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Confidential (FR) Class II FOMC

November 12, 1980

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

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SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest Data			Percent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year earlier
					(At annual rate)	
Civilian labor force	Oct.	11-7-80	105.2	1.7	-.1	1.5
Unemployment rate (%) 1/	Oct.	11-7-80	7.6	7.5	7.8	5.9
Insured unemployment rate (%) 1/	Oct.	11-7-80	4.1	4.4	4.5	3.0
Nonfarm employment, payroll (mil.)	Oct.	11-7-80	90.6	3.4	3.4	.2
Manufacturing	Oct.	11-7-80	20.1	5.6	6.3	-4.3
Nonmanufacturing	Oct.	11-7-80	70.5	2.8	2.5	1.6
Private nonfarm:						
Average weekly hours (hr.) 1/	Oct.	11-7-80	35.1	35.2	34.9	35.6
Hourly earnings ($) 1/	Oct.	11-7-80	6.81	6.76	6.67	6.28
Manufacturing:						
Average weekly hours (hr.) 1/	Oct.	11-7-80	39.6	39.5	39.0	40.1
Unit labor cost (1967=100)	Sept.	10-30-80	201.2	1.8	6.5	14.1
Industrial production (1967=100)	Sept.	10-16-80	142.4	11.9	2.5	-6.7
Consumer goods	Sept.	10-16-80	143.2	11.0	3.1	-4.5
Business equipment	Sept.	10-16-80	169.8	-.7	.0	-2.1
Defense & space equipment	Sept.	10-16-80	98.7	13.5	7.9	5.2
Materials	Sept.	10-16-80	139.5	13.9	-1.4	-10.9
Consumer prices all items (1967=100)	Sept.	10-24-80	251.3	12.1	6.8	12.5
All items, excluding food & energy	Sept.	10-24-80	236.4	10.8	5.0	12.0
Food	Sept.	10-24-80	261.6	19.1	17.7	10.0
Producer prices: (1967=100)						
Finished goods	Oct.	11-7-80	251.9	10.1	8.9	12.5
Intermediate materials, nonfood	Oct.	11-7-80	286.2	7.6	6.8	11.6
Crude foodstuffs & feedstuffs	Oct.	11-7-80	285.5	17.5	40.9	13.0
Personal income ($ bil.) 2/	Sept.	10-16-80	2159.5	11.1	13.2	10.2
					(Not at annual rates)	
Mfrs. new orders dur. goods ($ bil.)	Sept.	10-31-80	78.1	9.0	17.5	.6
Capital goods industries	Sept.	10-31-80	26.5	13.7	12.6	2.5
Nondefense	Sept.	10-31-80	20.5	6.0	2.9	-4.9
Defense	Sept.	10-31-80	5.9	52.2	67.3	40.1
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Aug.	11-10-80	1.47	1.48	1.53	1.43
Manufacturing	Sept.	10-31-80	1.61	1.66	1.72	1.54
Trade	Aug.	11-10-80	1.29	1.30	1.34	1.32
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	Sept.	10-31-80	.588	.593	.593	.558
Retail sales, total ($ bil.)	Oct.	11-10-80	79.9	-.1	2.0	5.7
GAF 3/	Oct.	11-10-80	17.3	.8	2.7	3.6
Auto sales, total (mil. units.) 2/	Oct.	11-4-80	9.0	2.0	-.9	-4.6
Domestic models	Oct.	11-4-80	6.7	1.4	4.5	-7.2
Foreign models	Oct.	11-4-80	2.2	4.0	-14.1	4.1
Housing starts, private (thous.) 2/	Sept.	10-17-80	1,544	9.0	26.2	-17.6
Leading indicators (1967=100)	Sept.	10-30-80	133.6	2.4	7.8	-4.6

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

The rebound in economic activity continued in October, although signs of weakness were emerging--especially in construction. Employment rose further and there was another increase in industrial production. But auto sales rose only fractionally, and retail sales of other goods apparently declined in real terms. In the investment area, the down-trend in capital spending moderated as capital goods shipments and orders improved in September. Meanwhile, the upturn in housing activity appears to have stalled, with sales of new houses down further in September and residential building permits dropping in early October. Overall, prices have increased more moderately than earlier in the year, but underlying cost pressures remain intense.

Employment and Industrial Production

Employment strengthened in October, as recalls of workers on layoff mounted. The establishment survey showed a rise of 260,000 on nonfarm payrolls, and employment now stands 3/4 million above its July trough, with about half of the recession loss having been recovered. Over the past three months, the strength in employment growth has been relatively large in durable manufacturing and construction where losses were greatest earlier in the year. Since July, employment at durable goods producers has increased; this gain, however, represents only one-fifth of jobs lost in the hard goods industries in the preceding year. At producers of nondurable goods, where cyclical losses were more moderate, employment changed little for the fifth month. The manufacturing work-week edged up 0.1 hour to 39.6 hours--0.6 hour above the July trough.

CHANGES IN EMPLOYMENT[1]
(Thousands of employees; based on seasonally adjusted data)

	1978	1979	1980 Q2	1980 Q3	1980 Sept.	1980 Oct.
	- - - - Average monthly changes - - - -					
Nonfarm payroll employment[2]	357	176	-366	106	223	257
Strike adjusted	341	182	-390	129	228	203
Manufacturing	74	1	-308	11	106	93
Durable	62	4	-253	3	95	83
Nondurable	12	-3	-55	8	11	10
Construction	31	20	-50	6	38	40
Trade	81	40	-50	52	26	24
Finance and services	100	74	36	79	71	69
Private nonfarm production workers	264	112	-387	127	209	203
Manufacturing production workers	54	-11	-306	16	106	92
Total employment[3]	270	173	-373	223	201	-31
Nonagricultural	264	175	-317	140	-61	86

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments. Strike-adjusted data noted.
3. Survey of households.

SELECTED UNEMPLOYMENT RATES
(Percent; based on seasonally adjusted data)

	1978	1979	1980 Q2	1980 Q3	1980 Sept.	1980 Oct.
Total, 16 years and older	6.0	5.8	7.5	7.6	7.5	7.6
Teenagers	16.3	16.1	18.0	18.5	17.5	18.4
20-24 years old	9.5	9.0	12.2	12.0	11.9	12.5
Men, 25 years and older	3.3	3.3	5.2	5.5	5.6	5.0
Women, 25 years and older	5.1	4.8	5.6	5.6	5.3	6.0
White	5.2	5.1	6.6	6.8	6.5	6.7
Black and other	11.9	11.3	13.4	14.0	14.2	14.3
Fulltime workers	5.5	5.3	7.2	7.4	7.3	7.3
White collar	3.5	3.3	3.8	3.7	3.7	4.0
Blue collar	6.9	6.9	10.9	11.3	10.9	10.8

Contract construction jobs increased 40,000 further in October, and employment in the private service producing sector rose 107,000. This latter rise was larger than the average earlier in the year, but still below that experienced in 1979. Trade employment rose just 25,000 in October.

As measured by the household survey, employment declined 31,000 as employment gains among blue-collar workers almost offset losses among white-collar and farm workers. The overall jobless rate, at 7.6 percent in October, was virtually unchanged for the third month. The number of unemployed males aged 24 to 54 fell, while other categories rose a bit. Since July the number of unemployed on layoff has fallen about 1/4 million, but such recalls have been offset by an increase in unemployed reentrants to the labor force.

The additional strength now posted for employment and hours worked in conjunction with other data indicate that industrial production rose around 1-1/2 percent in October. The increases in the industrial production index in the preceding two months were significantly larger than previously published, and the index now stands about 4 percent above its July low. The recovery in production has been broadly based with especially large gains in motor vehicles, construction supplies, and related materials. Autos were assembled at a 6.7 million unit annual rate in October, compared with the low of 5.8 million units in the second quarter. Truck output also has risen substantially over the last several months. Production of durable goods materials, particularly raw steel, has advanced sharply since July. Even so, the level of total materials production remains 7 percent below its peak about a year

PERSONAL INCOME
(Based on seasonally adjusted annual rate data)

	1978	1979	1980 QI	1980 QII	1980 QIII	1980 Aug.	1980 Sept.
	- - Percentage change, at annual rates[1] - -						
Total personal income	12.9	11.2	10.9	4.6	12.2	8.8	11.1
Wage and salary disbursements	12.8	10.1	10.9	2.1	5.4	12.5	9.7
Private	14.1	10.8	12.0	1.0	5.3	14.3	11.2
Nominal disposable personal income	12.0	10.4	13.5	4.3	12.3	7.4	10.6
Real disposable personal income	4.2	.5	.9	-6.0	3.4	-1.5	-1.1
	- - Changes in billions of dollars[2] - -						
Total personal income	17.8	16.8	13.9	6.8	23.0	15.5	19.8
Wage and salary disbursements	11.5	9.7	10.4	-.5	8.9	13.8	10.7
Private	10.1	8.4	9.1	-2.0	8.0	12.7	10.1
Manufacturing	3.2	2.0	2.7	-3.5	2.8	4.0	4.4
Other income	7.1	8.1	4.3	7.7	14.8	2.8	9.7
Transfer payments	1.5	2.9	2.4	3.4	9.9	-.4	5.3
Less: Personal contributions for social insurance	.8	.9	.8	.4	.7	1.0	.6
Memorandum: Personal saving rate[3]	4.9	4.5	3.7	4.9	4.6	4.6	n.a.

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly periods are compounded rates of change; monthly changes are not compounded.
2. Average monthly change.
3. Monthly saving rate equals the centered three-month moving average of personal saving as a percentage of the centered three-month moving average of disposable personal income.

earlier. Production of business equipment, which declined 3.6 percent last spring and was essentially unchanged through September, increased in October. Capacity utilization in manufacturing, which dropped from 87 percent to 75 percent between early 1979 and mid-1980, apparently exceeded 77 percent in October.

Personal Income and Consumer Spending

Increases in total hours worked in recent months have been reflected in advances in nominal wage and salary disbursements averaging 11 percent at an annual rate. Based on the most recent readings on employment and earnings, this pace likely was maintained in October. In the third quarter, disposable personal income, boosted also by the cost-of-living adjustment to social security payments in July, rose at a 3.4 percent annual rate in real terms. Despite this improvement, real disposable income was essentially the same as two years earlier.

Retail sales in nominal terms were essentially unchanged in October, following increases in each of the four preceding months. While some of the recent weakness in sales growth reflects a decline at auto and related stores, purchases excluding automotive and nonconsumer items rose at only a 0.4 percent rate--about the same as experienced in September. These sales in October were 0.9 percent above their third quarter average in current dollars and probably down somewhat in real terms. Outlays at the GAF grouping of stores in October were about unchanged from their August level and 1.1 percent above the average in the third quarter.

Total new car sales edged up to a 9 million unit annual rate in October, slightly above the pace in the third quarter. Foreign models

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

	1980						
	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Total sales	2.1	-3.6	5.1	3.0	.6	1.5	-.1
(Real)[1]	-1.2	-5.8	3.0	2.6	-.4	.3	n.a.
Total, less auto and nonconsumption items	2.6	.2	2.9	1.1	1.1	.5	.4
GAF[2]	-.1	-1.6	3.7	1.8	2.8	-.9	.8
Durable	.8	-12.0	10.4	8.0	-1.0	3.9	-1.1
Auto	1.5	-16.6	16.0	12.6	-1.9	5.2	-2.1
Furniture & appliances	1.0	-4.6	6.2	4.7	.1	4.5	.3
Nondurable	2.8	.6	2.8	.8	1.4	.5	.3
Apparel	1.4	1.0	3.0	.1	3.5	-2.6	.8
Food	2.3	1.8	3.6	1.5	1.4	1.5	.3
General merchandise[3]	-1.2	-1.4	3.0	1.5	3.6	-2.3	.9
Gasoline	9.2	5.1	2.7	.7	-1.4	1.0	.1

1. BCD series 59. Data are available approximately 3 weeks following the CPI release.
2. General merchandise, apparel, and furniture and appliance stores.
3. General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

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

	1979	1980						
	Q4	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Total	9.7	10.6	7.7	8.8	9.0	8.6	8.7	9.0
Foreign-made	2.4	2.8	2.1	2.3	2.6	2.1	2.1	2.2
U.S.-made	7.4	7.9	5.5	6.5	6.4	6.4	6.6	6.7
Small	3.5	3.8	2.8	3.2	3.1	3.3	3.3	3.3
Intermediate & standard	4.0	4.1	2.7	3.3	3.3	3.2	3.2	3.5

Note: Components may not add to totals due to rounding.

continued to sell at about the 2-1/4 million unit annual rate that has prevailed on balance since April. Domestic unit sales, at a 6.7 million unit rate in October, were up only marginally from September but were 1-1/2 million units higher than the low last May. Early reports suggest consumer interest in the Chrysler and Ford new models, but buyer resistence to the higher prices of all autos apprently has retarded the advance in sales. While recently announced price increases on some new models may appear moderate, prices of the more popular fuel-efficient cars are between 15 and 25 percent above a year earlier.

Residential Construction

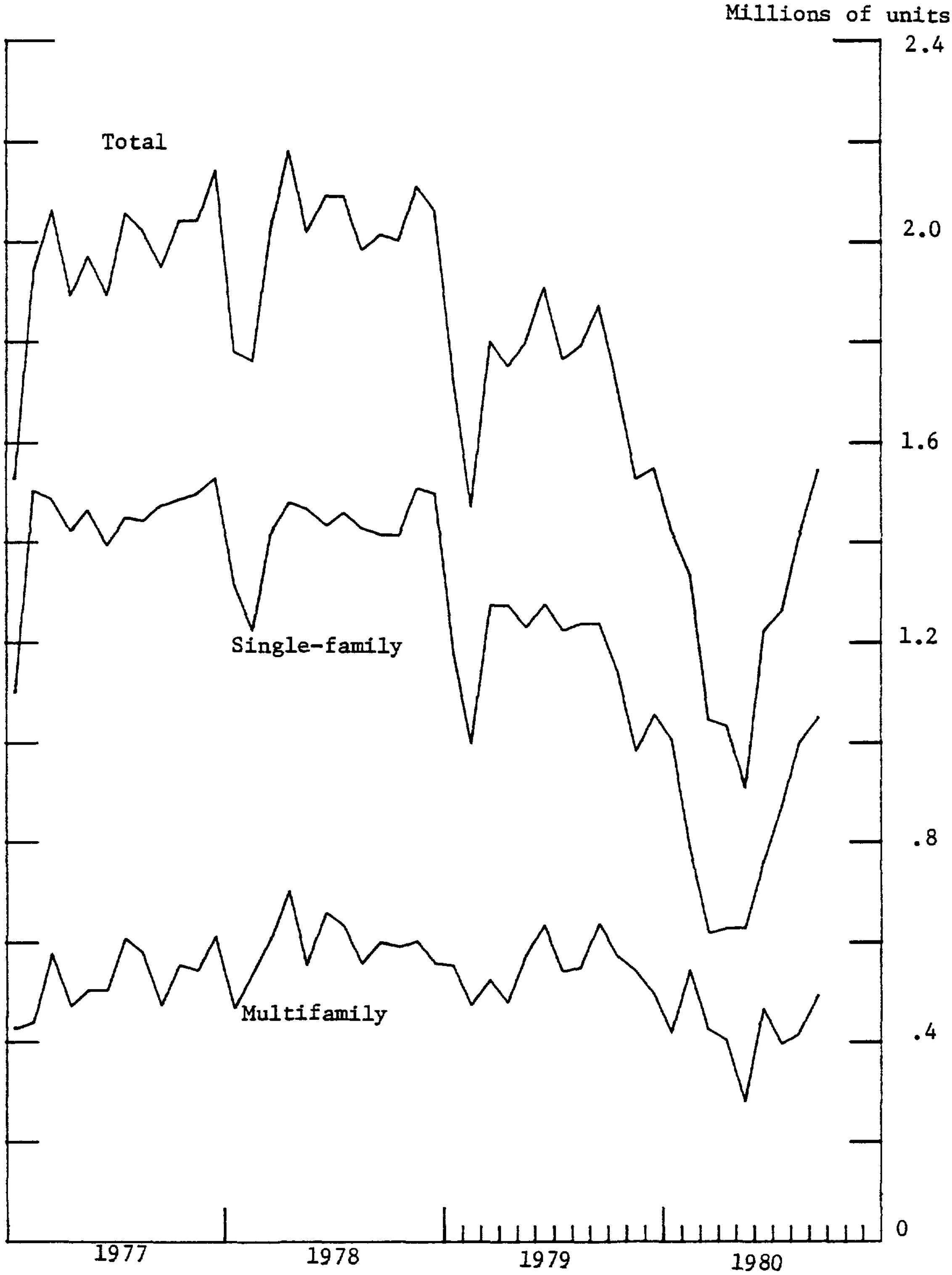
The recovery in housing activity has apparently stalled. Private housing starts advanced to a 1.5 million unit annual rate in September, but confidential Census Bureau figures for early October suggest that issuance of residential building permits declined sharply from the preceding month. These estimates indicate that the relative drop in single-family permits was smaller than in multifamily permits, which in September had included authorizations for a large number of subsidized units. Sales of new houses, another indicator of housing activity, dropped for a second month in September to a 554,000 unit annual rate--nearly 15 percent below the high reached in July. The weakness in these sales resulted in a small increase in the number of unsold new homes at the end of the month. In contrast, sales of existing houses rose 12 percent in September and were nearly 50 percent above last spring's low. Such purchases are frequently made by assumptions of existing loans or through the use of other lower-cost financing techniques and may not have been affected as quickly by the uptrend in mortgage commitment interest rates that began last summer.

