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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

October 10, 1973

By the Staff  
Board of Governors  
of the Federal Reserve System

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# **DOMESTIC NONFINANCIAL SCENE**

October 10, 1973

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
						(At Annual Rates)
Civilian labor force	Sept.	10/5	89.4	10.2 <sup>1/</sup>	2.1 <sup>1/</sup>	2.7
Unemployment rate	Sept.	10/5	4.8	4.8 <sup>1/</sup>	4.8 <sup>1/</sup>	5.5 <sup>1/</sup>
Insured unemployment rate	Aug.	9/25	2.7	2.6 <sup>1/</sup>	2.7 <sup>1/</sup>	3.4 <sup>1/</sup>
Nonfarm employment, payroll (mil.)	Sept.	10/5	75.9	3.0	1.9	3.6
Manufacturing	Sept.	10/5	19.9	0.4	0.1	4.2
Nonmanufacturing	Sept.	10/5	56.0	3.9	2.6	3.4
Private nonfarm:						
Average weekly hours (hours)	Sept.	10/5	37.2	37.0 <sup>1/</sup>	37.1 <sup>1/</sup>	37.3 <sup>1/</sup>
Hourly earnings (\$)	Sept.	10/5	3.94	6.1	7.2	6.8
Manufacturing:						
Average weekly hours (hours)	Sept.	10/5	40.9	40.5 <sup>1/</sup>	40.6 <sup>1/</sup>	40.8 <sup>1/</sup>
Unit labor cost (1967=100)	Aug.	9/28	123.8	9.8	7.2	4.1
Consumer prices (1967=100)	Aug.	9/21	135.1	23.1	10.9	7.5
Food	Aug.	9/21	148.5	73.8	30.7	19.9
Commodities except food	Aug.	9/21	124.2	5.8	4.2	3.6
Services <sup>2/</sup>	Aug.	9/21	139.3	7.8	5.2	4.1
Wholesale prices (1967=100)	Sept.	10/4	140.6	-18.3	12.6	16.6
Industrial commodities	Sept.	10/4	128.3	7.9	4.4	7.9
Farm products & foods & feeds	Sept.	10/4	174.9	-62.4	31.9	39.4
Personal income (\$ billion) <sup>3/</sup>	Aug.	9/19	1045.7	12.3	10.6	10.7
						(Not at Annual Rates)
Mfrs. new orders dur. goods (\$ bil.)	Aug.	10/3	42.3	-0.9	-0.3	18.3
Capital goods industries:	Aug.	10/3	12.8	1.7	0.4	21.7
Nondefense	Aug.	10/3	10.9	-4.0	0.2	3.9
Defense	Aug.	10/3	1.9	56.8	1.7	15.1
Inventories to sales ratio:						
Manufacturing	Aug.	10/3	1.58	1.56 <sup>1/</sup>	1.57 <sup>1/</sup>	1.66 <sup>1/</sup>
Ratio: Mfrs.' durable goods inventories to unfilled orders	Aug.	10/3	.733	.746 <sup>1/</sup>	.776 <sup>1/</sup>	.893 <sup>1/</sup>
Retail sales, total (\$ bil.)	Aug.	10/9	42.2	-1.3	1.2	11.2
GAP	Aug.	10/9	10.9	-1.8	0.1	10.1
Auto sales, total (mil. units) <sup>3/</sup>	Sept.	10/5	12.1	7.4	7.2	2.2
Domestic models	Sept.	10/5	10.6	9.0	11.7	3.7
Foreign models	Sept.	10/5	1.5	-2.4	-15.9	-7.2
Housing starts, private (thous.) <sup>3/</sup>	Aug.	9/19	2,045	-6.0	-15.3	-15.6
Leading indicators (1967=100)	Aug.	9/28	168.4	1.2	2.8	15.2

<sup>1/</sup> Actual data. <sup>2/</sup> Not seasonally adjusted. <sup>3/</sup> At annual rate. <sup>4/</sup> Commerce survey taken September 1973.

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DOMESTIC NONFINANCIAL DEVELOPMENTS

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Staff estimates indicate that in the third quarter nominal GNP increased about \$32 billion, prices rose sharply further, and real GNP expanded at an annual rate of about 3-3/4 per cent--somewhat less than was projected four weeks ago.

