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December 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	Nov.	12-5-80	105.3	1.6	1.1	1.6
Unemployment rate (%) <u>1/</u>	Nov.	12-5-80	7.5	7.6	7.6	5.8
Insured unemployment rate (%) <u>1/</u>	Nov.	12-5-80	3.9	4.1	4.4	3.0
Nonfarm employment, payroll (mil.)	Nov.	12-5-80	90.9	3.5	3.3	.4
Manufacturing	Nov.	12-5-80	20.2	6.3	6.1	-3.4
Nonmanufacturing	Nov.	12-5-80	70.6	2.8	2.5	1.5
Private nonfarm:						
Average weekly hours (hr.) <u>1/</u>	Nov.	12-5-80	35.3	35.2	35.1	35.6
Hourly earnings (\$) <u>1/</u>	Nov.	12-5-80	6.90	6.82	6.71	6.34
Manufacturing:						
Average weekly hours (hr.) <u>1/</u>	Nov.	12-5-80	39.7	39.6	39.4	40.1
Unit labor cost (1967=100)	Oct.	12-1-80	199.5	-2.4	-.6	12.2
Industrial production (1967=100)	Oct.	11-14-80	146.0	19.2	16.0	-4.4
Consumer goods	Oct.	11-14-80	145.5	14.2	9.9	-3.0
Business equipment	Oct.	11-14-80	171.7	8.4	3.8	-.3
Defense & space equipment	Oct.	11-14-80	99.0	13.5	7.4	3.8
Materials	Oct.	11-14-80	145.5	31.3	26.4	-7.1
Consumer prices all items (1967=100)	Oct.	11-25-80	253.8	11.9	10.8	12.5
All items, excluding food & energy	Oct.	11-25-80	239.2	14.2	10.5	12.2
Food	Oct.	11-25-80	263.6	9.2	16.9	9.9
Producer prices: (1967=100)						
Finished goods	Nov.	12-5-80	253.5	7.6	5.3	11.9
Intermediate materials, nonfood	Nov.	12-5-80	288.9	11.3	8.5	11.6
Crude foodstuffs & feedstuffs	Nov.	12-5-80	287.1	6.7	6.7	12.5
Personal income (\$ bil.) <u>2/</u>	Oct.	11-18-80	2189.9	13.0	12.3	10.5
						(Not at annual rates)
Mfrs. new orders dur. goods (\$ bil.)	Oct.	12-4-80	80.7	1.7	8.8	5.5
Capital goods industries	Oct.	12-4-80	24.7	-11.1	-5.1	2.2
Nondefense	Oct.	12-4-80	20.7	-2.8	-4.3	-1.9
Defense	Oct.	12-4-80	4.0	-38.4	-8.9	30.5
Inventories to sales ratio: <u>1/</u>						
Manufacturing and trade, total	Sept.	12-10-80	1.43	1.47	1.52	1.41
Manufacturing	Oct.	12-4-80	1.55	1.59	1.68	1.54
Trade	Sept.	12-10-80	1.28	1.29	1.33	1.29
Ratio: Mfrs.' durable goods inventories to unfilled orders <u>1/</u>	Oct.	12-4-80	.581	.584	.591	.564
Retail sales, total (\$ bil.)	Nov.	12-10-80	81.8	1.6	3.9	7.1
GAF <u>3/</u>	Nov.	12-10-80	17.7	.8	1.9	4.6
Auto sales, total (mil. units.) <u>2/</u>	Nov.	12-3-80	9.1	.3	6.0	-3.7
Domestic models	Nov.	12-3-80	6.5	-2.8	1.4	-7.2
Foreign models	Nov.	12-3-80	2.5	9.1	19.8	6.3
Plant & Equipment expen. (\$ bil.) <u>4/</u>						
Total nonfarm business	1980	12-10-80	294.30	---	---	8.8
	1980-Q3	12-10-80	296.23	.6	---	8.4
	1980-Q4	12-10-80	294.95	-.4	---	3.7
	1981-Q1	12-10-80	310.59	5.3	---	6.4
	1981-Q2	12-10-80	323.84	4.3	---	10.0
Capital Appropriations, Mfg.	1980-Q3	11-26-80	24,669	-1.9	---	11.1
Housing starts, private (thous.) <u>2/</u>	Oct.	11-19-80	1,569	1.6	24.0	-8.2
Leading indicators (1967=100)	Oct.	12-1-80	136.3	.9	6.2	-1.1

1/ Actual data used in lieu of percent changes for earlier periods.

2/ At annual rate.

3/ Excludes mail order houses.

4/ Planned-Commerce November 1980 Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic activity continued to advance in November, with strong gains indicated for employment, industrial production, and retail sales. However, there also were some signs of weakness--especially in the credit-sensitive housing sector and in sales of domestic automobiles. Moreover, most of the nonfinancial data currently available reflect economic conditions prior to the steep interest rate hikes that have occurred since mid-November. On the inflation front, prices have continued to increase rapidly as underlying wage pressures have remained intense.

Employment and Industrial Production

Both the household and payroll employment surveys for November reported solid gains for the fourth month. More than one-third of the 270,000 increase in payroll employment occurred in the manufacturing sector, and the factory workweek edged up again, due largely to a lengthening of overtime schedules. Nevertheless, manufacturing employment remains nearly 1 million below its mid-1979 peak. In contrast with other recent months, when factory employment gains were heavily concentrated in hardgoods industries, the November increase was widespread among both durable and nondurable goods manufacturing industries. In the construction industry, an additional 35,000 jobs in November brought the cumulative employment gain since the July trough to 150,000--still 275,000 short of its January peak. Service employment rose 75,000 in November, while government payrolls were unchanged for a third month.

Most of the 220,000 gain in the November household measure of employment occurred among women, but employment for adult men also

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

	1978	1979	1980			
			Q2	Q3	Oct.	Nov.
- - - - Average monthly changes - - - -						
<u>Nonfarm payroll employment</u> ²	357	176	-366	112	228	268
Strike adjusted	341	182	-390	135	178	244
Manufacturing	74	1	-308	10	94	105
Durable	62	4	-253	3	76	69
Nondurable	12	-3	-55	7	18	36
Construction	31	20	-50	8	33	35
Trade	81	40	-50	54	17	26
Finance and services	100	74	36	84	57	83
Private nonfarm production workers	264	112	-387	133	163	252
Manufacturing production workers	54	-11	-306	14	76	108
<u>Total employment</u> ³	270	173	-373	223	-31	220
Nonagricultural	264	175	-317	140	86	203

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	Q3	Oct.	Nov.
Total, 16 years and older	6.0	5.8	7.5	7.6	7.6	7.5
Teenagers	16.3	16.1	18.0	18.5	18.4	18.7
20-24 years old	9.5	9.0	12.2	12.0	12.5	12.1
Men, 25 years and older	3.3	3.3	5.2	5.5	5.0	5.0
Women, 25 years and older	5.1	4.8	5.6	5.6	6.0	5.7
White	5.2	5.1	6.6	6.7	6.7	6.6
Black and other	11.9	11.3	13.4	14.0	14.3	14.0
Fulltime workers	5.5	5.3	7.2	7.4	7.3	7.3
White collar	3.5	3.3	3.8	3.7	4.0	3.9
Blue collar	6.9	6.9	10.9	11.3	10.8	10.5

continued to rise. Total employment has now increased nearly 900,000 from its June trough. However, the number of unemployed workers has declined only slightly during this period, and the overall jobless rate, at 7-1/2 percent, has remained virtually unchanged since August.

Concurrent with the gains in employment and hours worked, industrial production apparently registered another sizable increase in November. Advances in production were widespread among both products and materials industries. Auto assemblies edged up in November to a 6.9 million unit rate, following a 12 percent jump in October. However, owing to poor auto sales--particularly in the last ten days of November--and to an increase in the inventory of unsold cars, December schedules have been scaled back and now call for assemblies at a 6.5 million unit annual rate. Durable goods materials output rose further in November, as steel production continued to rebound from its very low summer level. Reflecting the strength in production, capacity utilization in manufacturing rose to about 79 percent in November, up from the 75 percent rate of mid-1980.

Personal Income and Consumer Spending

The rebound in payroll employment over the past few months has generated sizable gains in nominal personal income. Private wage and salary disbursements increased at about a 13 percent annual rate in September and October, and a further large gain appears likely for November. In addition, the October pay raise for federal employees added \$5-1/4 billion at an annual rate to government payrolls. Real

PERSONAL INCOME
(Based on seasonally adjusted annual rate data)

	1978	1979	1980				
			QI	QII	QIII	Sept.	Oct.
- - Percentage change, at annual rates ¹ - -							
Total personal income	12.9	11.2	10.9	4.6	12.9	13.2	13.0
Wage and salary disbursements	12.8	10.1	10.9	2.1	5.9	11.5	16.5
Private	14.1	10.8	12.0	1.0	5.9	13.6	13.3
Nominal disposable personal income	12.0	10.4	13.5	4.3	13.1	12.8	11.7
Real disposable personal income	4.2	.5	.9	-6.0	3.5	-1.9	n.a.
- - Changes in billions of dollars ² - -							
Total personal income	17.8	16.8	13.9	6.8	25.4	23.5	23.4
Wage and salary disbursements	11.5	9.7	10.4	-.5	10.1	12.8	18.5
Private	10.1	8.4	9.1	-2.0	9.2	12.2	12.1
Manufacturing	3.2	2.0	2.7	-3.5	3.3	5.8	5.5
Other income	7.1	8.1	4.3	7.7	16.0	11.3	6.0
Transfer payments	1.5	2.9	2.4	3.4	9.6	4.6	.6
Less: Personal contributions for social insurance	.8	.9	.8	.4	.7	.7	1.1
Memorandum:							
Personal saving rate ³	4.9	4.5	3.7	4.9	4.7	4.7	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.

disposable income, which had declined during most months in 1980, rose in October.

Consumer spending, also continued strong in November. Retail sales excluding automotive and building materials and related stores rose 1.4 percent, following a similar, upward-revised gain in October. Large increases were widespread by type of store in November. Sales at these stores in November were 3-1/2 percent above their third quarter average, with considerable strength evident for most types of merchandise.

Sales of domestic autos in November edged down 200,000 units to a 6.5 million unit annual rate, as all manufacturers reported declines from the previous month. From early October when the new models were introduced, through the first two-thirds of November, sales had held at about a 6-3/4 million unit annual rate, but in the last ten days of November sales weakened substantially. Buyer acceptance of the Chrysler K-cars, in particular, continued to fall short of expectations; by the end of November, inventories of K-cars had grown to nearly a hundred day's supply and consequently production of these models is to be halted from mid-December until early January, other cutbacks also have been announced. In contrast, November sales of foreign cars were at a brisk 2.5 million unit rate, boosting total unit sales for the month to more than a 9 million unit annual rate.

Consumer confidence has improved steadily since May according to the latest surveys. Both the University of Michigan Survey Research Center's October survey and in The Conference Board's November report showed consumers to be increasingly less pessimistic in their views of future business conditions. Follow-up questions in the Michigan

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

	1980						
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Total sales	2.1	-3.6	5.1	.6	1.7	.5	1.6
(Real) ¹	-1.2	-5.8	2.9	-.4	.1	-.3	n.a.
Total, less auto and nonconsumption items	2.6	.2	2.9	1.1	.5	1.5	1.4
GAF ²	-.1	-1.6	3.5	2.8	-1.5	2.6	.8
<u>Durable</u>	.8	-12.0	10.5	-1.0	4.2	-1.6	2.3
Auto	1.5	-16.6	16.1	-1.9	5.4	-3.1	1.7
Furniture & appliances	1.0	-4.6	5.6	.1	2.7	-2.0	.8
<u>Nondurable</u>	2.8	.6	2.8	1.4	.5	1.5	1.3
Apparel	1.4	1.0	2.9	3.5	-2.8	2.5	1.1
Food	2.3	1.8	3.6	1.4	1.5	-.5	2.0
General merchandise ³	-1.2	-1.4	2.9	3.6	-2.5	4.4	.7
Gasoline	9.2	5.1	2.5	-1.4	.4	1.5	2.7

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)

	1980						
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Total	10.6	7.7	8.8	8.6	8.8	9.0	9.1
Foreign-made	2.8	2.1	2.3	2.1	2.1	2.2	2.5
U.S.-made	7.9	5.5	6.5	6.4	6.6	6.7	6.5
Small	3.8	2.8	3.2	3.3	3.2	3.3	3.3
Intermediate & standard	4.1	2.7	3.3	3.2	3.3	3.5	3.2

