For release on delivery

Statement by

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Chairman, Board of Governors of the Federal Reserve System

before the

Committee on Banking, Housing and Urban Affairs

United States Senate

November 9, 1977

I am pleased to meet with this Committee once again to present the report of the Federal Reserve on the condition of the national economy and the course of monetary policy.

It might be useful to begin this testimony with a few comments on economic developments during the past several years. I do so because I believe that analysis of the current situation will be helped materially if we start with a reasonably clear understanding of how we got to where we are.

The key economic problems confronting our Nation today have their origin in events that extend back over a considerable time. A major conditioner of national economic affairs at present continues to be the fact that inflation was allowed to get so far out of control in the latter part of the 1960's and the early 1970's. Precisely why that happened is a very complex matter, involving both shocks to our economy -- the chief one being the quantum jump in oil prices -- and some mistaken actions by governmental and private decision-makers alike. But it is no part of my immediate concern to explore or assign responsibility. The point I want to stress is simply that the distortions of the inflationary blow-up that occurred in the 1972-74 period are still casting a heavy shadow on our economic environment.

Certainly, the recession of 1974-75 would not have been nearly so severe, and indeed might not have occurred at all, had it not been for the inflationary stress of the preceding several years. Blinded by the dizzying advance of prices and the effects of that advance on their nominal profits, businessmen were slow in recognizing that the underlying condition of demand for their products was deteriorating. They thus continued aggressive programs of inventory expansion and capital-goods expansion longer than was prudent, with the consequence that economic imbalances cumulated to major proportions in 1973 and 1974. By the time businessmen recognized the mistaken assessments they had made, the need to scale back operations had become enormous. The worst recession in a generation ensued.

The scars of both the recession and its prelude are with us still. Psychologically, the recession was profoundly disturbing because of its magnitude and because it caught so many people by surprise. A good many of our citizens, it seems clear, had developed inordinate faith in government's ability to manage and sustain economic expansion. When they discovered that that faith was not justified, the experience was sobering -- particularly for the not inconsiderable number of businessmen who in the froth of the earlier prosperity had added excessively to their short-term debts. Out of that trauma was born a resolve in the minds of many businessmen to be much more cautious in managing inventories, also in adding to their fixed costs or in enlarging their current liabilities.

And, as this Committee knows well, it was not only the business sector that was affected. Many State and local governments encountered problems that were just as searing -- with New York City representing only the extreme case. That was partly because their normal expenditures tend to respond more elastically to inflation than do revenues, and partly because their budgets -- particularly those of local governments -- were hard hit during the recession by the costs of income-maintenance programs. It was not so long ago, as you may recall, that grave concern was being voiced across our land about the financial health of many State and local governments.

The special legacy of inflation and recession has inevitably been on our minds at the Federal Reserve in hammering out monetary policy throughout the past two-and-a-half years of recovery. We have recognized, on the one hand, that formidable risks of adding to inflationary expectations would accompany

any pursuit of aggressive monetary ease. But at the same time, we have been sensitive to our obligation to foster financial conditions favorable to encouraging job opportunities, so that the unemployment rate -- which has remained very high by historical yardsticks -- might be further reduced.

What we feel has been virtually obligatory in these circumstances is a middle course of moderate monetary expansion. That, in fact, is the course we have pursued to the best of our ability. Monetary aggregates, to be sure, have sometimes grown very slowly for short-time spans; in other periods, they have grown very rapidly. Over-all, however, the path has been one of moderation. This is evidenced, for instance, by an average annual rate of growth of about 6 per cent in M_1 -- the narrow money stock which includes only currency and demand deposits -- during the ten full quarters of this recovery.

The rise in M_1 and in related monetary aggregates has been sufficient to finance a large gain in the physical volume of output and employment. Indeed, nearly seven million jobs have been created since March 1975 -- a performance without parallel in both absolute and percentage terms since World War II.

But the increases in the money supply, while so favorable to the physical expansion of economic activity, were sufficiently limited to permit a retreat from double-digit inflation. And clearly, the increases that occurred in the money supply have not excited new inflationary expectations -- a fact evidenced by the dramatically atypical behavior of interest rates in this expansion. Short-term interest rates, despite the advances of recent months, are not materially higher today than they were at the beginning of this expansion. And long-term rates are actually lower by a significant margin. Charts 1 and 2 of the Appendix to this statement, which depict the behavior of interest rates, make this entirely clear.

All in all, we at the Federal Reserve are satisfied that monetary policy has made an important contribution to the recovery and to the basic economic health of this Nation. Among other things, monetary policy has helped produce a receptive, orderly environment for a massive amount of debt restructuring. During this expansion, business firms have been notably successful in reducing the ratio of short- to long-term debt, and State and local governments as well have been able to strengthen their financial posture. Progress of this kind has not only enhanced the potential of businesses and governmental units to play a continuing supportive role in the economic expansion; it has also quieted the not inconsiderable nervousness many investors felt a short time ago about holding debt issues, especially those enjoying less than top ratings. That is a very constructive financial-market development.

The recovery of economic activity during the past two and a half years has had features that might have been expected from the special circumstances that prevailed earlier. For instance, retail sales and housing starts weakened at the very beginning of 1973 -- well in advance of the peak of the previous cyclical expansion. These activities consequently avoided some of the extreme end-phase distortion that occurred elsewhere in the economy, and they have displayed the most conspicuous elements of strength during the current expansion. In both instances, the percentage gains since the recession trough in March 1975 are greater than has been usual in previous expansions. By contrast, a large residue of caution has characterized business spending for both inventories and fixed capital.

Indeed, the control that businesses are exercising nowadays over inventories has produced very prompt slowing in production whenever consumer spending showed signs of hesitancy. That fact goes a long way toward explaining why we have had considerable unevenness in the rate of over-all economic advance. While the pauses have produced some anxiety from time to time, the new determination of businessmen not to allow their inventories to become unbalanced is actually a constructive development.