Judging from recent retail sales data, consumer spending for goods in the third quarter was not as strong as projected earlier. For the quarter as a whole, retail sales are now estimated to be less than 2-1/2 per cent above the second quarter with virtually all of the increase accounted for by higher prices. September retail sales, estimated on the basis of weekly data, declined slightly from a downward revised August level, even though unit sales of autos were quite strong.

Business activity has continued generally strong, however. Industrial production is tentatively estimated to have increased about three-fourths of one per cent in September and to have expanded at a 4 per cent annual rate over the past 3 months. Output of business equipment was up sharply further in September. Business inventory investment has continued quite moderate, however, with stock/sales ratios at unusually low levels.

Nonfarm payroll employment rose considerably further in September. But the rate of increase from June to September was well below the exceptionally rapid rise of the preceding nine months, mainly because manufacturing employment little changed over this interval. The unemployment rate remained at 4.8 per cent.

In recent months, the rise in the private nonfarm hourly index has been faster than earlier this year and in September the rate of increase accelerated. In the six month period from March to September the index rose 7.3 per cent.

Wholesale prices of farm products and foods declined substantially from their August peak to September, following the extraordinary increase of the preceding month, but were still almost 40 per cent above September 1972. Some further declines in livestock prices have been reported since mid-September. Wholesale prices of industrial commodities rose 0.7 per cent further in September and were about 8 per cent higher than a year earlier. In August, the consumer price index had jumped sharply--mainly, but not solely, because of foods--to a level 7.5 per cent above August 1972.

Outlook. Staff GNP projections now assume growth in  $M_1$  at an annual rate somewhat below 5 per cent through the first quarter of 1974 and at a rate somewhat above 5 per cent thereafter. Under this assumption, around year-end, market interest rates may have moved somewhat above recent reduced levels. Federal expenditure estimates have been raised somewhat for calendar 1974, mainly because we now assume the 5.9 per cent increase in social security benefits will become effective at the beginning of the year rather than at midyear. No allowance has been made for any potential disruption arising out of the current mid-East hostilities.

The annual rate of real GNP growth in this quarter and the first half of 1974 has been raised by an average of close to one-half percentage point. In the current quarter, consumer spending is

expected to be a little stronger than projected earlier in part because of the October date for the Federal pay increase. Inventory investment is still expected to accelerate appreciably after a rather sluggish third quarter.

The private fixed weight price index is now projected to increase at an annual rate of 6.3 per cent in the fourth quarter rather than the 7.0 per cent projected earlier. The downscaling is primarily attributable to the smaller increase now anticipated for foods and the postponement by the Cost of Living Council of any further increases in auto prices probably until next year. A price surge in line with cost increases, however, is still expected for other commodities.

Although we still expect the economy to slow further next year, the faster growth in real GNP now projected for early next year is due to the somewhat greater strength now seen in business fixed investment. Capacity limitations and mounting needs for pollution control will likely result in more spending than earlier foreseen. With two recent private surveys indicating substantial further increases in capital outlays next year, business fixed investment is now projected to increase about 11 per cent, compared to 10 per cent in the September Greenhook. In addition we have raised slightly the projection for housing starts beginning with the second quarter of next year in view of the support to housing markets suggested by the President's recent housing message. However, housing starts are still expected to decline substantially primarily because of the current tightness in mortgage markets. Net exports are still shown to rise appreciably further.



The projection for the second half of 1974 is essentially the same as four weeks ago, with real GNP rising at an annual rate of only 1.0 per cent. From late 1973 to late 1974, real GNP is projected to increase 1.7 per cent, a little more than projected 4 weeks ago because of the stronger first half now expected. The unemployment rate is still expected to move up from 4.7 per cent in the fourth quarter of this year to 5.5 per cent late next year.

The price projections for 1974 are little changed from those presented a month ago, but with a faster rise in the first half than in the second. Unit labor costs are expected to increase substantially throughout the year, while the rise in food prices still seems likely to moderate.