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

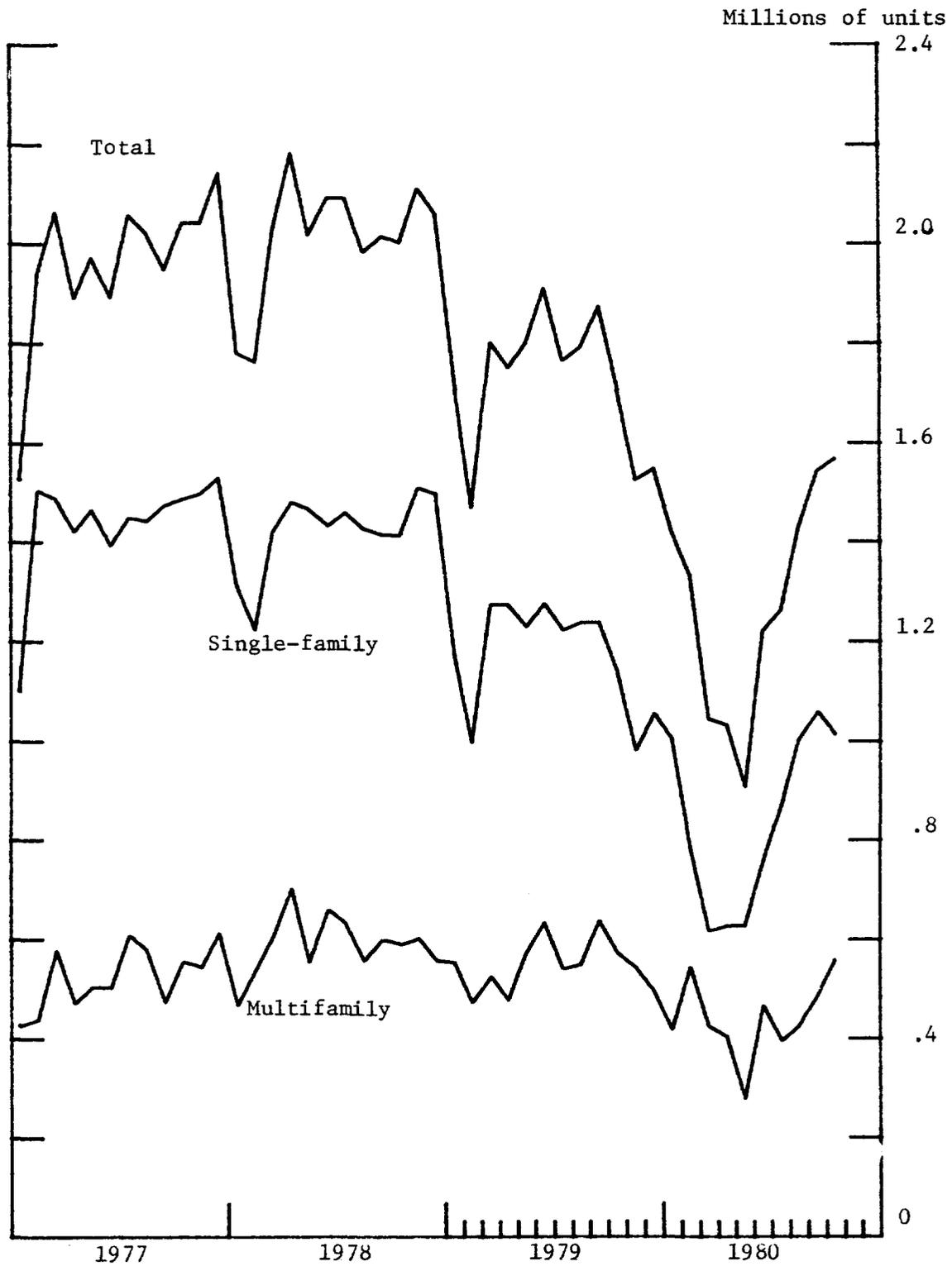
survey suggest that the upturn in consumer confidence over the last five months has stemmed from several factors, including the easing of credit conditions following the dismantling of the credit control program, reduced fears of unemployment, and some easing of inflation expectations. In addition, consumers' attitudes about buying houses and household durable goods were more favorable; however, changes in credit market conditions since the surveys were taken probably have discouraged consumer attitudes about purchasing these big-ticket items.

Residential Construction

Further signs of weakness have emerged in the housing sector, as costs of mortgage credit have moved still higher. Total private housing starts inched up in October, but the strength was due entirely to a 15 percent increase in multifamily starts, likely reflecting a surge in units subsidized by HUD. In contrast, permits for multifamily units slumped 21 percent in October to just a little above their August level. Confidential Census Bureau estimates based on data for the first two weeks of November indicate that these permits have since edged down further. In the single-family sector, starts fell in October for the first time since March, and the advance estimate for November indicates that building permits for these units declined for the second consecutive month.

Sales of new single-family houses dropped in October for the third consecutive month, providing additional evidence of weakness in housing demand. Further indications that the rising costs of mortgage credit have begun to take hold also were evident in a decline in sales of existing houses in October, following four consecutive monthly increases from the slow pace of June.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



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

	1979	1980					
		Q1	Q2	Q3	Aug.	Sept.	Oct. ¹
All units							
Permits	1.55	1.14	.90	1.39	1.36	1.56	1.33
Starts	1.75	1.26	1.05	1.41	1.43	1.55	1.57
Single-family units							
Permits	.98	.68	.53	.85	.86	.91	.82
Starts	1.19	.80	.67	.98	1.00	1.06	1.01
Sales							
New homes	.71	.53	.45	.62	.64	.57	.55
Existing homes	3.74	2.98	2.40	3.11	3.03	3.38	3.30
Multifamily units							
Permits	.57	.45	.37	.54	.50	.65	.52
Starts	.55	.46	.38	.44	.43	.49	.56
Mobile home shipments	.28	.26	.18	.22	.21	.24	n.a.

1. Preliminary estimates.

n.a.--not available.

Housing prices appear to have eased somewhat as demand has softened. The seasonally-adjusted average price of new houses, after having increased at a very rapid rate from May to September, declined in October to a level about 9 percent above a year ago. The average price for existing houses also fell in October for the first time in almost two years, but was still nearly 13 percent above the year-earlier average.

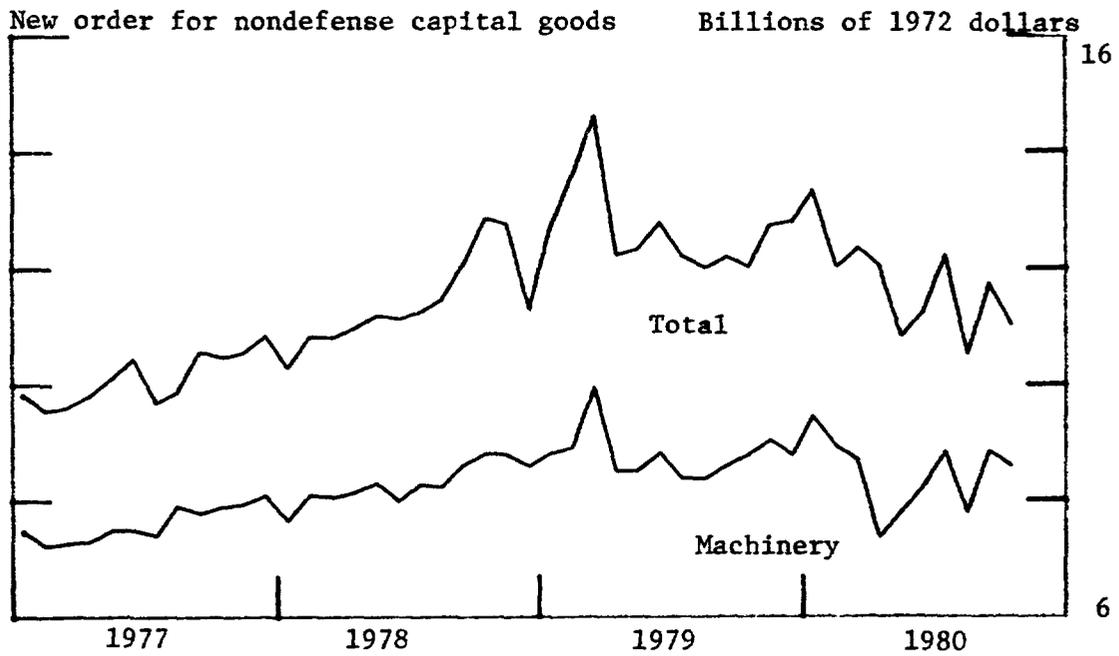
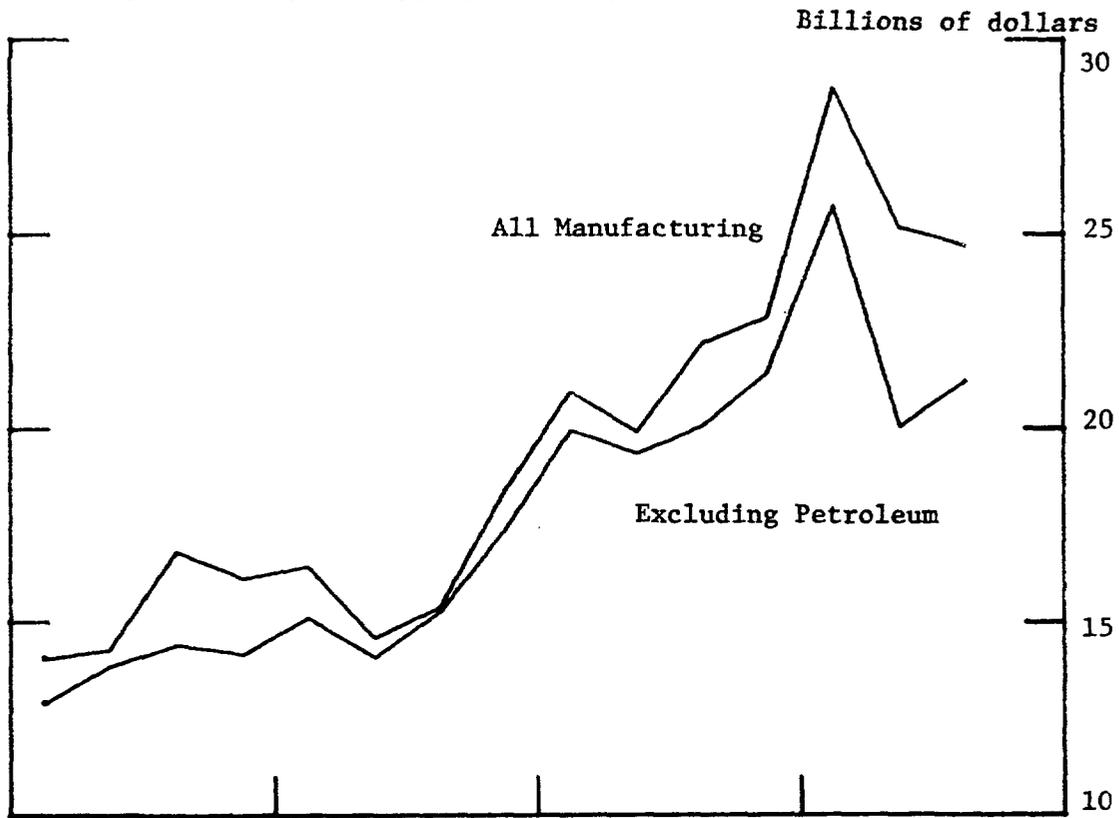
Business Fixed Investment

The downtrend in business capital spending resumed in October, following a spurt in September. In the equipment area, shipments of non-defense capital goods in real terms declined 4 percent in October, and sales of trucks fell to about their depressed second quarter rate. In addition, the real value of nonresidential construction expenditures edged down 0.6 percent--the sixth straight monthly decline; the drop would have been greater except for a further sharp advance in petroleum drilling.

Business commitments data continue to suggest that capital equipment spending is likely to contract further in the near term. New orders for nondefense capital goods in constant dollars fell 5-1/2 percent in October to a level about 11-3/4 percent below the peak reached in the first quarter. Since the start of the year much of the decline in bookings has been for items with long delivery lags--primarily aircraft and parts. However, machinery orders--for which delivery lags are generally short--also are still below their first quarter levels and, moreover, have not kept pace with shipments in recent months. As a result, there has been a significant rundown of unfilled machinery orders since May.

BUSINESS CAPITAL SPENDING COMMITMENTS

Newly approved capital appropriations, net of cancellations



In contrast to equipment orders, the value of nonresidential construction contracts in current dollars picked up in October, with gains in both commercial and industrial awards. However, the level of new contracts has been quite low in recent months--especially in real terms--and hence the October increase for this volatile series does not yet indicate the start of a sustainable upturn in construction.

Longer-term commitments appear to point to a decline in capital spending well into 1981. Newly approved capital appropriations of large manufacturers fell 2 percent in current dollars in the third quarter, following a large 12-1/2 percent drop in the second quarter. Manufacturers outside the petroleum industry appropriated less in 1980-Q3 than in any quarter of 1979 except the second. In contrast to recent appropriations data, the Commerce Department survey of capital spending plans taken in October and November reports that businesses plan to boost outlays at a 20-1/2 percent annual rate over the first half of 1981, suggesting substantial increases in real terms. It should be noted, however, that the fourth quarter surveys have a poor record of predicting actual change in outlays; since 1969 the mean absolute error of this survey's forecast of change over the first two quarters of the next year has been more than 9 percentage points in terms of the annual rate of change.

Inventory Investment

The book value of manufacturers' inventories fell at a \$3-1/2 billion annual rate in October, following almost no change in the third quarter. The October decline was accompanied by a sizable rise in shipments, and as a result the book value inventory-to-sales ratio declined for the fourth consecutive month. The October liquidation in factory stocks was

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

	1980				
	Q1	Q2	Q3	Sept.	Oct.
Nondefense capital goods shipments					
Current dollars	6.0	-2.5	2.1	7.4	-.9
Constant dollars ¹	2.0	-3.1	2.3	9.3	-4.2
Addenda: Unit sales of heavy-weight trucks (thousands)	330	240	290	280	240
Nonresidential construction					
Current dollars	3.3	-2.0	-5.4	.0	-.5
Constant dollars	.5	-4.0	-7.8	.0	-.6
Addenda: Oil and gas well drilling (millions of feet)	21.0	21.5	25.6	26.0	27.7

1. FRB staff estimate.

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

	1980				
	Q1	Q2	Q3	Sept.	Oct.
Nondefense capital goods orders					
Current dollars	4.3	-9.2	.9	9.8	-2.8
Constant dollars	.4	-9.6	1.2	11.7	-5.5
Machinery					
Current dollars	5.5	-13.0	8.9	11.7	.5
Constant dollars ¹	1.5	-13.4	9.2	13.6	-2.9
Addenda: Ratio of current dollar unfilled orders to shipments					
Total	6.42	6.57	6.39	6.16	6.17
Machinery	4.34	4.34	4.21	4.08	4.13
Contracts for nonresidential plant					
Current dollars	-16.1	-31.7	55.0	-34.4	6.0
Constant dollars	-17.8	-37.9	60.0	-34.8	5.9

1. FRB staff estimate.

MANUFACTURING AND TRADE INVENTORY INVESTMENT
 (Book value basis)
 (Billions of dollars; quarterly and monthly figures
 are seasonally adjusted annual rates)

	1978	1979	1980				
			Q1	Q2	Q3	Sept.	Oct.
Total	43.2	46.4	49.1	30.8	30.2	31.8	n.a.
Manufacturing	18.1	29.9	41.1	20.4	-1	1.2	-3.6
Wholesale	12.8	9.1	7.2	7.7	17.9	12.0	18.6
Retail	12.3	7.3	.9	2.7	12.4	18.6	n.a.