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

	1979	1980					
		Q1	Q2	Q3	July	Aug.	Sept.[1]
All units							
Permits	1.55	1.14	.90	1.39	1.24	1.36	1.56
Starts	1.75	1.26	1.05	1.41	1.27	1.42	1.54
Single-family units							
Permits	0.98	.68	.53	.85	.78	.86	.91
Starts	1.19	.80	.67	.97	.87	1.00	1.05
Sales							
New homes	.71	.53	.45	.62	.65	.64	.55
Existing homes	3.74	2.98	2.40	3.11	2.92	3.03	3.38
Multifamily units							
Permits	.57	.45	.37	.54	.46	.50	.66
Starts	.55	.46	.38	.44	.40	.42	.49
Mobile home shipments	.28	.26	.18	n.a.	.22	.21	n.a.

1. Preliminary estimates.
n.a.--not available.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



BUSINESS INVESTMENT SPENDING
(Percentage change from preceding comparable period, based on seasonally adjusted data)

	1980				
	Q1	Q2	Q3	Aug.	Sept.
Nondefense capital goods shipments					
Current dollars	6.0	-2.5	1.6	-3.2	6.2
Constant dollars[1]	2.0	-3.0	1.4	-7.4	6.6
Addenda: Unit sales of heavy-weight trucks (thousands)	330	240	290	310	280
Nonresidential construction					
Current dollars	3.3	-2.0	-5.6	-1.4	-.7
Constant dollars	0.5	-4.0	-8.0	-1.8	-.6
Addendum: Oil and gas well drilling (millions of feet)	21.0	21.5	25.6	25.4	26.0

1. FRB staff estimate.

BUSINESS CAPITAL SPENDING COMMITMENTS
(Percentage change from preceding comparable period, based on seasonally adjusted data)

	1980				
	Q1	Q2	Q3	Aug.	Sept.
Nondefense capital goods orders					
Current dollars	4.3	-9.2	-0.3	-10.4	6.0
Constant dollars	0.4	-9.6	-0.5	-14.2	6.4
Machinery					
Current dollars	5.5	-13.0	7.8	-8.0	8.3
Constant dollars[1]	1.5	-13.4	7.5	-11.9	8.8
Addenda: Ratio of current dollar unfilled orders to shipments					
Total	6.42	6.57	6.39	6.65	6.21
Machinery	4.34	4.34	4.21	4.32	4.12
Contracts for nonresidential plant					
Current dollars	-16.1	-31.7	54.9	41.2	-34.6
Constant dollars	-17.8	-37.9	60.7	42.5	-34.6

1. FRB staff estimate.

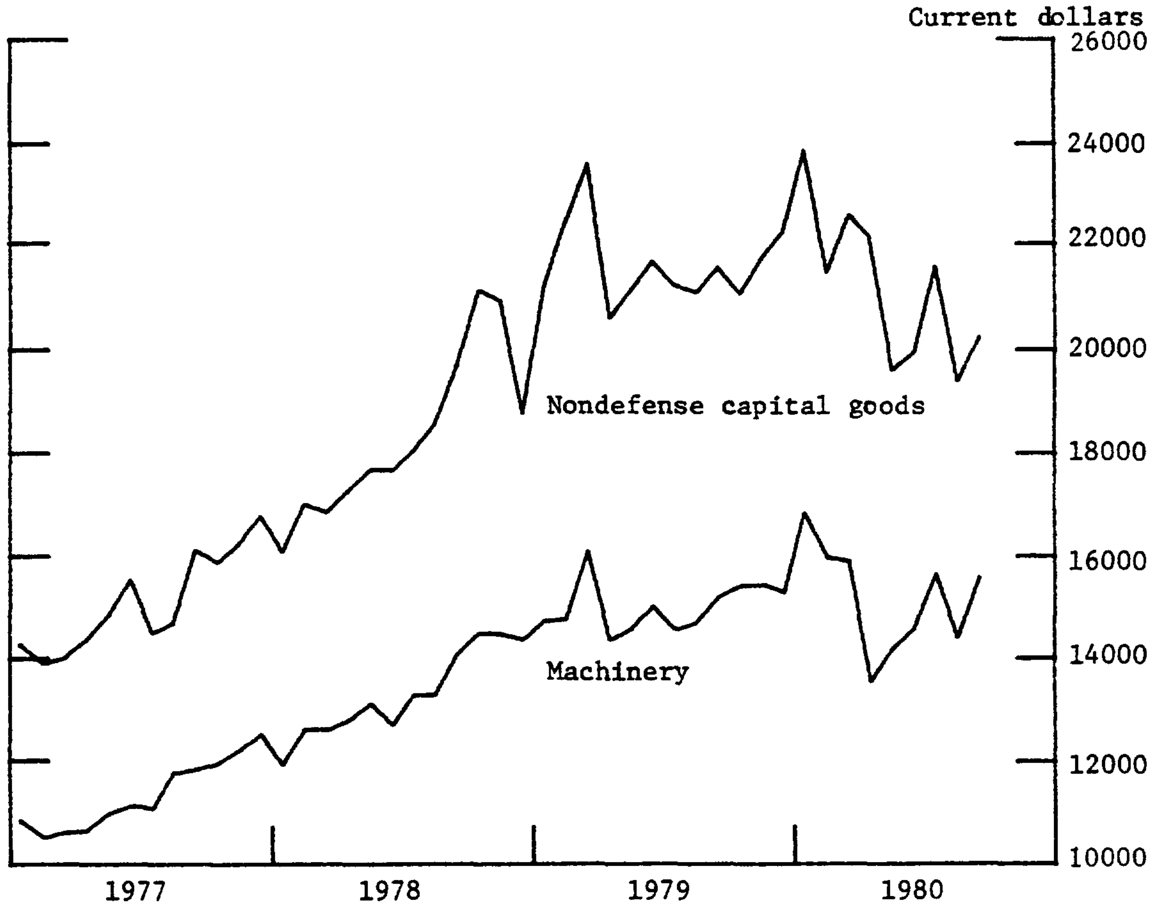
In the multifamily sector, market conditions for construction of nonsubsidized rental units have shown some weakening. High and rising costs of development--including construction credit usually supplied at a mark-up above the bank prime rate--appear to be discouraging the start of such structures. The average vacancy rate for units in multifamily rental units rose to 6.4 percent in the second quarter, up nearly one percentage point from its historical low in the first quarter of last year. In addition, rents generally have continued to rise more slowly than construction costs.

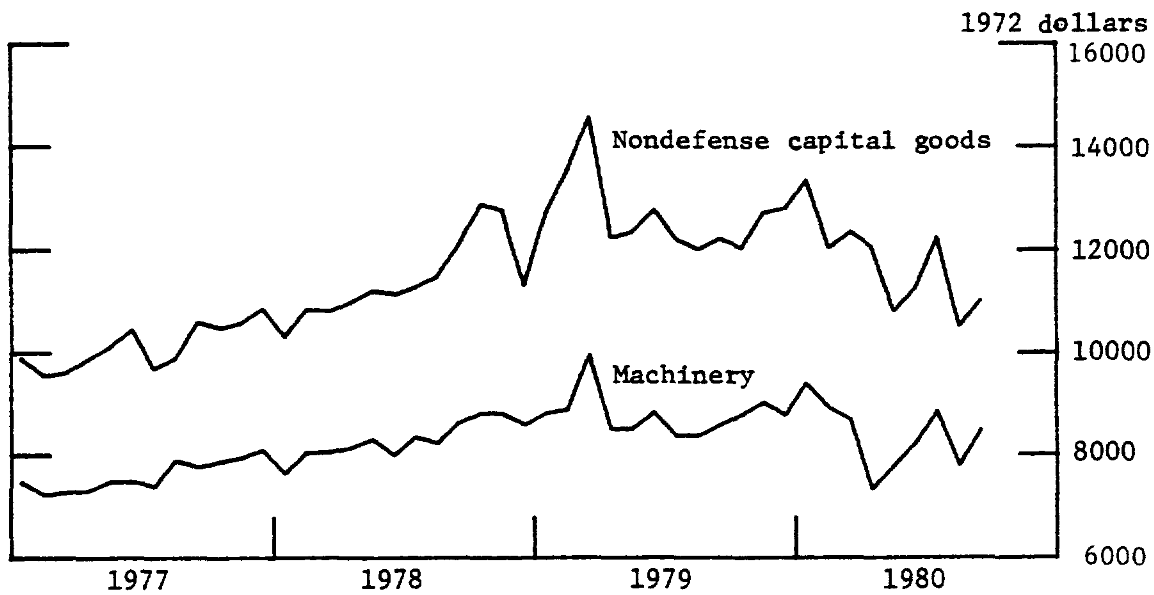
Business Fixed Investment

Business capital spending turned up in September, moderating somewhat the declining trend in such outlays. After a drop in August, shipments of nondefense capital goods rose sharply in September. In addition, September sales of heavy-weight trucks held near their advanced August pace. However, nonresidential construction declined again in September, with real outlays falling to a level 16 percent below the high registered in January.

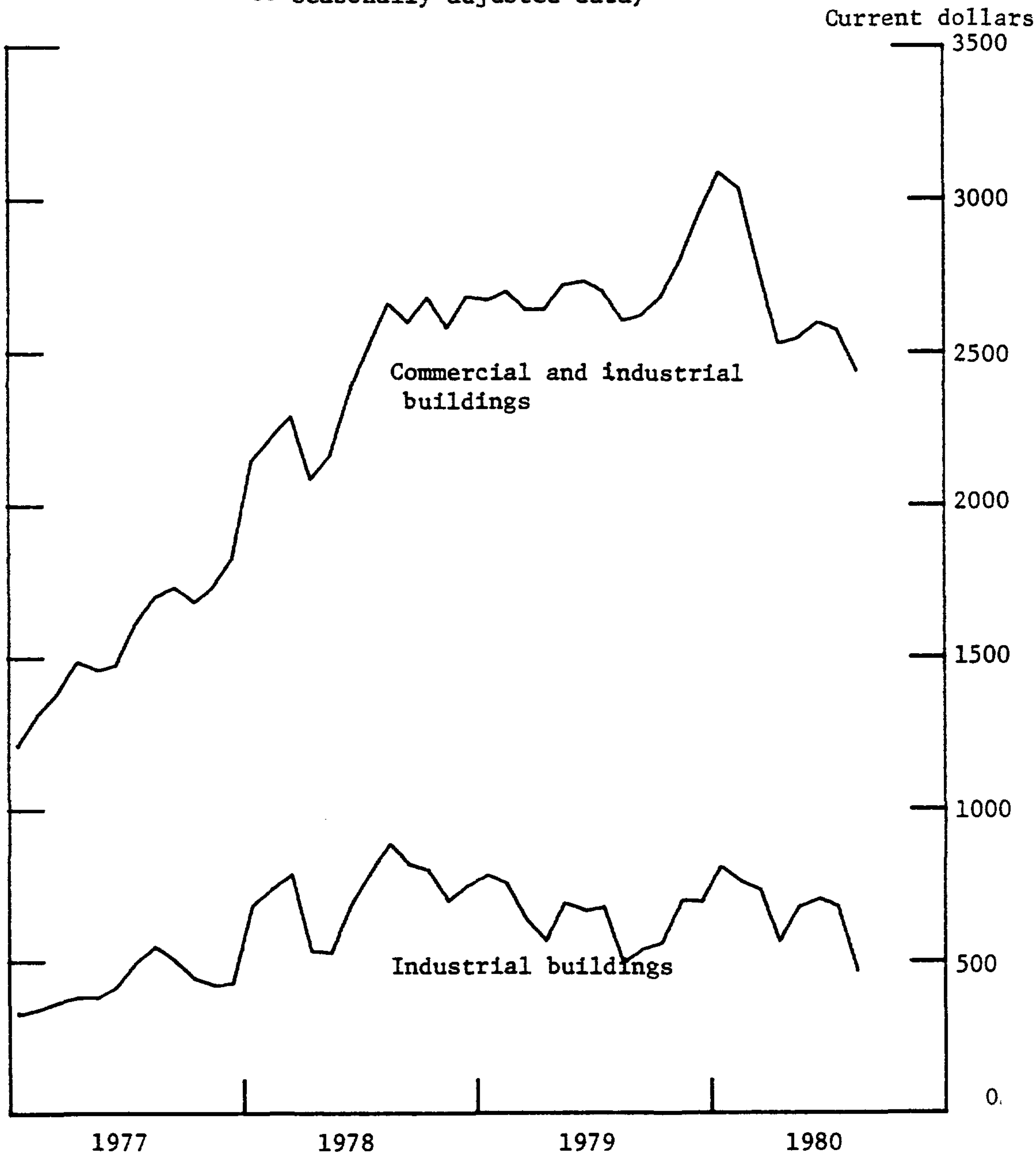
Capital spending commitments data provide a mixed picture for activity in the coming months. New orders for nondefense capital goods rose 6.4 percent in real terms in September, with the increases centered in the machinery component; however, the level of such bookings remains low as they had dropped 14.2 percent in August and were 11 percent below the peak in the first quarter. In addition, the backlog of unfilled orders for nondefense capital goods at the end of September amounted to only 6.2 months of current dollar shipments, down significantly from readings earlier in the year. The total value of new

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





NONRESIDENTIAL BUILDING CONTRACT AWARDS
(Millions of dollars. Centered three-month moving averages of seasonally adjusted data)[1/]



1. F.W. Dodge, Inc. data. Seasonally adjusted by Federal Reserve.

PLANT AND EQUIPMENT EXPENDITURES
(Percent change from prior year)

	Anticipated for 1980	Anticipated for 1981	
	Commerce Department[1] August survey	McGraw-Hill Fall survey	Merrill Lynch[2] Fall survey
All business	8.7	11.9	7
Excluding petroleum	7.6	8.3	4(e)
Manufacturing	11.8	14.6	11
Durables	9.1	4.7	4
Nondurables	14.2	23.8	16
Petroleum	19.4	42.8	29
Nonmanufacturing	6.3	9.4	4

1. Results are adjusted for systematic bias. Without this adjustment, the August Commerce survey showed a 10.3 percent increase.
2. Results confidential until Friday, November 21.
e. F.R.B. staff estimate.

RECENT ERROR HISTORY OF MCGRAW-HILL FALL SURVEY

Year	Anticipated percent change	Actual percent change	Error (Anticipated less actual change)
1970	7.8	5.5	2.3
1971	2.4	1.9	.5
1972	6.9	8.9	-2.6
1973	10.6	12.8	-2.2
1974	13.6	12.7	.9
1975	11.8	.3	11.5
1976	8.8	6.8	2.0
1977	13.0	12.7	.3
1978	11.1	13.3	-2.2
1979	10.0	15.1	-5.1
1980	9.6	8.7[1]	.8

1. Anticipated by August Commerce Survey.

construction contracts for commercial and industrial buildings and for nonbuilding projects fell sharply in September, following a rise in August that was accounted for by a substantial increase in awards for nuclear power plants. The current dollar value of contracts for commercial structures in September was little changed, after rising moderately in the previous month; but contracts for industrial buildings fell further and were at a level about one-third below the recent June peak.