## STAFF GNP PROJECTIONS

	Per cent change annual rate							
	Changes in nominal GNP \$ billion		Real GNP		Gross private product fixed weighted price index		Unemployment rate	
	9/12/73	10/10/73	9/12/73	10/10/73	9/12/73	10/10/73	9/12/73	10/10/73
1971 <sup>1/</sup>	78.3	78.3	3.2	3.2	4.6	4.6	5.9	5.9
1972 <sup>1/</sup>	99.7	99.7	6.1	6.1	3.2	3.2	5.6	5.6
1973	133.6	133.5	6.1	6.1	5.8	6.0	4.8	4.8
1974	104.8	108.1	2.3	2.5	5.9	5.7	5.2	5.2
1973:I <sup>1/</sup>	43.3	43.3	8.7	8.7	7.0	7.0	5.0	5.0
II <sup>1/</sup>	29.5	29.5	2.4	2.4	7.9	7.9	4.9	4.9
III	32.6	32.2	4.0	3.7	6.8	7.1	4.7	4.8
IV	31.5	32.1	3.0	3.5	7.0	6.3	4.7	4.7
1974:I	26.0	27.2	2.2	2.5	5.7	5.9	4.9	4.9
II	22.8	25.0	1.8	2.3	5.0	5.2	5.1	5.1
III	18.4	19.2	.8	1.0	4.6	4.6	5.3	5.3
IV	19.8	19.7	1.1	1.1	4.6	4.6	5.5	5.5
Change:								
72-IV to								
73-IV	136.9	137.1	4.5	4.5	7.2	7.1	-.6	-.6
73-IV to								
74-IV	87.3	91.1	1.5	1.7	5.0	5.1	.8	.8

<sup>1/</sup> Actual.

October 10, 1973

**GROSS NATIONAL PRODUCT AND RELATED ITEMS**  
(Quarterly figures are seasonally adjusted. Expenditures and income  
figures are billions of dollars, with quarter figures at annual rates.)

