marketable Treasury issues declined in October. The Treasury's reduced reliance on borrowings in the open market in part reflected $3 billion of purchases of nonmarketable securities by foreign official institutions, mostly associated with dollar-support activities. The Treasury has indicated that it expects to raise about $11.0 billion through marketable borrowing during the fourth quarter. To date, about half of this total has been raised through sales of $3.3 billion of coupon issues in October and another $2.2 billion in the mid-quarter refunding of early November. Federally sponsored credit agencies borrowed about $300 million, seasonally adjusted, in October, down sharply from the September pace. Net issuance of long-term debt by the principal Federal housing agencies--FHLB and FNMA--was slightly negative; the agencies financed their October lending activity by selling off liquid assets and by issuing a small amount of discount notes.

1/ In the five weeks ending November 8, marketable and nonmarketable government securities held at the Federal Reserve Bank of New York for foreign buyers increased by $10.3 billion.

Yields On U.S. Treasury Securities



Gross offerings of long-term tax-exempt securities totaled about $3.2 billion in October, up sharply from the previous month but well below the average monthly volume earlier this year. As in September, almost all of October's bond sales were for new capital, in marked contrast to the pattern of offerings earlier this year when refundings and advance refundings accounted for about 30 per cent of the total.

Mortgage Markets

Net mortgage lending in October apparently increased somewhat from the third quarter pace, and the home mortgage component--which bore the brunt of the first-half decline--likely strengthened. Real estate loans at commercial banks are estimated to have expanded at close to the continued rapid rate recorded in the third quarter. New issues of GNMA-guaranteed securities picked up again in October, and purchases of mortgages by FNMA remained around the third quarter volume. At savings loan associations--still the major suppliers of mortgage funds despite the substantial reduction in loan activity since the record levels of late 1977--net mortgage lending probably increased from the reduced average for the third quarter.

As deposit growth continued strong in September, estimated new mortgage commitments at S&Ls increased somewhat, and their mortgage commitments outstanding rose for the second consecutive month, to $32.2 billion. Through September, net mortgage lending by S&Ls, which ordinarily lags commitment activity by several months, had advanced only modestly from the July low. During the third quarter, S&Ls used a substantial portion of their improved deposit inflows to rebuild liquid

NET CHANGE IN MORTGAGE DEBT OUTSTANDING
(In billions of dollars, seasonally adjusted annual rates)

	1977		1978		
	QIII	QIV	QI	QII	QIII e/
By type of debt:					
Total	141	151	133	137	140
Residential	114	116	100	103	104
1- to 4-family	107	106	90	94	93
Multifamily	7	10	10	9	11
Other 1/	27	35	33	34	36
By type of holder:					
Commercial banks	32	31	25	31	36
Savings and loans	61	62	54	52	48
Mutual savings banks	8	8	7	6	7
Life insurance companies	5	9	6	9	10
FNMA and GNMA	-3	*	6	13	8
GNMA pools	18	18	15	7	11
Other 2/	20	23	20	19	20

1/ Includes commercial and other nonresidential as well as farm properties.
2/ Includes mortgage pools backing securities guaranteed by the Federal Home Loan Mortgage Corporation or Farmers Home Administration, some of which may have been purchased by the institutions shown separately.
e/ Partially estimated.
* Less than $0.5 billion.

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	10.05	--	+101	69
Low	9.00	--	+30	19
1978--July	9.75	+ 2	+67	62
Aug	9.80	+ 5	+100	57
Sep	9.78	- 2	+72	60
Oct 6	9.85	+7	+81	65
13	9.85	0	--	61
20	9.85	0	+66	59
27	9.88	+3	+65	59
Nov 3	9.90	+2	+65	57
10	10.05	+15	+75	n.a.

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

Period	FNMA auctions of forward purchase commitments: Conventional: Amount ($ millions) Offered	Conventional: Amount ($ millions) Accepted	Conventional: Yield to FNMA 1/	Govt.-underwritten: Amount ($ millions) Offered	Govt.-underwritten: Amount ($ millions) Accepted	Govt.-underwritten: Yield to FNMA 1/	Yields on GNMA-guaranteed mortgage-backed securities for immediate delivery 2/
1977--High	416	278	9.21	885	570	8.98	8.39
Low	108	83	8.81	50	35	8.46	7.56
1978--High	717	363	10.31	1011	605	10.20	9.32
Low	75	48	9.28	130	80	9.13	8.43
1978--Oct 2	396	167	10.10	682	279	9.91	9.13
9							9.07
16	336	149	10.18	425	176	9.98	9.10
23							9.20
30	425	180	10.31	857	378	10.20	9.32
Nov 6							9.17
13	488	200	10.49	453	182	10.27	9.18

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.

asset balances and significantly slowed net borrowing from the FHL Banks (on a seasonally adjusted basis).[1] In October, FHLB advances to S&Ls again picked up, and deposit flows into these institutions slackened.

The average contract interest rate on new commitments for 80 per cent, 30-year conventional home mortgages at sampled S&Ls was 10.05 per cent on November 10, up 20 basis points since the October FOMC meeting and reflecting increases in 3 of 5 FHLMC regions. Since June, rates on these commitments have increased 30 basis points despite the robust deposit flows at thrift institutions during this period. The computed rate average may understate to some degree the true average rate on commitments made, since rates in areas where State usury ceilings may have constrained the volume of activity still enter the index with a fixed weight.[2]

Yields in secondary markets for home mortgages have increased somewhat since mid-October. Average yields on accepted bids in the FNMA commitment auctions have risen about 30 basis points. Effective rates on GNMA-guaranteed securities--which generally follow movements in Treasury bond markets--have increased less than 10 basis points.

1/ The liquidity ratio at insured S&Ls in September--as measured by cash and liquid assets as a percentage of deposits plus short-term borrowings--increased for the third consecutive month to 9.24 per cent, the highest ratio since October of 1977. The minimum required liquidity ratio, set by the Federal Home Loan Bank Board, now stands at 6.5 per cent.

2/ Nineteen States, containing about half of the U.S. population, currently have usury ceilings below the national average contract rate. However, there are several exceptions to these ceilings. For example, FHA/VA underwritten mortgages are exempt from the ceilings in most States, points may be charged to increase effective yields in some States, and loans from certain lenders also may be exempt. In all States, National banks may charge 1 pereentage point more than the Federal Reserve discount rate, currently 9-1/2 per cent.

Consumer Credit

Growth in consumer credit outstanding picked up slightly in September to a seasonally adjusted annual rate of 16 per cent--due primarily to a drop in liquidations of existing debt from the large August volume--and early indications suggest that instalment credit growth in October held near the September pace. For the third quarter, instalment credit outstanding expanded at a 16 per cent annual rate, down from the 20 per cent second quarter pace, but about equal to the average rate of growth during 1977.