Private surveys of business plant and equipment spending plans for 1981 provide contrasting indications of such outlays. The McGraw-Hill early fall survey points to a nominal increase of 12 percent next year. Respondents also expected capital goods prices to rise 10 percent, thus implying a small rise in real spending from this year. This anticipated rise was bolstered by a huge increase, 44 percent, in the petroleum industry capital spending plans; excluding this category, the increase in nominal outlays was only 8.3 percent. An indication of greater weakness in these outlays is shown by the confidential Merrill-Lynch survey, which suggests a 7 percent rise in nominal spending. Both of these surveys have had only a fair record of predicting actual increases in spending; in the 1970s the mean errors of these surveys, regardless of sign, were about 3 percentage points.

Inventory Investment

Inventory investment remained moderate in September. The book value of manufacturers' inventories increased at a $10-1/2 billion annual rate. Although this rise was above those of recent months, it continued well below rates experienced earlier in the year. Food stocks accounted for all of the September increase. Indeed, excluding the food

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars; quarterly and monthly figures are seasonally adjusted annual rates)

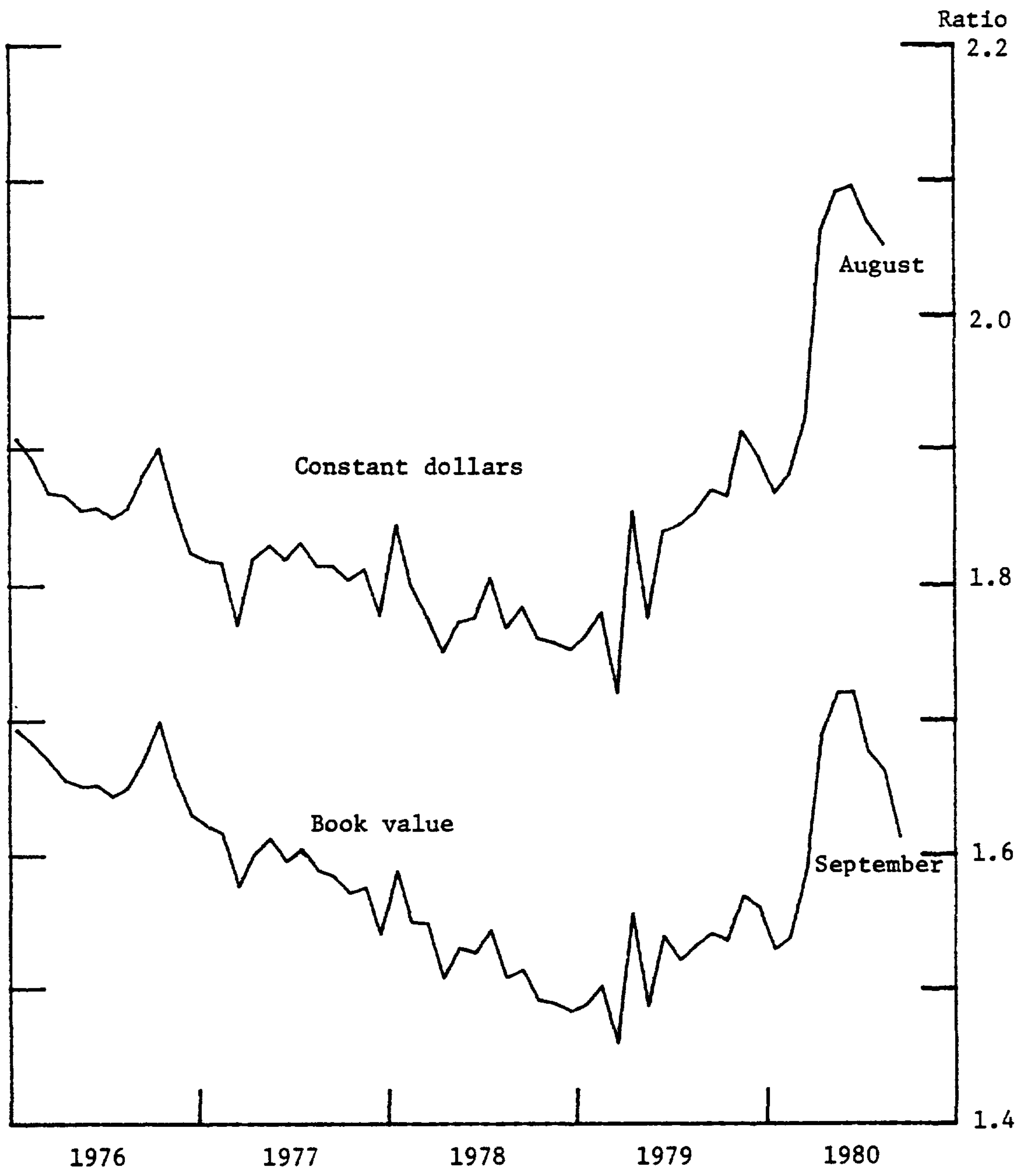
BOOK VALUE BASIS

	1978	1979	1980 Q1	1980 Q2	1980 Q3	1980 Aug.	1980 Sept.
Total	43.2	47.2	46.1	30.8	n.a.	28.4	n.a.
Manufacturing	18.1	29.9	41.1	20.4	3.1	-7.1	10.6
Wholesale	12.8	9.1	7.2	7.7	14.2	29.9	.9
Retail	12.3	8.1	-2.1	2.7	n.a.	5.5	n.a.

CONSTANT DOLLAR BASIS

	1978	1979	1980 Q1	1980 Q2	1980 July	1980 Aug.
Total	12.8	7.7	-1.8	2.5	4.8	-5.7
Manufacturing	5.3	7.2	5.3	3.7	-.4	-5.8
Wholesale	4.2	1.0	.2	.3	4.1	3.5
Retail	3.2	-.5	-7.3	-1.5	1.1	-3.4

MANUFACTURERS' INVENTORIES RELATIVE TO SALES
(Based on seasonally adjusted data)



sector, liquidations of inventories were widespread among manufacturers. With a sizable advance in manufacturers' shipments in September, the stock-sales ratio fell sharply.

In real terms manufacturers have reduced their stocks in each of the four months since the high in April, and this drawdown appears to have continued in September. Most of the liquidation since last spring has been in nondurable goods, but sizable reductions also have occurred at producers of fabricated metals and motor vehicles and parts. The ratio of manufacturers' real stocks to shipments peaked in June at a level only slightly below its March 1975 high; it has declined substantially since then.

The book value of wholesale trade inventories rose at a $1 billion annual rate in September, following a near record increase in August. Sales in this sector rose appreciably and the wholesale trade stock-sales ratio also declined sharply.

Government Sector

Final federal budget totals for fiscal year 1980 indicate that the unified deficit was $59 billion, the second largest deficit on record and more than double the $28 billion figure registered in the preceding year. Outlays were $579 billion and receipts $520 billion. The Carter Administration's latest official estimate of the deficit for fiscal year 1981, with their proposed tax cut, was $36-1/2 billion. OMB considers this estimate to be too low, however, in large part because of higher rates of interest now expected over the period.

In the defense sector, spending for compensation also is expected to be higher than previously anticipated because of pay increases and military housing and living allowances that are larger than previously budgeted. Excluding personnel and retirement costs, the present Administration anticipates fiscal year 1981 defense expenditures to rise by 17-1/2 percent in current dollars, and by 7 percent in real terms. This projected spending rise is presaged by the recent marked increase in manufacturers' new orders for defense capital goods. Overall, such orders (in current dollars) increased at a 13 percent annual rate during the third quarter to a level nearly 50 percent above a year earlier.

Meanwhile, state and local government activity has continued to weaken. Payroll employment increased 20,000 in October, following essentially no growth in the third quarter. Employment in this sector has risen only 1 percent over the past year, considerably less than the 2-1/2 percent average annual rise of recent years and the 4 percent average of the early seventies. Construction outlays in real terms increased 2 percent in September, but they still remained 20 percent below the January peak. The sharp decrease in real construction activity over 1980 has prolonged the downtrend in state and local government capital investment evident since the mid-1960s. Although the longer-run downtrend was induced primarily by demographic factors and the completion of the interstate highway system, the recent decrease in construction expenditures has been largely related to high interest rates and a fall-off in federal grant support.

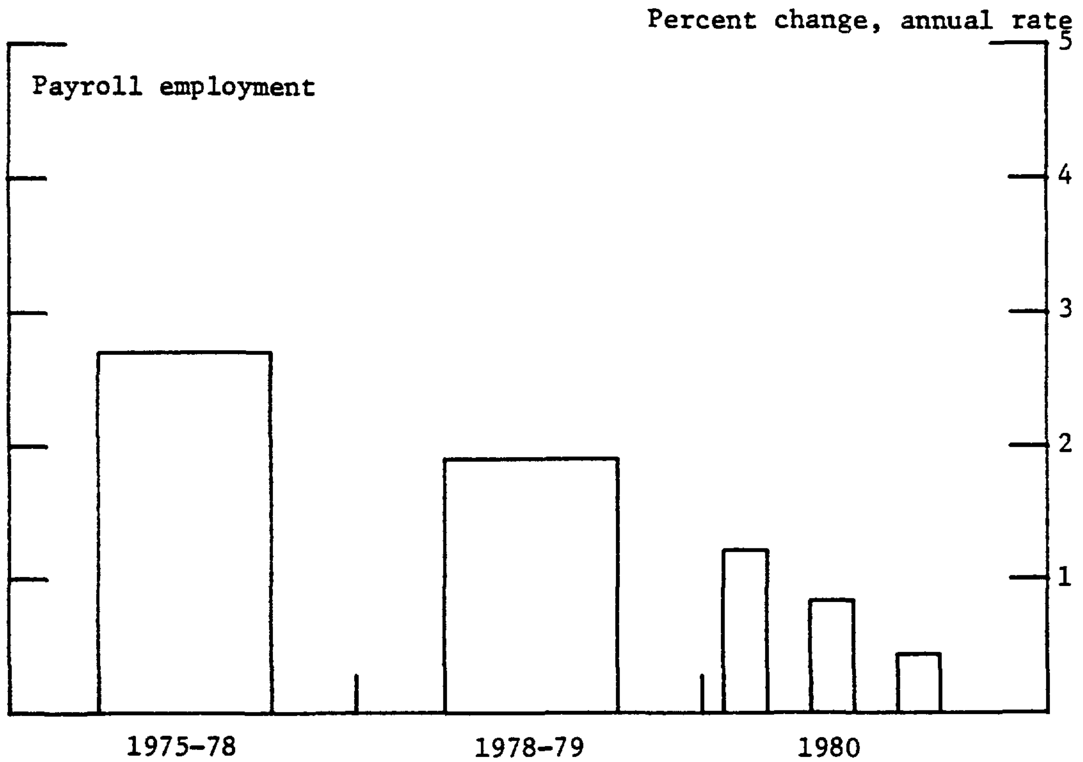
In the near term, state and local spending will likely continue to be under considerable restraint. Federal support has been reduced and the general stagnation in the economy has constrained own-source revenue growth. Moreover, the sentiment for fiscal austerity has continued with an additional five states passing fiscal limitation measures on November 4.

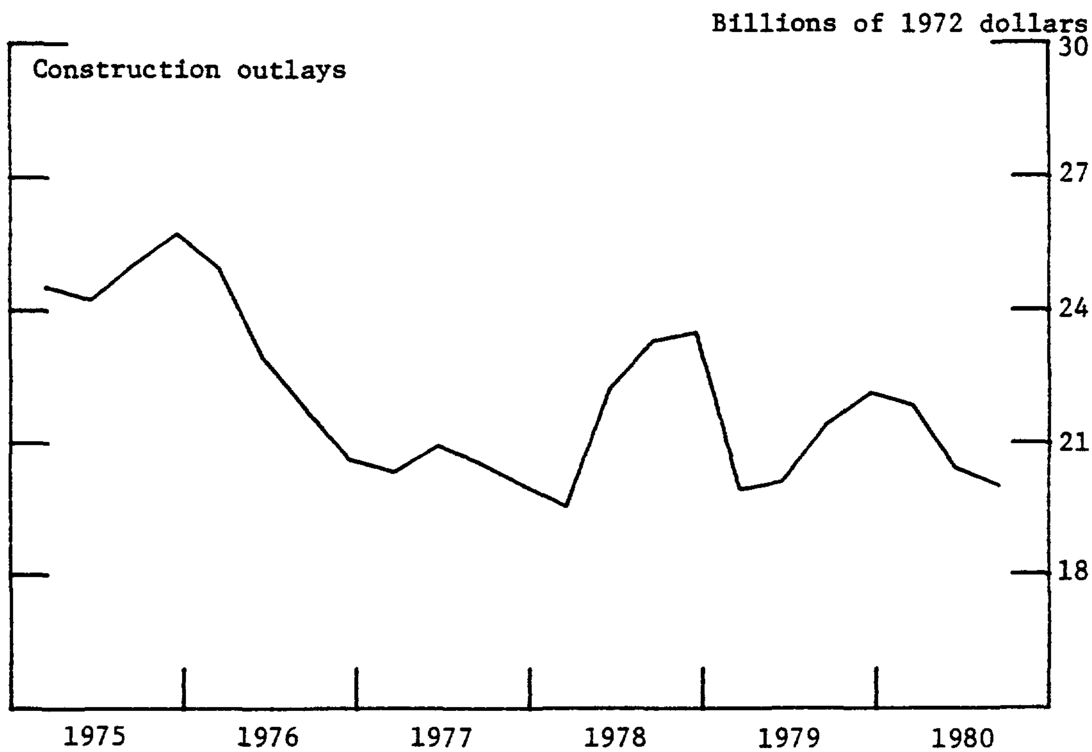
Wages, Costs, Profits, and Prices

Most measures of aggregate changes in wage rate have shown signs of moderation in recent months, but the underlying trend of labor costs remains high and continues to exert upward pressures on prices. The annual rate of increase in hourly compensation in the nonfarm business sector slowed to an 8-1/2 percent rate in the third quarter from the 10-3/4 percent pace over the first half of the year. Much of this deceleration reflects a less rapid rise in the wage rates of production workers--to an 8-3/4 percent rate in the third quarter from a 9-3/4 percent rate over the first half of this year. In addition, the rate of increase in nonwage benefits per hour worked also was smaller in the third quarter, following a bulge in the first half. Despite the slowdown, wages in the third quarter were still 9-1/2 percent higher than a year earlier. The rise over the comparable period between 1978 and 1979 was about 8-1/2 percent.

Workers covered by key union settlements recently have received wage-rate gains well above the overall average throughout the private sector as a whole, and substantially larger than they received in 1979. First-year increases in all major collective bargaining settlements negotiated in the first nine months of 1980, which covered 3 million workers, averaged 9-3/4 percent excluding potential increases under cost-of-living adjustment (COLA) clauses. The comparable average first-year increase in all of 1979 was 7-1/2 percent. In addition, some 3 million workers under major contracts received COLA increases averaging about 6 percent (not at an annual rate) during the first nine months of 1980.

STATE AND LOCAL GOVERNMENT ACTIVITY





With the turnaround in output in the third quarter, productivity in the nonfarm business sector rose at a 2.6 percent annual rate, after deteriorating substantially over the preceding six quarters. The upturn in output per hour, coupled with a less rapid rise in hourly compensation, resulted in a sharp deceleration in unit labor costs for the quarter to a 5-3/4 percent annual rate. Even so, unit labor costs stood 10-1/4 percent above their level one year earlier, and in manufacturing they were nearly 15 percent higher.

Corporate profits in the third quarter apparently rebounded from the depressed second quarter level, reflecting the rise in GNP and the reduced rate of increase in unit labor costs. However, corporate profits from current production, which exclude inventory profits and treat depreciation on a replacement cost basis, probably were still below the first quarter figure of $175 billion and down about 10 percent from a year earlier.

Labor cost pressures have underlain the high rate of inflation this year, although developments in food, energy, and housing costs have occasionally dominated monthly changes in aggregate price measures. Producer prices of finished goods, which posted a small decline in September, turned up again in October. The rate of advance in consumer prices returned to the double-digit range in September after a small increase over the preceding two months. Moreover, excluding food, energy, and homeownership costs, prices at retail rose much more in September than in any recent month.