INVENTORIES RELATIVE TO SALES
 (Book value basis)

	1978	1979	1980				
			Q1	Q2	Q3	Sept.	Oct.
Total	1.42	1.42	1.42	1.52	1.47	1.43	n.a.
Manufacturing	1.52	1.52	1.57	1.71	1.64	1.59	1.55
Wholesale	1.20	1.17	1.15	1.22	1.19	1.15	1.13
Retail	1.44	1.45	1.40	1.46	1.43	1.41	n.a.

concentrated among nondurables; these stocks fell at a \$3 billion pace after declining slightly in the third quarter. Most of the decline was concentrated in inventories of petroleum and coal. The book value of durable goods inventories also declined in October, but the reduction was smaller than in the previous month; declines in stocks at steel mills, auto assembly plants, and nonelectrical machinery manufacturers were about offset by increases in the aerospace, ship, and military tank industries.

The book value of wholesale trade inventories increased at about an \$18-1/2 billion annual rate in October, compared with a \$12 billion rate of increase in September. However, the upswing in accumulation in October was accompanied by another large rise in sales. As a result, the stock-sales ratio for all merchant wholesalers fell to 1.13, continuing the decline that began last July.

Federal Sector

The federal government deficit--on a unified budget basis--is now expected to reach \$32 billion in the current quarter, substantially more than earlier administration expectations and the staff estimate of nearly \$27 billion. This upward revision in the projected deficit is due primarily to higher-than-anticipated interest payments and defense outlays. The recent increase in defense spending follows the increase in new orders reported earlier this year by the producers of defense capital goods. Moreover, new and unfilled orders for defense capital goods strengthened further in the third quarter.

INDICATORS OF DEFENSE SPENDING
(Billions of dollars, annual rate)

	1978	1979	1980				Sept.	Oct.
			Q1	Q2	Q3			
<u>NIPA Accounts</u> ----- Seasonally Adjusted -----								
Federal purchases for national defense	99.0	108.3	119.6	124.1	129.1	n.a.	n.a.	
Personal compensation	46.1	49.2	51.9	52.1	52.5	n.a.	n.a.	
Other purchases	52.9	59.0	67.7	72.0	76.6	n.a.	n.a.	
Purchases as a percent of GNP	4.7	4.6	4.7	4.9	5.0	n.a.	n.a.	
<u>Reports by Manufacturers'</u> ----- Seasonally Adjusted -----								
<u>Defense Industries</u>								
New Orders ¹	41.6	39.4	46.5	55.1	61.4	77.5	47.7	
Inventories ¹	7.2	9.5	10.1	10.6	11.3	11.3	11.6	
Unfilled orders ¹	43.6	47.5	49.4	53.0	57.8	57.8	58.0	
Shipments	32.5	35.5	38.9	40.6	42.3	45.6	44.9	
<u>Defense Department</u>								
Gross obligations incurred	124.8	133.6	159.0	160.2	n.a. ²	n.a.	n.a.	
Military prime contract awards	62.4	64.3	73.8	89.0	n.a. ³	n.a.	n.a.	

1. Inventories and unfilled orders are for the end of the period; not at annual rate.

2. Gross obligations incurred in July 1980 totaled \$155.7 billion, and in August 1980, \$171.1 billion at annual rates.

3. Military prime contracts in July 1980 totaled \$81.2 billion at annual rate.

Congress has now completed action on the Second Concurrent Resolution on the 1981 Budget. The resolution calls for projected outlays of \$632.4 billion and, based on expected receipts of \$605 billion a deficit of \$27.4 billion. Congress also completed action on a reconciliation bill which specifies expenditure cuts and tax increases of \$4-1/2 billion and \$4 billion, respectively. Cutbacks are proposed in outlays for medicare, medicaid, and unemployment compensation. A major revenue-raising measure includes a speed-up in the timing of corporate tax payments.

State and Local Government Spending

State and local government activity continues to be weak, although construction spending has turned up in the past two months. Total state and local employment edged lower in November from a downward revised October level. Employment growth over the past year has been less than 1 percent, down from the 2-1/2 percent average of recent years. This slowing reflects, in part, hiring freezes which have been in effect in 18 states; in addition, enrollment in the public service employment program has dropped by 100,000 over the past year.

Real construction expenditures by state and local governments edged up in October, following a substantial increase in September. The September-October turnaround follows seven months of declining outlays, and in real terms these expenditures have decreased 6-1/2 percent over the year.

Prices

Inflationary pressures remain intense. The scattered signs of a price slowdown that have appeared in recent months have been confined to a few sectors and have not lasted long enough to be a reliable signal of

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	Q2	Q3	Nov.
Finished goods	100.0	9.2	12.6	19.3	6.7	12.2	7.6
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	8.5
Energy	10.3	8.0	62.7	109.4	17.1	-3.5	15.4
Exc. energy	37.0	8.5	9.6	18.1	9.4	7.1	6.9
Capital equipment	28.4	8.0	8.8	13.4	11.3	8.5	6.8
Intermediate materials ³	94.9	8.3	16.5	24.0	5.2	6.4	11.3
Exc. food and energy	81.4	8.9	13.0	18.3	4.6	5.5	9.9
Crude food materials	55.5	18.3	11.1	-16.7	-10.5	96.4	6.7
Crude nonfood	44.5	15.6	26.0	21.9	-3.9	39.1	22.1
Exc. energy	16.0	21.0	13.1	7.4	-38.0	78.9	26.7

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 PRICES¹(Percentage change at annual rates; based on seasonally adjusted data)²

	Relative importance Dec. 1979	1978	1979	1980			
				Q1	Q2	Q3	Oct.
All items	100.0	9.0	13.3	18.1	11.6	7.0	11.9
Food	17.7	11.8	10.2	3.8	5.6	18.9	9.2
Energy ³	10.3	8.0	37.4	64.8	8.1	2.9	-3.3
All items less food and energy ³	72.0	8.5	11.3	15.7	13.5	5.1	14.2
Homeownership	24.9	12.4	19.8	24.1	26.6	-5.6	25.4
All items less food, energy and home- ownership ⁴	50.7	6.9	7.5	12.1	7.6	10.7	7.8
Used cars	2.8	13.6	2.2	-2.5	-16.8	40.1	66.2
Other commodities ⁴	21.3	5.3	6.6	12.9	6.9	9.3	2.5
Other services ⁴	26.6	7.7	8.8	12.3	11.0	9.2	7.4

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.

a sustained deceleration in prices. The consumer price index, after having slowed during the summer, rose in October at nearly a 12 percent annual rate, the same as in September. A sharp resurgence in October in the homeownership component of the index contributed to October's large rise in the CPI. The producer price index slowed in November to about a 7-1/2 percent rate, but since mid-year this relatively volatile price measure has risen at about an 11 percent rate. Moreover, in November energy prices turned up in producer markets, following several months of general decline.

The food sector is one area in which prices have decelerated in recent months, but supply developments point to sizable food price increases again in 1981. Producer prices for finished consumer foods rose 1/2 percent in November and have slowed to a 3 percent annual rate over the past three months, following steep advances in July and August. Similarly, at the retail level, food prices slowed noticeably in October, after three months of large increases. Smaller increases in meat prices accounted for much of the deceleration in both price measures. However, feed prices--though somewhat lower in the past couple of weeks--have increased substantially since mid-1980 and are expected to push meat prices up sharply next year.

Shelter costs accelerated further in the October CPI, following a slowdown during the summer. The resumption of rapid inflation in the CPI measure of homeownership costs reflected a turnaround in mortgage interest rates as well as a sharp increase in home prices as measured in the index. The recent increases in mortgage commitment rates are

expected to continue to boost consumer prices in coming months. Rent also registered another large rise in October.

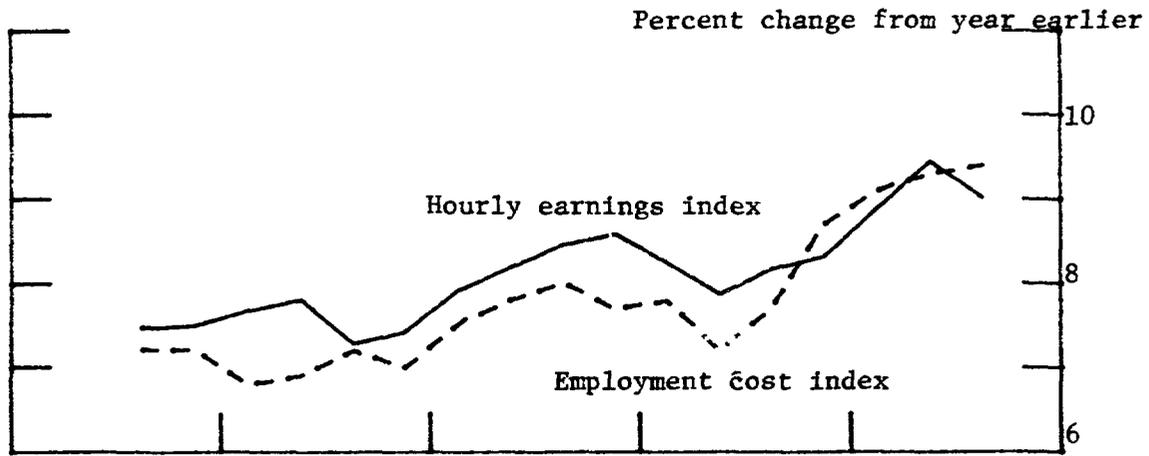
Among other consumer items, used car prices rose 5-1/2 percent in October--about the same as in September. However, new car prices fell 1-1/2 percent during the month, partly because of discounts on 1980 models; the sharply higher list prices on most 1981 models were only partially reflected in the CPI because of an especially large quality adjustment. In producer markets, lumber prices increased in November following declines in the preceding two months, and prices for a number of steel products continued to rise rapidly as activity in that industry rebounded further.

Despite relatively low levels of utilization of both capital and labor, underlying inflationary pressures have remained intense as indicated by the long-term trend in prices for all items excluding food, energy, and homeownership. In October, these prices were 9-3/4 percent higher than a year earlier. The passthrough of sharply increased energy costs earlier in 1980 contributed some to the substantial rise; in addition, over the past year hefty advances in hourly compensation, coupled with a continuing slump in productivity, have sustained increases in labor costs in the nonfarm business sector at more than a 10 percent annual rate.

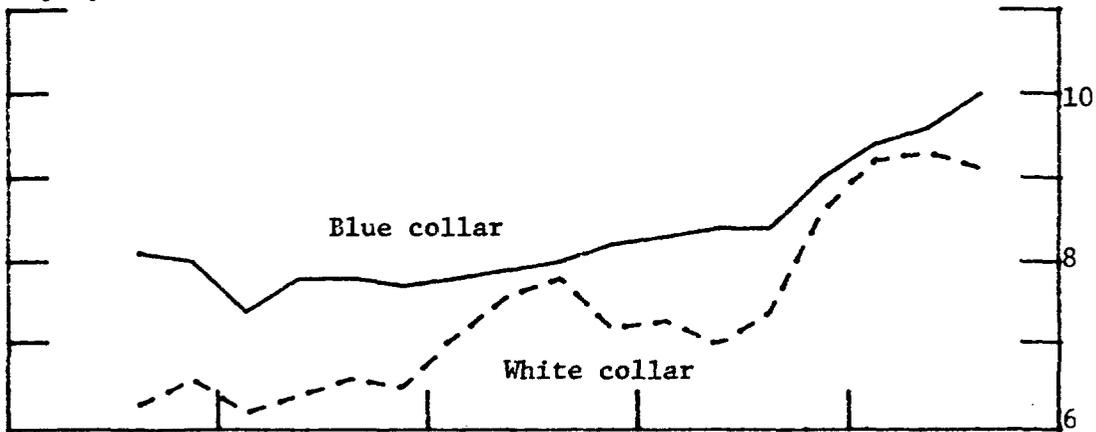
Wages

Incoming data suggest that underlying wage pressures remain strong. The year-over-year increase in the employment cost index, which measures straight-time hourly earnings for both blue- and white-collar workers, continued to be just under 9-1/2 percent for the 12 months ending in

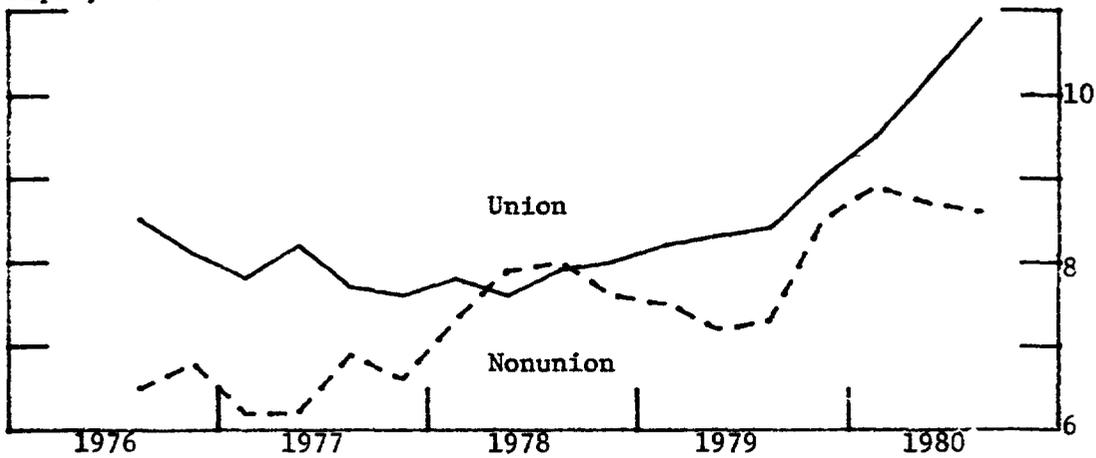
SELECTED MEASURES OF WAGE CHANGE



Employment Cost Index



Employment Cost Index



HOURLY EARNINGS INDEX¹
 (Percent change at annual rates;
 based on seasonally adjusted data)²

	1978	1979	1980			
			H1	Q3	Oct.	Nov.
Total private nonfarm	8.4	8.1	9.7	8.9	10.7	12.3
Manufacturing	8.4	8.7	11.2	11.9	8.8	8.5
Durable	8.5	8.7	12.1	12.3	10.2	9.7
Nondurable	8.2	8.7	9.8	11.3	6.5	6.1
Contract construction	7.6	6.8	6.9	7.3	9.3	5.4
Transportation and public utilities	7.4	9.0	8.4	6.8	25.8	9.3
Total trade	9.6	7.6	9.1	9.1	4.4	13.6
Services	7.6	7.6	9.3	6.7	12.3	17.5

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 half-year periods are at compound rates; monthly changes are not compounded.