A worrisome feature of businessmen's current caution, however, is their marked reluctance to proceed with capital investment programs comparable to those of previous expansions. In the two and a half years since the recession trough, "real" capital outlays have increased less than half as much as they did, on average, over like periods in previous postwar expansions (see Chart 3). The shortfall has been especially marked in the case of major long-lived industrial projects, and it has occurred even in industries -- such as basic chemicals -- in which the rate of capacity utilization is well advanced. The relative weakness of spending on plant and equipment is, indeed, the most troublesome feature of the current expansion. In large part this weakness is due to the unsatisfactory performance of corporate profits -- a difficulty that I discussed at length in a recent speech and one that must be overcome soon if the recovery is to take on a more balanced character and hence enjoy a good chance of being sustained (see Charts 4 and 5).

One other unusual weakness of this recovery -- and this again is something that could have been reasonably anticipated -- has been the subdued expenditure pattern, until recently, of State and local governments. Their "real" spending, like that of businesses for fixed-capital assets, also is up by only about half as much from the recession trough as has been typical in previous expansions -- a clear reflection of the generalized financial strains that State and local governments have experienced.

In sum, the character of the current economic recovery has differed in some major respects from that of earlier recoveries. This fact has considerable bearing on prospects for the continuation of the recovery and also for policy formulation. One thing that should be apparent is that the obstacles that have stood in the way of more vigorous economic growth are not likely to be successfully addressed by conventional stimulative actions.

Simply opening up the monetary faucets or spewing out funds from the Treasury does not seem a promising course in view of the widespread concerns that now exist -- particularly in the business and financial community. We need policies, rather, that are attuned to our special legacy -- namely, past inflation, its aftermath of recession, and fears of new troubles that may yet come from a continuing high rate of inflation.

It has not been easy during recent months to interpret economic or financial developments with as much confidence as one would like to feel. This Committee is aware, I am sure, of the wide divergence of judgment that has been expressed by private economists. A similar diversity of views -- although less pronounced -- has existed within the Federal Reserve System. This is simply a time when honest differences in assessment can easily arise among conscientious analysts. At the September meeting of the Federal Open Market Committee, for instance, the consensus favoring some firming of monetary policy found two of the twelve Committee members dissenting because they felt that the policy allowed for more firming than they believed to be justified and another two members dissenting because they thought that the intended firming was inadequate.

I can report, nevertheless, that the dominant view within the Federal Reserve is that economic expansion will persist well into 1978, probably at a pace sufficiently strong to result in some further reduction in the unemployment rate. The collective belief is that the reduced rate of increase in "real" GNP in the third quarter is now giving way to quicker expansion. A key element in this expectation is the emergence recently of a strong pattern in State and local government spending and employment -- reflecting the improved budget position of these governments. Also supportive of the view that early 1978 will witness good gains in general economic activity is the fact that business capital spending, although far from robust, is moving ahead, and in particular is showing some recovery in major industrial construction.

The judgments we in the System have about the more distant future are much more tentative -- mainly because of uncertainties about capital formation and the generally weak trend of activity in foreign economies. Lagging recovery abroad has, of course, worked to the serious detriment of our export trades and this in turn has caused some weakening of the dollar in foreign exchange markets. The uneasiness that now appears to prevail in many parts of the business world casts a cloud on the longer-run prospects of the economy, but the possibility that the general expansion will actually accelerate as 1978 unfolds -- particularly if capital spending can be invigorated -- is very much a part of my own thinking as well as of some other members of the Federal Reserve.

I must call your attention to a striking fact. The somewhat mixed character of recent economic news has been reflected in equity prices quoted on the stock exchanges, but it has had little counterpart in other financial developments. General credit expansion, indeed, has proceeded at a brisk pace this year -- with an intensity that I do not think has been fully appreciated. The Federal Reserve has naturally given some weight to the evolving pattern of credit expansion in the course of its monetary policy deliberations. We have not been able to assume, as some others appear to have done, that the intense reaching out for credit is a process without significance.

The total amount of funds raised in credit markets this year has not only expanded very rapidly from quarter to quarter in absolute terms; it has expanded much more rapidly than has the dollar value of GNP. Preliminary estimates indicate that total borrowings by all entities in this country ran at an annual rate of about $400 billion in the third quarter of this year -- or some $90 billion more than in the third quarter of 1976. This raised the ratio of total borrowings to the dollar value of GNP above 20 per cent, close to the all-time peak recorded during the speculative boom of early 1973 (see Chart 6). It is hardly surprising, I submit, that such a volume of fund raising should press against available supplies of credit and tend to cause some interest rates to move upward. I would note especially that the quest for credit accommodation has not been confined to just a few sectors of the economy; rather, it has been very broadly diffused.

Households have absorbed a huge total of credit this year, mainly in the form of mortgage and instalment debt. Their net addition to mortgage and instalment debt, which was $46 billion in 1975 and $82 billion in 1976, rose to an annual rate of $105 billion in the first half of this year and to an estimated rate of $115 billion in the third quarter. This, I might add, has raised the combined instalment and mortgage repayment burden that households face -- relative to their disposable income -- close to the previous high experienced in 1973. I do not mean to imply that this as yet is a matter for serious concern. But this is an area that warrants continuing close scrutiny for signs of excess, with special attention needed to the apparently increasing tendency of homeowners to borrow heavily against the accumulated equity in their residences.

Business firms, too, have borrowed much more this year than last. During the early stages of this economic expansion, the sum of retained earnings and depreciation actually exceeded outlays by nonfinancial corporations for inventories and fixed capital. This relationship was reversed in 1976, and -- with the tempo of capital spending picking up this year -- a larger "financing gap" than existed in 1976 has developed. For all of 1977, the Board's staff estimates that nonfinancial corporations will raise a net total of about $80 billion in credit markets, up almost 40 per cent from last year. The higher volume of business borrowing this year is being distributed between short- and long-term debt, with the former showing the more prominent rise -- partly because some of the higher-rated industrial corporations have largely completed their desired balance-sheet restructuring.

I know that it is widely believed that short-term and intermediate-term business borrowing has been sluggish.

True, there has been some unevenness in borrowing pressures from region to region and from one type of lending institution to another; but any impression that shorter-dated business credit demands have been anemic is decidedly wrong. There has, in fact, been an impressively rapid rise since late last year in the combined total of business credit raised from banks, the commercial paper market, and finance companies -- as Chart 7 in the Appendix makes clear. The rate of increase, to be sure, did slow materially this September, but that seems to have been an erratic deviation from the basic trend; preliminary data indicate extremely fast-paced growth of business loans in October.