Food prices at all levels of production have risen at a rapid rate recently, primarily reflecting this past summer's fall-off in pork and

LABOR PRODUCTIVITY AND COSTS
(Percent change compound annual rates;
based on seasonally adjusted data)[1]

	1977	1978	1979	1980 Q1	1980 Q2	1980 Q3
Output per hour						
Total private business	1.4	.7	-1.7	-.3	-2.7	1.4
Nonfarm business	1.1	1.0	-2.0	-1.1	-3.7	2.6
Manufacturing	2.5	.8	-.3	-2.8	-4.7	-2.7
Durable	1.8	.1	-1.3	-4.7	-3.2	-3.8
Nondurable	3.7	2.1	1.4	.0	-7.5	-1.3
Compensation per hour						
Total private business	7.2	9.0	9.2	11.7	12.0	8.3
Nonfarm business	7.4	9.0	9.1	10.7	10.8	8.4
Manufacturing	7.8	8.4	9.1	10.5	15.2	12.0
Durable	8.0	7.9	8.7	12.6	16.2	11.9
Nondurable	7.0	8.7	9.7	6.7	15.5	12.6
Unit labor costs						
Total private business	5.8	8.2	11.1	12.1	15.1	6.8
Nonfarm business	6.2	7.9	11.3	12.0	15.0	5.7
Manufacturing	5.2	7.5	9.3	13.7	20.9	15.1
Durable	6.1	7.8	10.2	18.2	20.1	16.3
Nondurable	3.2	6.5	8.2	6.7	24.9	14.1

1. Changes are from final quarter of preceding period to final quarter of period indicated.

HOURLY EARNINGS INDEX[1]
(Percent change at compound annual rates; based on seasonally adjusted data)[2]

	1978	1979	1980 Q2	1980 Q3	1980 Sept.	1980 Oct.
Total private nonfarm	8.4	8.1	9.9	8.8	5.5	9.6
Manufacturing	8.4	8.7	12.6	11.9	8.8	7.6
Durable	8.5	8.7	13.6	12.3	10.5	9.3
Nondurable	8.2	8.7	10.8	11.2	5.6	4.6
Contract construction	7.6	6.8	8.9	7.2	.6	9.8
Transportation and public utilities	7.4	9.0	9.1	6.7	2.1	20.4
Total trade	9.6	7.6	7.1	8.8	3.7	5.1
Services	7.6	7.6	9.8	6.5	7.7	9.7

1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly and monthly periods are annual rates of change.

MAJOR COLLECTIVE BARGAINING SETTLEMENTS
(Percent change at annual rates)

	Average adjustment 1976	1977	1978	1979	First 9 months of 1980
Wage-rate settlements (1,000 or more workers)					
First year adjustments	8.4	7.8	7.6	7.4	9.7
Average over life of contracts[1]	6.4	5.8	6.4	6.0	7.3
Wage and benefit settlements (5,000 or more workers)					
First year adjustments	8.5	9.6	8.3	9.0	10.7
Average over life of contracts[1]	6.6	6.2	6.3	6.6	7.2
Effective wage-rate changes (1,000 or more workers)	8.1	8.0	8.2	9.1	7.5[2]
Current settlements	3.2	3.0	2.0	3.0	2.9[2]
Prior settlements	3.2	3.2	3.7	3.0	2.8[2]
Escalator provisions	1.6	1.7	2.4	3.1	1.9[2]

1. Excluding cost-of-living adjustments.
2. Percent change over 9 months, not at an annual rate.

RECENT CHANGES IN PRODUCER PRICES
(Percentage change at annual rates; based on seasonally adjusted data)[1]

	Relative importance[2] Dec. 1979	1978	1979	1980 Q1	1980 Q2	1980 Q3	1980 Oct.
Finished goods	100.0	9.2	12.6	19.3	6.7	12.2	10.1
Consumer foods	24.3	11.9	7.6	-1.2	-7.8	36.9	6.3
Consumer nonfood	47.4	8.4	18.0	34.8	11.3	4.4	7.6
Energy	10.3	8.0	62.7	109.4	17.1	-3.5	-4.4
Exc. energy	37.0	8.5	9.6	18.1	9.4	7.1	11.0
Capital equipment	28.4	8.0	8.8	13.4	11.3	8.5	16.8
Intermediate materials[3]	94.9	8.3	16.5	24.0	5.2	6.4	7.6
Exc. food and energy	81.4	8.9	13.0	18.3	4.6	5.5	9.1
Crude food materials	55.5	18.3	11.1	-16.7	-10.5	96.4	17.5
Crude nonfood	44.5	15.6	26.0	21.9	-3.9	39.1	29.8
Exc. energy	16.0	21.0	13.1	7.4	-38.0	78.9	45.5

1. Changes are from final month of preceding period to final month of period indicated.
2. Relative importance weights are on a stage of processing basis.
3. Excludes materials for food manufacturing and animal feeds.

RECENT CHANGES IN CONSUMER PRICES[1]
(Percentage change at annual rates; based on seasonally adjusted data)[2]

	Relative importance Dec. 1979	1978	1979	1980 Q1	1980 Q2	1980 Q3	1980 Sept.
All items	100.0	9.0	13.3	18.1	11.6	7.0	12.1
Food	17.7	11.8	10.2	3.8	5.6	18.9	19.1
Energy[3]	10.3	8.0	37.4	64.8	8.1	2.9	2.6
All items less food and energy[3]	72.0	8.5	11.3	15.7	13.5	5.1	10.8
Homeownership	24.9	12.4	19.8	24.1	26.6	-5.6	7.2
All items less food, energy and homeownership[4]	50.7	6.9	7.5	12.1	7.6	10.7	14.6
Used cars	2.8	13.6	2.2	-2.5	-16.8	40.1	67.5
Other commodities[4]	21.3	5.3	6.6	12.9	6.9	9.3	10.1
Other services[4]	26.6	7.7	8.8	12.3	11.0	9.2	12.5

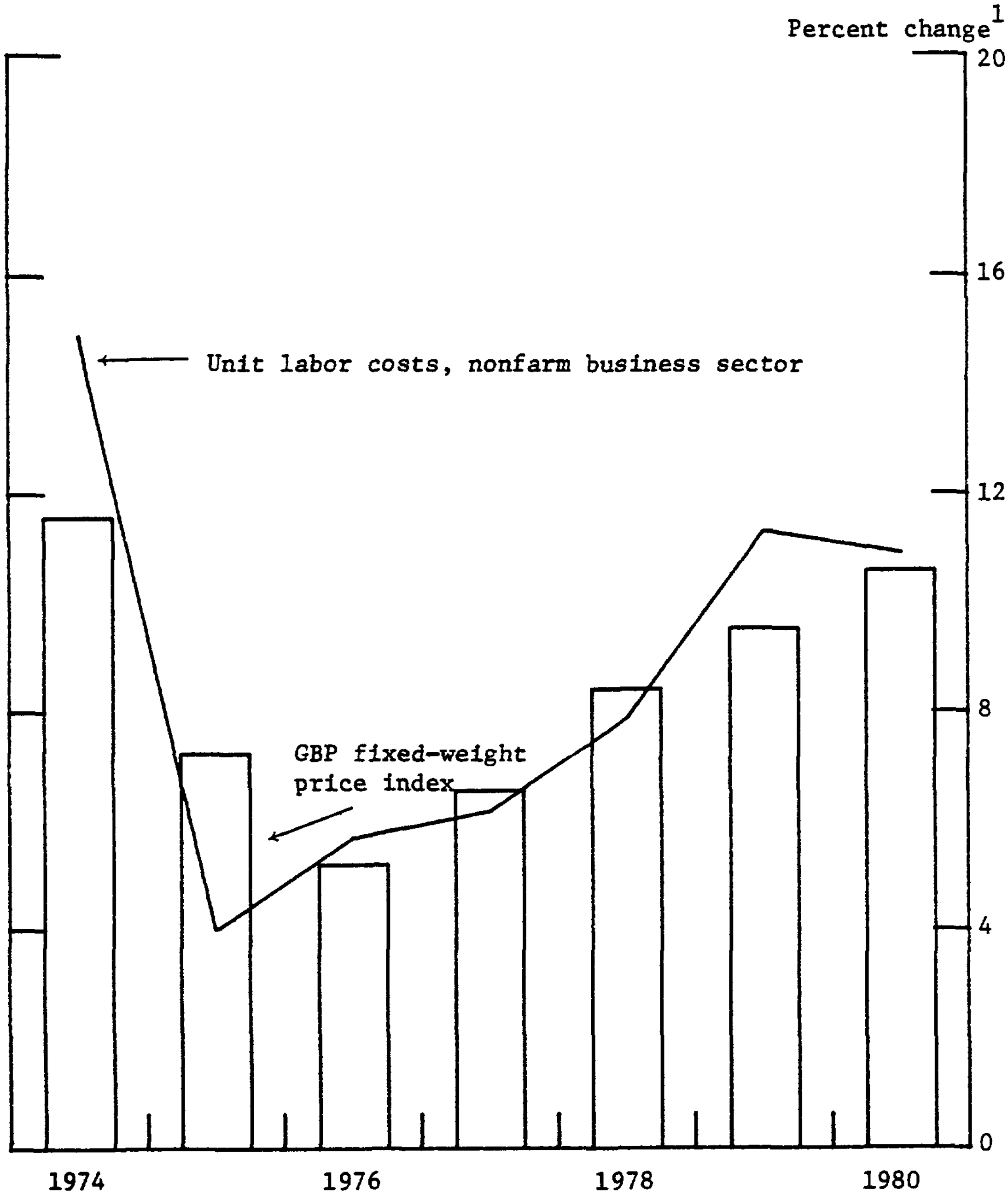
1. Based on index for all urban consumers.
2. Changes are from final month of preceding period to final month of period indicated.
3. Energy items: gasoline and motor oil, fuel oil and coal, gas and electricity.
4. Reconstructed series; includes home maintenance and repairs (relative importance weight of 3.6), also a component of homeownership costs.

poultry production. Prices for foods in producer markets resumed their climb in October following a small dip in the previous month. In September, retail food prices rose 1.6 percent, boosted by a sharp advance in prices of meats as well as fruits and vegetables. In contrast, energy price increases remained moderate through October.

Mortgage interest costs declined much less rapidly in September than in the two preceding months. By providing a smaller offset these costs accounted for a large part of the overall acceleration in consumer prices. Home purchase prices rose by more than 1 percent for the fifth time in the last six months, and the CPI mortgage interest rate index edged lower as closing rates on conventional mortgage loans declined for the third month in a row. The mortgage rate index of the CPI appears likely to turn up in October as a result of earlier rate increases for both conventional and federally-insured mortgages.

The acceleration in consumer prices excluding the food, energy, and homeownership categories amounted to a 14-1/2 percent annual rate in September. Unusually large price increases were reported for used cars and educational items. But, even aside from these items, prices for most other goods and services rose rapidly. At the producer level, the index for finished goods less food and energy increased markedly, again in September and October, after no change in September. The swings in this measure in September and October largely reflected movements in car and truck prices. In October, motor vehicle prices advanced dramatically, reversing the sharp decline in the previous month. In addition, prices for semifinished materials other than food and energy accelerated.

UNIT LABOR COSTS AND PRICES



1. Percent change from fourth quarter of previous year to fourth quarter of year indicated, except for 1980 which is to the change in the first three quarters at a compound annual rate.

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	Percent at annual rates		
Monetary and credit aggregates[1]					
Total reserves	October	41.7	6.0	15.3	6.2
Nonborrowed reserves	October	40.4	6.3	6.3	8.4
Money supply					
M-1A	October	386.6	9.1	13.8	5.5
M-1B	October	410.7	11.2	16.4	7.3
M-2	October	1654.0	9.3	11.0	9.5
M-3	October	1920.8	11.5	11.9	9.3
CB Gross Time and savings deposits	October	710.6	10.9	10.3	8.3
Total Thrift deposits (S&Ls + MSBs + Credit Unions) Total	October	708.0	12.2	11.9	7.2
Bank credit	October	1206.8	12.8	15.3	6.6

Indicator		Latest data: Period	Latest data: Percent 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.	10/5/80	13.99	1.40	4.39	.22
Treasury bill (90 day)	" "	10/5/80	12.96	1.62	4.31	.80
Commercial paper (90-119 day)	" "	10/5/80	13.81	1.63	4.80	-.45
New utility issue Aaa	" "	10/31/80	13.92	.84	1.58	2.45
Municipal bonds (Bond Buyer) 1 day	1 day	11/6/80	9.64	.42	1.03	2.38
FNMA auction yield (FHA/VA)		10/27/80	15.30	--	2.52	2.01
Dividend price ratio (common stocks)	wk. endg.	11/5/80	4.91	.17	-.21	-.97
NYSE index (12/31/65=50)	end of day	11/4/80	74.36	-.38	5.16	16.55

Indicator	Period	Net Change or Gross Offerings: Latest data	Year ago	Year to date 1980	Year to date 1979
Credit demands					
Business loans at commercial banks[1]	October	5.4	2.5	22.5	41.7
Consumer instalment credit outstanding[1]	September	1.5	4.4	-2.9	30.0
Mortgage debt outstanding (major holders)[1 2]	August	5.8	8.1	15.7	25.9
Corporate bonds (public offerings)	October	2.6e	2.7	38.0e	22.7
Municipal long-term bonds (gross offerings)	October	4.6e	4.2	40.7	35.6
Federally sponsored agcy. (net borrowing)	September	0.6e	0.9	14.0e	16.6
U.S. Treasury (net cash borrowing)	September	6.3	4.	51.6	18.4

1/ Seasonally adjusted.
2/ Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA and GNMA.
Estimated.

Growth in the narrow monetary aggregates slowed somewhat in October, but remained quite strong. At the same time, the expansion of total time and savings deposits in M-2 quickened and large CD issuance continued robust. The associated demands for reserves exceeded the increment to nonborrowed reserves supplied by the System over the intermeeting period. As a result, discount window borrowing and the federal funds rate have increased since mid-October, with the federal funds rate moving from around 12-1/2 percent to about 15 percent recently.

In response to the firmer money market conditions, continued strong growth of the aggregates, and further signs of intense inflationary pressures, market interest rates advanced substantially over the intermeeting period. Short-term rates have moved about 1-3/4 to 2-3/4 percentage points higher, and bond yields have advanced 3/4 to 1-1/4 percentage points, with municipal bond yields climbing above and corporate and Treasury bond yields approaching the record levels registered earlier this year. Most major banks have increased their prime rates 1-1/2 percentage points to 15-1/2 percent.

The prevailing high level of long-term interest rates along with expectations of future rate declines have led to a spate of postponements and cancellations of bond offerings by both corporations and municipalities. Corporate bond offerings remained close to the relatively light pace of September, but sales of equities picked up in October as stock prices rose to record levels; a further runoff of nonfinancial commercial paper was again more than offset by rapid growth of bank loans. In all, total funds raised in financial markets by businesses proceeded at about the strong

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1979	1980				Change from:		
	FOMC Oct. 5	Mar-Apr High	Mid-June** Low	FOMC Oct. 21	Nov. 10	Mar-Apr High	Mid-June Low	FOMC Oct. 21
Short-term rates								
Federal funds[2]	11.91	19.39	8.99	12.55	14.92P	-4.47	5.93	2.37
Treasury bills								
3-month	10.70	16.00	6.18	11.64	13.48	-2.52	7.30	1.84
6-month	10.63	15.64	6.60	11.52	13.20	-2.44	6.60	1.68
1-year	10.28	14.58	7.00	11.23	12.39	-2.19	5.39	1.16
Commercial paper								
1-month	11.73	18.00	7.98	12.41	15.00	-3.00	7.02	2.59
3-month	11.86	17.69	7.78	12.23	14.84	-2.85	7.06	2.61
6-month	11.84	17.25	7.59	11.92	14.31	-2.94	6.72	2.39
Large negotiable CDs[3]								
1-month	12.09	17.87	7.96	12.52	14.94	-2.93	6.98	2.42
3-month	12.50	18.59	7.90	12.73	15.15	-3.44	7.25	2.42
6-month	12.80	18.47	7.66	12.76	14.92	-3.55	7.26	2.16
Eurodollar deposit[2]								
1-month	12.45	19.04	8.88	13.14	15.85	-3.19	6.97	2.71
3-month	12.79	19.60	8.99	13.38	16.39	-3.21	7.40	3.01
Bank prime rate	13.50	20.00	12.00	14.00	15.50	-4.50	3.50	1.50
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	10.01	14.53	8.56	11.96	13.23	-1.30	4.67	1.27
10-year	9.60	13.65*	9.47	11.70	12.78	-.87	3.31	1.08
30-year	9.36	12.85*	9.49	11.53	12.71	-.14	3.22	1.18
Municipal (Bond Buyer)[4]	6.64	9.44	7.44	8.81	9.64	.20	2.20	.83
Corporate Aaa								
New issue[5]	10.22	14.22	10.53	12.62	—	—	—	—
Recently offered[6]	10.25	14.12	10.79	12.85	13.98P	-.14	3.19	1.13
Primary conventional mortgages[6]	11.35	16.35	12.35	13.78	14.08	-2.27	1.73	.30

	FOMC Oct. 5	Mar-Apr. Low	Mid-Oct. High	FOMC Oct. 21	Nov. 11	Mar-Apr Low	Mid-Oct. High	FOMC Oct. 21
Stock Prices								
Dow-Jones Industrial	897.61	759.13	972.44	954.44	944.03	184.90	-28.41	-10.41
NYSE Composite	63.39	55.30	77.24	75.98	75.56	20.26	-1.68	-.42
AMEX Composite	235.15	215.69	363.33	361.69	338.76	123.07	-24.57	-22.93
NASDAQ (OTC)	152.29	124.09	199.43	196.46	195.02	70.93	-4.41	-1.44

1. One-day quotes except as noted.
2. Averages for statement week closest to date shown.
3. Secondary market.
4. One-day quotes for preceding Thursday.
5. Averages for preceding week.
6. One-day quotes for preceding Friday.