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

	1977	1978	1979	1980		
				Q1	Q2	Q3
<u>Output per hour</u>						
Total private business	1.4	.7	-1.7	-.3	-2.7	.3
Nonfarm business	1.1	1.0	-2.0	-1.1	-3.7	1.5
Manufacturing	2.5	.8	-.3	-2.8	-4.7	-.7
Durable	1.8	.1	-1.3	-4.7	-3.2	-3.0
Nondurable	3.7	2.1	1.4	.0	-7.5	2.4
<u>Compensation per hour</u>						
Total private business	7.2	9.0	9.2	11.7	12.0	8.7
Nonfarm business	7.4	9.0	9.1	10.7	10.8	8.8
Manufacturing	7.8	8.4	9.1	10.5	15.2	12.1
Durable	8.0	7.9	8.7	12.6	16.2	12.2
Nondurable	7.0	8.7	9.7	6.7	15.5	12.3
<u>Unit labor costs</u>						
Total private business	5.8	8.2	11.1	12.1	15.1	8.4
Nonfarm business	6.2	7.9	11.3	12.0	15.0	7.2
Manufacturing	5.2	7.5	9.3	13.7	20.9	12.9
Durable	6.1	7.8	10.2	18.2	20.1	15.7
Nondurable	3.2	6.5	8.2	6.7	24.9	9.6

1. Changes are from final quarter of preceding period to final quarter of period indicated. Quarterly changes are at compound annual rates.

2. Data are revised to reflect benchmark revisions in employment data.

September. The employment cost index for workers covered by collective bargaining contracts has accelerated sharply, particularly in manufacturing. By contrast, wage gains for workers in predominantly nonunion industries slowed slightly during the middle two quarters of the year.

Recent changes in the index of average hourly earnings have been quite volatile, but these data confirm that there is still substantial momentum in wage inflation. This index, which measures wage rate increases for nonfarm production and nonsupervisory workers, rose about 1 percent in both October and November, bringing the level 9-3/4 percent above that of a year earlier. Despite higher unemployment, the index has advanced at a 9-1/4 percent annual rate since June--well above the 8 percent increase over 1979.

III-T-1
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net Change from:		
	Period	Level	Month ago	Three months ago	Year ago
	<u>\$ billions</u>		<u>Percent at annual rates</u>		
Monetary and credit aggregates¹					
Total reserves	November	40.1	35.3	21.1	8.4
Nonborrowed reserves	November	38.0	12.6	6.5	8.5
Money supply					
M-1A	November	388.9	6.8	9.7	5.7
M-1B	November	414.0	9.6	12.4	7.8
M-2	November	1670.4	12.2	10.1	10.2
M-3	November	1945.1	16.8	12.5	10.2
CB Gross Time and savings deposits	November	724.1	22.6	15.6	9.4
Total Thrift deposits (S&Ls + MSBs + Credit Unions) Total	November	714.9	12.9	12.0	7.6
Bank credit	November	1223.4	16.1	14.7	8.1

	Period	Latest data		Net Change from:		
		Period	Percent or index	Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	12/3/80	17.72	3.73	7.25	3.95
Treasury bill (90 day)	" "	12/3/80	14.67	1.71	4.70	3.09
Commercial paper (90-119 day)	" "	12/3/80	16.81	3.00	6.20	4.11
New utility issue Aaa	" "	12/5/80	--	--	--	--
Municipal bonds (Bond Buyer) 1 day	1 day	12/4/80	9.84	.20	1.06	2.67
FNMA auction yield (FHA/VA)		12/8/80	15.50	-.07	1.09	3.08
Dividend price ratio (common stocks)	wk. endg.	12/3/80	4.63	-.16	-.32	-.90
NYSE index (12/31/65=50)	end of day	12/2/80	78.91	4.55	7.63	20.72

	Period	Net Change or Gross Offerings			
		Latest data	Year ago	Year to date	
				1980	1979
Credit demands					
Business loans at commercial banks ¹	November	6.2	-0.4	27.7	41.4
Consumer instalment credit outstanding ¹	October	1.5	2.2	-1.5	32.3
Mortgage debt outstanding (major holders) ^{1 2}	September	6.4	8.0	32.6	64.9
Corporate bonds (public offerings)	November	1.3e	1.6	40.0e	24.3
Municipal long-term bonds (gross offerings)	November	3.0	4.2	43.7	39.8
Federally sponsored agcy. (net borrowing)	November	0.5e	2.5	19.5e	22.3
U.S. Treasury (net cash borrowing)	November	8.7e	5.5	65.1e	26.1

^{1/} Seasonally adjusted.

^{2/} Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA and GNMA.

e - Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

Short-term interest rates rose substantially over the intermeeting period as the System further stiffened its resistance to excessive growth of the monetary aggregates by raising the discount rate and restraining nonborrowed reserve growth. Reflecting this restraint, discount window borrowing rose to more than \$2 billion in recent weeks, and the funds rate increased from 15-1/4 percent in the week of the last FOMC meeting to around 19 percent. Treasury bill rates have moved up 1-1/2 to 3-1/2 percentage points, yields on private money market paper have risen in a range of 3-1/2 to 5-1/2 percentage points, and major banks have raised their prime lending rates to 20 percent. Bond and mortgage yields, in contrast, have risen only in a range of 1/4 to 1-1/4 percentage points, as a peak in short-term rates is widely expected in the near term. Corporate and municipal bond yields, nevertheless, are at record highs, as are most shorter-maturity money market yields.

Growth of M-1A and M-1B continued to slow in November. M-1B's growth still approached 10 percent at an annual rate, however, and despite the deceleration in the narrow measures of money, M-2 and M-3 accelerated. In part, the more rapid expansion of the broader aggregates was due to sharply increased bank reliance on managed liabilities, especially large time deposits. Banks purchased funds to meet continued heavy demands for bank credit by business and other borrowers and also to offset substantial declines of Treasury balances.

Corporate bond offerings remained low in November as many firms awaited more favorable conditions in long-term debt markets. Sales of bonds by state and local governments also have declined in the face of record

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1980				Change from:		
	Mar-Apr High	Mid-June** Low	FOMC Nov. 18	Dec. 11	Mar-Apr High	Mid-June Low	FOMC Nov. 18
<u>Short-term rates</u>							
Federal funds ²	19.39	8.99	15.22	18.82	-.57	9.83	3.60
Treasury bills							
3-month	16.00	6.18	13.69	17.14	1.14	10.96	3.45
6-month	15.64	6.60	13.54	15.74	.10	9.14	2.20
1-year	14.58	7.00	12.59	14.01	-.57	7.01	1.42
Commercial paper							
1-month	18.00	7.98	15.29	20.50	2.50	12.52	5.21
3-month	17.69	7.78	15.36	19.65	1.96	11.87	4.29
6-month	17.25	7.59	14.98	18.58	1.33	10.99	3.60
Large negotiable CDs ³							
1-month	17.87	7.96	15.37	21.00	3.13	13.04	5.63
3-month	18.59	7.90	15.70	20.90	2.31	13.00	5.20
6-month	18.47	7.66	15.50	19.19	.72	11.53	3.69
Eurodollar deposit ²							
1-month	19.04	8.88	15.54	20.25	1.21	11.37	4.71
3-month	19.60	8.99	15.85	19.46	-.14	10.47	3.61
Bank prime rate	20.00	12.00	16.25	20.00	0	8.00	3.75
<u>Intermediate- and long-term rates</u>							
U.S. Treasury (constant maturity)							
3-year	14.53	8.56	13.25	14.37	-.16	5.81	1.12
10-year	13.65*	9.47	12.62	13.57	-.08	4.10	.95
30-year	12.85*	9.49	12.29	13.17	.32	3.68	.88
Municipal (Bond Buyer)	9.44	7.44	9.50 ⁴	10.42	.98	2.98	.92
Corporate Aaa							
New issue	14.22	10.53	-- ⁵	14.53	.31	4.00	--
Recently offered	14.12	10.79	13.72 ⁶	14.98	.86	4.19	1.26
Primary conventional mortgages	16.35	12.35	14.18 ⁶	14.43 ⁶	-1.92	2.08	.25
	Mar-Apr Low	Mid-Oct High	FOMC Nov. 18	Dec. 11	Mar-Apr Low	Mid-Oct High	FOMC Nov. 18
<u>Stock Prices</u>							
Dow-Jones Industrial	759.13	972.44	997.95	908.45	149.32	-63.99	-89.50
NYSE Composite	55.30	77.24	80.48	73.11	17.81	-4.13	-7.37
AMEX Composite	215.69	363.33	357.98	327.69	112.00	-35.64	-30.29
NASDAQ (OTC)	124.09	199.43	203.76	188.75	64.66	-10.68	-15.01

1. One-day quotes except as noted.

2. Averages for statement week closest to date shown.

3. Secondary market.

* Highs reached on February 26.

4. One-day quotes for preceding Thursday.

5. Averages for preceding week.

6. One-day quotes for preceding Friday.

** Most lows occurred on or around June 13.

yields, but Treasury borrowing has remained substantial in all maturities. In the household sector, mortgage formation was again sizable in October. However, new commitments declined sharply in October, and preliminary indications for November suggest some further decline as demands for mortgage credit at current interest rates appeared to be ebbing. Consumer installment debt outstanding rose a bit further in October.

Monetary Aggregates and Bank Credit

With demand deposits and currency both decelerating, November was the third consecutive month of slower M-1A growth. Nonetheless, the rate of M-1A expansion in November still was 6-3/4 percent, and for the year through November, M-1A was just below the upper end of its 3-1/2 to 6 percent long-run growth range for 1980. Money demand for the year as a whole likely will be somewhat short of that expected on the basis of past relationships among M-1A, interest rates, and GNP. An appreciable portion of the shortfall can be accounted for by shifts to other checkable deposits in M-1B.

Growth of M-1B also slowed in November despite sustained strong inflows into ATS accounts. Commercial banks have been aggressively promoting ATS accounts in an effort to establish market shares prior to the nationwide introduction at year-end of NOWs at all depository institutions. Thus far in 1980, expansion of M-1B has averaged about 7-3/4 percent, 1-1/4 percentage points above the upper end of its long-run range.

In contrast to the slower growth of the narrow aggregates, growth of M-2 and M-3 picked up markedly in November. The strength in M-2 primarily reflected inflows to small time deposits at banks and thrifts at more than twice the already robust pace of the previous month. This growth

MONETARY AGGREGATES

(Based on seasonally adjusted data unless otherwise noted)¹

	1980						QIV '79
	Q1	Q2	Q3	Sept.	Oct.	Nov.	to Nov. '80
---- Percentage change at annual rates ----							
<u>Money stock measures</u>							
1. M-1A	4.8	-3.9	11.0	12.6	9.4	6.8	5.7
2. M-1B	5.9	-2.4	13.5	15.8	11.2	9.6	7.7
3. M-2	7.2	5.5	15.5	8.6	9.3	12.2	10.1
4. M-3	7.8	5.7	12.6	9.2	11.0	16.8	10.1
<u>Selected components</u>							
5. Currency	8.3	7.0	11.3	5.3	12.6	8.3	9.4
6. Demand deposits	3.4	-8.3	10.8	15.8	8.0	6.2	4.1
7. Other checkable deposits, NSA ²	29.3	31.8	63.2	71.2	46.6	49.8	53.0
8. M-2 minus M-1B (9+10+11+14)	7.7	8.1	16.2	6.3	8.7	13.0	10.9
9. Overnight RPs and Eurodollars, NSA ³	-7.5	-72.0	132.7	49.8	12.0	59.2	19.9
10. Money market mutual fund shares, NSA	151.9	82.7	75.7	-37.2	-12.3	-7.8	90.8
11. Commercial banks	6.9	9.8	10.7	7.0	10.0	14.3	9.9
12. savings deposits	-19.3	-22.6	26.4	7.6	9.4	-7.5	-3.0
13. small time deposits	29.1	33.9	0.6	6.1	10.9	29.4	20.9
14. Thrift institutions	-0.3	3.7	9.8	9.3	10.0	10.2	5.9
15. savings deposits	-22.5	-27.1	25.8	15.7	5.5	-21.5	-5.9
16. small time deposits	12.0	19.3	2.5	6.2	12.1	25.6	12.5
17. Large time deposits	17.8	10.6	-11.1	19.7	16.8	53.2	11.4
18. at commercial banks, net ⁴	9.9	7.4	-15.8	16.5	10.7	52.3	6.3
19. at thrift institutions	72.6	28.9	14.6	36.0	47.6	58.0	45.6
20. Term RPs, NSA	-31.9	-19.4	46.7	-30.3	54.4	0.0	3.2

--Average monthly change in billions of dollars--

MEMORANDA:

21. Managed liabilities at commercial banks (22+23)	8.0	-6.4	-0.3	9.3	9.6	n.a.	n.a.
22. Large time deposits, gross	3.1	0.0	0.3	4.5	2.5	7.9	1.7
23. Nondeposit funds	4.9	-6.4	-0.6	4.8	7.1	n.a.	n.a.
24. Net due to related foreign institutions, NSA	-1.6	-6.0	-1.8	-1.4	3.0	n.a.	n.a.
25. Other ⁵	3.3	-0.3	1.2	6.2	4.0	n.a.	n.a.
26. U.S. government deposits at commercial banks ⁶	-0.2	0.4	1.3	0.9	1.4	-6.7	-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.

n.a.--Not available.

was concentrated in MMCs, as the yields on these instruments rose far above the interest rate caps on SSCs. The increases in time deposits were partially offset by continued runoffs of MMMF shares in response to their lagging adjustment to the rise in yields on competing instruments and by declines in savings deposits, following five consecutive months of inflows. On balance, total deposit inflows to thrifts remained in November at the elevated pace seen since June.

Heavy bank use of managed liabilities included in M-2 also contributed to its stronger growth; overnight RPs and Eurodollar deposits rose substantially. Commercial banks also issued \$8 billion net in large time deposits in November--three times the rate of the previous month and the largest monthly increase since February--and M-3's growth rate was elevated to a near-record pace. In addition to meeting strong credit demands, banks supplied funds to their foreign branches¹ and also had to compensate for a \$6-3/4 billion drawdown of U.S. government deposits during the month.