Moreover, it has not been only the private sector of the economy that has reached out aggressively for credit this year. Borrowing by State and local governments has been running at record levels, partly because these governments have moved to take advantage of the significant renewal of lender confidence in tax-exempt securities. Our Board staff estimates that the net borrowing of State and local governments during this year for all purposes will come to about $25 billion, up more than 60 per cent from the net borrowing in 1976. Much of this money is being used to finance construction of such things as water treatment and sewer systems and municipal power facilities.

And not to be forgotten is the continuing large appetite of the Federal Government for credit. Thus far during calendar 1977, it is true, such borrowing has been smaller than in the like period of 1976, reflecting a reduced budget deficit. But the rate of Federal borrowing nevertheless has remained exceptionally large and -- what is more significant -- it is now heading upward again, in contrast to the normal pattern of progressively lower financing needs as economic expansion proceeds. That reflects, of course, various tax cuts or tax-cut extensions embodied in the Tax Reduction Act of 1977 and various spending initiatives taken last spring with a view to quickening the pace of economic growth. For the full fiscal year 1978, the combined unified and off-budget deficit is now officially estimated at about $69 billion -- nearly $16 billion higher than for fiscal year 1977. The Treasury started this fiscal year with a large cash balance. Even so, it appears likely that in the six-month period ending with March 1978 the Treasury will have to raise about $10 billion more in financial markets than it did in the corresponding period one year earlier.

I have dwelt at some length on the evolving pattern of credit extension because, as I noted earlier, I do not think that what has been happening in credit markets is as widely appreciated as it should be. The vigor of credit extension certainly suggests a sense of greater dynamism in the economy than appears, for example, from business statistics for the third quarter. The vigor of credit extension is not, however, patently at odds with economic developments averaged out over several quarters. And it may be, of course, that undue attention has been given to the summer pause in trying to gauge how well the economy is doing. That is a possibility that the Federal Reserve has had to weigh. It would be a happier situation if there were less apparent conflict between different kinds of evidence, but in making decisions on monetary policy we must do the best we can with whatever evidence can be mustered.

There is no rigid link between the total volume of credit outstanding in the economy and the Nation's stock of money, but movements in credit and money do tend, of course, to be positively related. If the demand for credit begins to strengthen at a time when financial institutions are relatively liquid, a good amount of credit expansion can occur without much -- if any -- change in monetary balances. But as the economy grows and credit expansion continues, sooner or later a need for enlarged money balances will arise in order to facilitate the enlarged total of credit transactions. Such a process has unquestionably been at work this year, and it explains in some measure why the growth of M_1 -- the narrow money stock -- has accelerated recently in relation to money growth earlier in this expansion.

As you know, the Federal Open Market Committee has, however, the ability to take prompt steps that will in time check any unwanted acceleration in the money aggregates. There has been considerable discussion recently in economic and financial circles as to why we at the Federal Reserve have allowed money growth in the past six or seven months to exceed the upside limit we had projected for longer-term monetary expansion. M_1 actually grew at an average annual rate of 9 per cent during the second and third quarters of this year -- well above the 6-1/2 per cent upper end of the longer-term growth range previously projected. Growth in the broader monetary aggregates has also run above their anticipated upper limits, but the excess in their case has been minor. The growth actually recorded in them has shown no quickening compared with earlier stages of the economic expansion. Still, their growth has rather consistently exceeded our objectives.

The high rate of growth in each of the major monetary aggregates during the past six months is thus a setback to the Federal Reserve's policy of gradually reducing the rates of growth of the monetary aggregates, so that they may in time be once again consistent with general price stability. But it is only a temporary setback. A zigzag course is sometimes inevitable or perhaps even desirable.

One fact that needs to be borne in mind is that the acceleration of money growth has not occurred in a smooth pattern. Instead, the tendency toward excess has proceeded in fits and starts, so that it was virtually impossible to judge how durable -- or meaningful -- this or that large increase in M_1 was likely to be. Often in the past, spurts in monetary growth such as occurred in April and July of this year have been followed by strong reversals. Things did not quite happen that way this year.

Besides, it was virtually impossible even three months ago to isolate with any confidence the causes of the sudden spurt in monetary growth. While still somewhat obscure, the forces at work have now become clearer. At practically every hearing thus far held under House Concurrent Resolution 133, I have called attention to the dynamism of financial technology. More specifically, I have kept stressing that the growth of M_1 was for a time being retarded by such things as the NOW-account development, the newly enjoyed authority of businesses and State and local governments to have passbook savings accounts, and the steadily increasing tendency of individuals as well as corporations to carry at least a part of their transactions balances in one or another type of income-earning asset. Such developments -- which served to retard the growth of M_1 appreciably during 1975 and 1976 -- appear to have waned considerably this year. Econometric work done at the Board indicates that within the past half year the growth of M_1 moved back to something like its pre-1974 relationship to economic activity. But we still do not know whether the slowing of changes in financial technology is more than a temporary aberration.

Under the circumstances, we have judged it wise to move cautiously in adapting policy. We have felt very keenly the need for some clarification of ambiguities before striking out decisively. We well realize that the middle course actually followed -- that of gradually limiting the availability of bank reserves and thereby slowing the growth of money -- has left us open to the charge of temporizing. In fact, we did not temporize at all, but we did move prudently.

On the one hand, restrictive action vigorous enough to have kept M_1 growth within the projected ranges would, we believe, have forced a far steeper climb in short-term interest rates than actually has occurred since April. This could have proved destructive to the smooth functioning of financial markets and might eventually have brought serious injury to our economy.

On the other hand, a determined effort by the Federal Reserve System to prevent any rise in interest rates during recent months would have produced -- in the face of the credit pressures that have been experienced -- a rate of monetary expansion well above the rise that has actually occurred. That would have been very damaging, for it would have practically destroyed any remaining hope of achieving mastery over the inflationary forces that now move our society. Indeed, the Federal Reserve might then have been viewed as having transformed itself into an engine of inflation -- such as it was a generation ago when it reluctantly pursued a course of pegging government security prices.