* Highs reached on February 26.

** Most lows occurred on or around June 13.

pace of September. Municipal bond issuance slowed in October, especially near the end of the month. The federal government has been an active borrower in recent weeks, selling a relatively large amount of securities in its recent mid-quarter refunding. In the household sector, rising interest rates apparently have stalled the advance of home mortgage commitment activity, and may have slowed the recent recovery in consumer installment credit.

Monetary Aggregates and Bank Credit

Growth in M-1A decelerated somewhat in October to a 9 percent annual rate as a drop in demand deposit growth more than offset a marked increase in the rate of currency expansion. M-1B growth slowed by a slightly greater amount--to an 11-1/4 percent annual rate--reflecting a slower pace of inflows to other checkable deposits. The divergence between M-1A and M-1B growth rates continued to exceed greatly the 1/2 percentage point difference in the longer-run growth ranges for those aggregates. Thus, while M-1A remained within its range in October, M-1B rose further above the upper end of its range, recording a 7-1/2 percent average annual growth rate from the fourth quarter of 1979.

M-2 remained above the 9 percent upper bound of its longer-run growth range in October. Growth in this aggregate increased slightly to a 9-1/4 percent annual rate, reflecting an acceleration in its nontransactions component that more than offset the slowdown in M-1B. On a monthly average basis, the decline of money market mutual fund assets moderated in October; total assets actually increased in the last half of the month, as inflows to general purpose and broker-dealer funds outweighed a continued runoff of assets at institution-only funds. Growth in total savings and small

MONETARY AGGREGATES
(Based on seasonally adjusted data unless otherwise noted)[1]

	1980 Q1	1980 Q2	1980 Q3	1980 Aug.	1980 Sept.	1980 Oct.	Oct. '79 to Oct. '80
	—— Percentage change at annual rates ——						
Money stock measures							
1. M-1A	4.8	-3.9	11.0	19.3	12.6	9.1	5.5
2. M-1B	5.9	-2.4	13.5	21.6	15.8	11.2	7.3
3. M-2	7.2	5.5	15.5	14.5	8.9	9.3	9.5
4. M-3	7.8	5.7	12.7	13.6	10.4	11.5	9.3
Selected components							
5. Currency	8.3	7.0	11.3	15.0	5.3	12.6	9.1
6. Demand deposits	3.4	-8.3	10.8	21.6	15.8	7.6	4.0
7. Other checkable deposits, NSA[2]	29.3	31.8	63.2	63.5	71.2	46.6	47.9
8. M-2 minus M-1B (9+10+11+14)	7.7	8.1	16.2	12.2	6.6	8.7	10.3
9. Overnight RPs and Eurodollars, NSA[3]	- 7.5	-72.0	132.7	103.8	41.5	8.0	4.5
10. Money market mutual fund shares, NSA	151.9	82.7	75.7	1.5	-37.2	-12.3	109.8
11. Commercial banks	6.9	9.8	10.7	10.4	7.0	10.3	9.5
12. savings deposits	-19.3	-22.6	26.4	26.5	7.6	8.8	-4.7
13. small time deposits	29.1	33.9	0.6	0.0	6.1	10.9	22.0
14. Thrift institutions	-0.3	3.7	9.9	11.2	10.4	10.1	5.3
15. savings deposits	-22.5	-27.1	26.2	35.2	19.6	6.1	-6.6
16. small time deposits	12.0	19.3	2.5	0.0	6.2	11.8	12.3
17. Large time deposits	17.8	10.6	-10.3	-4.2	26.6	20.8	9.1
18 at commercial banks, net[4]	9.9	7.4	-14.8	-8.8	25.5	15.6	3.3
19. at thrift institutions	72.6	28.9	14.6	16.6	36.0	47.6	51.7
20. Term RPs, NSA	-31.9	-19.4	46.7	98.3	-30.3	58.3	-1.8
	—Average monthly change in billions of dollars—						
MEMORANDA:							
21. Managed liabilities at commercial banks (22+23)	8.0	-6.6	-0.1	-2.3	5.8	7.4	-0.1
22. Large time deposits, gross	3.1	0.0	0.3	0.3	4.5	2.4	1.2
23. Nondeposit funds	4.9	-6.6	-0.4	-2.6	1.3	5.0	-1.1
24. Net due to related foreign institutions, NSA	1.6	-6.0	-3.0	-1.8	-3.0	2.2	-2.2
25. Other[5]	3.3	-0.5	2.5	-0.9	4.4	2.9	1.2
26. U.S. government deposits at commercial banks[6]	-0.2	0.4	1.3	0.9	0.9	1.5	0.1

1. Quarterly growth rates are computed on a quarterly average basis.
2. Consists of ATS and NOW balances at all institutions, credit union share draft balances, and demand deposits at mutual savings banks.
3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers.
4. Net of large denomination time deposits held by money market mutual funds and thrift institutions.
5. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve), loans sold to affiliates, loan RPs, and other minor items.
6. Consists of Treasury demand deposits at commercial banks and Treasury note balances.

time deposits at banks and thrifts increased, since a considerable slowing of inflows to savings accounts at thrift institutions was more than offset by an acceleration in the growth of small time deposits at both commercial banks and thrifts. At S&Ls the strength of small time deposit inflows reflected a pickup in the money market certificate component--as net sales turned positive after five consecutive months of decline--and another substantial increase in small saver certificates.

Commercial banks increased their managed liabilities in October by $7.5 billion, the second consecutive monthly increase. Banks continued to issue large-denomination CDs last month, although the rise in outstandings was smaller than in September, and term RPs, which had contracted in September, also increased. As a result, M-3 growth accelerated to an 11-1/2 percent annual rate last month, putting it at the upper end of its longer-run range. Commercial banks reversed a six-month trend last month by increasing their net borrowings from foreign affiliates by $2.2 billion as domestic CD rates rose faster than Eurodollar rates, reducing the incentive to shift domestically raised funds abroad.

The increase in managed liabilities in October reflected another large gain in bank credit. Total bank credit expanded at a 12-3/4 percent annual rate, down a little from September. Despite an acceleration in real estate lending and a pickup in security loans and loans to nonbank financial institutions, total commercial bank loan growth moderated somewhat, as expansion in business and "all other" loans decelerated. A slowing in acquisitions of Treasury securities about offset an increase in net purchases of other securities, and growth in total investments was little changed.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)[1]

	1980						Oct. '79 to Oct. '80[e]
	Q1	Q2	Q3[e]	Aug.[e]	Sept.[e]	Oct.[e]	
	---------- Commercial Bank Credit ------------						
1. Total loans and investments at banks[2]	11.5	-4.4	13.6	17.4	15.3	12.8	6.6
2. Investments	7.3	11.0	21.3	25.2	11.6	12.6	11.8
3. Treasury securities	3.0	10.6	39.2	42.9	24.1	12.4	12.9
4. Other securities	9.4	11.2	12.7	16.5	5.2	12.7	11.3
5. Total loans[2]	12.8	-9.5	10.9	14.7	16.6	12.7	4.9
6. Business loans	16.4	-9.1	16.1	21.3	24.5	20.9	8.3
7. Security loans	-32.8	-23.8	-7.6	64.0	-22.8	31.0	-22.8
8. Real estate loans	11.9	1.0	5.6	5.3	6.2	10.9	8.0
9. Consumer loans	3.7	-21.5	-7.1	-6.3	-0.7	n.a.	n.a.
	— Short- and Intermediate-Term Business Credit —						
10. Total short- and intermediate-term business credit (sum of lines 13,14 and 15)	22.0	1.2	n.a.	11.3	n.a.	n.a.	n.a.
11. Business loans net of bankers acceptances[1]	17.6	-10.5	16.6	22.5	26.9	25.6	8.6
12. Commercial paper issued by nonfinancial firms[3]	76.2	86.9	-22.5	-47.2	-37.6	-56.7	33.9
13. Sum of lines 11 & 12	23.1	-0.2	11.6	13.4	19.0	15.8	10.9
14. Finance company loans to business[4]	-2.8	-4.0	n.a.	-3.5	12.2	n.a.	n.a.
15. Total bankers acceptances outstanding[4]	54.1	32.3	n.a.	17.7	n.a.	n.a.	n.a.

1. Average of Wednesdays for domestic chartered banks and average of current and preceding ends of months for foreign-related institutions.
2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.
3. Average of Wednesdays.
4. Based on average of current and preceding ends of months.
e--estimated. n.a.--not available.

Business Finance

The volume of funds raised by businesses in October appears to have remained close to the pace of recent months--well above the second quarter when financing needs were met in part by reducing liquid assets, but below the rate of 1979 and early 1980 when borrowing requirements were boosted by inventory accumulation.

Business loans at commercial banks (excluding bankers acceptances) expanded at a 25-1/2 percent annual rate in October, slightly slower than in the previous month. Outstanding commercial paper of nonfinancial firms decreased a record $1.8 billion in October, extending the decline in such indebtedness that began in August. The continuing rise in short-term market interest rates relative to the costs of bank borrowing apparently contributed to this development. The high level of rates and volatile market environment have also induced both borrowers and lenders to favor shorter-maturity paper. Risk premiums in this market have not widened appreciably during the past several months.

The upward movement in corporate bond yields since the October FOMC meeting--to within about 15 basis points of the historic highs recorded in late March--contributed to the continued relatively small volume offered in October and expected in November. Gross public offerings of corporate bonds remained at around $2.3 billion last month, seasonally adjusted, only about one-third the monthly average of May through July. Most of the new public offerings by industrial corporations were convertible bond issues, all of which carried ratings less than Aa.

Private placements of corporate bonds in October appear to have continued at about the same pace as in the first three quarters of 1980.

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

	1980				
	Q2	Q3^p	Sept.^p	Oct.^p	Nov.^f
	Seasonally adjusted				
Corporate securities--total	7,725	6,340	4,535	4,850	4,100
Publicly offered bonds	5,780	3,875	2,235	2,300	1,500
Privately placed bonds	660	800	800	800	800
Stocks	1,285	1,665	1,500	1,750	1,800
	Not seasonally adjusted				
Publicly offered bonds--total	6,062	3,800	2,200	2,600	1,500
By quality[1]					
Aaa and Aa	3,230	1,690	1,075	625	--
Less than Aa[2]	2,832	2,110	1,125	1,975	--
By type of borrower					
Utility	1,305	1,060	680	1,400	--
Industrial[3]	3,132	2,157	1,100	800	--
Financial	1,625	583	420	400	--
Memo: convertible bonds	316	369	468	729	--
Stocks--total	1,332	1,362	1,500	2,000	1,500
By type of borrower					
Utility	512	635	650	650	--
Industrial	593	547	700	1,100	--
Financial	227	180	150	250	--

p--preliminary. f--forecast.
1. Bonds categorized according to Moody's bond ratings.
2. Includes issues not rated by Moody's.
3. Includes equipment trust certificates.

Recent data for life insurance companies, the dominant purchasers of privately placed corporate bonds, suggest that the industry's overall cash flow has recovered somewhat from its unusually low level earlier this year. However, life insurance companies appear to be reacting cautiously to these improvements, perhaps because they fear that recent rate increases will lead to a reemergence of cash flow pressures, and new commitment activity remains well below that recorded in previous years.

As interest rates rose, major stock price indexes declined 1 to 6 percent over the intermeeting period. The Canadian government's announcement of a federal budget containing several features that cloud the future earnings prospects of oil and natural gas companies also has severely affected the share prices of both Canadian energy firms and U.S. energy companies with large exposures in Canada. Prior to their recent declines, stock prices generally had reached new historic highs in mid-October and average price-earnings ratios were at their highest levels in two years.[1] Encouraged by the decline in the cost of raising equity capital, especially relative to debt capital, gross offerings of common and preferred stocks totaled almost $1.8 billion, seasonally adjusted, in October, one of the largest amounts on record. Even before October, equity offerings this year had been proceeding at a near record pace.

Government Debt Markets

Net Treasury borrowing through marketable debt issues totaled $4.3 billion, not seasonally adjusted, in October. This total includes $1.6

1. The price-earnings ratios referred to above are defined as current stock prices divided by the latest reported 12-month earnings.

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

	Q2	Q3	Sept.	Oct.[e]	Nov.[f]
	Seasonally adjusted				
State and local government securities, gross offerings					
Total	6.64	7.15	7.49	6.50	5.35
Long-term	4.69	4.83	5.88	4.25	2.85
Short-term	1.95	2.32	1.61	2.25	2.50
U.S. government securities, net offerings					
U.S. Treasury[1]	4.87	8.35	2.95	2.12	10.64
Sponsored agencies	1.60	0.58	1.62	4.88	1.63
	Not seasonally adjusted				
State and local government securities, gross offerings					
Total	7.94	6.52	6.50	6.10	5.00
Long-term	5.12	4.32	4.50	4.60	3.00
Housing revenue bonds	1.38	0.67	0.44	0.67	0.50
Single-family	1.32	0.48	0.31	0.65	0.45
Multi-family	0.06	0.19	0.13	0.02	0.05
Short-term	2.82	2.20	2.00	1.50	2.00
U.S. government securities, net offerings					
U.S. Treasury[1]	0.98	8.83	2.53	4.27	12.60
Bills	-4.18	4.51	0.19	1.64	7.40
Coupons	5.16	4.32	2.34	2.63	5.20
Sponsored agencies	1.78	1.07	2.33	5.27	1.24

e--estimate. f--forecast.
1. Marketable issues only.