Bank credit accelerated further in November, as loans expanded at the most rapid pace since February and growth in investments slowed only slightly. Business and real estate lending maintained the rapid pace set in October, and security loans grew sharply. The Senior Loan Officer Opinion Survey taken in mid-November suggested that this autumn bank lending policies generally became less accommodative. However, at the time of

1. Reserve Bank efforts to remind commercial banks of the Board's policy regarding weekend reserve avoidance have apparently been successful in nearly eliminating the activity, increasing required reserves by \$500 to \$600 million. Due to the cessation of this practice, member bank Euro-dollar borrowing has fallen by roughly \$3-1/2 billion on a weekly average basis.

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

	1980						QIV '79	to Nov. '80 ^e
	Q1	Q2	Q3	Sept.	Oct. ^e	Nov. ^e		
----- Commercial Bank Credit -----								
1. Total loans and investments at banks ²	11.5	-4.4	13.5	14.1	13.3	16.1	8.0	
2. Investments	7.3	11.0	21.6	12.3	13.7	12.1	12.9	
3. Treasury securities	3.0	10.6	39.6	25.3	14.6	13.3	15.4	
4. Other securities	9.4	11.2	12.9	5.8	13.3	11.4	11.6	
5. Total loans ²	12.8	-9.6	10.7	14.6	13.2	17.4	6.3	
6. Business loans	16.4	-9.6	14.4	18.2	23.0	23.7	10.0	
7. Security loans	-32.8	-23.8	-10.1	-22.9	39.0	60.4	-12.6	
8. Real estate loans	11.9	1.0	5.6	6.2	11.4	10.8	7.8	
9. Consumer loans	3.7	-21.5	-7.1	-0.7	0.0	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	2.6	7.7	9.9	15.6	n.a.	n.a.	
11. Business loans net of bankers acceptances ¹	17.6	-10.8	-13.5	18.8	26.6	26.0	10.0	
12. Commercial paper issued by nonfinancial firms ³	76.2	86.9	-22.5	-37.6	-53.4	-25.0	31.5	
13. Sum of lines 11 & 12	23.1	-0.5	8.8	11.8	17.0	20.3	12.0	
14. Finance company loans to business ⁴	-2.8	-4.0	-7.5	-12.2	7.0	n.a.	n.a.	
15. Total bankers acceptances outstanding ⁴	54.1	32.3	20.2	26.2	17.1	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.

the survey, banks were not indicating any really substantial tightening in nonprice loan terms.¹

Business Finance

Business borrowing in November continued to be characterized by declining note and bond offerings and heavy reliance on bank loans, extending the pattern that began in August. Business loans at commercial banks (excluding bankers acceptances) expanded at over a 25 percent annual rate in November for the second consecutive month. Nonfinancial commercial paper outstanding contracted further, but the reduction was more moderate than in October. Together, these two sources of business credit picked up in November from an already strong pace. The concentration of business demands for short-term financing on commercial banks apparently reflected the persistence of an unusually narrow spread between the banks' prime rate and commercial paper rates. Despite a substantial rise in term loans in November, short-term loans grew even faster.

The further upward movement of longer-term interest rates has resulted in an especially small volume of new corporate note and bond offerings in recent weeks. Gross public offerings of corporate bonds totaled only \$1.3 billion, seasonally adjusted, in November, and December's calendar is expected to be only about \$2-1/4 billion. As in other recent months, a large portion of the recent note and bond offerings by industrial corporations has been convertible debt issues by companies with debt rated at Baa or below. Moreover, a relatively large proportion of non-convertible debt

1. A discussion of the survey findings will appear as an appendix to the Greenbook Supplement.

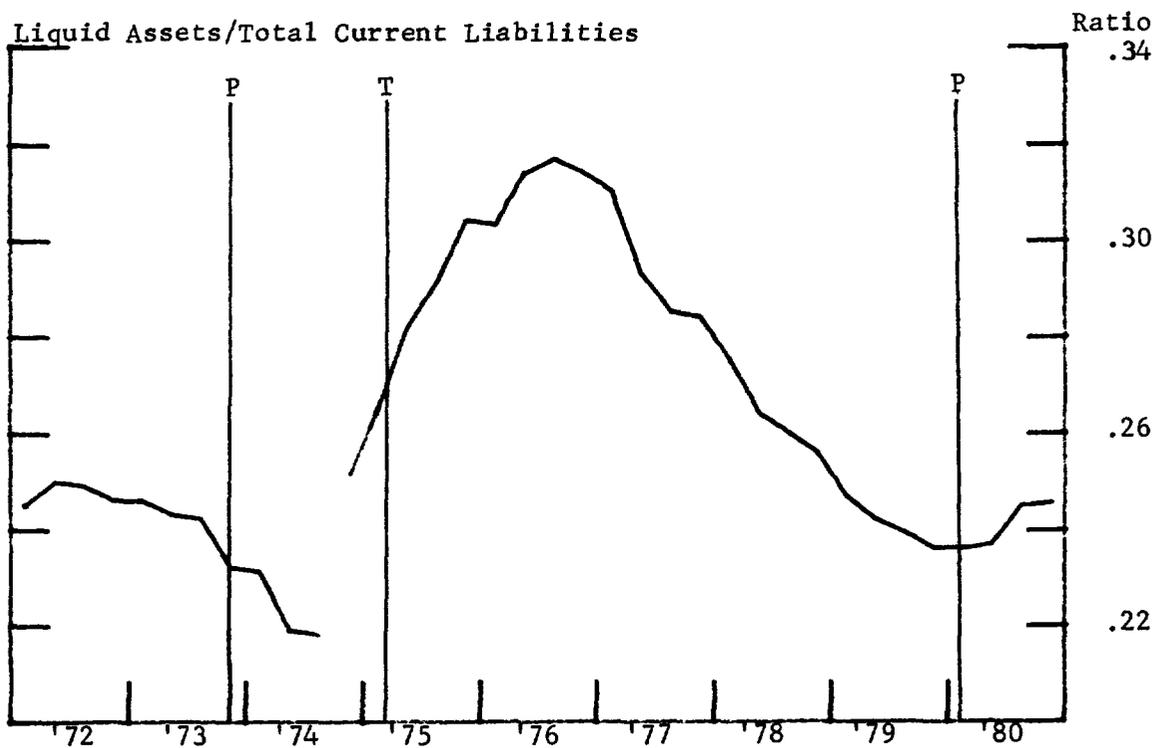
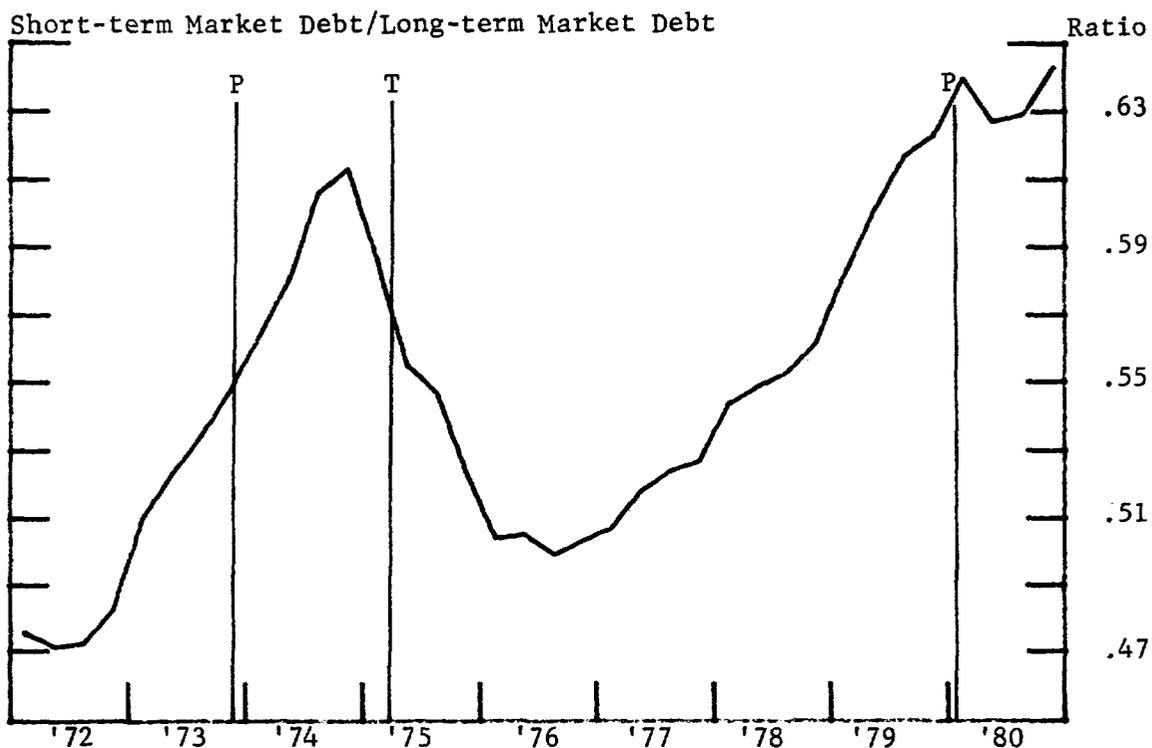
GROSS OFFERINGS OF CORPORATE SECURITIES
(Monthly totals or monthly averages; in millions of dollars)

	1980				
	Q2	Q3	Oct. ^P	Nov. ^P	Dec. ^f
	----- Seasonally adjusted -----				
Corporate securities--total	7,725	6,575	4,850	3,925	4,300
Publicly offered bonds	5,780	3,945	2,300	1,300	2,300
Privately placed bonds	660	710	800	800	800
Stocks	1,285	1,920	1,750	1,825	1,200
	----- Not seasonally adjusted -----				
Publicly offered bonds--total	6,062	3,873	2,600	1,300	1,800
By quality ¹					
Aaa and Aa	3,230	1,710	625	600	--
Less than Aa ²	2,832	2,163	1,975	700	--
By type of borrower					
Utility	1,305	1,060	1,400	440	--
Industrial ³	3,132	2,203	800	520	--
Financial	1,625	610	400	340	--
Memo: convertible bonds	316	369	729	380	--
Stocks--total	1,332	1,569	2,000	1,500	1,400
By type of borrower					
Utility	512	655	650	450	--
Industrial	593	704	1,100	900	--
Financial	227	210	250	150	--

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.

LIQUIDITY MEASURES FOR NONFINANCIAL CORPORATIONS
(Seasonally adjusted)



Source: Flow of funds. Data for 1980-Q4 are preliminary.

financings has carried short maturities of 5 to 10 years, typical of periods of high bond yields.

Nonfinancial corporations evidently are awaiting lower bond rates to fund some of the short-term indebtedness acquired in recent years. The proportion of short-term indebtedness (total loans from commercial banks and finance companies plus open-market paper) to long-term market indebtedness is at an historic high (see chart on page III-9). Moreover, these corporations have yet to replenish their holdings of liquid assets relative to total current liabilities to any appreciable extent.

Stock prices have declined about 7 to 9 percent since the November FOMC meeting. And while long-term debt offerings have tapered off, relatively high stock prices continued to encourage a large volume of stock issuance in November and early December. The volume of new corporate stock sold during 1980 will likely be more than half again as large as the volume issued during 1979 and eclipse the previous record volume of offerings in 1972.

Government Finance

During November, the Treasury raised \$10.9 billion of new money (not seasonally adjusted) through offerings of marketable debt: \$4.8 billion in coupon offerings, \$2.1 billion in the regular weekly and monthly bill auctions, and \$4.0 billion in cash management bills maturing at the end of December. In the first 10 days of December, the Treasury raised an additional \$6.6 billion of new cash, including \$3.2 billion in the regular 5-year note auction and \$3.0 billion in cash management bills scheduled for April maturity. For the fourth quarter as a whole, staff expect the Treasury's net cash borrowing from the public to total about \$23 billion,

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

	Q2	Q3	Oct.	Nov. ^{e/}	Dec. ^{f/}
----- Seasonally adjusted -----					
State and local government securities, gross offerings					
Total	6.64	7.15	6.51	5.20	6.90
Long-term	4.69	4.83	4.26	2.85	3.90
Short-term	1.95	2.32	2.25	2.35	3.00
U.S. government securities, net offerings					
U.S. Treasury ¹	4.87	8.39	2.62	8.95	5.93
Sponsored agencies	1.60	2.97	4.88	0.69	3.35
----- Not seasonally adjusted -----					
State and local government securities, gross offerings					
Total	7.94	6.52	6.10	4.90	5.40
Long-term	5.12	4.32	4.60	3.00	3.40
Housing revenue bonds	1.38	0.67	0.40	0.76	2.50
Single-family	1.32	0.48	0.38	0.76	2.40
Multi-family	0.06	0.19	0.02	0.00	0.10
Short-term	2.82	2.20	1.50	1.90	2.00
U.S. government securities, net offerings					
U.S. Treasury ¹	0.98	8.87	4.77	10.90	8.12
Bills	-4.18	4.55	2.34	6.13	3.42
Coupons	5.16	4.32	2.43	4.77	4.70
Sponsored agencies	1.78	2.12	5.27	0.30	2.79

e--estimate. f--forecast.

1. Marketable issues only.

almost entirely in the market.¹ These monies, together with a decrease in the cash balance of about \$10 billion, will be needed to finance the large fourth quarter combined deficit, now projected at around \$33 billion.

The recent rise in yields on Treasury securities has provided additional stimulus to noncompetitive tenders in Treasury auctions. In the regular weekly bill auctions, the volume of noncompetitive tenders has been running about \$1.5 to \$2 billion per auction during the last two months, close to record levels reached last spring when short-term rates attained all-time highs. Noncompetitive tenders in the 2-year note auction in November rose above the previous record high reached in October. In recent weeks there have also been sizable purchases of Treasury bills by foreign official accounts. Since mid-November, foreign custody holdings of bills at the New York Fed have increased by \$3-1/2 billion.²

In November gross offerings of municipal bonds totaled \$2.9 billion, seasonally adjusted, substantially below the \$4.3 billion level in October. About \$750 million in municipal bond offerings were postponed or cancelled last month, slightly smaller than the preceding month. According to staff conversations with underwriters, most of the issues postponed in October and November were for capital projects that were not considered critical and could be delayed. For the financing of capital projects not easily delayed, municipalities reportedly were tapping internal sources of funds, if available, or issuing short-term debt.