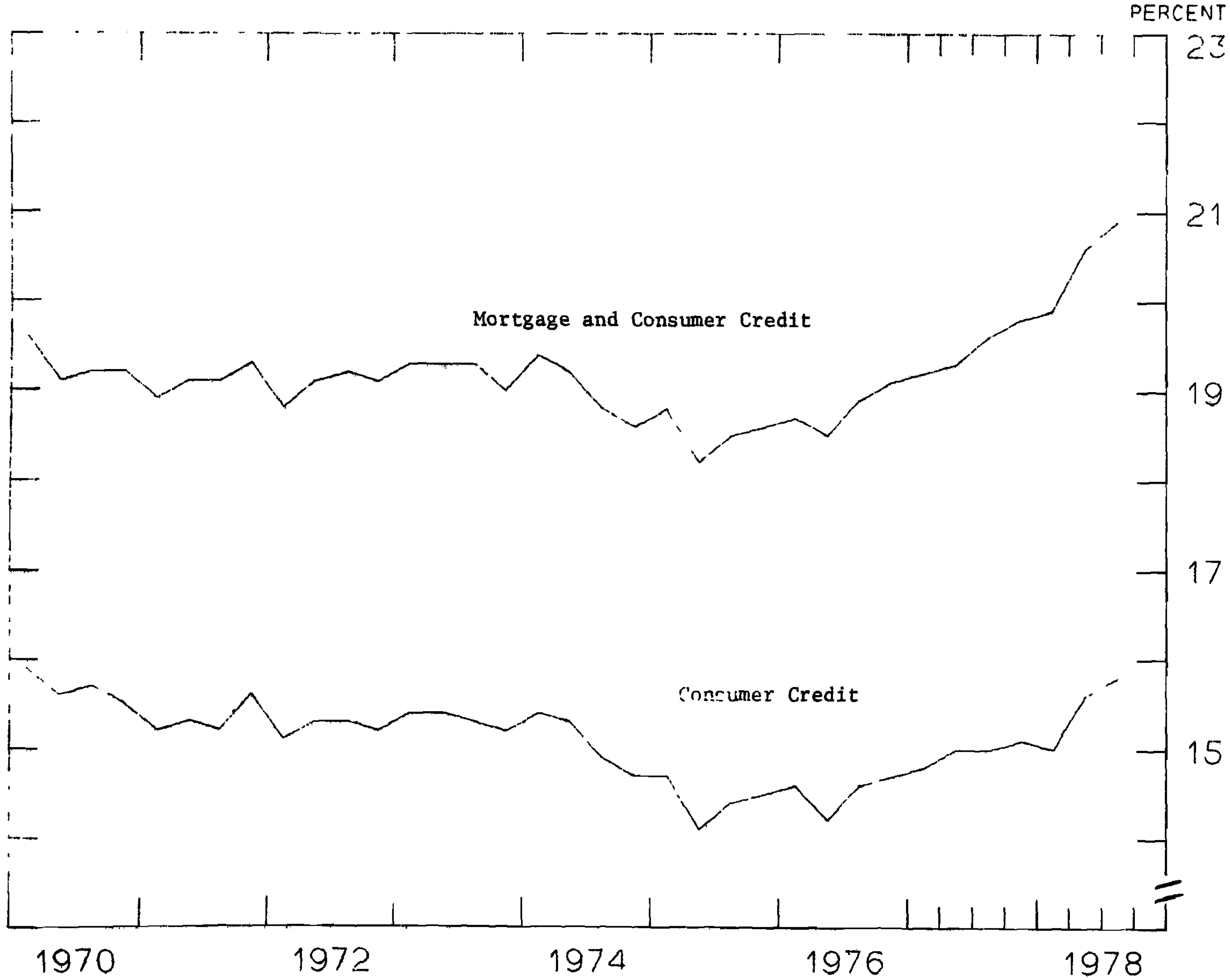
As the increase in liquidations again outpaced the growth in disposable income in the third quarter, the ratio of liquidations to income--a commonly used indicator of household instalment debt burden--reached 15.8 per cent. This level compares with 15.0 per cent a year earlier and a high of 15.9 per cent in the early 1970's. With estimated mortgage repayments added to instalment credit liquidations, total household debt payments were equal to 20.9 per cent of disposable income in the third quarter, a new high for the combined ratio (see Chart on page 24). Available direct measures of payment difficulties continue to present a mixed picture. The delinquency rate at auto finance companies has edged up to midway between its historical high and low, and some slight upward movement is observable in commercial bank consumer loan delinquency rates; on the other hand, mortgage delinquencies at S&Ls have declined.

CONSUMER INSTALMENT CREDIT[1/]

	1975	1976	1977	1978 QII	1978 QIII	1978 Aug	1978 Sep
Total							
Change in outstandings							
Billions of dollars	7.4	20.0	30.8	45.5	38.3	35.8	39.3
Per Cent	4.7	12.3	16.9	20.4	16.4	15.7	16.4
Bank share (per cent)	39.4	53.9	50.8	51.4	52.3	55.1	44.1
Extensions							
Billions of dollars	163.9	192.4	226.0	268.5	269.9	271.6	270.2
Bank share (per cent)	47.2	48.9	49.1	49.8	50.3	50.7	49.6
Liquidations							
Billions of dollars	156.6	172.4	195.3	223.1	231.7	235.8	230.8
Ratio to disposable income	14.4	14.5	15.0	15.6	15.8	16.1	15.6
Automobile Credit							
Change in outstandings							
Billions of dollars	3.2	10.2	13.2	20.2	17.6	17.4	17.3
Per cent	6.1	18.3	20.1	24.4	19.9	19.3	18.9
Extensions							
Billions of dollars	51.5	62.8	73.1	87.5	86.7	88.8	85.5

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

HOUSEHOLD DEBT BURDEN
(REPAYMENTS RELATIVE TO DISPOSABLE INCOME)



RESTRICTED

November 15, 1978

U.S. International Transactions
(in million of dollars; receipts, or increase in liabilities, +)