	1972	1973 Proj.	1972		1973			
			III	IV	I	II	Projected	
							III	IV
Gross National Product	1155.2	1288.7	1166.5	1199.2	1242.5	1272.0	1304.2	1336.3
Final purchases	1149.1	1282.4	1157.8	1191.0	1237.8	1267.5	1298.0	1326.3
Private	894.1	1004.3	903.1	930.3	969.2	992.2	1018.0	1037.8
Excluding net exports	898.7	1001.0	906.9	933.8	969.2	989.4	1013.9	1031.7
Personal consumption expenditures	726.5	805.3	734.1	752.6	779.4	795.6	814.3	832.0
Durable goods	117.4	132.2	120.2	122.9	132.2	132.8	132.0	132.0
Nondurable goods	299.9	337.4	302.3	310.7	322.2	330.3	343.0	354.0
Services	309.2	335.7	311.6	319.0	325.0	332.6	339.3	346.0
Gross private domestic investment	178.3	202.1	181.5	189.4	194.5	198.2	205.8	209.7
Residential construction	54.0	58.4	54.5	56.9	59.0	59.6	59.6	55.2
Business fixed investment	118.2	137.4	118.3	124.3	130.9	134.1	140.0	144.5
Change in business inventories	6.0	6.3	8.7	8.2	4.6	4.5	6.2	10.0
Nonfarm	5.6	5.7	8.4	7.9	4.4	4.4	5.0	9.0
Net exports of goods and services	-4.6	3.3	-3.8	-3.5	0.0	2.8	4.1	6.1
Exports	73.5	100.0	74.0	79.7	89.7	97.2	103.9	109.1
Imports	78.1	96.7	77.7	83.2	89.7	94.4	99.8	103.0
Gov't. purchases of goods and services	255.0	278.1	254.7	260.7	268.6	275.3	280.0	288.5
Federal	104.4	107.7	102.3	102.7	105.5	107.3	107.5	110.4
Defense	74.4	74.3	71.9	72.4	74.3	74.2	73.7	75.0
Other	30.1	33.4	30.4	30.3	31.2	33.1	33.8	35.4
State & local	150.5	170.4	152.4	158.0	163.0	168.0	172.5	178.1
Gross national product in constant (1958) dollars	790.7	838.7	796.7	812.3	829.3	834.3	841.9	849.2
GNP implicit deflator (1958 = 100)	146.1	153.6	146.4	147.6	149.8	152.5	154.9	157.3
Personal income	939.2	1032.3	943.7	976.1	996.6	1019.0	1044.8	1068.6
Wage and salary disbursements	627.8	690.6	632.7	648.7	666.7	682.6	699.1	714.1
Disposable income	797.0	880.0	800.9	828.7	851.5	869.7	889.3	909.5
Personal saving	49.7	51.2	45.8	54.4	50.0	51.0	51.1	52.8
Saving rate (per cent)	6.2	5.8	5.7	6.6	5.9	5.9	5.7	5.8
Corporate profits before tax	98.0	130.2	98.4	106.1	119.6	128.9	134.3	138.0
Corp. cash flow, net of div. (domestic)	105.0	111.1	91.9	97.7	104.9	110.3	113.3	115.9
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.7	266.2	229.6	236.9	253.6	262.4	271.4	277.2
Expenditures	244.6	265.9	237.0	260.3	258.6	262.4	268.0	274.6
Surplus or deficit (-)	-15.9	0.3	-7.4	-23.4	-5.0	0.0	3.4	2.6
High employment surplus or deficit (-)	0.4	-2.0	7.3	-10.9	-0.9	0.1	-3.9	-3.2
State and local government surplus or deficit (-), (N.I.A. basis)	13.1	11.9	9.5	19.6	13.9	11.5	12.0	10.2
Total labor force (millions)	89.0	91.0	89.3	89.6	90.0	90.9	91.3	91.7
Armed forces "	2.5	2.3	2.4	2.4	2.4	2.3	2.3	2.3
Civilian labor force "	86.5	88.7	86.9	87.2	87.6	88.6	89.0	89.4
Unemployment rate (per cent)	5.6	4.9	5.6	5.3	5.0	4.9	4.8	4.7
Nonfarm payroll employment (millions)	72.8	75.4	73.0	73.8	74.6	75.3	75.7	76.1
Manufacturing	18.9	19.8	19.0	19.3	19.6	19.8	19.8	19.9
Industrial production (1967 = 100)	115.2	125.6	116.3	120.2	123.1	124.8	126.6	127.9
Capacity utilization, mfg. (per cent)	78.6	83.2	79.4	81.5	82.8	83.4	83.3	83.1
Major materials (per cent)	90.2	94.7	91.0	92.4	93.8	94.4	94.9	95.7
Housing starts, private (millions, A.R.)	2.38	2.12	2.37	2.40	2.40	2.22	2.04	1.82
Sales new autos (millions, A.R.)	10.94	11.61	11.52	11.69	12.23	11.73	11.74	10.75
Domestic models	9.32	9.87	9.91	9.90	10.27	9.87	10.11	9.25
Foreign models	1.61	1.74	1.61	1.79	1.96	1.86	1.63	1.50

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**GROSS NATIONAL PRODUCT AND RELATED ITEMS**  
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarter figures at annual rates.)