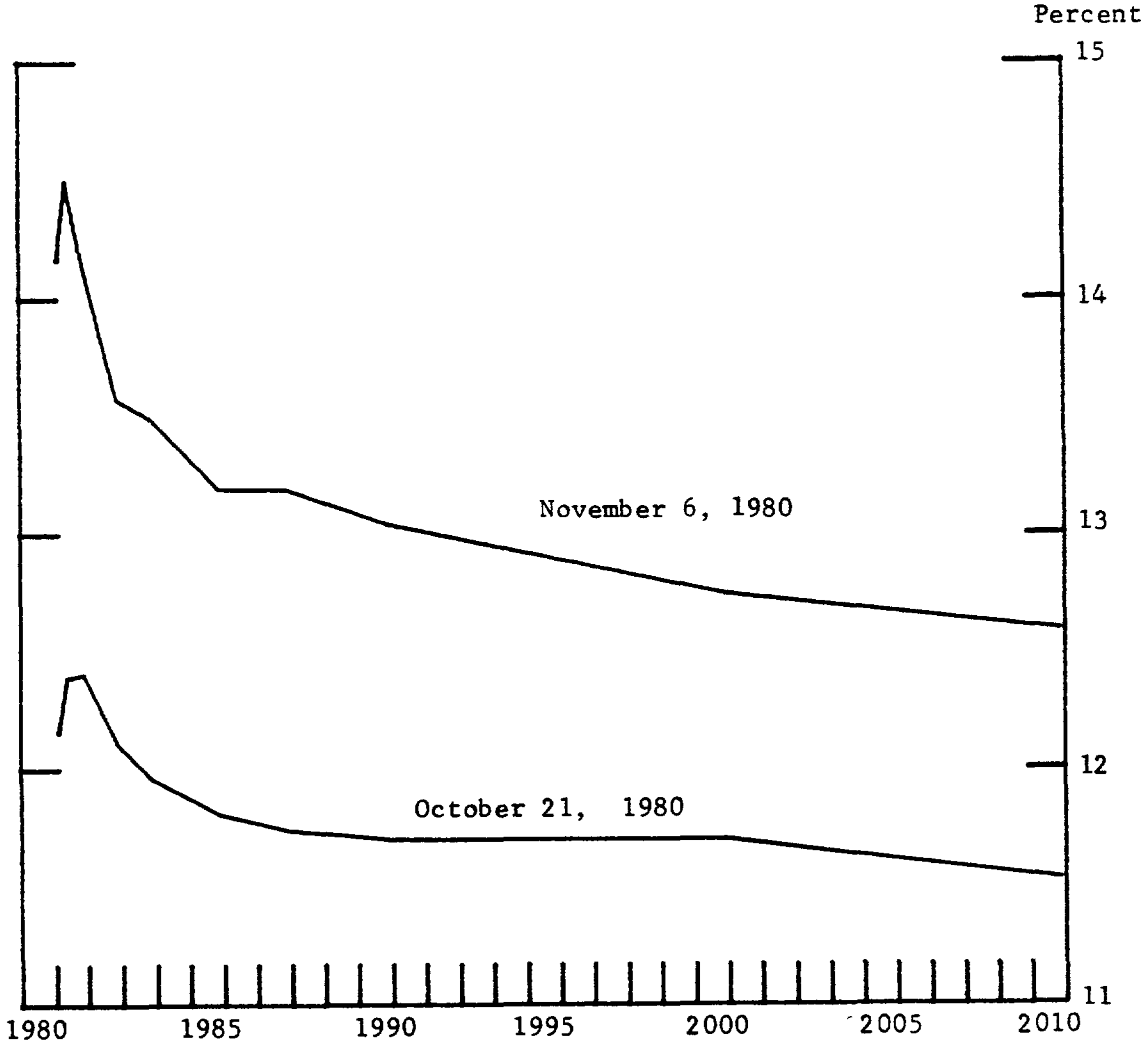
billion raised in regular bill auctions, and the remainder through the auctions of notes and bonds. In its mid-quarter refunding auctions held early this month, the Treasury raised an additional $3 billion through sales of a conventional package of issues consisting of a 3-1/2-year note, a 10-year note and a 30-year bond. Recent rate movements have accentuated the downward slope of the yield curve for Treasury securities of 6-month maturity or longer, implying expectations of future rate declines but not in the very near term (see chart on page III-12). The yield of 13.31 percent on the 3-1/2-year notes sold as part of the refunding was substantially below the coupon-equivalent yield on 6-month Treasury bills being traded at that time. In its refunding announcement, the Treasury indicated that it expected to borrow about $25 billion in the market this quarter, ending with a cash balance of $15 billion. This suggests that on a seasonally adjusted basis Treasury borrowing will continue in November and December at about the $8.4 billion monthly pace of the third quarter.

An increasing volume of Treasury issues has been absorbed by investors submitting noncompetitive tenders. Such tenders have recently been larger on average in both bill and coupon auctions than they were in March when even higher yields were available, perhaps partly reflecting somewhat less pressure on fund availability at smaller financial institutions currently than in March and April.[1]

Federally sponsored credit agencies are estimated to have borrowed almost $5 billion in the month of October (seasonally adjusted, offerings

1. Nonweekly reporting banks increased their holdings of Treasury issues by over $5 billion in the September-October period (seasonally adjusted); this contrasts with a net decline of over $1 billion in March and April combined.

TREASURY SECURITY YIELD CURVES



basis). This exceeds the record level of borrowing set in March of this year and compares with $1.6 billion in September. The sizable increase reflects mainly larger borrowing by the housing credit agencies. The Federal Home Loan Banks borrowed about $1.8 billion in October, with much of this total used for advances. FNMA borrowed about $2.5 billion during the past month, raising $1.8 billion of this amount through issuance of discount notes. With net mortgage purchases of only $500 million, FNMA increased its liquid asset holdings substantially, primarily to gain an early start in refinancing an unusually large amount of discount notes maturing in November.

In the tax-exempt market, long-term yields climbed sharply from their mid-October levels to record highs in early November. The Bond Buyer general obligation index increased 83 basis points during this period to a record 9.64 percent. In contrast to the taxable market, yields on tax-exempt notes remain well below those on bonds reflecting the strong demand by institutional investors for shorter-maturity securities. Some of the serial issues offered during October were structured to accommodate this shift in maturity preference, which made it easier for those issues to proceed to market.

Although the sharp rise in municipal bond yields late in the month contributed to a decline in gross offerings during October, the volume of tax-exempt bond issuance was still a relatively strong $4.3 billion (seasonally adjusted), down from an extremely high $5.7 billion in September. Housing revenue bonds accounted for a relatively small amount of the total bonds issued in October, following the trend of the previous two months. One possible factor contributing to the lower volume is the

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

Period	Conventional home mortgages: Average rate on new commitments for 80% loans (percent)	Basis point change from month or week earlier	Spread[1] (basis points)	Percent of S&Ls[2] with mortgage funds in short supply
1980--High	16.35	—	+385	93
Low	12.18	—	-24	60
1980--Apr.	16.33	+105	+369	86
May	14.26	-207	+258	85
June	12.71	-155	+171	74
July	12.19	-52	+75	70
Aug.	12.56	37	-12	68
Sept.	13.20	64	+17	65
Oct. 3	13.60	+17	+47	70
10	13.73	+13	+85	69
17	13.78	+ 5	+97	70
24	13.85	+ 7	+81	66
31	14.00	+15	+27	65
Nov. 7	14.08	+8	+10	68

1. Average mortgage rate minus average yield on recently offered Aaa utility bonds.
2. Percent 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]	Government-underwritten: Amount ($ millions) Offered	Government-underwritten: Amount ($ millions) Accepted	Government-underwritten: Yield to FNMA[1]	Yields on GNMA-guaranteed mortgage-backed securities for immediate delivery[2]
1980--High	426	133	17.51	644	324	15.93	13.84
Low	54	24	12.76	199	89	12.28	11.03
1980--Oct. 6							12.70
13	29	18	14.47	196	118	14.57	12.59
20							12.98
27	79	46	14.92	232	139	15.30	13.35
Nov. 3							13.42
10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.61

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 received.
2. Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA-VA mortgages typically carrying the prevailing ceiling rate on such loans.
n.a.--not available.

declining number of proposed single-family mortgage bond issues that qualify as tax exempt under the transition rules of the House-passed mortgage revenue bond legislation.

Mortgage Markets

Interest rates in mortgage markets have risen further since the last FOMC meeting. Costs of permanent mortgages, construction loans, and warehousing loans all have increased. Field reports and trade sources suggest that the higher costs for longer-term mortgage funds have caused the demand for this type of credit to slacken noticeably in many localities during recent weeks. Funding for used-home transactions, partly through "creative financing" techniques such as purchase-money mortgages, assumed loans, and land contracts, is said to have slipped less than credit approvals for new-home transactions--a pattern characteristic of earlier periods of credit tightening.[1]

In the primary market for conventional home mortgages, the national average rate on new commitments for 80 percent fixed-rate level-payment loans has risen 30 basis points since the last FOMC meeting to slightly above 14 percent in early November; several West Coast S&Ls have posted rates of 15 percent or more. Further increases seem likely in average interest rates on new commitments in the primary market, judging from the recent higher yields in the secondary mortgage market. Not only are most FHA/VA home loans subsequently sold through secondary market channels,

1. More than four-fifths of the real estate brokers recently sampled by the National Association of Realtors reported that some of their customers had relied on such creative financing techniques in purchasing homes during the past 12 months. A third of the respondents indicated that creative financing had accounted for half or more of their business.

but field reports suggest that more originators of conventional home mortgages have been looking to the secondary market, mainly to yields in FHLMC or FNMA commitment auctions, when posting their rates.

Market participants also indicate that many lenders have become more cautious about committing themselves to make long-term mortgages at fixed interest rates. Their caution is said to reflect greater uncertainty about prospects not only for the volume and the cost of loanable funds but also for mortgage prices in the secondary market. As a result, many creditors are setting mortgage interest rates, discount points, or both only at the time of loan closing rather than at time of loan commitment, and some other originators guarantee a stated closing interest rate only for commitments scheduled to be taken down within a relatively short period, such as 60 days. Moreover, field reports continue to indicate that more lenders are offering mortgages on which interest rates are periodically renegotiated. Initial interest rates on this relatively new mortgage instrument have generally been running 50 to 100 basis points or more below the cost of credit on fixed-rate level-payment mortgages.

The recently reported slackening in mortgage commitment activity may have reversed the recovery in this market that had continued into September. In September, the net expansion in mortgage holdings at S&Ls was $4.8 billion, seasonally adjusted, and outstanding commitments increased by $1.4 billion to $28.0 billion; new commitments were unchanged from August at $9.9 billion, more than three times the exceptionally low volume earlier this year.

Consumer Credit

Consumer installment credit outstanding grew at nearly a 6 percent annual rate in September, continuing its recovery from the substantial declines recorded during the second quarter. Combined with a small decline in July and no change in August, installment credit expanded at a 1 percent rate for the full third quarter, compared with a record 11-1/2 percent rate of decline during the previous quarter. Early reports, however, suggest a somewhat slower growth rate in October.

The rebound during September in credit outstanding was associated with another sharp increase in credit extensions. Since reaching a low annual rate of $248 billion in June, extensions have risen by one-third, to a $328 billion rate in September. With the sharp advance, extensions equalled 36 percent of retail sales in September; although up from as low as 27 percent in June, this ratio is in line with its longer-run upward trend.

The volume of extensions picked up in all major categories of installment credit, but particularly for automobile loans. Auto credit activity reflected the moderately improved new-car sales pace during August and September, and also some easing of lending terms and qualifying standards. Finance rates on new-car loans at finance companies fell 30 basis points on average during September, and 90 basis points since June, despite the upturn in market rates generally.

All lender groups experienced net gains in their installment credit holdings in September. For credit unions, the increase in outstandings was their first since September 1979. From October 1979 through August of this year, consumer credit held by credit unions had contracted 11 percent. During the same period, commercial bank holdings had fallen 5 percent, and finance company receivables had risen 15 percent.

CONSUMER INSTALLMENT CREDIT[1]

	1978	1979	1980 Q2	1980 Q3	1980 Aug.	1980 Sept.
Total						
Change in outstandings						
Billions of dollars	44.8	35.5	-35.5	3.4	0.2	17.4
Percent	19.4	12.9	-11.4	1.1	0.1	5.8
Extensions						
Billions of dollars	298.4	322.6	257.9	309.6	307.2	327.7
Bank share (percent)	47.8	46.4	41.4	43.1	42.6	43.6
Liquidations						
Billions of dollars	253.5	287.1	293.5	306.2	307.0	310.3
Ratio to disposable income (percent)	17.4	17.7	16.7	16.9	17.0	17.0
Automobile credit						
Change in outstandings						
Billions of dollars	19.6	12.6	-14.9	2.1	2.1	5.3
Percent	23.6	12.3	-12.7	1.9	1.9	4.7
Extensions						
Billions of dollars	89.0	91.9	62.8	85.2	83.6	92.6
Revolving credit						
Change in outstandings						
Billions of dollars	7.8	8.1	-6.5	2.0	1.7	4.2
Percent	20.7	17.9	12.1	3.9	3.3	8.0
Extensions						
Billions of dollars	104.6	120.8	120.1	128.3	127.8	130.8

1. Quarterly and monthly dollar figures and related percent changes are at seasonally adjusted annual rates.

Foreign Exchange Markets

The dollar has appreciated by about 3 percent on a weighted-average basis since last month's Greenbook. As indicated by the chart on the next page, the dollar appreciated by nearly 5 percent through the first week in November, reflecting a substantial rise in U.S. interest rates while foreign interest rates remained on average fairly stable. The dollar then plunged nearly 2 percent on the following Monday, which was partly attributed to a reassessment of the outlook for U.S. interest rates. Principal factors cited as precipitating the reassessment were indications that real U.S. activity was weaker than had previously been thought and surprise that the Federal Reserve did not act to confirm widespread expectations of a discount rate increase soon after Election Day.

The dollar's strengthening during the last 4 weeks has been most pronounced against the mark and other Continental European currencies. As Eurodollar interest rates climbed after Election Day to peaks of around 17-1/2 percent per annum on 1 to 3 month deposits, the dollar rose above the 1.95 Deutschemark level. Subsequently, it dropped back to the 1.90 range, for a net appreciation since last month's Greenbook of about 4-1/2 percent against the mark and other Continental currencies. Against the yen the dollar's appreciation was a smaller 3 percent, partly held down by continued improvement in Japan's trade balance and inflation statistics, and also dampened by statements that the Japanese were considering legal changes that would encourage the Saudi Arabian Monetary Authority and other

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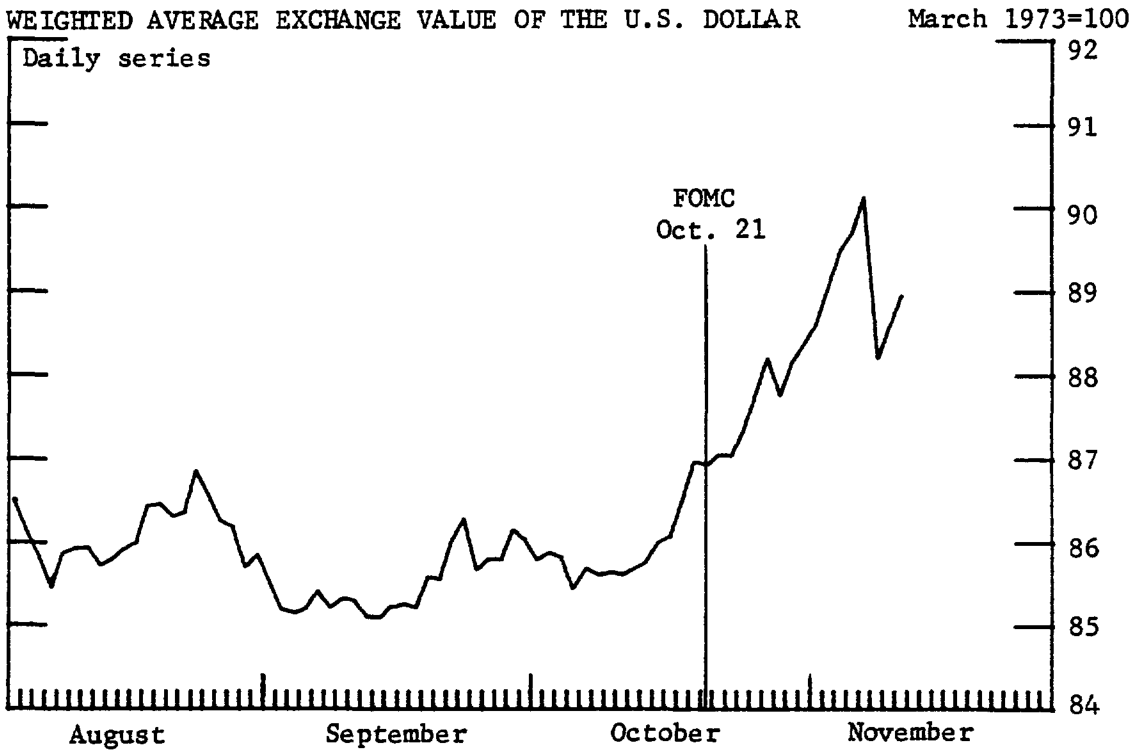