1. Nonmarketable debt in the hands of the public has changed little in total since the spring when savings bonds and the foreign series declined sharply. Most recently, savings bonds have been declining at around \$100 million per month.

2. The acquisitions were not related to exchange market intervention activities of foreign central banks which would, in fact, have implied sales of Treasury securities since they were selling dollars.

Reversing the trend of the previous three months, housing revenue bonds made up a relatively large share of municipal issues sold during November. In part, the stepped-up issuance of such securities was induced by agreement on November 24 by House and Senate conferees on mortgage bond legislation that will permit the issues to be sold without restriction only until January 1, 1981. Thereafter, the issuance of tax-exempt revenue bonds to purchase single-family mortgages will be restricted until the end of 1983 when an outright ban such bonds will become effective.¹ As a result of the provision of unrestricted issuance until the end of the year, even record high municipal bond yields have failed to restrain sales of these securities in recent weeks.

Mortgage Markets

The national average contract interest rate on commitments for conventional mortgages at S&Ls has risen by 25 basis points since mid-November to 14.43 percent. Scattered reports from various parts of the country mention mortgage rates exceeding 15 percent. In addition, lenders in recent months have typically required nearly 2 discount points, roughly equivalent to another 40 basis points. Interest rates on construction loans to builders, often arranged 1 to 2 percentage points above the bank prime rate, have returned to the 20 percent and over range experienced last spring.

At thrift institutions--still the largest single source of residential mortgage credit--deposit growth has been strong in recent months, and the liquidity of the industry has been well maintained. Indeed, according to FHLMC surveys, the proportion of S&Ls with mortgage funds in short supply

1. See Appendix A for details on the legislation and its expected long-term impact.

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

Period	Conventional home mortgages			Percent of S&Ls ² with mortgage funds in short supply
	Average rate on new commitments for 80% loans (percent)	Basis point change from month or week earlier	Spread ¹ (basis points)	
1980--High	16.35	--	+385	93
Low	12.18	--	-24	54
1980--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.	13.79	59	-27	68
Nov. 7	14.08	+8	+10	68
14	14.18	+10	+46	69
21	14.28	+10	+36	60
28	14.28	0	+22	54
Dec. 5	14.43	+15	+30	61

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				Yields on GNMA- guaranteed mortgage-backed securities for immediate ² delivery		
	Conventional		Government-underwritten				
	Amount (\$ millions)		Amount (\$ millions)				
	Offered	Accepted	Yield to 1 FNMA	Offered	Accepted	Yield to 1 FNMA	
1980--High	426	133	17.51	644	324	15.93	13.84
Low	30	21	12.76	126	64	12.28	11.03
1980--Nov. 3							13.42
10	52	48	15.25	126	64	15.57	13.61
17							13.67
24	30	21	15.35	126	72	15.49	13.57
Dec. 1							13.75
8	56	34	15.65	97	52	15.50	13.79

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.

in late November and early December moved well below the levels recorded through most of the year. Mortgage holdings at S&Ls expanded by \$4.4 billion in October, a much stronger growth than earlier in the year but somewhat below the increase in September. In the face of weakening demand for mortgage credit and uncertainties about the volume and cost of future funds, extensions of new commitments at S&Ls fell by 20 percent in October, and outstanding commitments declined slightly after four consecutive months of large gains.

According to field reports, new commitment activity at other major mortgage originators has been declining as well. The volume of loans originated by mortgage bankers in particular has weakened, and the spread between yields on home mortgages and long-term bonds has remained narrow, providing diversified private investors with little incentive to move into mortgages.

In this environment, innovative mortgage finance arrangements have been gaining ground, though comprehensive statistics are not available. "Builder buy-downs" are seemingly becoming a more widespread feature of new house sales, particularly for sales of houses to first-time buyers. Under such arrangements, builders provide direct help to buyers to meet their monthly mortgage payments for the first few years on conventional mortgages made at current yields. The builders evidently try to recoup through higher home prices or, in some cases, by eliminating realtors as sales agents. In addition, field reports indicate that renegotiable rate mortgages are being more widely offered at S&Ls, usually with three-year adjustment periods. Borrowers, however, reportedly are showing little interest in them without appreciable rate concessions in compensation

CONSUMER INSTALLMENT CREDIT¹

	1978	1979	1980			
			Q2	Q3	Sept.	Oct.
<u>Total</u>						
Change in outstandings						
Billions of dollars	44.8	35.5	-35.5	3.4	17.4	17.6
Percent	19.4	12.9	-11.4	1.1	5.8	5.8
Extensions						
Billions of dollars	298.4	322.6	257.9	309.6	327.7	330.6
Bank share (percent)	47.8	46.4	41.4	43.1	43.6	42.5
Liquidations						
Billions of dollars	253.5	287.1	293.5	306.2	310.3	313.0
Ratio to disposable income (percent)	17.4	17.7	16.7	16.9	17.0	17.0
<u>Automobile credit</u>						
Change in outstandings						
Billions of dollars	19.6	12.6	-14.9	2.1	5.3	5.9
Percent	23.6	12.3	-12.7	1.9	4.7	5.2
Extensions						
Billions of dollars	89.0	91.9	62.8	85.2	92.6	91.6
<u>Revolving credit</u>						
Change in outstandings						
Billions of dollars	7.8	8.1	-6.5	2.0	4.2	5.6
Percent	20.7	17.9	-12.1	3.9	8.0	10.7
Extensions						
Billions of dollars	104.6	120.8	120.1	128.3	130.8	133.4

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

for the interest rate risk assumed. In some cases, reductions in mortgage rates by a full percentage point have brought only limited response.

Secondary market yields on FHA/VA mortgages continued to increase, on balance, during the first three weeks of November. As a result, primary market discounts deepened further. When the administration announced on November 21 an increase in the ceiling rate to 13-1/2 percent to be effective November 24, GNMA-guaranteed securities issued against pools of 13 percent loans were selling about 7 points below par. This adjustment reduced discounts required by investors by approximately 3 points. Since that time, yields on GNMA-guaranteed securities have moved up further, causing discounts in secondary and primary markets to deepen once again.

Consumer Credit

Consumer installment credit increased in October at the same 5-3/4 percent annual rate as in September. Among types of consumer loans, revolving credit grew at a 10-3/4 percent rate in October, and auto credit, which had shown the largest rate of decline in the spring, grew at 5-1/4 percent.

Default risk associated with consumer auto financing has risen substantially in recent months. At commercial banks, repossessions on auto loans generally have paralleled the sharp rise in personal bankruptcy filings, and other indicators of collection and charge-off expenses on auto loans at banks and finance companies have been rising. With costs of funds to lenders increasing as well, finance rates on auto credit have been moving up. In early November, rates on auto loans at commercial banks were almost 40 basis points higher than in August and were exceeded only by the record levels of last May. More recently, finance rates have been climbing further according to informal contacts with several major lenders in early

December.¹ In addition, lending institutions reportedly are tightening up on other terms to screen out riskier borrowers. Some banks have shortened maturities and increased minimum downpayment requirements, and other banks--particularly in states with binding usury ceilings--have begun to offer auto loans only to established customers.

1. The most pronounced increase in auto loan rates occurred in New York State where rate ceilings on consumer loans were recently removed; auto loan rates shot up 5 to 6 percentage points at some banks. In early December, the National Credit Union Administration raised temporarily (for nine months) the maximum rate a federal credit union may charge on a consumer loan from 15 to 21 percent.

APPENDIX A*

FEDERAL LEGISLATION AFFECTING THE ISSUANCE OF TAX-EXEMPT MORTGAGE REVENUE BONDS

The issuance of tax-exempt revenue bonds to finance single-family mortgages will be restricted and eventually banned as a result of compromise federal legislation enacted in early December.¹ This type of tax-exempt security has been popular in recent years since qualified homebuyers can obtain credit at costs below those on market-rate mortgages (see table).² The legislation allows state and local governmental units to sell revenue bonds and use the proceeds for single-family mortgages without any federally-imposed restrictions through yearend and forbids the issuance of these obligations after December 31, 1983. In the 3-year interim, such obligations will be permitted and their interest income will remain tax-exempt if the following criteria are met: (1) the mortgage proceeds are loaned to a first time homebuyer or to someone who has not owned a home in the three previous years, except where residences are in targeted areas or the loan is for home improvements;³ (2) the home purchase price is not more than 90 percent of the average purchase price of single-family houses in the preceding year in the standard metropolitan statistical area, except in targeted areas where the percentage is 110; (3) a minimum of 20 percent of the lendable proceeds of a bond issue is made available for at least one year for mortgage loans in targeted areas if they exist within the issuing jurisdiction; (4) allocation of bond proceeds is equally divided in a state between the state housing agency and localities, except in the home rule state of Illinois; (5) the effective interest rate on mortgages to homeowners is limited to 1 percentage point above the yield to maturity to the purchasers of the bonds, calculated on the date of issuance; and (6) the total amount of single-family housing bonds issued in a state each year does not exceed the greater of \$200 million or 9 percent of the annual average of all single-family mortgages originated in the state in the preceding three years. Revenue bonds issued for multifamily rental housing and general obligation bonds that provide veterans with credit to buy single-family homes are largely unaffected by this legislation.⁴

According to estimates by the Joint Tax Committee and the Treasury, total tax-exempt mortgage bond issuance will average about \$18 billion in each of the next three years, much less than would otherwise be likely. After the sunset provision of the legislation takes effect, only single-family general obligations for veterans and multifamily revenues are permitted to be financed in the tax-exempt securities market.

* Prepared by Carol S. Marks, Capital Markets Section, Division of Research and Statistics.

1. The mortgage bond legislation is included in the Omnibus Reconciliation Act of 1980 (H.R. 7765) that became law on December 5.

2. Internal Revenue Service regulations limit arbitrage earnings to 150 basis points above the borrowing yield of the municipality. In November, the average rate on mortgages based upon mortgage revenue bonds was about 11-3/4 percent while the average conventional mortgage loan rate was approximately 14-1/4 percent.

3. One of the definitions of a targeted area, contained in this law, is a location where 70 percent of the families have incomes not more than 80 percent of the statewide median income.

4. This law requires that: at least 15 percent of the multifamily units are to be occupied by individuals of low or moderate income; all mortgage revenue bonds as well as general obligation veteran bonds must be in registered form beginning in 1982; and, these bonds cannot be advance refunded.

IIIA-2

GROSS ISSUANCE OF TAX-EXEMPT SECURITIES
(In millions of dollars)

Calendar year	Mortgage Bonds			Total All Bonds
	Single-family ¹	Multifamily ²	Total	
1975	565	871	1,436	30,531
1976	1,300	1,441	2,741	35,180
1977	1,543	2,874	4,417	46,697
1978	4,566	2,483	7,049	48,512
1979	12,072	9,414	12,072	43,365
1980 ^e	12,197	1,168	13,365	47,125

e--estimate.

1. Includes state and local government general obligation bonds issued for veterans and revenue bonds.
2. Includes state and local government revenue bonds.

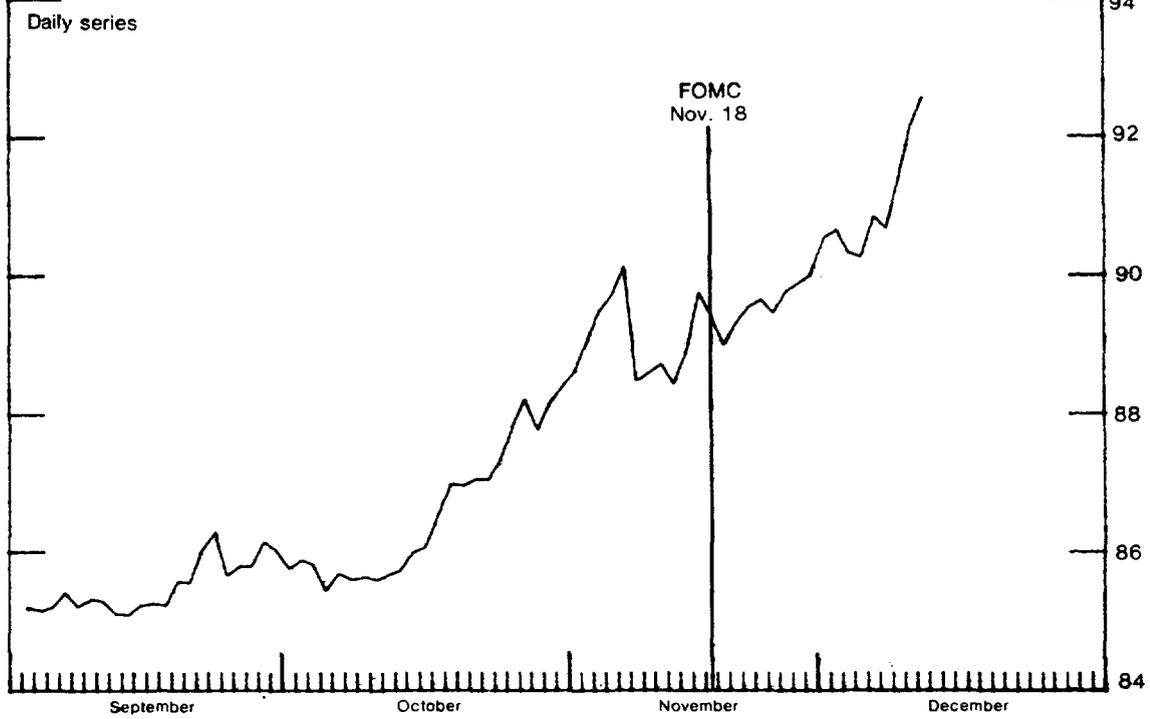
Foreign Exchange Markets

The dollar has appreciated by 5 percent on a weighted average basis since last month's Greenbook, and by 8 percent since it began its present uptrend in the middle of October. As indicated by the chart on the next page, the dollar's appreciation has paralleled the rise in U.S. interest rates during a period in which foreign interest-rate movements have been much less pronounced. Since the beginning of December, the military threat to Poland has been a secondary factor contributing to the dollar's rise.