The increase of short-term interest rates that has occurred since late April has thus served to check what otherwise might well have been an explosion of the money supply. By taking measures to curb the growth of money, we have demonstrated that we remain alert to the dangers of inflation. As a consequence, long-term interest rates, which nowadays are extremely sensitive to expectations of inflation, have remained substantially stable -- as Chart 2 indicates. Had we not taken steps to bring the money supply under control, I have little doubt that fears of inflation would now be running stronger, and that long-term interest rates, which play such a significant role in shaping investment decisions, would therefore now be higher than they in fact are. In that event, of course, the continuance of economic expansion would be less secure.

At the most recent meeting of the FOMC, held on October 18, we deliberated at length on the monetary growth aggregates that appeared desirable in the coming year. For the period extending from the third quarter of this year to the third quarter of 1978, the Committee decided to retain the 4 to 6-1/2 per cent growth range for M_1 specified at the July meeting. Some sentiment was initially expressed for reducing the upper end of the M_1 band with a view to compensating for the excessive growth that has been occurring. Other members favored widening the M_1 band because of uncertainty whether the basic relationship between money growth and GNP was again changing. In the end, there was a consensus that the growth range previously established for M_1 should be retained until more certain knowledge developed as to the relative importance of the influences now conditioning M_1 growth.

However, in the case of the broader money stock measures -- which have been behaving more normally -- the Committee decided to lower both the upper and lower bounds of the projected growth ranges by one-half of a percentage point. Thus, the twelve-month growth range for M_2 -- a measure of money that includes, in addition to M_1, savings and consumer-type deposits at commercial banks -- was set at 6-1/2 to 9 per cent. That for M_3 -- a still broader measure which includes as well the deposits of thrift institutions -- was set at 8 to 10-1/2 per cent.

A crucial consideration in lowering the longer-term ranges for the broader aggregates was the Committee's wish to reaffirm its intent of gradually bringing down the growth of the monetary aggregates to rates compatible with reasonable price stability. Such action seemed particularly appropriate at a time when the behavior of M_1 might be interpreted as indicating that the Federal Reserve was faltering in its determination to lean against inflationary pressures. No such faltering has occurred, nor is it likely to occur. October's sharp advance of the wholesale price index should remind everyone of the need for unrelenting efforts to contain the push of inflation. The resolve of the Federal Reserve to undernourish and weaken inflation remains undiminished. We fully recognize that a powerful inflationary bias has become embedded in our economic life over many years and that general price stability cannot therefore be restored quickly; but we do not intend to depart from pursuing the maximum degree of monetary firmness consistent with our companion obligation to foster financial conditions that favor expansion of job opportunities.

I want to assure this Committee that, in lowering the growth ranges for the broader aggregates, we did not overlook the implications for thrift institutions and the borrowers they serve. The new upper ends of the ranges for M_2 and M_3 are compatible, in our judgment, with a substantial flow of new savings into thrift institutions in the year ahead. These institutions are less vulnerable to deposit outflows than they were in earlier years, since a very large and increasing portion of their liabilities now consists of longer-dated certificates. Their earnings position has also strengthened considerably, and they enjoy relatively large liquid assets and good capability to borrow if necessary. In short, even if deposit inflows were to slow appreciably in the coming year, the ability of these institutions to support the homebuilding industry will probably remain strong.

I would like to emphasize one additional point before concluding this statement. The objective of the Administration and the Federal Reserve to achieve better price performance in our country is obviously not being helped by the recent depreciation of the dollar against foreign currencies. A cheaper dollar in foreign-exchange markets spells higher costs of imported goods -- and these now have a much larger role in our domestic markets than they did a decade or two ago. Depreciation of the dollar can also cause serious international difficulties since the dollar is a store of value not only for foreign central banks, but also for multinational corporations and individuals of wealth all over the world. We dare not, therefore, be complacent about the current depreciating tendencies of the dollar.

It is not easy to counter these tendencies at a time when our trade deficit has become enormous -- a phenomenon that partly reflects the more advanced degree of economic recovery achieved in this country than abroad. To some extent imbalance in our foreign trade will be self-correcting as economic activity strengthens abroad, but we surely should seize every opportunity to help accentuate any tendency toward improvement. That means, first of all, that we need to adopt an energy policy that relies less heavily on imports of oil. It means, secondly, that we must have a business environment that is hospitable to new investments. And it means, finally, that responsible monetary, fiscal, and structural policies are required to protect our international price competitiveness. In short, and fortunately, these international considerations reinforce our basic domestic needs.

We at the Federal Reserve, I need hardly tell you, will continue to devote our energies to the maintenance of a sound dollar -- a dollar that is strong both at home and abroad.

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APPENDIX

KEY TO CHARTS

Chart 1
3-Month Treasury Bill Yield

Comparative cyclical behavior of the yield on 3-month Treasury bills. The yields, measured on a discount basis, have been converted to index numbers, with the average level in the trough quarter of each business cycle taken as 100. Data source: Federal Reserve.

Chart 2
Aaa Corporate Bond Yield

Comparative cyclical behavior of the yield on long-term corporate bonds. Moody's seasoned Aaa corporate bond yield average has been converted to an index number, with the average level in the trough quarter of each business cycle taken as 100. Data source: Moody's Investors Service.

Chart 3
Business Outlays for Plant and Equipment, Constant Dollars

Outlays are current dollar expenditures for new plant and equipment by U.S. businesses, divided by the implicit price deflator for nonresidential fixed investment. Excludes outlays by agricultural business; real estate; medical, legal, educational, and cultural services; and nonprofit organizations. Data source: Department of Commerce, Bureau of Economic Analysis.

Chart 4
Economic Profits, Nonfinancial Corporations

Reported profits are after-tax profits from domestic operations of U.S. nonfinancial corporations as derived by the Department of Commerce primarily from Internal Revenue income tax reports. Economic profits are "reported profits" adjusted to exclude inventory profits and to compensate for the difference between depreciation reported for tax purposes and the estimated replacement cost of fixed assets used in production. The constant dollar series is generated by dividing current dollar economic profits by the implicit price deflator for gross domestic business product. Data source: Department of Commerce, Bureau of Economic Analysis.

Chart 5

<u>Profitability and Investment, Nonfinancial Corporations</u>

The rate of investment is measured as the percentage change in net fixed capital assets (i.e., equipment and structures) valued in 1972 dollars. The rate of return is measured as economic profits divided by net worth (with tangible assets valued at replacement cost). Net worth for each year is the average of beginning and end-of-year levels. Data sources: Department of Commerce, Bureau of Economic Analysis; Federal Reserve Flow-of-Funds Accounts.