		1976	1977		1978					
		Year	Year	Q4	Q1	Q2	Q3	July	Aug.	Sept.
1.	Trade balance 1/	-9,353	-31,059	-10,170	-11,201	-7,802	-7,789	-3,529	-1,853	-2,407
2.	Merchandise exports	114,694	120,585	29,457	30,664	35,067	37,182	11,534	12,513	13,135
3.	Merchandise imports	-124,047	-151,644	-39,627	-41,865	-42,869	-44,971	-15,063	-14,366	-15,542
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	3,344	-897	438	-1,440	105
	Through interbank transactions with									
5.	a) Own offices in foreign countries	-6,282	-2,717	-5,545	-3,346	4/	1,980	-2,652	-228	4,860
6.	b) Unaffiliated banking offices in foreign countries	-3,220	-2,203	-147	-2,369	4/	-617	3,023	-559	-3,081
	Through nonbank transactions									
7.	a) Claims on nonbanks in foreign countries (increase, -)	-3,142	-423	-487	-180	4/	-2,785	-548	-1,060	-1,177
8.	b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	2,709	1,436	1,037	-136	4/	525	615	407	-497
9.	Private securities transactions, net (excl. U.S. Treas. Oblig.)	-7,480	-2,650	55	-475	86	-204	-275	-10	81
10.	Foreign net purchases of U.S. corp. bonds	397	1,549	223	133	179	381	50	238	93
11.	Foreign net purchases of U.S. corp. stocks	853	1,325	580	341	1,018	-118	-44	-102	28
12.	U.S. net purchases (-) of foreign securities	-8,730	-5,524	-748	-949	-1,111	-467	-281	-146	-40
13.	Foreign net purchases of U.S. Treasury obligations	2,783	569	-297	881	796	-1,053	-1,568	-108	622
14.	Change in foreign official reserve assets in U.S. (increase +)	13,091	35,406	15,152	14,899	-5,373	4,551	3,542	1,936	-927
	By Area									
15.	G-10 countries and Switzerland	3,922	29,414	14,476	12,312	-3,085	5,436	2,475	3,271	-310
16.	OPEC	6,802	5,989	757	1,354	-2,389	-1,645	269	-1,481	-433
17.	All other countries	2,367	3	-81	1,233	101	760	798	146	-184
	By Type									
18.	U.S. Treasury securities	9,315	30,218	12,900	12,964	-5,589	3,155	2,479	1,328	-652
19.	Other 2/	3,776	5,188	2,252	1,935	216	1,396	1,063	608	-275
20.	Change in U.S. reserve assets (increase -)	-2,532	-237	-2	246	328	14	32	49	-67
21.	All other transactions and statistical discrepancy	13,426	1,878	404	1,681	8,621	5,378	1,360	1,426	2,593
MEMO:										
	Current account 3/	4,339	-15,265	-6,959	-6,854	-3,261	n.a.	n.a.	n.a.	n.a.

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.

RESTRICTED

Foreign exchange markets. Although the average exchange value of the dollar is now about the same as it was five weeks ago, in the interim it experienced stunning changes in both directions

. The dollar's average exchange value fell by four per cent over four days following the President's announcement on October 24 of a program to contain inflation. Market participants then began to anticipate the adoption of forceful policies to tighten monetary policy and increase U.S. authorities' access to and use of intervention resources; and when new measures were announced on November 1, the dollar's average value jumped by nearly five per cent. Prompt and vigorous application of the new policies stimulated further increases that brought the dollar's value by November 3 to nearly eight per cent above its October low. Thereafter, the dollar's value fluctuated near the rates reached in the first days of the month

.

The measures announced on November 1 included an increase of one percentage point in the discount rate and establishment of a supplementary reserve requirement of two per cent on time deposits of $100,000 or more. The volume of gold to be auctioned in December will be at least twice as great as the 750,000 ounces previously announced and subsequent auctions may also be enlarged. To increase intervention resources, Federal Reserve swap lines with Germany, Switzerland, and Japan were increased by a total of $7.6 billion to $15 billion and the previously unused arrangement with Japan was activated. The Treasury also announced plans to sell a total of $2 billion equivalent of Special Drawing Rights to the same three countries; to draw $3 billion equivalent of foreign currencies from the IMF (accomplished on November 6 and 9); and to issue up to $10 billion equivalent in foreign-currency denominated securities.

, $2 billion equivalent was in the form of sales of foreign currencies -- mostly marks -- by the Desk for the accounts of the System and Treasury; half of that amount also was sold November 1 and 2. Swap-financing of the System's share in that and later intervention has brought outstanding System swap commitments to nearly $4 billion.

.

Before the hectic period just discussed, a realignment of the snake currencies was accomplished, which helped ease the strains within the EC currency arrangement. Over the weekend of October 14 - 15, the mark was revalued by two per cent relative to the guilder and the Belgian franc and by four per cent relative to the Danish and Norwegian currencies. In order to absorb some of the large increase in mark liquidity caused by prior intervention to maintain the old snake parities, the Bundesbank subsequently raised reserve requirements of German banks and sold special Bundesbank securities.

Since the time of the Federal Reserves's discount-rate increase, two foreign central banks have raised their comparable rates. On November 6, the Bank of Canada increased its discount rate from 10-1/4 per cent to 10-3/4 per cent. On November 9, the Bank of England raised its minimum lending rate from 10 per cent to 12-1/2 per cent.

U.S. international transactions. Third-quarter data show an increase of more than $6 billion in foreign official holdings in the United States (excluding OPEC holdings), sharply reversing the second-quarter outflow; a second consecutive quarterly decline in OPEC banking and securities holdings in the United States; a merchandise trade deficit of $31.2 billion at an annual rate, unchanged from the second quarter; and a small net outflow of bank-reported private capital, following a second-quarter inflow. In the 5 weeks ending November 8, foreign official holdings of G-10 countries in the United States are estimated to have increased by more than $10 billion, indicating that there were large private capital outflows which contributed to private demands on domestic credit markets.

The merchandise trade deficit for September was $28.9 billion at an annual rate, resulting in a third-quarter deficit of $31.2 billion, unchanged from the second quarter. Exports increased by 6 per cent in the third quarter, continuing to rebound from their weak performance in 1977, while imports rose by 5 per cent (see chart).

Nonagricultural exports increased by 8 per cent in value during the third quarter, with volume up 3 per cent from the second quarter and unit values 5 per cent higher. Major underlying factors were a 60 per cent increase in the value of civilian aircraft exports, a 10 per cent increase in exports of nonagricultural industrial supplies, and a 5 per cent increase in machinery exports. Exports of automotive products and consumer goods showed little change.