The appreciation of the dollar has predominantly occurred against the Continental European currencies, with the dollar strengthening against the Deutschemark by 6-1/2 percent since last month's Greenbook, and by 11-1/2 percent since mid-October. The dollar is now worth more than 2 marks, which is slightly above its peak last Spring and the highest relative value since before the dollar depreciated in September-October of 1978. Against the yen the dollar is little changed since last month's Greenbook, as the yen weakened by 4 percent through the end of November but subsequently recovered. Part of the yen's turnaround has been attributed to the announcement in early December that Japanese GNP was greater than expected in the third quarter, which might have dampened any expectations that Japanese monetary policy would be eased further to stimulate growth. Against the pound sterling the dollar has appreciated by 3-1/2 percent since last month's Greenbook, primarily in association with the reduction in the Bank of England's Minimum Lending Rate in late November.

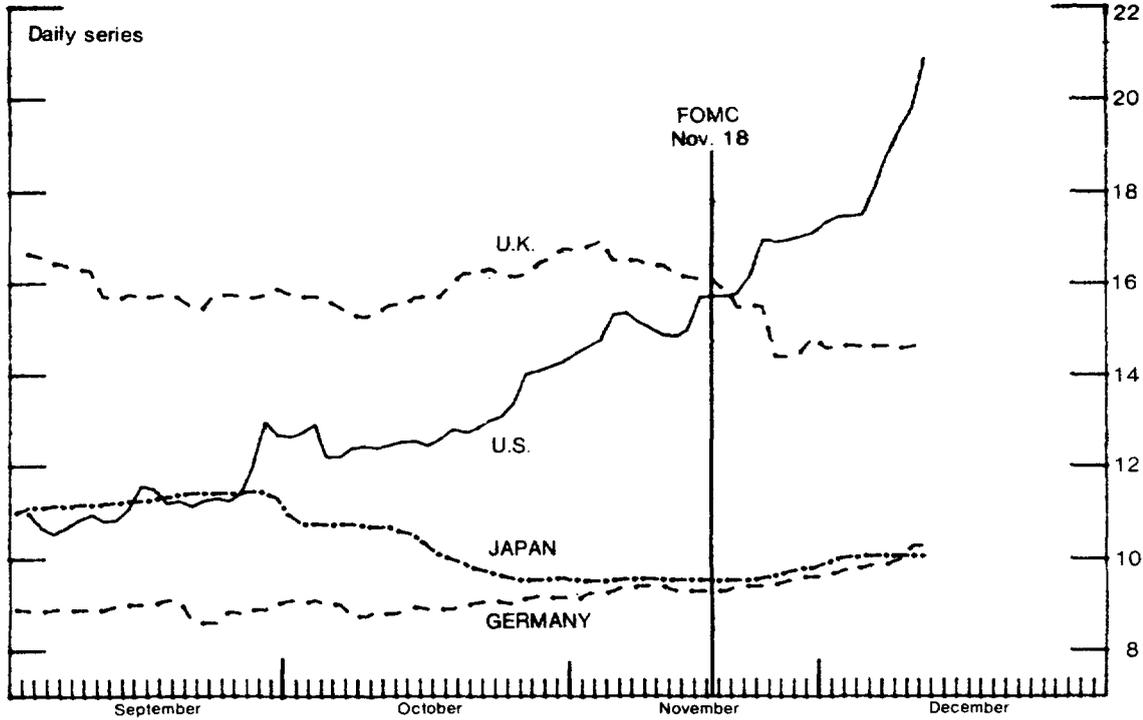
WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR

March 1973 = 100



3-MONTH INTEREST RATES

Percent per annum



1980

The price of gold fluctuated between \$610 and \$640 an ounce for most of the period since last month's Greenbook, but fell sharply to around \$550 an ounce during the second week in December, reflecting the rise in dollar interest rates. Silver prices have plunged from around \$18.50 to less than \$14.50 an ounce.

Desk operations since last month's Greenbook have resulted in net purchases of about \$2.1 billion equivalent of marks and \$85 million equivalent of Swiss francs. The System has now built its mark balances to around \$1.3 billion equivalent, and the Treasury has acquired mark balances that exceed its Carter-bond debt by roughly \$1/2 billion equivalent. The System is currently warehousing about \$1.4 billion equivalent of marks for the Treasury.

RESTRICTED

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

	1978	1979		1980			AUG.	SEP.	OCT.
	YEAR	YEAR	QIV	QI	QII	QIII			
1. CHANGE IN NET FOREIGN POSITIONS OF BANKING									
OFFICES IN U.S. (EXCL. LIAB. TO FOREIGN OFF. INST.)	-15508	14754	-5055	9070	-23112	-12144	-1196	-8847	3898
THROUGH INTERBANK TRANSACTIONS WITH									
A. OWN OFFICES IN FOREIGN COUNTRIES	4598	20645	-9229	7061	-18225	-2850	5468	-7462	3365
B. UNAFFILIATED BANKING OFFICES IN FOR. COUNTRIES	-4735	3810	6467	2879	-2236	-4354	-5874	342	1144
THROUGH NONBANK TRANSACTIONS									
A. CLAIMS ON NONBANKS IN FOREIGN COUNTRIES (INC., -)	-16447	-11954	-3606	-351	-3587	-4345	-1069	-1909	-863
B. LIABILITIES TO PRIVATE NONBANKS IN FOREIGN COUNTRIES (INC. CUSTODY LIAB.)	1076	2253	1313	-519	936	-595	279	182	252
2. PRIVATE SECURITIES TRANSACTIONS, NET - EXCL. U.S. TREAS	-1038	-3351	-926	1580	-766	-565	-324	-845	-37
A. FOREIGN NET PURCHASES OF U.S. CORP. BONDS	931	256	-1	349	213	203	102	-34	72
B. FOREIGN NET PURCHASES OF U.S. CORP. STOCKS	1689	1037	193	1997	346	37	34	-168	452
C. U.S. NET PURCHASES (-) OF FOREIGN SECURITIES	-3658	-4644	-1118	-766	-1325	-805	-460	-643	-561
3. FOREIGN NET PURCHASES OF U.S. TREASURY OBLIGATIONS 1/	2277	3702	-198	3278	-1225	-254	27	430	229
4. CHANGE IN FOREIGN OFFICIAL RESERVE ASSETS IN U.S. (INCREASE*)	31492	-13138	-525	-7399	7042	7721	1598	2236	291
BY AREA									
A. G-10 COUNTRIES AND SWITZERLAND	29982	-21151	-7232	10689	1271	1390	-81	-1077	213
B. OPEC	-1170	6509	5970	3260	4202	3921	1320	2134	-179
C. ALL OTHER COUNTRIES	2680	1504	737	30	1569	2410	359	1179	257
BY TYPE									
D. U.S. TREASURY SECURITIES 2/	23851	-21636	-5769	-5356	4318	3769	784	149	1634
E. OTHER 3/	7641	8498	5244	-2043	2724	3952	814	2087	-1343
5. CHANGE IN U.S. RESERVE ASSETS (INCREASE-) 4/	662	-306	-399	-2535	-452	-1051	-846	-303	-973
6. TRADE BALANCE 5/	-33759	-29469	-9225	-10850	-7505	-2797	-1100	-1186	-1184
7. ALL OTHER TRANSACTIONS AND STATISTICAL DISCREPANCY	15874	27808	16328	6856	26018	9090	1841	8515	-2224
MEMO:									
BIL. \$ SEASONALLY ADJ. ANNUAL RATES									
MERCHANDISE TRADE BALANCE	-33.8	-29.5	-36.9	-43.4	-30.0	-11.2	-13.2	-14.2	-14.2
CURRENT ACCOUNT BALANCE	-14.3	-0.8	-7.2	-10.4	-9.4	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 REPURCHASE AGREEMENTS.

4/ INCLUDES NEWLY ALLOCATED SDR'S OF \$1,140 MILLION IN JANUARY 1979 AND \$1,150 MILLION IN JANUARY 1980.

5/ INTERNATIONAL ACCOUNTS BASIS, SEASONALLY ADJUSTED.

U.S. International Transactions

In October the U.S. merchandise trade deficit was \$14 billion at an annual rate (international accounts basis), about the same rate as in the preceding two months but far below that in the first half. See the table below.

Value (Bil. \$, SAAR)	1979	1980				
	Year	Q1	Q2	Q3	Sept.	Oct.
<u>Exports</u>	<u>182.1</u>	<u>218.8</u>	<u>218.8</u>	<u>225.4</u>	<u>225.6</u>	<u>226.1</u>
Agric.	35.4	41.5	38.9	43.6	45.2	40.1
Nonagric.	146.6	177.3	179.9	181.8	180.3	186.0
<u>Imports</u>	<u>211.5</u>	<u>262.2</u>	<u>248.9</u>	<u>236.6</u>	<u>239.8</u>	<u>240.3</u>
Oil	60.0	86.4	84.0	69.1	68.0	74.6
Nonoil	151.5	175.8	164.9	167.5	171.8	165.7
<u>Trade Balance</u>	<u>-29.5</u>	<u>-43.4</u>	<u>-30.0</u>	<u>-11.2</u>	<u>-14.2</u>	<u>-14.2</u>
<hr/>						
<u>Volume (Bil. 72⁶, SAAR)</u>						
Exports - Agric.	16.1	18.1	17.7	18.7	18.9	n.a.
Nonagric.	68.5	74.5	74.4	72.8	72.1	n.a.
Imports - Oil	8.5	8.1	7.2	5.8	5.7	6.2 ^e
Nonoil	68.0	72.1	66.2	65.6	66.8	n.a.

*/ International accounts basis.

e/ Estimated.

The value of total exports in October was little changed from September or the third-quarter rate. There was a temporary drop in agricultural exports; based on current indicators, agricultural exports for the fourth quarter as a whole are expected to be about equal to the third-quarter rate.

Nonagricultural exports, while increasing somewhat in October from the September rate, appear on average to be leveling off in recent months, particularly machinery and consumer goods (which together account for about 40 percent of U.S. nonagricultural exports). Industrial supplies (one-third of U.S. nonagricultural exports) have on average declined since spring. Part of that fall, particularly in late spring, was attributable to a reduction in gold and silver exports from very high levels early in the year. In addition, exports of other industrial supplies have shown a slow but fairly steady decline since summer. Automotive exports continued to move up, aircraft exports remain strong, and gold and silver exports have recently turned up again.

The volume of oil imports increased to 6.4 million barrels per day in October, 7 percent above the low third quarter rate. This volume is expected to increase slightly in the near future (largely as

<u>1980 Oil Imports</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>October</u>
Volume (mb/d)	8.4	7.4	6.0	6.4
Price (\$/BBL)	28.06	30.58	31.38	31.70
Value (Bil. \$, SAAR)	86.4	84.0	69.1	74.6

a result of increases in government stockpiling for the Strategic Petroleum Reserve), and then trend downwards as the ratio of oil consumption to GNP continues its gradual fall. Oil stocks have begun to decline from the record levels reached this summer, but remain well above the levels of a year ago. Oil import prices in

October, at \$31.70 per barrel on average, were only 1 percent higher than in the third quarter. Spot oil prices have increased since the last Greenbook, but have recently declined somewhat as a result of limited resumption of Iraqi oil exports through Turkish and Syrian pipelines.

The value of nonoil imports in October was little different than the import rates of the second and third quarters. In recent months imports of industrial supplies (one-third of nonoil imports) leveled off at rates much lower than early in the year; the one exception was gold imports, which were extraordinarily high in September and more than accounted for the August-September increase and the September-October decrease in total nonoil imports. Foreign car imports have averaged a steady \$18-20 billion annual rate since the beginning of the year except for one very strong month (September). Automotive imports from Canada have risen steadily since mid-summer. Imports of consumer goods have eased off somewhat in recent months.

In international financial transactions, the outflow of funds through U.S. banking offices that began last spring was reversed in October. Daily-average data for U.S.-based banks show a continued inflow in November. See the table on the next page. Eurodollar holdings of money-market mutual funds increased by a small amount in October, as an increase in their holdings of overnight deposits in foreign branches of member banks (largely London branches) exceeded

Banking Positions Vis-a-vis Own Foreign Balances
 (Billions of dollars, daily averages, net due to foreign offices = (+))

	March	June	Sept.	Oct.	Nov. ^{1/}
(A) U.S.-based banks' net positions with own foreign offices	6.8	-7.0	-16.8	-16.1	-14.4
(B) Foreign-based banks' net positions with own foreign offices	26.1	22.2	n.a.	n.a.	19.2
(C) Net advances to own foreign offices, (A + B)	32.9	15.2	n.a.	n.a.	4.8

^{1/} Through November 26.

NOTE: Through October, rows A and B were adjusted for weekend reserve-avoidance activity (as described in the March 1980 Greenbook). No adjustments were necessary for November because such activity effectively ceased near the beginning of the month. Data on foreign-based banks' positions are not available for the interval between the removal of the managed liability program in early July and the implementation of the Monetary Control Act in late October.

SOURCE: Required-reserve reports.

a decrease in holdings of Eurodollar CDs. Other U.S. nonbank residents increased their holdings of overnight Eurodollars in Caribbean branches of member banks.

Official reserve holdings of the G-10 countries and Switzerland in the United States were largely unchanged in October.

. Partial data for November, based only on holdings at the FRBNY, indicate an increase

of about \$4 billion for these countries,

There appears to have been some moderation in October and November in the official OPEC inflow, which had totaled \$11.4 billion during the first three quarters of the year. OPEC official reserve assets in the United States actually decreased a small amount in October. In November OPEC holdings at the FRBNY increased by less than \$1 billion.

During October and November U.S. purchases of foreign currencies were sufficient to complete repayment of outstanding Federal Reserve swap drawings on foreign central banks and to raise U.S. reserve assets by about \$2.5 billion equivalent.

Foreign Economic Developments. Economic activity has continued to be weak in most foreign industrial countries. This weakness was marked in the most recent data for the United Kingdom, where industrial production dropped, and in Italy where third-quarter GDP fell about 2-1/2 percent (s.a.) from its second-quarter level. Although preliminary German industrial production data for October show a rise, industrial production for the latest three months is still nearly 2 percent below the previous three months. In Canada and France GNP rose about 1/2 percent in the third quarter (s.a.), and in Canada industrial production has increased in each of the latest three months. GNP in Japan rose 1-1/2 percent (s.a.) in the third quarter -- an unexpectedly strong result given the drop in industrial production in that quarter. Japanese industrial production rose slightly in October, continuing the rebound from its sharp decline in August.