Chart 6

<u>Total Funds Raised by All Sectors, Relative to GNP</u>

Total funds raised by all sectors of the economy in domestic credit and equity markets, measured as a percentage of gross national product. Data sources: Federal Reserve Flow-of-Funds Accounts; Department of Commerce, Bureau of Economic Analysis.

Chart 7

<u>Total Short-Term and Intermediate-Term Business Credit Outstanding</u>

The sum of outstanding borrowings by nonfinancial businesses from commercial banks and finance companies and in the commercial paper market, seasonally adjusted. Data source: Federal Reserve.

Chart 1

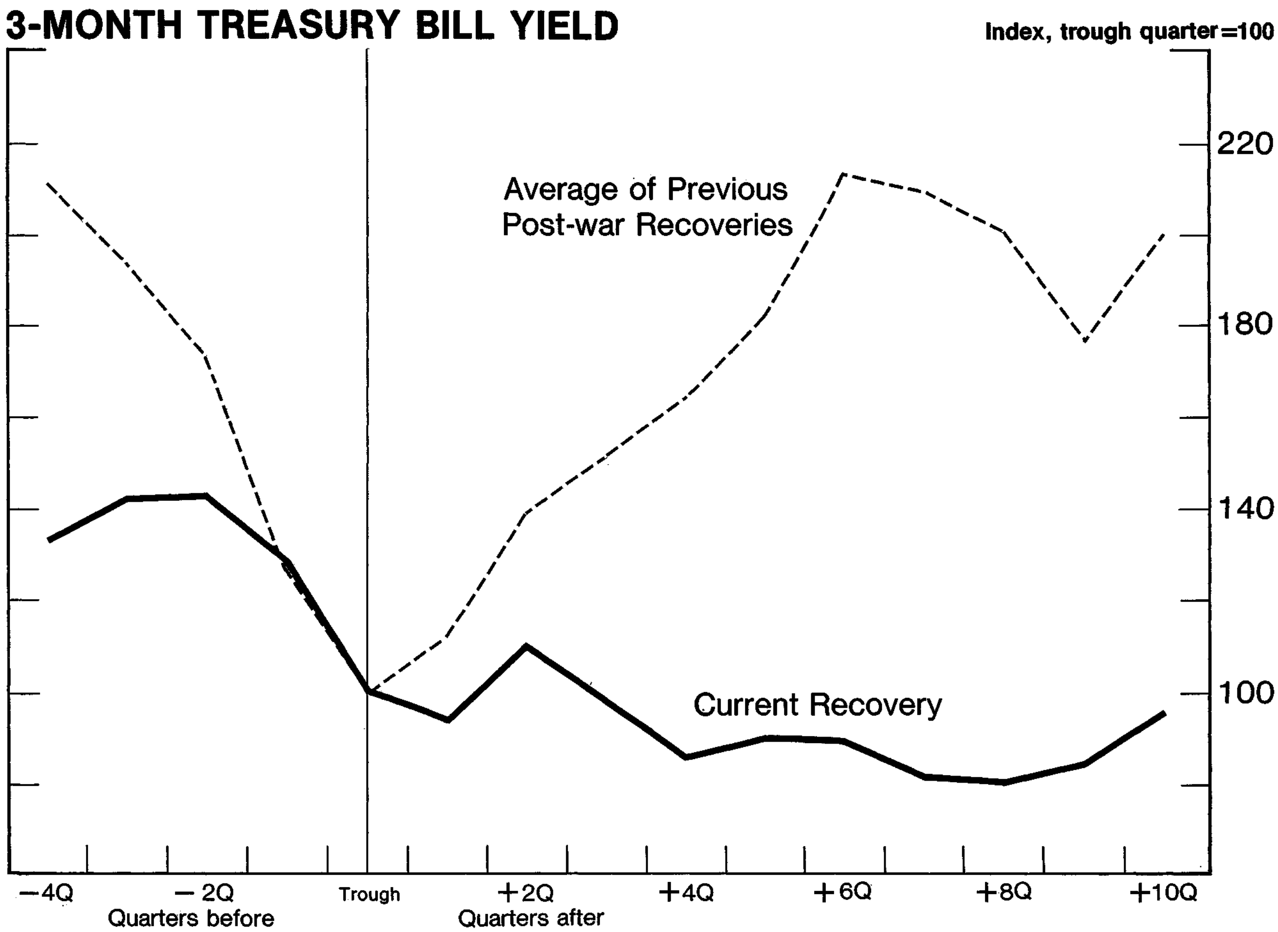

3-MONTH TREASURY BILL YIELD
Index, trough quarter=100
220
180
140
100
Average of Previous
Post-war Recoveries
Current Recovery
−4Q
− 2Q
Quarters before
Trough
+2Q
Quarters after
+4Q
+6Q
+8Q
+10Q