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

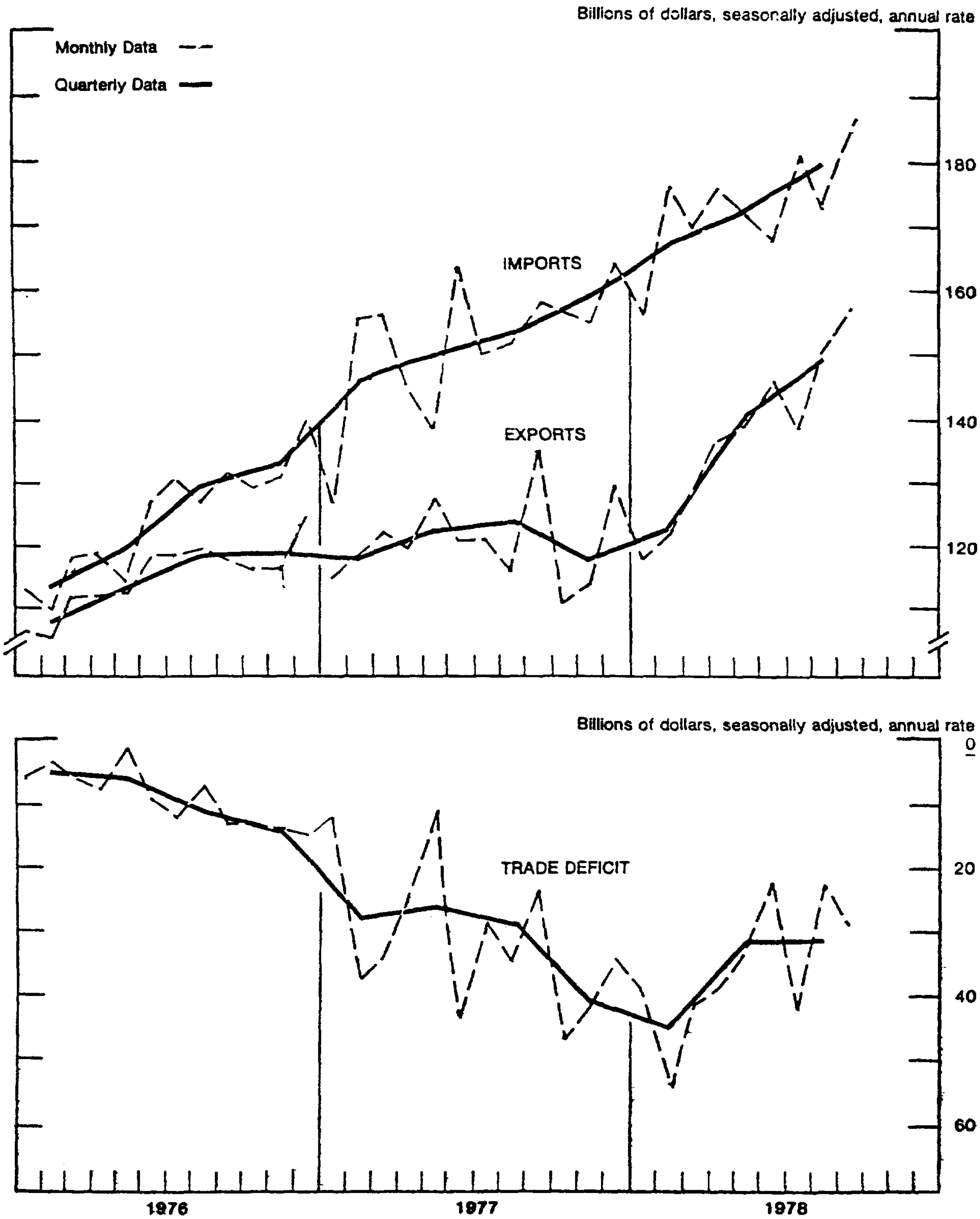
	1977 Year	1978 Q-1	1978 Q-2	1978 Q-3	July	Aug.	Sept.
1. Trade balance, n.s.a. 1/	-31.1	-11.1	-7.3	-9.4	-4.3	-2.7	-2.4
2. Private capital trans. adj. 2/	-6.0	-7.4	4.7	-1.9	-.1	-1.6	-.2
3. Private capital as rept. net	-6.0	-5.6	4.2	-2.2	-1.4	-1.6	.8
4. Reporting bias 3/	--	-1.8	.5	.3	1.3	--	-1.0
5. OPEC net investments in U.S.	6.0	1.4	-2.4	-1.6	.3	-1.5	-.4
6. Other foreign official assets	29.4	13.5	-3.0	6.2	3.3	3.4	-.5
7. U.S. reserve assets	-.2	.3	.3	*	*	*	-.1
8. All other 4/	1.9	3.4	8.2	5.1	*	1.6	3.6
Memorandum (seasonally adjusted annual rates).							
9. Trade balance	-31.1	-44.8	-31.2	-31.2	-42.3	-22.2	-28.9
10. GNP net exports of goods and services	-10.9	-24.1	-5.5	-6.5	n.a.	n.a.	n.a.
.. Current account balance	-15.3	-27.4	-13.0	n.a.	n.a.	n.a.	n.a.

1/ International accounts basis. For seasonally-adjusted number see line 9.
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.
*/ Less than $50 million.

Agricultural exports during the third-quarter declined slightly from their strong second-quarter performance, although exports of wheat, cotton and tobacco were moderately higher than second-quarter levels. Some of the overall decline was due to price reductions of about 5 per cent for both soybeans and corn.

U.S. Merchandise Trade

International Accounts Basis



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

	1977	1978				
	Year	1Q	2Q	3Q	Aug.*	Sept.*
EXPORTS	120.6	122.7	140.3	148.7	150.2	157.6
Agric.	24.4	26.0	32.0	31.6	33.9	30.2
Nonagric.	96.2	96.6	108.3	117.2	116.2	127.5
IMPORTS	151.7	167.5	171.5	179.9	172.4	186.5
Petroleum	45.0	39.8	43.2	43.2	42.6	46.7
Nonpetrol.	106.7	127.7	128.2	136.7	129.8	139.8
BALANCE	-31.1	-44.8	-31.2	-31.2	-22.2	-28.9

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

*/ The monthly International Accounts figures are only rough estimates and are subject to considerable revision.

Nonpetroleum imports increased by nearly 7 per cent in value during the third quarter, primarily reflecting higher import volumes. This increase was spread over a broad range of commodities, with the sharpest rise occurring in capital goods, particularly machinery items such as engines, turbines and business machines.

Petroleum imports in the third quarter were unchanged from the second-quarter value of $43.2 billion (annual rate), as volume held steady at 8.9 million barrels per day and the average price remained at about $13.25 per barrel. There has not yet appeared to be any stockbuilding in anticipation of a price increase next year.

Foreign official assets in the United States (excluding OPEC holdings) increased by more than $6 billion in the third quarter, with a decline in September (reflecting Canadian sales of U.S. dollars to support Canadian currency) following increases of more than $3 billion in both July and August. In the five weeks ending November 8, official G-10 holdings in the United States are estimated to have increased by another $10 billion, reflecting large foreign central bank purchases of dollars and U.S. drawings on swap lines to finance intervention sales of foreign currencies.

OPEC banking and securities holdings in the United States declined by $1.6 billion in the third quarter. The reduction in OPEC holdings, which began with the second-quarter outflow of $2.4 billion, reflects reduced OPEC current-account surpluses as well as some diversification out of traditional dollar-denominated assets. A decline in Venezuela's holdings more than accounted for the $0.4 billion September reduction in total OPEC holdings. In October, however, OPEC assets at FRBNY increased by $0.4 billion.