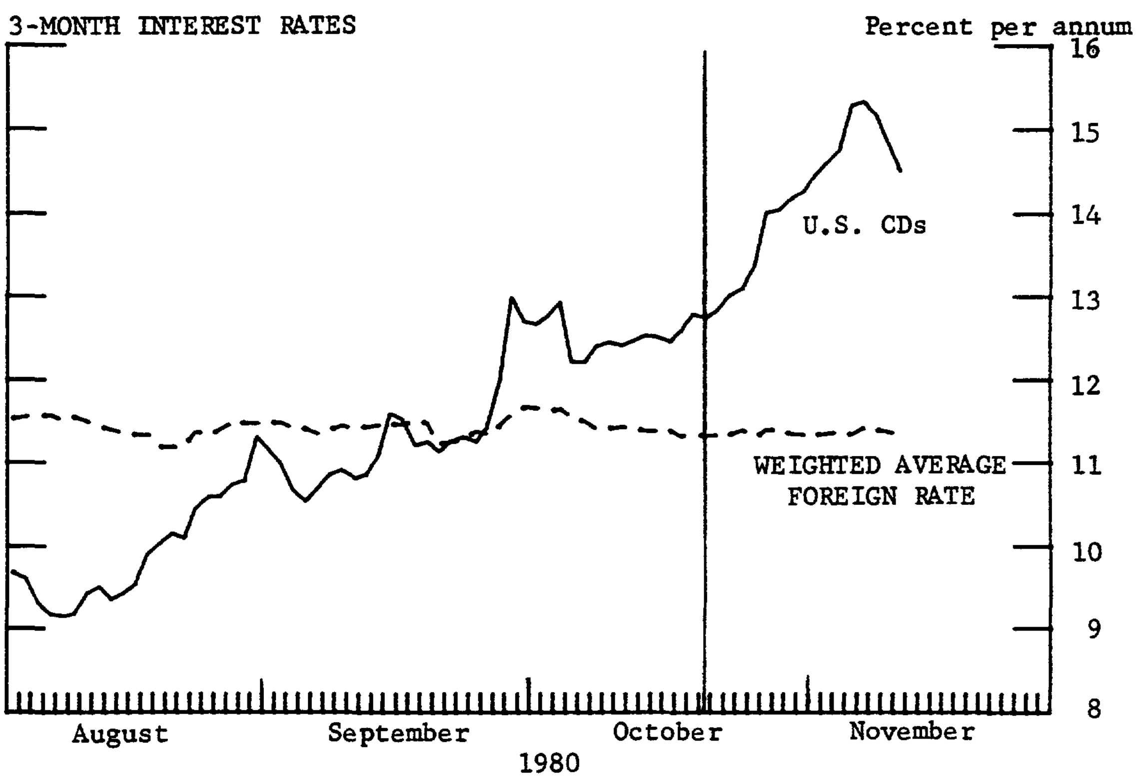

foreign investors to substantially increase acquisitions of yen-denominated securities. Against the Canadian dollar the U.S. dollar appreciated by nearly 2 percent, as Canadian interest rates rose less than U.S. interest rates. Against the pound the dollar first depreciated to around $2.45 per pound in early November, reflecting a tightening of U.K. money market conditions and continued indications that British inflation is slowing. Subsequently the pound has fallen back to where it stood four weeks ago, at around $2.40, as attention has shifted toward the prospect that the minimum lending rate may be cut when the British report later this month on their reassessment of monetary growth targets and control procedures.

Pressures within the European Monetary System intensified considerably during the last week in October. For much of the subsequent period the Deutschemark and Belgian franc were together at their intervention floors, while the French franc and Dutch guilder remained at maximum permissible strength.

. In actions to ease the strains, the Dutch central bank cut its discount rate by 1/2 percentage point effective October 21 and the Bank of France lowered its money-market intervention ceiling in two steps. The second step, announced on November 7, was accompanied by the temporary imposition of reserve requirements on nonresident deposits in France. Subsequently, the exchange rate between marks and French francs has moved to within 2 percent of its EMS central rate, compared with the intervention limit of 2-1/4 percent. The exchange rate between guilders and Belgian francs, however, remains near its intervention limit.

The rise in U.S. interest rates contributed to a decline in the price of gold, which has fallen about 9 percent since last month's Greenbook to around $615 an ounce. Also contributing to the gold price decline were customs reports that the Soviet Union moved more than $500 million worth of gold into Switzerland during September for possible sale in the near future.

Desk operations since last month's Greenbook have resulted in net purchases of close to $2-1/2 billion equivalent of foreign currencies, almost entirely marks. The System also made small French franc acquisitions that were used to eliminate its swap debt with the Bank of France. The System's mark balances now total nearly $1 billion equivalent, about equal to the Treasury's net debt position in marks.

U.S. International Transactions

The U.S. merchandise trade deficit in the third quarter was about one-third the size of the deficit in the second quarter, and was the smallest quarterly deficit since the second quarter of 1976. While exports increased in value, imports fell. See the table below.

U.S. Merchandise Trade 1/

	1979		1980			
	Year	4Q	1Q	2Q	3Q	% change 3Q/2Q
VALUE (Bil.$, SAAR)						
Exports	182.1	200.9	218.8	218.8	225.7	3.1
Agric.	35.4	41.7	41.5	38.9	43.6	12.1
Nonagric.	146.6	159.2	177.3	179.9	182.1	1.2
Imports	211.5	237.8	262.2	249.1	236.6	-5.0
Oil	60.0	75.4	86.4	84.4	69.0	-17.9
Nonoil	151.5	162.4	175.8	165.1	167.6	1.5
Balance	-29.5	-36.9	-43.4	-30.2	-10.9	--
VOLUME (Bil.72 $, SAAR)						
Exports - Agric.	16.1	18.3	18.1	17.7	18.5	4.5
Nonagric.	68.5	68.9	74.5	74.4	72.8	-2.2
Imports - Oil	8.5	8.4	8.1	7.2	5.7	-20.8
Nonoil	68.0	69.6	72.1	66.3	65.7	-0.9

1/ International accounts basis.

The reduction in the deficit was largely the result of a sharp drop in the volume of oil imports. Averaging 6 million barrels per day in the third quarter, the volume of oil imports fell 20 percent from the second quarter rate and reached the lowest level since the second quarter of 1975. This reduction in oil imports reflects primarily the decline in U.S. oil consumption that began in early 1979. U.S. oil stocks, while easing slightly (seasonally adjusted), remained at very high levels through September. Average oil import prices increased only 2 percent to $31.43 per barrel in the third quarter, after rising 10 percent in the second quarter. Oil imports arriving in the United States through September were shipped before the outbreak of fighting between Iran and Iraq.

Spot market petroleum product prices have increased 10 percent since the outbreak of Iran/Iraq war, and spot market crude prices have increased almost 20 percent. Thus, the substantial downward pressure on oil prices that existed prior to the war, and was reflected in third-quarter U.S. import prices, has been reversed. As a consequence oil import prices are likely to be higher in the current quarter and in the first half of next year.

Nonoil imports in the third quarter were little changed in value or volume from the second-quarter rate. Sizeable declines in imports of industrial supplies (primarily in chemicals, steel, paper, textiles, natural gas, and various nonferrous metals) were offset by increases in food (alcoholic beverages and coffee) and in automotive imports.

Agricultural exports increased sharply in the third quarter, with volume and price increases each contributing roughly half of the rise. Sharp increases in market prices of corn, wheat and soybeans in recent weeks will be reflected in higher prices for agricultural exports in coming months. The most recent price rises reflect a slight deterioration in the already poor outlook for feedgrain and soybean production in the United States and a more serious deterioration in the outlook for wheat and coarse grain crops in the rest of the world, notably Australia, Argentina and the U.S.S.R.

Unusually high soybean exports in the third quarter may be related to Soviet purchases in Europe of soybean meal. The Soviets have run up against port and rail constraints on imports in their effort to make up for two poor crops in a row. Use of high protein soybean meal instead of other grains will allow them to import more protein content per ton through their limited facilities. The Soviets have already purchased 8 million metric tons (MMmt) of U.S. grain for delivery between October 1, 1980 and September 30, 1981, the maximum allowed under the terms of the embargo and the U.S.-U.S.S.R. Grain Agreement now in its last year.

The recently signed U.S.-Chinese Grain Agreement calls for annual Chinese purchases of 6-9 MMmt of U.S. grain in each of the next four calendar years. The agreement has little immediate impact on the outlook for agricultural exports as Chinese purchases of grain for delivery in 1981 had already exceeded 6 MMmt. The Chinese have also signed long-term grain purchase agreements with several other grain exporting countries.

The value of nonagricultural exports in the third quarter was about the same as in the second quarter, but the volume declined somewhat. Most of the decline occurred in industrial supplies -- especially in shipments of gold and silver. Even though economic activity in major industrial countries generally turned down beginning in the second quarter, U.S. machinery exports continued to increase. Aircraft exports also rose strongly.

The outflow of funds from banking offices in the United States that began this spring continued through the end of the third quarter. More than half of the third-quarter increase was accounted for by advances to foreign banking offices (including own foreign offices). There also was a sizeable increase in loans to developing countries, particularly the Philippines and several countries in Latin America. Partial data for October suggest, however, that the outflow of funds through banking offices has diminished. As shown in Table 1, net Eurodollar advances by U.S. offices of domestically-chartered banks to their own foreign offices decreased between September and October (adjusted for weekend reserve avoidance activity).1/ The average adjustment for weekend reserve avoidance activity increased in October, but towards the end of the month there seems to have been a sharp

1/ The data in Table 1 differ from those in the "U.S. International Transactions" table for two reasons. First, they are daily averages outstanding, rather than differences of month-end outstandings. Second, they do not include the activities of agencies and branches of foreign banks in the United States.

Table 1

Net Eurodollar Borrowing (+) by U.S. Chartered Banks in the United States and Credit Extended to U.S. Residents by their Foreign Branches (Billions of dollars, daily averages)

	1980								
	Q-1	Q-2	Q-3	May	June	July	Aug.	Sept.	Oct.
domestic chartered banks' net position with own foreign offices	7.3	1.2	-10.6	2.7	-5.2	-8.1	-9.9	-13.9	-11.9
adjustment for weekend reserve avoidance (a)	-2.3	-1.7	-3.1	-2.4	-1.8	-2.9	-3.6	-2.9	-3.7
net Eurodollar borrowings adjusted for weekend reserve avoidance	5.0	-.5	-13.7	.3	-7.0	-11.0	-13.5	-16.8	-15.6
credit extended to U.S. residents by foreign branches	3.3	4.4	5.6	4.3	5.4	5.9	5.8	4.9	4.6

(a) See March Greenbook, Appendix B for a description of weekend reserve avoidance activity and the calculation of the adjustment.

decline in this activity following a letter sent in mid-October by Reserve Bank presidents to large member banks requesting that they not engage in weekend reserve avoidance.

Foreign official reserve assets in the United States increased by $1.8 billion in September. Preliminary data for October, covering only holdings at the FRBNY, indicate an additional inflow of about $1 billion. The October inflow reflects additional OPEC holdings, which also increased by $2.1 billion in September. About half of the OPEC inflow over the two months was accounted for by one country's purchases of Treasury notes. Total reserves of G-10 countries in the United States showed a decrease in September:

The United States also has intervened in support of the German mark in recent months. U.S. purchases of German marks reached nearly $2 billion in October, one of the largest monthly acquisitions of marks. This intervention by U.S. authorities was sterilized, i.e., the effects of the intervention on bank reserves were offset by open market operations, and thus had the same impact on private portfolios as intervention by the Bundesbank. In either case an increase in private holdings of dollar-denominated securities is matched by a decrease in private holdings of German mark-denominated securities.

Whereas Federal Reserve participation is financed by a sale of Treasury securities from the system's portfolio, Treasury participation, on the other hand, is most often financed by a sale of newly-offered securities in the market.

RESTRICTED

U.S. International Transactions
In millions of dollars, Outflow = (-)

	1978 YEAR	1979 YEAR	1979 QIV	1980 QI	1980 QII	1980 QIII	1980 JULY	1980 AUG.	1980 SEP.
1. CHANGE IN NET FOREIGN POSITIONS OF BANKING OFFICES IN U.S. (EXCL. LIAB. TO FOREIGN OFF. INST.)	-15403	14767	-5016	8975	-23136	-11464	-2102	99	-9462
THROUGH INTERBANK TRANSACTIONS WITH									
A. OWN OFFICES IN FOREIGN COUNTRIES	4702	20733	-9107	7119	-18475	-2432	-856	6687	-8263
B. UNAFFILIATED BANKING OFFICES IN FOR. COUNTRIES	-4725	3783	6442	2788	-2129	-4184	1178	-5813	451
THROUGH NONBANK TRANSACTIONS									
A. CLAIMS ON NONBANKS IN FOREIGN COUNTRIES (INC.,-)	-16456	-12002	-3664	-394	-3488	-4311	-1367	-1048	-1896
B. LIABILITIES TO PRIVATE NONBANKS IN FOREIGN COUNTRIES (INC. CUSTODY LIAB.)	1076	2253	1313	-537	955	-537	-1056	273	246
2. PRIVATE SECURITIES TRANSACTIONS, NET - EXCL. U.S. TREAS	-909	-3446	-958	1585	-765	-543	604	-324	-823
A. FOREIGN NET PURCHASES OF U.S. CORP. BONDS	929	274	8	351	214	207	135	102	-30
B. FOREIGN NET PURCHASES OF U.S. CORP. STOCKS	1689	1037	193	1999	346	37	172	34	-168
C. U.S. NET PURCHASES(-) OF FOREIGN SECURITIES	-3527	-4756	-1159	-765	-1325	-787	298	-460	-625
3. FOREIGN NET PURCHASES OF U.S. TREASURY OBLIGATIONS 1/	2269	3713	-198	3278	-1225	-254	-711	34	423
4. CHANGE IN FOREIGN OFFICIAL RESERVE ASSETS IN U.S. (INCREASE+)	31,238	-13,123	-472	-7,397	7,100	7,277	3,888	1,598	1,791
BY AREA									
A. G-10 COUNTRIES AND SWITZERLAND	29,276	-21,151	-7,232	-10,689	1,271	1,067	2,549	-81	-1,400
B. OPEC	-1,170	6,523	6,023	3,262	4,264	3,922	466	1,321	2,135
C. ALL OTHER COUNTRIES	2,682	1,505	737	31	1,565	2,288	873	358	1,056
BY TYPE									
D. U.S. TREASURY SECURITIES 2/	23,851	-21,557	-5,769	-5,356	4,314	3,389	2,837	784	-232
E. OTHER 3/	7,387	8,434	5,297	-2,041	2,786	3,888	1,051	814	1,559
5. CHANGE IN U.S. RESERVE ASSETS (INCREASE-)	662	-306	-399	-2,535 5/	-452	-1,051	98	-846	-303
6. TRADE BALANCE 4/	-33,759	-29,469	-9,225	-10,850	-7,555	-2,726	-510	-1,119	-1,097
7. ALL OTHER TRANSACTIONS AND STATISTICAL DISCREPANCY	15,902	27,864	16,268	6,944	26,033	8,761	-1,267	558	9,471
MEMO:									
BIL. $ SEASONALLY ADJ. ANNUAL RATES									
MERCHANDISE TRADE BALANCE	-33.8	-29.5	-36.9	-43.4	-30.2	-10.9	-6.1	-13.4	-13.2
CURRENT ACCOUNT BALANCE	-14.3	-0.8	-7.2	-10.4	-9.6	n.a.	n.a.	n.a.	n.a.

1/ INCLUDES U.S. TREASURY NOTES PUBLICLY ISSUED TO PRIVATE FOREIGN RESIDENTS.
2/ INCLUDES NON-MARKETABLE AND MARKETABLE SECURITIES.
3/ INCLUDES DEPOSITS IN BANKS, COMMERCIAL PAPER, ACCEPTANCES, & BORROWING UNDER REPURCHASES AGREEMENTS.
4/ INTERNATIONAL ACCOUNTS BASIS, SEASONALLY ADJUSTED.
5/ INCLUDES NEWLY ALLOCATED SDR'S OF $1,150 MILLION IN JANUARY 1980.

Foreign Economic Developments. Inflation abroad has slowed markedly during the third quarter, as several major countries have made rapid improvement in that area. The United Kingdom, in particular, saw the annualized rate of consumer price inflation decline from over 23 percent in the second quarter to 8.4 percent in the third quarter. Similarly, inflation rates in Japan and Germany were more than halved from the second to the third quarter. Among the major countries, only France and Italy showed accelerated inflation. The weighted average foreign rate of CPI inflation of G-10 countries and Switzerland declined from an annual rate of 13.5 percent during the second quarter to 8.5 percent during the third quarter. Data for October indicate a further slowing of inflation in Japan and a slight acceleration in Germany, where the September rate, however, had been zero. While the improved inflation picture is consistent with weak economic activity, especially in the United Kingdom and Germany, currency appreciation was a major additional factor in the U.K. and in Japan.