Chart 2

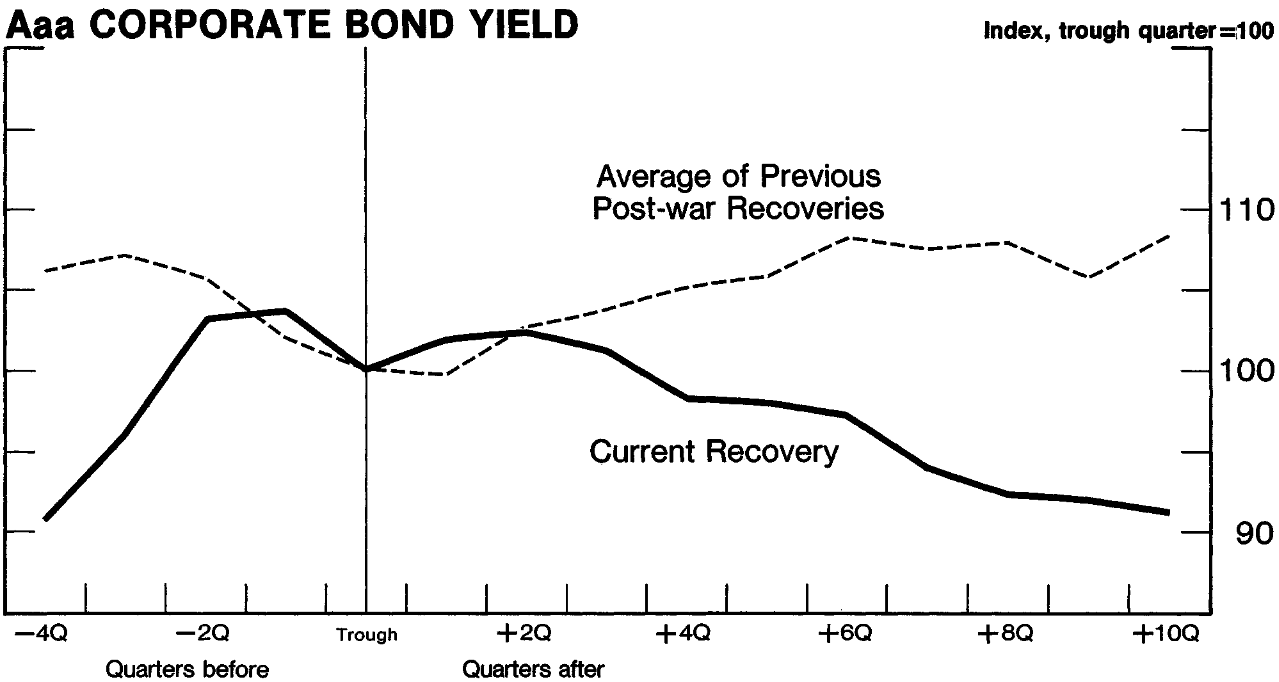

Aaa CORPORATE BOND YIELD
Index, trough quarter=100
Average of Previous
Post-war Recoveries
Current Recovery
110
100
90
−4Q
−2Q
Trough
+2Q
+4Q
+6Q
+8Q
+10Q
Quarters before
Quarters after

Chart 3

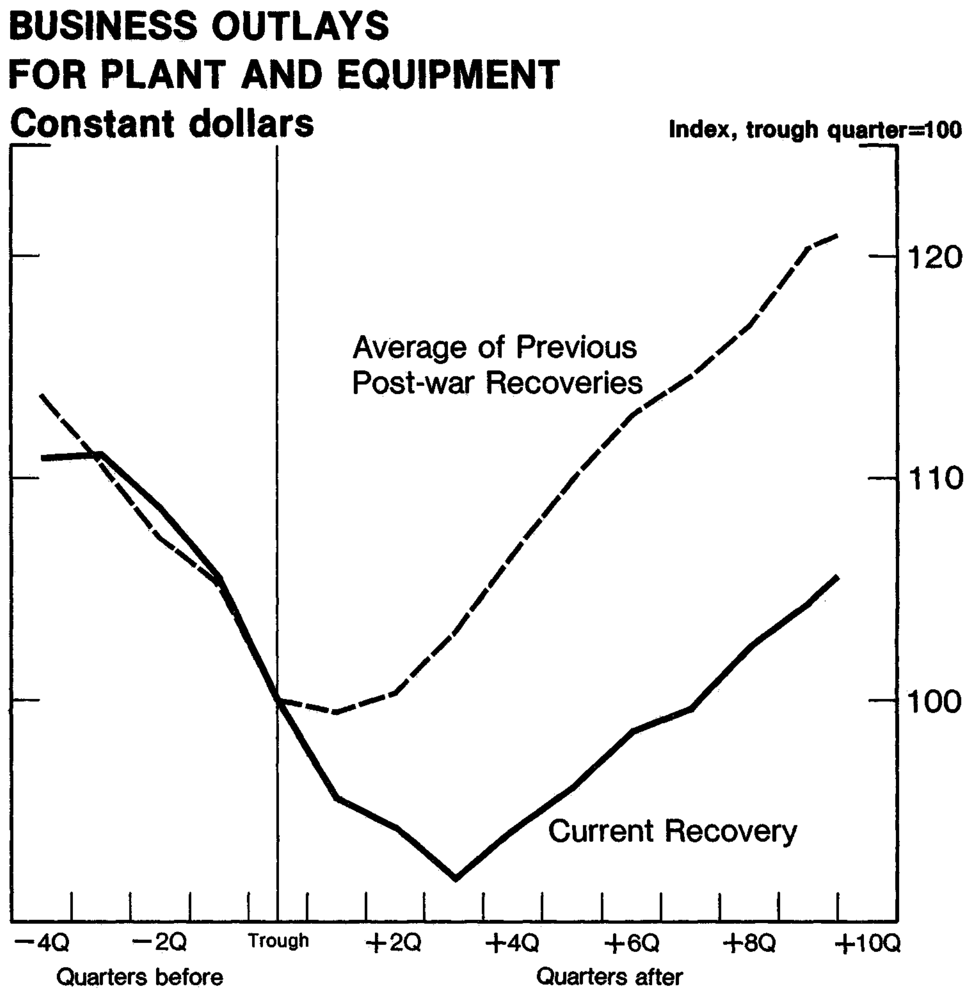

BUSINESS OUTLAYS
FOR PLANT AND EQUIPMENT
Constant dollars
Index, trough quarter=100
120
110
100
Average of Previous
Post-war Recoveries
Current Recovery
−4Q
−2Q
Trough
+2Q
+4Q
+6Q
+8Q
+10Q
Quarters before
Quarters after