Bank-reported private capital transactions resulted in a third-quarter net outflow of $0.6 billion (adjusted for reporting bias), following a second-quarter net inflow of $3.3 billion. The third-quarter outflow was more than accounted for by a surge in lending to public borrowers in Canada ($0.9 billion) and Latin America ($0.9 billion).

The increase in loans to Canada reflects drawings on bank-provided credit lines to finance Canadian official intervention activity.

Private securities transactions show that foreigners were small net sellers of U.S. corporate stock in the third quarter, and responses to an early November survey of securities firms by the FRBNY suggest that foreigners were moderately active net sellers during the stock market's October price decline. Scheduled new foreign security issues in the United States during October-November are now estimated at $1.2 billion, slightly above the third-quarter rate. Notably, all October-November issues scheduled to date involve Canadian borrowing, including the Canadian government's second $750 million issue during 1978.

Foreign Economic Developments. As third-quarter data are becoming available, our basically positive view of last month on GNP growth prospects abroad remains unchanged. The average rate of growth abroad (in G-10 countries) is currently at about 3-1/2 per cent annual rate. In Germany, where growth has been below this average, industrial production has shown a marked improvement since May. In Japan and Canada GNP growth prospects continue to be above average even though recent industrial production figures in these two countries show some slight slowdown in the rate of increase. For France, Italy and the Benelux countries prospects for growth remain relatively modest.

Inflation, as measured by the change in the consumer price index is currently running at an average annual rate of about 7 per cent abroad, with Germany and Japan in the 3-4 per cent range and the United Kingdom, Canada and France in the 8-9 per cent range. In Italy the rate is currently about 12 per cent.

The employment picture abroad has remained weak. Even countries with relatively strong economic activity such as Japan, Canada and Germany have failed to reduce unemployment rates appreciably in the third quarter, although the number of employed has risen in Germany and Canada. Japan's unemployment rate remains at a record high level. In Canada only the October figure shows a decline. Among other countries, France has been recording an increase in the rate of unemployment and rates in Italy and the Benelux countries remain at very high levels.

The combined trade surplus of six major foreign countries in the third quarter was approximately equal to the second-quarter surplus of $13 billion (not an annual rate). The large German share of this combined surplus expanded further, while the large Japanese share declined slightly. Adjustment to currency appreciation in Japanese trade may have begun, whereas German trade does not yet show signs of adjustment. Among the remaining countries, Italy's trade balance swung from a surplus in the second quarter to a deficit in the third. The small second quarter U.K. deficit widened somewhat in the third quarter.

Individual country notes. In Japan the likelihood of attaining the announced target of 7 per cent real GNP growth in FY1978 (ending in March 1979) continues to be low, despite official Japanese pronouncements to the contrary. Although industrial production rose by about 1 per cent in both August and September, the average level of industrial production in the third quarter was only 0.4 per cent above the second quarter level. In recent months somewhat stronger domestic demand has been partially offset by a weakening contribution from the external sector, as effects of past exchange-rate changes appear to be taking hold more strongly on export volumes. Accordingly, there is growing concern in Japan that the ¥ 2.5 trillion budget package, which was announced in September and approved by the Japanese Diet last month, may not be sufficient to realize the official growth target. Unemployment continues at very high levels. The appreciation of the

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

		1975	1976	1977	1977 Q4	1978 Q1	1978 Q2	1978 Q3	1978 June	1978 July	1978 August	1978 September
Canada:	GNP	1.3	5.5	2.7	1.5	0.7	1.1	n.a.	*	*	*	*
	IP	-5.4	5.1	4.0	1.4	0.6	1.4	n.a.	1.0	0.8	-0.8	n.a.
France:	GDP	-0.5	5.8	2.0	0.5	1.8	0.3	n.a.	*	*	*	*
	IP	-8.9	9.8	1.5	-0.8	2.7	0.8	-0.5	-0.8	0.8	0.8	0.8
Germany:	GNP	-2.0	5.7	2.6	1.5	-0.1	2.1	n.a.	*	*	*	*
	IP	-5.5	7.9	2.7	0.9	0.0	-0.6	2.9	2.6	1.7	-0.8	0.8
Italy:	GDP	-3.5	5.7	1.7	-0.1	1.8	0.4	n.a.	*	*	*	*
	IP	-9.2	12.4	1.1	-2.1	5.5	-2.2	0.7	-0.9	0.8	-1.3	2.7
Japan:	GNP	1.5	6.3	5.2	1.5	2.5	1.1	n.a.	*	*	*	*
	IP	-11.1	11.1	4.2	1.5	2.9	1.7	0.5	0.0	-0.8	1.2	1.1
United Kingdom:	GNP	-2.0	2.3	1.0	0.1	0.8	1.6	n.a.	*	*	*	*
	IP	-4.8	1.9	3.8	-0.5	1.2	3.2	-0.1	1.3	-0.7	0.6	-1.0
United States:	GNP	-1.3	5.7	4.9	0.8	0.0	2.1	0.8	*	*	*	*
	IP	-8.9	10.1	5.6	0.6	0.2	3.1	1.9	0.7	0.7	0.5	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	9.3	September
	WPI	6.5	4.3	9.1	0.9	1.1	2.7	2.9	1.4	5.6	8.2	September
France:	CPI	11.7	9.6	9.5	2.4	1.9	1.6	2.9	2.7	11.0	9.3	September
	WPI	- 5.7	7.4	5.6	-0.9	0.0	1.2	2.0	n.a.	7.0	4.4	August
Germany:	CPI	5.9	4.6	3.9	0.2	0.2	1.3	0.9	0.0	- 1.6	2.2	October
	WPI	3.4	5.8	1.8	-1.8	-0.9	1.0	0.3	-0.6	- 2.3	- 0.2	September
Italy:	CPI	16.9	16.8	18.4	2.5	3.3	2.6	3.0	2.2	10.2	11.5	October
	WPI	8.5	22.9	17.4	1.5	2.0	2.1	2.3	1.8	7.4	8.5	September
Japan:	CPI	12.1	9.7	8.3	0.3	0.8	0.9	2.0	0.8	4.9	4.4	October
	WPI	3.0	5.0	1.9	-0.5	-0.7	-0.5	-0.3	-1.7	- 7.3	- 3.8	October
United Kingdom:	CPI	24.2	16.6	15.8	1.6	1.5	1.7	2.7	1.7	7.1	7.8	September
	WPI	24.1	16.4	19.2	3.3	1.6	2.5	2.0	2.1	8.0	8.5	October
United States:	CPI	9.1	5.7	6.5	1.5	1.1	1.7	2.6	2.4	9.8	8.0	September
	WPI	9.2	4.6	6.1	0.2	1.1	2.4	3.0	1.5	6.5	8.8	October