	1974 Proj.	1974 Projected			
		I	II	III	IV
Gross National Product	1396.8	1363.5	1388.5	1407.7	1427.4
Final purchases	1388.8	1354.2	1380.4	1399.7	1420.7
Private	1083.5	1058.4	1078.6	1091.3	1105.8
Excluding net exports	1073.8	1050.0	1068.5	1081.3	1095.4
Personal consumption expenditures	873.2	849.8	868.0	881.5	893.5
Durable goods	131.9	132.0	132.0	132.0	131.5
Nondurable goods	377.8	364.8	376.0	382.5	388.0
Services	363.5	353.0	360.0	367.0	374.0
Gross private domestic investment	208.6	209.5	208.6	207.8	208.6
Residential construction	48.2	51.2	48.5	46.3	46.9
Business fixed investment	152.4	149.0	152.0	153.5	155.0
Change in business inventories	8.0	9.3	8.1	8.0	6.7
Nonfarm	7.8	9.5	8.1	7.6	6.0
Net exports of goods and services	9.7	8.4	10.1	10.0	10.4
Exports	117.0	113.6	116.9	118.0	119.6
Imports	107.3	105.2	106.8	108.0	109.2
Gov't. purchases of goods and services	305.2	295.8	301.8	308.4	314.9
Federal	114.2	112.6	113.4	114.8	115.8
Defense	75.6	75.1	75.1	75.7	76.3
Other	38.6	37.5	38.3	39.1	39.5
State & local	191.1	183.2	188.4	193.6	199.1
Gross national product in constant (1958) dollars	859.9	854.6	859.5	861.6	863.9
GNP implicit deflator (1958 = 100)	162.5	159.6	161.6	163.4	165.2
Personal income	1122.8	1094.1	1113.8	1132.5	1150.8
Wage and salary disbursement	750.7	729.3	744.3	757.8	771.5
Disposable income	956.3	931.7	948.6	964.5	980.2
Personal saving	56.4	56.5	54.3	55.9	58.8
Saving rate (per cent)	5.9	6.1	5.7	5.8	6.0
Corporate profits before tax	134.0	137.0	137.0	132.5	129.5
Corp. cash flow, net of div. (domestic)	116.9	116.6	117.8	116.6	116.4
Federal government receipts and expenditures, (N.I.A. basis)					
Receipts	286.9	282.8	286.3	287.9	290.5
Expenditures	291.6	285.3	289.5	293.4	298.3
Surplus or deficit (-)	-4.7	-2.5	-3.2	-5.5	-7.8
High employment surplus or deficit (-)	6.4	-1.0	4.4	9.7	12.6
State and local government surplus or deficit (-), (N.I.A. basis)	6.4	8.8	7.5	5.5	3.8
Total labor force (millions)	92.7	92.1	92.5	92.9	93.3
Armed forces "	2.3	2.3	2.3	2.3	2.3
Civilian labor force "	90.4	89.8	90.2	90.6	91.0
Unemployment rate (per cent)	5.2	4.9	5.1	5.3	5.5
Nonfarm payroll employment (millions)	76.9	76.5	76.8	77.0	77.2
Manufacturing	19.7	19.9	19.8	19.7	19.6
Industrial production (1967 = 100)	129.5	128.8	129.5	129.8	130.0
Capacity utilization, mfg. (per cent)	81.8	82.8	82.3	81.5	80.7
Major materials	95.2	95.6	95.4	95.0	94.6
Housing starts, private (millions, A.R.)	1.65	1.70	1.60	1.60	1.70
Sales new autos (millions, A.R.)	9.91	10.15	10.00	10.00	9.50
Domestic models	8.41	8.65	8.50	8.50	8.00
Foreign models	1.50	1.50	1.50	1.50	1.50