Chart 4

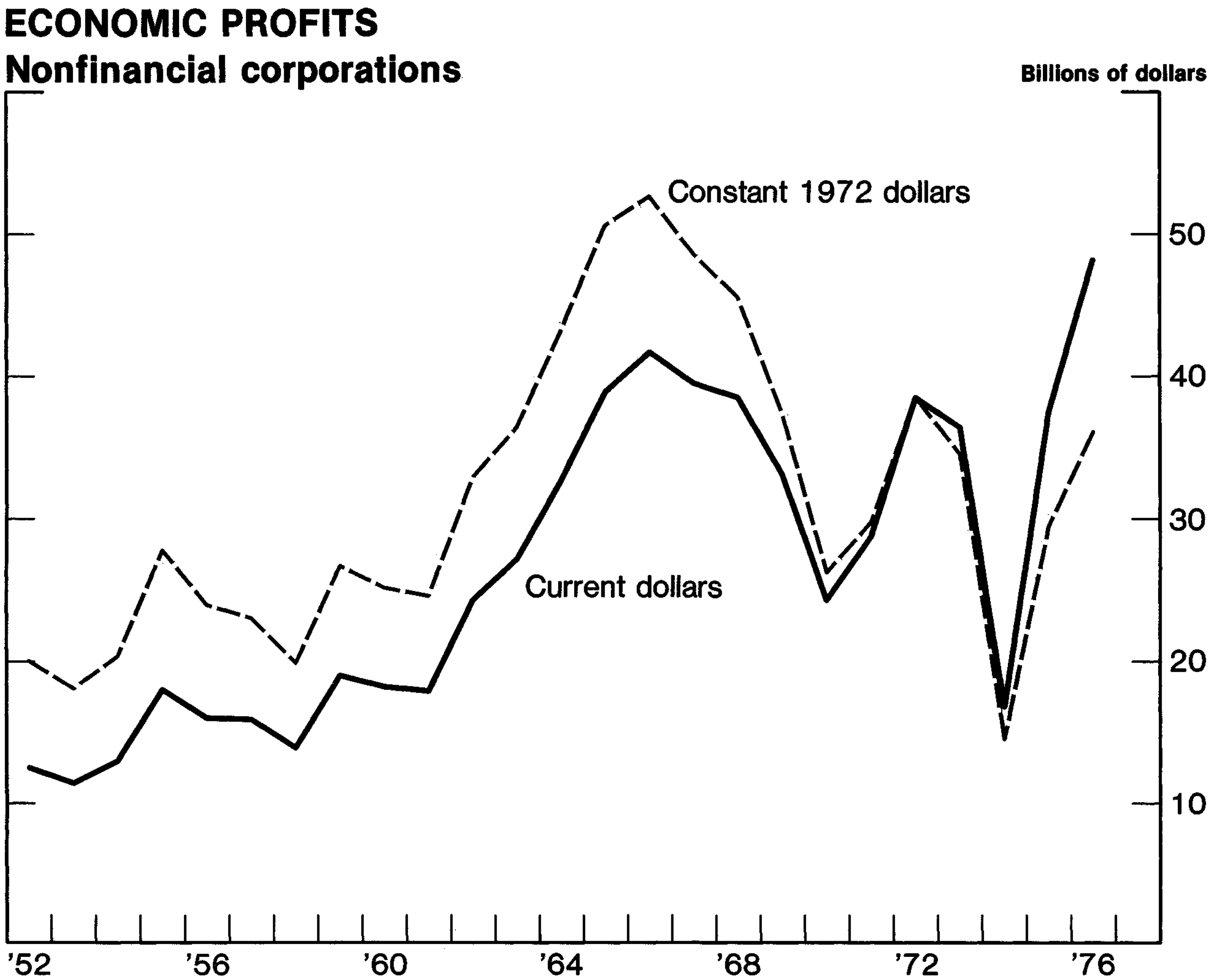
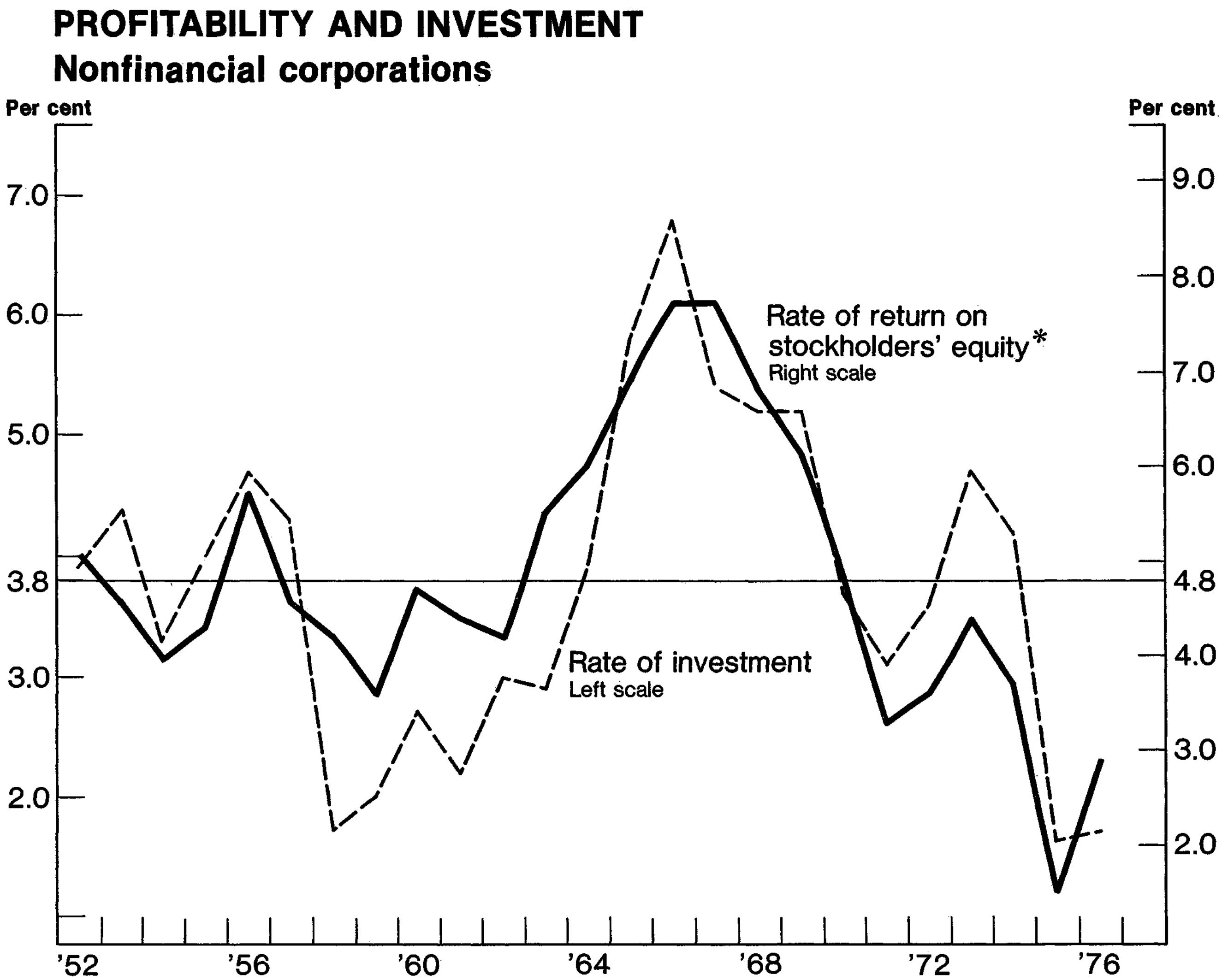
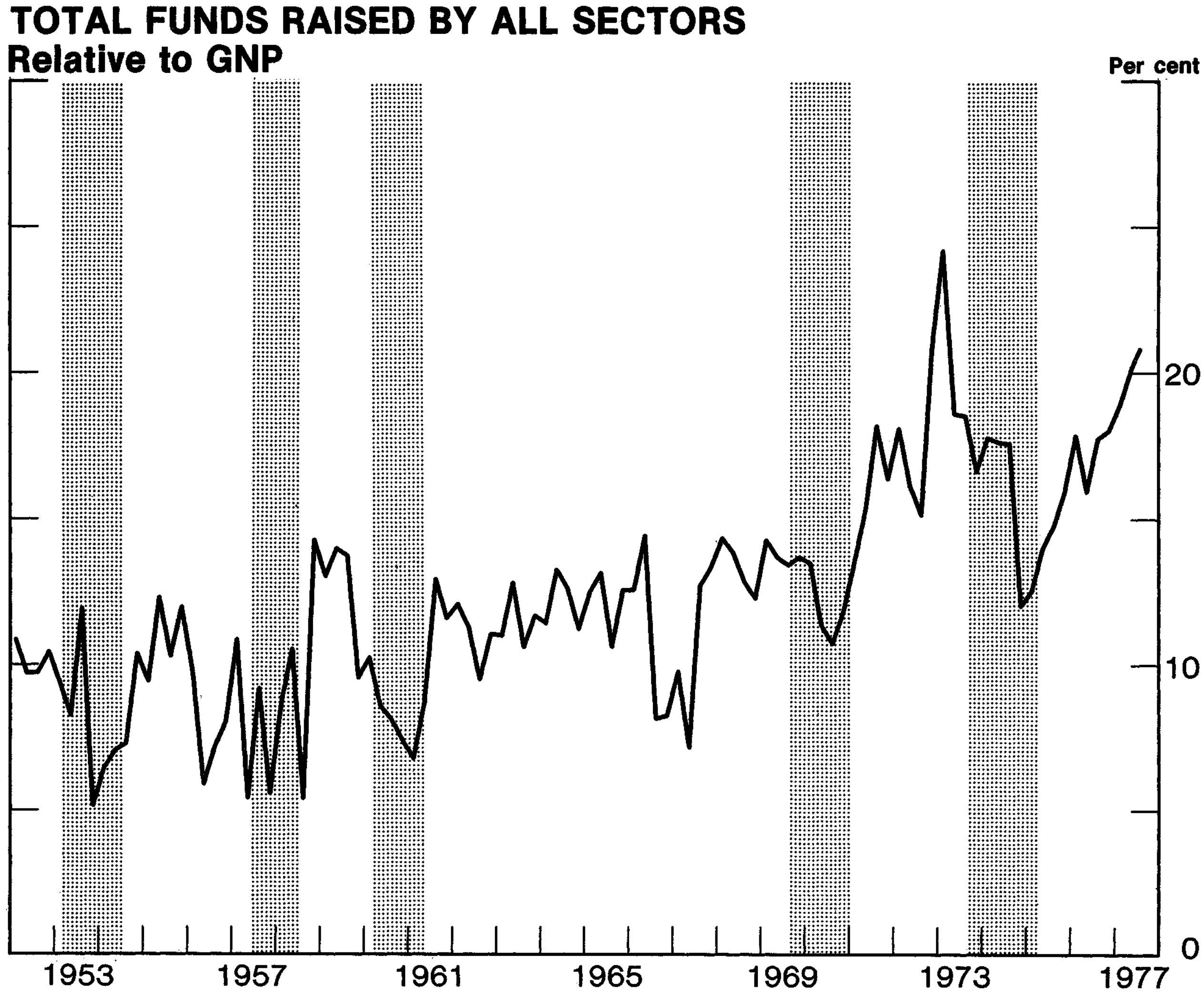