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

				1977		1978			1978			
		1976	1977	Q3	Q4	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Canada:	Trade	1.2	2.2	0.4	0.7	1.3	0.5	0.6	0.0	0.2	0.5	n.a.
	Current Account	-3.9	-3.9	-1.2	-0.7	-0.5	-1.2	n.a.	*	*	*	*
France:	Trade	-4.2	-2.2	-0.5	0.1	-0.1	0.3	0.3	0.2	-0.2	0.3	n.a.
	Current Account	-6.0	-3.3	-0.8	-0.4	0.0	1.0	n.a.	*	*	*	*
Germany:	Trade	13.5	16.5	3.7	4.8	4.3	5.0	5.5	1.3	2.0	2.3	n.a.
	Current Account[b]	3.9	3.9	-2.0	3.8	1.6	2.0	-0.3	-1.0	0.1	0.6	n.a.
Italy:	Trade	-6.5	-2.5	-0.2	-0.2	-0.1	0.5	-0.8	-1.1	0.2	0.1	n.a.
	Current Account[b]	-2.9	2.3	2.3	0.7	0.3	n.a.	n.a.	*	*	*	*
Japan:	Trade	9.9	17.5	4.2	4.6	7.4	6.8	6.7	2.1	2.1	2.4	n.a.
	Current Account	3.7	11.0	2.7	3.1	5.5	4.8	4.5	1.4	1.4	1.6	n.a.
United Kingdom:	Trade	-6.3	-2.9	-0.1	0.1	-1.1	-0.2	-0.6	-0.3	0.1	-0.4	0.2
	Current Account	-2.0	0.6	1.0	0.9	-0.6	0.4	-0.1	-0.1	0.3	-0.3	0.4
United States:	Trade	-9.3	-31.1	-7.3	-10.2	-11.2	-7.8	-7.8	-3.5	-1.9	-2.4	n.a.
	Current Account	4.3	-15.3	-2.9	-7.0	-6.9	-3.3	n.a.	*	*	*	*

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.	Sept.	
Canada(M_1)	-1.0	1.1	-0.7	-0.4	3.1	0.8	1.0	1.4	1.0	10.5
France(M_2)	0.7	1.9	0.4	1.3	0.0	1.6	1.2	n.a.	n.a.	12.1
Germany(CBM) 1/	1.4	1.1	0.8	0.7	1.0	0.7	0.4	1.3	1.0	11.2
Japan(M_2)	0.6	0.9	1.0	2.2	0.2	1.4	1.1	1.0	0.8	12.0
Switzerland(M_1) 2/	0.2	2.0	6.6	0.3	-0.6	0.1	-4.8	3.0	n.a.	15.0
United Kingdom(£M_3)	2.4	2.4	0.6	2.5	0.9	0.3	1.1	-1.0	1.2	14.9
United States(M_1)	0.9	0.0	0.3	1.6	0.6	0.6	0.4	0.7	1.2	8.0
(M_2)	0.8	0.4	0.4	0.9	0.6	0.7	0.7	0.9	1.0	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.

yen has exerted a moderating influence on both wholesale and consumer prices. Wholesale prices have maintained their slow decline, and the Japanese consumer price index has continued to rise at about a 4 per cent annual rate.

Another extremely large monthly current-account surplus was recorded in September ($1.6 billion, s.a.), bringing the cumulative surplus through the first three quarters of the year to slightly less than $15 billion. Although there was a significant increase in export volume in September, in recent months a downward trend is becoming apparent. Third quarter average export volume was about 4 per cent below its level of the previous year. The volume of imports has increased by over 7 per cent during the same period. October's current-account surplus is expected to be significantly below the September level, primarily because of Japanese prepayment to the United States of approximately $1 billion for uranium enrichment services under Japan's emergency import program. (Because of assymetry in the U.S. and Japanese treatments of this item in their respective international accounts, however, this transaction will not have a corresponding positive effect on the U.S. current-account deficit in the current quarter.)

The outlook for the German economy, which had changed for the better in September, continues on the positive side, as the mild recovery appears to be broadening. One big factor in the improved outlook is fiscal measures taken in 1977, which are having their impact now, and the further measures of July this year, which are expected to increase demand next year. Third-quarter industrial production exceeded the second quarter by almost 3 per cent and third quarter 1977 by 3.2 per cent. Investment -- other than in construction which has been booming -- is now rising on a broad front with new investment orders leading other sectors. The trade balance has so far not shown the effect of DM appreciation. The trade surplus this year through September was DM 30 billion against DM 27 billion for the same period last year.

In spite of central bank money expansion now running at an annual rate of 11 per cent, the cost of living index through October has been only 2.7 per cent above the same period of 1977. The rate of unemployment is only marginally improved from a seasonally adjusted level of 4.4 per cent during the summer to 4.3 per cent in September and October.

Industrial production in Canada declined in August by 0.8 per cent, slowing the recently rapid rate of expansion. Industrial production in the last three months is now about 1.0 per cent above the previous three months. Manufacturing output was particularly weak while mining production advanced strongly. The unemployment rate remained at 8.5 per cent (s.a.) through September and fell to 8.2 per cent in October. The general CPI declined in September -- however, it was up about 2.5 per cent in the third quarter. The rise of the non-food CPI has continued its more moderate pace and was up about 1.5 per cent in the third quarter. The merchandise trade surplus rose to over \$C600 million in September -- with the value of exports rising by over 20 per cent while imports rose by less than 10 per cent.

Economic activity in the United Kingdom continues to show signs of strength and price inflation rates remain low relative to British experience during the past several years. The U.K.'s current account recorded a small deficit in the first 9 months of this year. However, the U.K.'s external position has improved sufficiently to allow the government to repay some of its external debt ahead of schedule. On October 30, the British government repaid another $1 billion to the IMF, bringing the total repaid to the IMF this year to $2 billion. On November 9, the Bank of England increased its Minimum Lending Rate (MLR) from 10 to 12-1/2 per cent. The MLR had been at 10 per cent since June 8 and had become out of line with money market rates in recent weeks. On the same day, Chancellor Healey announced that the target rate of growth of M3 for the next 12 months (subject to review in 6 months' time) is 8-12 per cent. The rate is the same as before but because M3 growth has been below 8 per cent (s.a.a.r.) since April 1978, in effect money growth has been tightened somewhat.

Economic developments in France continue to be dominated by Prime Minister Barre's program of gradual liberalization of industrial prices and increased competition. Labor market conditions have worsened in the past few months, with the unemployment rate standing at 6 per cent in September, compared with 5-1/2 per cent a year earlier. Industrial production remains sluggish, with the third-quarter average below the second-quarter average. France's external situation has improved in 1978. The first three quarters show a trade surplus of $0.4 billion, compared to a deficit of about $2.4 billion in the same period last year. The current account surplus for the first half of 1978 reached almost $1 billion, contrasted with a deficit of $2.1 billion in the same period 1977.