The slowing of inflation which was widespread in the third quarter has continued for Japan and the United Kingdom. In Japan consumer prices fell slightly in November and have risen only 0.3 percent in October-November combined. In the United Kingdom consumer prices in October again rose 0.6 percent, making an annual rate for the latest two months of 7.4 percent, in contrast with 8.4 percent for the third quarter and 23 percent for the second quarter. In Germany, on the other hand, where inflation had also been slowing significantly, consumer prices accelerated in November to 0.6 percent. While some of this pattern is due to seasonal factors, the recent weakness of the DM has contributed to the sharper price rise. In France, Italy, and Canada consumer price inflation has remained at a high rate.

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	July	Aug.	Sept.	Oct.	Nov.	
Canada: CPI	2.6	2.0	2.3	2.2	2.8	2.8	0.8	0.9	0.9.	0.9.	n.a.	10.8
WPI	3.1	2.7	3.6	4.9	1.4	2.5	0.7	1.1	1.2	n.a.	n.a.	12.9
France: CPI	2.8	3.2	2.8	3.8	3.1	3.2	1.5	1.0	0.9	1.1	n.a.	13.6
WPI	3.8	2.8	1.9	3.0	0.7	0.7	0.2	0.1	1.3	1.1	n.a.	6.4
Germany: CPI	1.4	1.2	0.9	1.9	1.8	0.7	0.2	0.1	0.0	0.2	0.6	5.2
WPI	3.3	1.7	1.1	3.8	1.7	-0.2	0.4	-1.0	-0.9	n.a.	n.a.	6.5
Italy: CPI	3.7	3.5	5.6	6.5	3.9	4.3	1.8	1.2	2.1	1.7	n.a.	21.6
WPI	4.6	4.3	5.6	6.6	3.6	2.3	0.3	0.9	1.2	0.7	n.a.	17.9
Japan: CPI	2.2	0.9	1.9	2.0	3.0	1.1	0.4	-0.2	1.5	0.4	-0.1	7.9
WPI	4.1	4.9	4.3	6.4	4.8	0.7	0.4	0.7	-0.3	-0.7	n.a.	15.4
United Kingdom: CPI	3.7	6.7	2.8	4.7	5.8	2.1	0.8	0.2	0.6.	0.6	n.a.	15.8
WPI	4.0	5.0	3.0	5.3	4.0	2.3	0.8	0.4	0.5	0.4	0.3	16.8
United States: CPI(SA)	3.1	3.2	3.2	4.0	3.3	1.7	0.0	0.7	1.0	1.0	n.a.	12.6
WPI(SA)	2.3	3.0	3.6	4.1	2.5	3.1	1.7	1.4	-0.2	0.8	0.6	12.4

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

	1978	1979	1979				1980			1980		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	August	Sept.	Oct.
Canada: Trade	3.1	3.4	0.6	0.6	0.9	1.3	1.5	1.2	1.8	0.9	0.5	0.6
Current Account	-4.6	-4.2	-1.2	-1.3	-0.9	-0.8	-0.7	-0.9	-0.1	*	*	*
France: Trade ^b	0.7	-2.4	0.3	-0.4	-1.4	-1.3	-3.5	-3.6	-3.9	-1.0	-1.3	-1.1
Current Account ^b	3.8	1.2	0.5	0.4	0.6	-0.4	-2.4	-1.2	-2.2	*	*	*
Germany: Trade	20.6	12.1	4.3	4.0	2.3	1.6	1.7	1.3	1.2	0.4	0.4	0.4
Current Account (NSA)	8.9	-5.6	1.6	-1.6	-4.7	-0.8	-3.2	-3.7	-6.9	-2.4	-1.5	-0.7
Italy: Trade	-0.5	-5.3	-0.1	-0.4	-1.5	-3.3	-4.1	-4.2	-9.3	-3.1	-2.9	-2.8
Current Account (NSA)	6.2	5.1	1.3	2.3	3.0	-1.5	-2.5	n.a.	n.a.	*	*	*
Japan: Trade	24.6	1.8	2.5	1.9	-1.0	-1.6	-1.9	-0.9	1.7	0.7	1.4	0.8
Current Account	16.5	-8.8	0.1	-0.7	-3.9	-4.2	-5.1	-4.1	-1.6	-0.5	0.4	-0.1
United Kingdom: Trade	-3.0	-7.1	-3.2	-1.1	-1.1	-1.7	-1.4	-0.7	1.7	0.1	0.9	1.1
Current Account	1.2	-3.9	-1.9	-0.5	0.0	-1.4	-0.4	-0.2	2.2	0.3	1.1	1.3
United States: Trade	-33.8	-29.5	-5.1	-8.1	-7.1	-9.2	-10.8	-7.5	-2.8	-1.1	-1.2	-1.2
Current Account	-14.3	-0.8	1.4	-1.5	1.1	-1.8	-2.6	-2.5	n.a.	*	*	*

^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.

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	July	Aug.	Sept.	Oct.
Canada:	GNP	2.4	3.4	2.6	0.8	-0.2	1.1	0.5	-0.6	-1.1	0.4	*	*	*	*
	IP	4.0	5.3	2.1	-1.7	-0.1	1.8	-0.5	-0.6	-2.5	-0.1	-0.2	1.2	1.8	n.a.
France:	GDP	2.9	3.7	3.4	0.2	0.4	2.2	0.5	0.4	-0.9	0.5	*	*	*	*
	IP	2.0	1.9	4.5	0.5	1.3	3.8	-2.2	0.5	-2.2	0.2	(3.1)		-4.4	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	-2.4	-2.2	0.8	-1.6	-0.8	0.8
Italy:	GDP	1.9	2.6	5.0	1.2	-0.6	1.2	3.9	2.0	-0.9	-2.5	*	*	*	*
	IP	1.1	1.9	6.4	1.1	-2.6	1.4	8.5	4.1	-3.0	-7.4	-1.1	-13.3	12.5	n.a.
Japan:	GNP	5.4	6.0	5.9	1.5	1.7	1.7	1.1	1.8	0.8	1.5	*	*	*	*
	IP	4.2	6.2	8.3	2.0	2.2	2.0	2.6	4.1	0.2	-2.3	0.5	-4.6	3.9	0.4
United Kingdom:	GDP	2.0	3.1	1.4	-1.1	3.0	-1.9	1.1	-0.8	-1.6	n.a.	*	*	*	*
	IP	3.7	3.6	2.7	0.4	4.0	-1.9	-0.1	-1.8	-3.9	-3.4	-1.3	-2.9	-1.8	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	-1.8	-0.8	1.0	1.3	1.6

* GNP data are not published on monthly basis.

Current account deficits in several countries have declined. In Germany in October the deficit continued the decline that began in July; this reduction may be due in part to seasonal factors. In Japan only a very small deficit was registered after the unexpected September surplus. The Canadian deficit almost vanished in the third quarter. In the United Kingdom the current account surplus widened again in October.

In the United Kingdom, the authorities announced a series of measures intended to help the government reach the fiscal and monetary targets set forth in its medium-term strategy. In Germany, the Bundesbank announced its target of 4-7 percent central bank money growth for next year.

Individual Country Notes. In the United Kingdom, real GDP continued to fall, dropping some 2 percent (s.a.) in the third quarter, according to a preliminary estimate. The severity of the recession is also indicated by the rise in the unemployment rate in November to 8.4 percent, up sharply from October's 7.8 percent and the 5.3 percent of last November. The United Kingdom's current account has continued to show large surpluses, although export volumes have started to decline, perhaps reflecting a downturn in world economic activity as well as the effect of sterling's strength. Price inflation continues to be in single digits (a.r.), and the recent 13 percent wage settlement with the miners confirms earlier signs that wage inflation can be expected to decelerate sharply during the current wage round.

On November 24 the government announced a series of measures designed to help slow monetary growth, and reduce the public sector deficit and real government spending, in accordance with its medium-

term strategy for 1980-84. Among other measures, an additional £1 billion in taxes was imposed on North Sea oil production.

Several monetary policy measures also were announced. The British authorities decided to keep the monetary target announced earlier this year -- 7-11 percent (s.a.a.r.) growth in sterling M3 between February 1980 and April 1981 -- but have conceded that it is likely that the target will not be achieved; an actual decline in sterling M3 between November 1980 and April 1981 is needed in order to hit the target. Despite the above-target growth in sterling M3, the Bank of England's Minimum Lending Rate was lowered 2 percentage points to 14 percent. This action reflects the authorities' belief that monetary growth will moderate considerably during the next several months and that the severity of the current recession indicates that monetary policy has been tight in spite of the apparently contradictory evidence represented by sterling M3 growth. (In the 12 months to October 1980, while sterling M3 increased 18 percent, M1 increased only 1.6 percent.) Finally, the Bank of England announced some planned changes in operating techniques -- including a proposed unpublished target range for interest rates and a greater emphasis on conventional open-market operations -- intended to improve monetary control.

Economic activity in Germany remains weak. While the preliminary industrial production index rose by 0.8 percent in October, its level remains below the third-quarter average. The rate of unemployment (s.a.) has risen sharply to 4.3 percent in November, as the number of unemployed approaches the one million mark last seen in early 1978.

The consumer price index rose by 0.6 percent in November, after average monthly increases of 0.1 percent in the preceding four months. While part of this acceleration is seasonal, the impact on import prices of the recent DM weakness may also have been a factor. Producer prices led this acceleration of the November CPI with a 0.8 percent monthly jump in October, after very low monthly increases.

On November 27 the Bundesbank announced next year's monetary target of central bank money growth of 4 to 7 percent for the period 1980:Q4 to 1981:Q4. During the current year CBM growth is likely to end up below the target of 5 to 8 percent.

In Japan, recently released GNP data show that during the third quarter real growth was 1-1/2 percent (s.a.), almost twice the rate achieved in the previous quarter. Much of this unexpectedly strong performance can be traced to an improvement in Japan's real external position. Real imports fell by almost 8 percent (s.a.) -- helped largely by a slowdown in imports of crude oil -- while exports expanded by 2-1/2 percent. Although government fixed capital formation was another important source of strength, private demand, particularly private consumption, was weak. The strength in third-quarter GNP is in marked contrast to industrial production, which fell 2.3 percent in that quarter. Industrial production in October increased by a modest 0.4 percent over the September figure, but was still well below levels reached earlier in the year.

Latest data also reveal that price pressures in Japan have continued to moderate. Wholesale prices in October fell by 0.8 percent (the second successive monthly decline), due in part to the appreciation of the yen and to a reduction in electric power charges during the

month. The November CPI recorded a 0.1 percent decrease, attributed largely to a substantial decline in food prices.

The current account in October returned to near balance (an \$85 million deficit, s.a.), following September's \$435 million surplus. The 10-month cumulative deficit was about \$11-1/2 billion. In the long-term capital account, foreign portfolio investment weakened rapidly in October, as net foreign purchases of Japanese securities were virtually flat (compared with \$1-3/4 billion in net purchases in the previous month). Although official figures are not yet available, net purchases are reported to have been very weak in November, as well.

The new foreign exchange law, which in principle frees most foreign exchange transactions from regulation, went into effect December 1; its interpretation in many specific applications, however, has not yet been clarified.

In France industrial production in September was 1-1/2 percent (s.a.) below its June level. Recently-released GDP data show a 0.5 percent rise in the third quarter after a 0.9 percent second quarter decline. The quarterly business survey conducted in October displayed general sectoral weakness for all indicators -- inventories, orders, excess capacity, general evaluation -- and was down from the already depressed June levels. Both wholesale and consumer prices have accelerated somewhat in the most recent data.

The trade balance (s.a.) for the first 10 months registered a deficit over \$12 billion, compared with a \$2.7 billion deficit for the same period last year. For the first three quarters of this year the current account (s.a.) deficit was over \$5-1/2 billion, compared with a \$1.5 billion surplus for the first three quarters of last year.

In Italy, the recent acceleration of consumer prices continued into November. The CPI rose at an average rate of nearly 2 percent in September and October, and early data for November point to a similar increase. Major inflationary pressures have stemmed from administered price and rent increases. On the other hand, wholesale price inflation has been running at a somewhat less rapid pace, and this may lead to slower consumer price increases.

Third-quarter GDP data were released recently, confirming the weakness in economic activity shown by other indicators. GDP fell 2.5 percent, after a 0.9 percent second-quarter decline. The third-quarter outcome reflected a sharp fall in industrial output.

The weakness of the trade account persisted into October and the cumulative trade deficit (imports, c.i.f.) for January-October was over \$20 billion, compared with a \$2.2 billion deficit for the same period last year.

The Italian Parliament has completed passage of some of the fiscal legislation introduced originally as decree laws in July and resubmitted by the present Forlani government. In particular, "fiscalization" (government assumption) of social insurance charges has been increased in order to lower business' labor costs and improve Italian competitiveness.

In Canada third quarter GNP data were recently released showing a 0.4 percent rise, the first increase after two quarters of decline. Industrial production rose almost 2 percent in September -- the third consecutive monthly rise in this index. CPI inflation remained high in October, rising 10.6 percent (a.r.) compared with 10.7 percent in

September. The current account deficit narrowed in the third quarter to \$0.1 billion (s.a.) from \$0.9 billion in the second quarter.

In Belgium the rapid increase in the unemployment rate from 7.2 percent in June to 8.5 percent in October has increased expenditure on unemployment benefits; this increase, together with a shortfall in expected tax revenue, has greatly increased the government's projected deficit. In response, the government sought a voluntary agreement with labor and business for a program to restrain wages, reduce unemployment benefits, cut salaries for public employees, and aid small business. This program has been rejected by the unions, and the government plans to seek its implementation through parliamentary action.

In Sweden, the consumer price index jumped by almost 3 percent (n.s.a.) in September and by 1-1/2 percent in October. Higher value-added and excise taxes account for much of this inflationary spurt; between March and August, monthly increases in the CPI averaged only about 0.5 percent.

In Denmark and Norway, indications of a slowdown in economic activity continue to accumulate. Danish unemployment has risen from 5.2 percent in December of last year to 7.7 percent in October. In Norway, although the latest reported unemployment rate is still low (1 percent in July), industrial production (excluding oil) declined by 3 percent from September 1979 to September of this year.