ECONOMIC PROFITS
Nonfinancial corporations
Billions of dollars
Constant 1972 dollars
Current dollars
50
40
30
20
10
'52
'56
'60
'64
'68
'72
'76

Chart 5



*Lagged one year

Chart 6

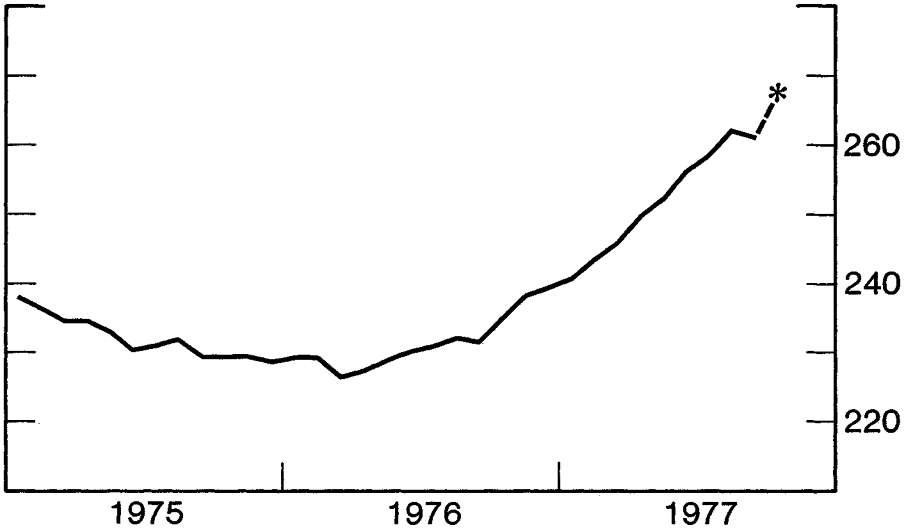


Shaded area represents recession periods

Chart 7

SHORT-TERM AND INTERMEDIATE-TERM BUSINESS CREDIT OUTSTANDING

Billions of dollars



* Latest date, October 1977, estimated from partial data.