Consumer prices in September stood 9.1 per cent higher than a year earlier, although wholesale price movements have been somewhat slower. Growth in the monetary aggregates has accelerated lately, although M2 growth through July was only slightly above the announced 12 per cent target for 1978. The 1979 target will be cut to 11 per cent, with the government taking several measures to restrain the supply of new credit by the banking system.

In Italy second-quarter GDP rose by only 0.4 per cent (s.a. not annual rate), providing further evidence that activity flattened out in the second quarter; industrial production data for the last few months also indicates that the economy is on a plateau although production did rebound in September. On the other hand, both the retail and wholesale price indexes accelerated in September, although this may reflect seasonal factors and not a worsening trend of inflation.

Although there have been some small signs of improvement in the Benelux countries, economic activity remains weak, with 1978 real GNP growth expected to be 2 per cent or less. Thus, current historically high unemployment rates are not likely to decline in the near future.

Inasmuch as the stagnation of exports is largely responsible for the continued slack, the devaluations of the guilder and the franc vis à vis the DM by 2 per cent may help slightly.

In Switzerland the all-out policy of halting the appreciation of the Swiss Franc announced October 1 followed indications of a deterioration in the business outlook caused by the difficulties encountered by exporters. A recent survey disclosed a drop in sales, incoming orders, order-book levels and earnings for almost all sectors except construction since the second quarter.

A byproduct of focussing monetary policy on the exchange rate is that M1 is expected to grow 15 per cent in 1978, triple the 5 per cent target. Inflation continues to run at less than 1 per cent annually and may even turn negative in coming months. The rapid M1 growth is not expected to increase inflation in the short run because it simply accommodates a presumed shift in the asset demand for Swiss Francs.

APPENDIX A
A BRIEF DESCRIPTION OF THE "REVENUE ACT OF 1978"

The Revenue Act of 1978 which was signed into law on November 6, 1978 reduces tax liabilities by $21.4 billion for calendar year 1979.1/ In broad terms, the Act cuts individual taxes by $12.9 billion, business taxes by $6.4 billion and capital gains taxes by $2.0 billion. 2/ (See Table 1.) The Treasury Department estimates that about 32 per cent of the individual tax cuts--including capital gains--will go to taxpayers earning less than $20,000, 43 per cent to people earning between $20,000 and $50,000, and the remaining 25 per cent to those with incomes over $50,000. (See Table 2.) In terms of actual revenue collections, the new law will reduce fiscal year 1979 receipts by $11.6 billion, about $2 billion below the tax cuts specified in the Second Concurrent Budget Resolution.

Individual Taxes

For individuals, the legislation contains a higher standard deduction, a higher personal exemption, fewer and wider tax brackets, rate cuts, and an increase in the earned income credit for the working poor. Each of these tax reductions will become effective on January 1, 1979.

(1) The zero bracket amount (formerly referred to as the standard deduction) is increased from $3,200 to $3,400 for joint returns and from $2,200 to $2,300 for single persons.

1/ This estimate was prepared by the Treasury Department and is comparable to Congress' estimate of $18.7 billion after making allowance for an accounting difference. The new Act also extends $13.5 billion in tax cuts that were scheduled to expire at the end of this year.

2/ These estimates are on a calendar year liability basis; while the estimates in the "Comments on the Fiscal Policy Outlook" (Greenbook - Part I) are on a NIA basis.

* Prepared by James Fralick, and Donna Lipresti, Government Finance Section, Division of Research and Statistics.

(2) The individual tax brackets are widened and restructured, with the number of brackets reduced from 25 to 15. In addition, rate reductions are mandated in certain lower- and middle-income brakcets. The increase in the zero bracket amount, the widening of the tax brackets and the reduction of certain rates represent a combined reduction in liabilities of $11.8 billion in calendar year 1979.

(3) The personal exemption is increased from $750 to $1,000 but the reduction in tax liabilities due to this provision ($11.7 billion) is partly offset by an increase in liabilities resulting from the repeal of the general tax credit ($10.4 billion revenue gain).

(4) The 10 per cent earned income credit is made permanent and increased for families with dependent children. The credit under the old law reached a maximum of $400 at the $4,000 income level and was completely phased out at an income of $8,000. The new maximum credit is $500 (10 per cent of the first $5,000) and the new trigger-off point is $10,000. In addition, beginning July 1, 1979, employees eligible for the credit will have it added to their paycheck each pay period. Employers who make these advance payments to eligible employees will be able to reduce their withholding and FICA tax liabilities. The reduction in liabilities associated with this provision is $1.0 billion for calendar year 1979.

(5) The deduction for State and local nonbusiness gasoline and other motor fuel taxes is repealed. This provision is expected to increase tax liabilities by $1.2 billion in calendar year 1979.

(6) Unemployment compensation is taxed at higher levels of adjusted gross income. The amount of unemployment compensation included in taxable income would be one-half of the amount by which adjusted gross income (including unemployment compensation) exceeds $20,000 for single taxpayers and $25,000 for married taxpayers filing jointly. This provision is expected to increase tax liabilities by $0.3 billion in calendar year 1979.

Business Taxes

For businesses, the law will provide a cut in the top corporate rate from 48 per cent to 46 per cent, rate reductions for small businesses, a liberalized investment tax credit and a new jobs credit targeted at the hard-core unemployed. These tax cuts become effective on January 1, 1979.

(1) Corporate rate reductions. The present normal tax and surtax are replaced with the following rate schedule:

Taxable Income	Old Law Rate	New Law Rate
$0 - $25,000	20%	17%
$25,000 - $50,000	22%	20%
$50,000 - $75,000	48%	30%
$75,000 - $100,000	48%	40%
Over $100,000	48%	46%

This provision reduces tax liabilities by $5.0 billion for calendar year 1979.

(2) Investment tax credit. The legislation makes permanent the 10 per cent investment credit and the $100,000 used property limitation. In addition, the amount of tax liability that the credit can offset is raised to 90 per cent from 50 per cent over the next four years. The credit also is extended to rehabilitation expenditures for all types of business and productive buildings, except those used for residential purposes. To qualify for the credit, the building must have been in use for at least 20 years. Lastly, the full investment credit is now allowed for investment in pollution facilities where 5-year amortization is elected. However, only one-half of the credit will be allowed where a facility is also financed with tax-exempt industrial development bonds. The investment tax credit provisions will reduce tax liabilities by $0.5 billion in calendar year 1979.

(3) The general jobs credit is allowed to expire and is replaced with a jobs credit that is targeted at individuals in seven needy groups. The credit would be equal to 50 per cent of the first $6,000 of wages for the first year of employment. The credit will apply to taxable years beginning after December 31, 1978 and before January 1, 1982. The reduction in liabilities associated with the targeted jobs credit is $0.4 billion for calendar year 1979.