Economic activity abroad continued to be generally weak in the third quarter. The July-August average of industrial production was below the second-quarter level in all major foreign countries except France. German industrial production through September has continued to decline below the already sharply reduced level of the second quarter. In Japan, there was a 3.7 percent rebound in industrial production in September, following the exceptionally large 4.5 percent drop in August. Despite this rebound, the third-quarter average remained below the second-quarter level. Current-account developments point to reductions from high deficit levels in Japan and Germany. Japan registered its first

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from preceding period)

		1979			1980			1980					MEMO: Latest 3 Months from Year Ago
		Q2	Q3	Q4	Q1	Q2	Q3	June	July	Aug.	Sept.	Oct.	
Canada:	CPI	2.6	2.0	2.3	2.2	2.8	2.8	1.1	0.8	0.9	0.9	n.a.	10.5
	WPI	3.1	2.7	3.6	4.9	1.4	n.a.	0.4	0.7	1.1	n.a.	n.a.	13.0
France:	CPI	2.8	3.2	2.8	3.8	3.1	3.2	0.6	1.5	1.0	0.9	n.a.	13.6
	WPI	3.8	2.8	1.9	3.0	0.7	n.a.	-0.04	0.2	0.1	n.a.	n.a.	6.7
Germany:	CPI	1.4	1.2	0.9	1.9	1.8	0.7	0.5	0.2	0.1	0.0	0.2	5.2
	WPI	3.3	1.7	1.1	3.8	1.7	-0.2	0.2	0.4	-1.0	-0.9	n.a.	6.5
Italy:	CPI	3.7	3.5	5.6	6.5	3.9	4.1	0.9	1.8	1.0	2.1	1.7	21.3
	WPI	4.6	4.3	5.6	6.6	3.6	2.3	1.1	0.3	0.9	1.2	n.a.	19.2
Japan:	CPI	2.2	0.9	1.9	2.0	3.0	1.1	0.1	0.4	-0.2	1.5	-0.1	8.0
	WPI	4.1	4.9	4.3	6.4	4.8	0.7	-0.1	0.4	0.7	-0.3	n.a.	17.1
United Kingdom:	CPI	3.7	6.7	2.8	4.7	5.8	2.1	0.9	0.8	0.2	0.6	n.a.	16.4
	WPI	4.0	5.0	3.0	5.3	3.8	2.5	0.5	1.4	0.4	0.5	0.3	14.7
United States:	CPI(SA)	3.1	3.2	3.2	4.0	3.3	1.7	1.0	0.0	0.7	1.0	n.a.	12.8
	WPI(SA)	2.3	3.0	3.6	4.1	2.5	3.1	0.7	1.5	1.5	-0.2	0.8	13.3

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period, seasonally adjusted)

		1977	1978	1979	1979				1980			1980				
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	May	June	July	Aug	Sept.
Canada:	GNP	2.4	3.4	2.6	0.8	-0.2	1.1	0.5	-0.6	-1.1	n.a.	*	*	*	*	*
	IP	4.0	5.3	2.1	-1.7	-0.1	1.8	-0.5	-0.6	-2.4	n.a.	-2.0	-0.5	0.1	0.8	n.a.
France:	GDP	2.9	3.7	3.4	0.2	0.4	2.2	0.4	0.4	-0.4	n.a.	*	*	*	*	*
	IP	2.0	1.9	4.7	0.5	1.3	3.8	-2.2	0.5	-2.2	n.a.	-3.7	0.0	(2.3)		n.a.
Germany:	GNP	2.8	3.6	4.5	0.7	2.2	0.8	0.5	2.1	-1.9	n.a.	*	*	*	*	*
	IP	2.6	2.3	5.2	-0.3	3.4	1.6	0.3	1.6	-2.6	-2.4	-2.4	-0.8	0.8	-1.6	-2.5
Italy:	GDP	1.9	2.6	5.0	1.2	-0.6	1.2	3.9	1.9	-0.8	n.a.	*	*	*	*	*
	IP	1.1	1.9	6.4	1.1	-2.6	1.4	8.5	4.1	-3.0	n.a.	-8.0	2.8	-1.1	-13.3	n.a.
Japan:	GNP	5.4	6.0	5.9	1.5	1.7	1.7	1.1	1.8	0.6	n.a.	*	*	*	*	*
	IP	4.2	6.2	8.3	2.0	2.2	2.0	2.6	4.1	0.2	-2.3	-1.2	-0.9	0.5	-4.6	3.7
United Kingdom:	GDP	2.0	3.1	1.4	-1.1	3.0	-1.9	1.1	-0.8	-1.5	n.a.	*	*	*	*	*
	IP	3.7	3.6	2.7	0.4	4.0	-1.9	-0.1	-1.7	-4.1	n.a.	-0.5	0.9	-1.0	-2.4	n.a.
United States:	GNP	5.3	4.4	2.3	0.3	-0.6	0.8	0.5	0.3	-2.5	0.2	*	*	*	*	*
	IP	5.9	5.8	4.4	1.3	-0.3	0.2	-0.1	0.0	-5.2	-2.4	-2.9	-1.7	-1.0	0.6	1.0

* GNP data are not published on monthly basis.

TRADE AND CURRENT-ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES[a]
(Billions of U.S. dollars; seasonally adjusted)

			1978	1979				1980			1980		
	1978	1979	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	July	Aug.	Sept.
Canada: Trade	3.1	3.4	0.7	0.6	0.6	0.9	1.3	1.5	1.2	*	0.3	0.9	*
Current Account	-4.6	-4.2	-1.5	-1.2	-1.3	-0.9	-0.8	-0.6	-1.1	*	*	*	*
France: Trade[b]	0.7	-2.4	0.1	0.3	-0.4	-1.4	-1.3	-3.5	-3.6	-3.9	-1.6	-1.0	-1.3
Current Account[b]	3.8	1.2	1.3	0.5	0.4	0.1	-0.3	-2.5	-1.9	*	*	*	*
Germany: Trade	20.6	12.1	5.8	4.4	4.0	2.4	1.4	1.9	1.3	*	0.1	0.4	*
Current Account (NSA)	8.9	-5.6	4.8	1.6	-1.6	-4.7	-0.8	-3.2	-3.7	-6.9	-3.0	-2.4	-1.5
Italy: Trade	-0.5	-5.3	0.1	-0.1	-0.4	-1.5	-3.3	-4.1	-4.2	-9.3	-3.2	-3.1	-2.9
Current Account (NSA)	6.2	5.1	1.5	1.3	2.3	3.0	-1.5	-2.5	*	*	*	*	*
Japan: Trade	24.6	1.8	4.2	2.5	1.9	-1.0	-1.6	-1.9	-0.9	1.7	-0.4	0.7	1.5
Current Account	16.5	-8.8	1.7	0.1	-0.7	-3.9	-4.2	-5.1	-4.1	-1.6	-1.6	-0.5	0.4
United Kingdom: Trade	-3.0	-7.1	-0.4	-3.2	-1.1	-1.1	-1.7	-1.4	-0.7	1.7	0.6	0.1	0.9
Current Account	1.2	-3.9	0.8	-1.9	-0.5	0.0	-1.4	-0.4	-0.2	2.2	0.8	0.3	1.1
United States: Trade	-33.8	-29.5	-6.8	-5.1	-8.1	-7.1	-9.2	-10.9	-7.6	-2.7	-0.5	-1.1	-1.1
Current Account	-14.3	-0.8	-0.8	1.4	-1.5	1.1	-1.8	-2.6	-2.5	*	*	*	*

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

monthly surplus since early last year in September, and the German deficit was reduced. The U.K. monthly surplus widened in September, which contributed to a $2.4 billion swing from deficit to surplus between the second and third quarters of this year.

Individual Country Notes. Economic activity in Germany has weakened further since the last Greenbook. Industrial production fell by 2.5 percent in September and the data for August and July were revised downward. This puts the third quarter 2.4 percent below the second quarter, which in turn was 2.6 percent below the first quarter. The volume of total orders fell again in August and in September, after having remained fairly stable at the low level to which it had dropped in April. The August decline was due to a very large drop in the volume of orders from abroad, primarily for investment goods. The seasonally adjusted rate of unemployment reached 4.2 percent in October, 0.7 percentage points above the end of 1979 rate. The consumer price index rose by 0.3 percent in October, following no change in September. While much of the sharp deceleration in the third quarter (to a 2.8 percent annual rate from 7.2 percent in the second quarter) was due to seasonal factors, the seasonally adjusted rate also fell from 6.3 percent to 4.8 percent. The wholesale price index declined for the second consecutive month in September. The cumulative current-account deficit so far this year (through September) was DM 24.5 billion ($13.7 billion). The monthly deficit (n.s.a.) has been declining from its peak in July and seasonal factors in the service account are likely to reduce the monthly deficits further in the fourth quarter. In view of the weakened activity conditions, pressure on the Bundesbank to lower its leading interest rates has mounted. The Bundesbank has so far resisted these pressures, pointing to the current-account deficit and the weak DM as obstacles to an otherwise appropriate easing of monetary policy.

In the United Kingdom, as well, the weakness in economic activity has continued into the third quarter; preliminary data indicate a decline in real consumer spending of 0.6 percent (s.a.) in the quarter. In September, the United Kingdom registered its fourth consecutive monthly trade surplus, as import volume declined sharply -- reflecting the slowdown in domestic activity -- while export volume held steady. Rates of price inflation have declined markedly in the last several months. Between April and September of this year, consumer prices have risen at an annual rate of only 8.7 percent; the figure for wholesale prices is 9.1 percent. Although the index of average earnings -- the most commonly reported measure of labor compensation in the United Kingdom -- continues to show wage inflation rates of around 30 percent over a year earlier, recent wage settlements indicate grounds for believing that wages will decelerate sharply in the next twelve months. In particular, the 8.2 percent increase agreed to by the engineering workers union, which affects 2 million workers, is a significant step toward a decline in wage inflation. It remains to be seen if this settlement will establish a pattern, particularly in the public sector and the nationalized industries, where the pressures caused by the high exchange rate and weak domestic demand are not as strong as they are in the private competitive sector, where most of the engineering workers are employed. At British Leyland, a threatened strike recently has been called off and it now appears that a settlement close to the company's original 6.8 percent offer will be accepted. Negotiations over the miners' wage claim continue, with little apparent movement toward compromise on either side.

The current-account position of Japan has changed rapidly in recent months as the growth of imports has slowed in line with reduced growth in the domestic economy. In September, the current account registered the first monthly surplus ($430 million, s.a.) since early 1979. The cumulative deficit has been financed in part by long-term capital inflows, which have been unusually heavy since July. Net foreign purchases of Japanese stocks (largely by OPEC buyers) in the third quarter apparently exceeded $2-1/2 billion, but slowed markedly in October. In other recent capital-account developments, it has been reported that in October the restrictions on Japanese syndicated foreign-currency lending were eased further and the current guidelines were expanded to an estimated $7-1/2 billion in FY1980, and the resumption of syndicated yen lending was permitted.

The consumer price index in October declined slightly, as did the September wholesale price index. This continued easing of price pressures has allowed the authorities to take further steps to stimulate the domestic economy. On November 5, the Bank of Japan announced another cut in the discount rate -- this time by one percentage point to 7.25 percent, together with a reduction in required reserve ratios.

The industrial production index in September rebounded from its sharp drop in August, but the average for the third quarter was still almost 2-1/2 percent below its level in the previous three months.

Exports and private expenditure, the two sectors which have supported the economy during the recent downturn, still appear to be relatively strong -- despite some recent pressures in foreign markets to reduce export sales from the extremely high levels seen earlier this year.

In Canada, in contrast to the countries discussed above, there are indications that the decline in real growth in evidence during the first half of this year may not have continued during the third quarter. Industrial production, after having fallen from April through June, rose in July by 0.1 percent and in August by 0.8 percent. In addition, the unemployment rate fell in September to 7.4 percent from 7.7 percent in the previous month. CPI inflation continued its rapid pace in September, rising 10.7 percent (a.r.) as the prices of meat and processed foods rose sharply.

On October 28, the Trudeau government presented its fiscal year 1981 budget to parliament, which contains an energy program that will lead to sharply higher energy prices, an increase in the federal government's share of oil and gas revenues from 10 percent to 24 percent, and a program that would lead by 1990 to at least 50 percent Canadian ownership of domestic oil and gas industries compared with the almost 30 percent which is currently held. No changes were proposed in personal and corporate income taxes. However, an immediate C$.80 per barrel tax was imposed on domestic oil, an 8 percent production tax on oil and gas producers, and a tax on natural gas and gas liquids sold in Canada or exported. Outside of new or increased expenditures to encourage energy conservation, exploration, and a greater domestic ownership share of the oil and gas industry, no major new government expenditure programs were proposed. The budget also included a pricing schedule for domestic crude oil, which allows prices to rise C$ 4.50 per year for the next three years from a current price of C$ 16.55 and a blended oil price scheme where the price of domestically produced crude oil is averaged with the price of imported oil to yield the final consumer price.

In Italy, consumer price increases have accelerated recently, after having slowed in the spring and summer months. In October, the CPI rose by 1.7 percent, after a 2.1 percent increase in September. Administered price increases were the major element in September and quarterly rent adjustments in October.

The recent weakness in economic activity, as measured by the sharp decline in industrial production, is likely to persist througout the remainder of the year, according to surveys of the business outlook. Domestic orders are weak, and there is little expectation of a pick-up in foreign demand. The trade deficit in September remained at about $3 billion (imports c.i.f.), the level of the previous two months, and the cumulative deficit for the first three quarters of 1980 equalled $17-1/2 billion.

A new government has taken office, with Arnaldo Forlani as Prime Minister, based on a coalition of Christian Democrats, Socialists, Social Democrats and Republicans. The government is expected to adopt policy measures similar to those of the previous Cossiga II government, and has already introduced some legislation incorporating parts of the earlier package.

French industrial production in July and August combined was up 2.3 percent from the low levels of the previous two months but was 1.2

percent below the first-quarter level and over 3.5 percent below the high reached in the same two months last year. In September, surveys among merchants indicated that a large majority of those questioned expected sales to fall. This nevertheless constituted a slight improvement of expectations since the July survey.

The same survey indicated that four-fifths of the respondents expect prices to continue their upward movement. In fact, retail prices rose by over 13 percent (a.r.) in the third quarter, while wholesale prices showed only very slight upward movement in July and August.

The French trade balance for the first three quarters registered a deficit over $11 billion, (s.a.) compared with a deficit of only $1.5 billion for the first three quarters of 1979. Nonetheless, the franc remains strong in the EMS. On October 16th, in a National Assembly budget debate, Prime Minister Barre once again reiterated his determination to maintain and, if necessary, defend the franc. French firms were put on notice they would have to adjust to the franc and would not be bailed out by devaluation.

Although the figures indicate that the French target (Dec.-Dec.) M_2 growth rate of 11 percent may be within reach, Finance Minister Monory has indicated he expects some over-shooting. A 10 percent target has been set for 1981, and most credit-control norms were further tightened. Export and housing credit will be marginally liberalized. On November 7th, the Bank of France imposed a temporary 5 percent reserve requirement on non-resident deposits, slightly raised reserve requirements on domestic deposits, and lowered its money-market intervention rate to 10.75 from 11.25 percent.

Inflation in the Benelux countries continued to be rapid through the end of the third quarter. The consumer price index was approximately 7 percent above its year-earlier level for September in the Netherlands and for October in Belgium. The unemployment rate rose in each of the two countries. This supports survey findings on business outlook that the pace of real economic activity is slowing in these countries. Because of the continued strength of the guilder within the EMS, the Netherlands National Bank lowered its discount rate from 8.5 to 8.0 percent on October 21.

On October 27, the Danish government lowered its discount rate by 1 percent to 11 percent. Slightly improved prospects for the current account and a lessening of the inflation rate were cited as the main factors behind this decision. After averaging almost 2 percent per month from September 1979 to March 1980, wholesale price increases have slowed to an average monthly rate of about 0.4 percent from April to August. Some slowdown in the rate of consumer price inflation is just beginning to be seen.

In Sweden, the consumer price index jumped by almost 3 percent in September due to higher value added and other excise taxes. In the 12 months ending in September, consumer prices have advanced by nearly 15 percent.