Capital Gains Taxes

The law reduces the top rate on individual gains to 28 per cent from 49 per cent through a number of changes including an increase in the capital gains exclusion and the deletion of capital gains from the minimum tax. Also provided are a $100,000 exclusion on the sale of a residence, a reduction in the corporate capital gains tax rate and certain revenue raising provisions such as a new alternative minimum tax on individual gains.

(1) Capital gains deductions for individuals. The amount of any net capital gain that an individual may deduct from gross taxable income is increased from the current 50 per cent to 60 per cent, beginning with transactions occurring after October 31, 1978. The remaining 40 per cent of the net capital gains is included in gross income and is subject to tax at regular rates. The deducted gain is classified as a tax preference item for minimum tax purposes (see provision below). Under the previous law, the highest marginal rate applied to wage and salary income was 50 per cent, but the amount eligible for this tax rate was reduced dollar for dollar by the excluded portion of capital gains. Under the new law, the excluded capital gains do not have to be deducted from the income eligible for the maximum tax. The above provisions will lower net tax liabilities by $0.9 billion for calendar year 1979. 3/

(2) Previously, an individual could choose to have the first $50,000 of capital gains taxed at a 25 per cent rate. This alternative tax on gains is repealed for taxable years beginning after December 31, 1978. The increase in liabilities resulting from the change is estimated at $0.1 billion in calendar year 1979.

(3) The corporate alternative tax on net capital gains is reduced to 28 per cent from 30 per cent on those transactions that occur after December 31, 1978. This provision reduces liabilities by $0.1 billion in calendar year 1979.

3/ A total capital gain reduction of $1.8 billion is partly offset by an estimated $0.9 billion tax increase resulting from additional capital gains realizations.

(4) Exclusion of gain on residential sales. The law repeals the provision that permits an individual who is 65 years or older to exclude capital gains resulting from the sale of a residence. Instead, a homeowner 55 years or older may exclude from gross income, on a one-time elective basis, up to $100,000 of gain from the sale of a principal residence. The individual must own and occupy the home for a period totaling 3 out of 5 years preceding the sale. This change was made retroactive to July 16, 1978 and will decrease liabilities by $0.4 billion in calendar year 1979.

(5) Minimum tax for individuals. The new law retains the previous minimum tax with respect to all preference items except the deducted amount of capital gains and "excess" itemized deductions (deductions--other than medical expenses and casualty losses--exceeding 60 per cent of adjusted gross income). These two items plus taxable income, minus a $20,000 exemption are subject to the new alternative minimum tax. The rate applied would be 10 per cent on the first $40,000, 20 per cent on the next $40,000, and 25 per cent on amounts exceeding $80,000. Individuals would pay this new alternative minimum tax only if it exceeds regular taxes plus the existing minimum tax, which continues to apply to all other tax preference items.

The repeal of the minimum tax for the deducted amount of capital gains and excess itemized deductions represents a reduction in tax liabilities of $1.4 billion for calendar year 1979. The alternative minimum tax partly offsets this loss with an increase in liabilities of $0.8 billion.

(6) Deferral of carryover basis for bequests. Prior to the Tax Reform Act of 1976, the law permitted heirs to avoid income tax-but not estate taxes--on the capital gains accrued over their benefactor's lifetime. The heirs received a step-up in basis on the inherited property; this meant that if the heir sold the asset, the only gain subject to tax was gain that occurred after the benefactor's death. The 1976 Act required an heir to carryover any capital gains that accrued prior to the benefactor's death with some adjustment for death taxes paid. To ease the effects of the change, Congress--in 1976--agreed to apply the carryover provisions to property passing from benefactors who died after December 31, 1976. The new Revenue Act postpones the effective carryover date so that the provisions will only apply to property passing from someone dying after December 31, 1979. The postponement of the carryover rules represents a reduction in liabilities of $0.1 billion in calendar year 1979.

Table 1
Revenue Impact of the Revenue Act of 1978
(billions)

	Calendar Year Liability		
	1979	1980	1981
Individual Tax Reductions and Revisions			
Tax rate reductions	-10.4	-12.5	-15.0
Increase zero bracket amount	-1.4	-1.5	-1.5
Increase exemption from $750 to $1,000	-11.7	-12.4	-13.1
Repeal general tax credit	10.4	11.0	11.6
Revisions in earned income credit	-1.0	-1.0	-1.0
Repeal deduction for gasoline tax	1.2	1.4	1.6
Tax unemployment compensation	.3	.3	.3
Other revisions and reductions	-.3	-.3	-.3
Subtotal, Individual	-12.9	-15.0	-17.4
Business Tax Reductions and Revisions			
Corporate rate reductions	-5.0	-5.5	-6.0
Investment credit revisions	-.5	-.9	-1.9
Targeted unemployment credit	-.4	-.6	-.7
Other revisions and reductions	-.5	-.7	-.8
Subtotal, Business	-6.4	-7.7	-9.4
Capital Gains Revisions			
60 per cent capital gains exclusion and deletion of gains from maximum tax 1/	-.9	-1.1	-1.3
Repeal alternate tax	.1	.2	.2
Reduction of corporate alternate rate	-.1	-.1	-.2
Exclusion of gain on residential sale	-.4	-.5	-.5
Delete gains from minimum tax and delete "excess" itemized deductions from minimum and maximum tax	-1.4	-1.5	-1.6
Alternate tax on capital gains and "excess" itemized deductions only	.8	.9	1.0
Deferral of carryover basis	-.1	-.2	-.2
Subtotal, Capital Gains	-2.0	-2.3	-2.7
Total Reduction	-21.4 2/	-25.0	-29.5

1/ Capital gain reduction is partly offset by the tax increase from additional capital gains realizations.

2/ This estimate was prepared by the Department of Treasury and is comparable to Congress' estimate of $18.7 billion after making allowance for an accounting difference. Congress includes the repeal of the general jobs credit in its estimate whereas the Treasury does not. Treasury feels that the repeal of the credit should not be included because the credit is due to expire at the end of 1978 and, therefore, is not a legislated change.

Detail may not equal total due to rounding.

Source: Department of Treasury, Office of Tax Analysis.

Table 2
Individual Income Tax Provisions of the Revenue Act of 1978 1/
(1978 Levels of Income)

Income Class	Change in Tax Liability ($ millions)	Per Cent Distribution
$0 - $10,000	-1,799	13.1
$10,000 - $20,000	-2,671	19.5
$20,000 - $30,000	-3,137	22.9
$30,000 - $50,000	-2,728	19.9
$50,000 - $100,000	-1,650	12.1
$100,000 - $200,000	-657	4.8
Over $200,000	-1,039	7.6

Source: Department of Treasury, Office of Tax Analysis.

1/ Includes capital gains and minimum tax changes.