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1972	1973 Proj.	1972		1973			
			III	IV	I	II	Projection	
							III	IV
-----Billions of Dollars-----								
Gross National Product	99.7	133.5	24.1	32.7	43.3	29.5	32.2	32.1
Inventory change	-0.1	0.3	3.2	-0.5	-3.6	-0.1	1.7	3.8
Final purchases	99.7	133.3	20.9	33.2	46.8	29.7	30.5	28.3
Private	79.0	110.2	20.4	27.2	38.9	23.0	25.8	19.8
Net exports	-5.4	7.9	1.9	0.3	3.5	2.8	1.3	2.0
Excluding net exports	84.4	102.3	18.5	26.9	35.4	20.2	24.5	17.8
Personal consumption expenditures	59.3	78.8	14.9	18.5	26.8	16.2	18.7	17.7
Durable goods	13.8	14.8	5.1	2.7	9.3	0.6	-0.8	0.0
Nondurable goods	21.2	37.5	4.4	8.4	11.5	8.1	12.7	11.0
Services	24.3	26.5	5.4	7.4	6.0	7.6	6.7	6.7
Residential structures	11.3	4.4	1.7	2.4	2.1	0.6	0.0	-4.4
Nonresidential fixed investment	13.8	19.2	2.0	6.0	6.6	3.2	5.9	4.5
Government	20.7	23.1	0.5	6.0	7.9	6.7	4.7	8.5
Federal	6.3	3.3	-4.4	0.4	2.8	1.8	0.2	2.9
State and local	14.3	19.9	4.9	5.6	5.0	5.0	4.5	5.6
GNP in constant (1958) dollars	45.3	48.0	11.1	15.6	17.0	5.0	7.6	7.3
Final purchases	46.0	47.9	8.7	16.0	20.0	5.0	6.2	4.4
Private	41.4	44.3	10.9	14.3	19.1	4.2	5.4	2.9
-----Per Cent Per Year <sup>1/</sup> -----								
Gross National Product	9.4	11.6	8.7	11.7	15.2	9.9	10.5	10.2
Final purchases	9.5	11.6	7.6	12.0	16.7	9.9	10.0	9.0
Private	9.7	12.3	9.6	12.6	17.8	9.8	10.8	8.0
Personal consumption expenditures	8.9	10.8	8.5	10.5	15.0	8.6	9.7	9.0
Durable goods	13.3	12.6	18.9	9.3	33.9	1.8	-2.4	0.0
Nondurable goods	7.6	12.5	6.0	11.6	15.6	10.4	16.3	13.5
Services	8.5	8.6	7.2	9.8	7.7	9.7	8.3	8.1
Gross private domestic investment	16.4	13.3	16.5	18.6	11.2	7.8	16.2	7.8
Residential structures	26.5	8.1	13.5	18.8	15.6	4.1	0.0	-26.4
Business fixed investment	13.2	16.2	7.1	21.9	23.0	10.1	18.8	13.5
Gov't. purchases of goods & services	8.8	9.1	0.8	9.8	12.7	10.4	7.0	12.7
Federal	6.4	3.2	-15.5	1.6	11.4	7.0	0.7	11.2
Defense	3.9	-0.1	-22.4	2.8	10.9	-0.5	-2.7	7.2
Other	13.6	11.0	4.0	-1.3	12.4	26.7	8.7	20.3
State and local	10.5	13.2	14.0	15.5	13.3	12.8	11.2	13.6
GNP in constant (1958) dollars	6.1	6.1	5.8	8.1	8.7	2.4	3.7	3.5
Final purchases	6.2	6.1	4.5	8.4	10.3	2.4	3.0	2.2
Private	6.9	6.9	7.0	9.1	12.0	2.5	3.2	1.7
GNP implicit deflator	3.2	5.2	2.8	3.3	6.1	7.3	6.6	6.4 <sup>2/</sup>
Private GNP fixed weighted index <sup>3/</sup>	3.2	6.0	3.1	4.1	7.0	7.9	7.1	6.3
Personal income	8.8	9.9	7.8	14.5	8.7	9.3	10.5	9.4
Wage and salary disbursements	9.5	10.0	7.7	10.5	11.6	9.9	10.0	8.9
Disposable income	6.8	10.4	8.1	14.6	11.5	8.8	9.3	9.4
Corporate profits before tax	15.2	32.9	16.1	35.2	61.5	34.9	17.8	11.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	15.0	16.4	7.7	13.3	31.3	14.6	14.4	8.8
Expenditures	10.7	8.7	-11.6	45.5	-2.6	6.0	8.8	10.2
Nonfarm payroll employment	3.0	3.6	2.8	4.5	4.5	3.7	2.0	2.2
Manufacturing	2.2	4.8	2.6	7.1	5.4	4.7	1.1	1.2
Industrial production	7.9	9.0	9.2	13.8	10.1	5.8	5.9	4.0
Housing starts, private	14.1	-10.9	16.0	6.6	0.2	-27.1	-28.8	-36.6
Sales new autos	6.8	6.1	49.7	5.9	19.8	-15.4	0.4	-29.7
Domestic models	7.4	5.9	53.1	-0.5	16.0	-14.9	10.1	-29.9
Foreign models	3.3	8.1	30.9	52.0	42.3	-18.1	-40.9	-28.6

<sup>1/</sup> Percentage rates of change are annual rates compounded quarterly.<sup>2/</sup> Excluding Federal pay increase, 5.9 per cent per year.<sup>3/</sup> Using expenditures in 1967 as weights.

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CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1974 Proj.	1974 Projection			
		I	II	III	IV
-----Billions of Dollars-----					
Gross National Product	108.1	27.2	25.0	19.2	19.7
Inventory change	1.7	-0.7	-1.2	-0.1	-1.3
Final purchases	106.4	27.9	26.2	19.3	21.0
Private	79.2	20.6	20.2	12.7	14.5
Net exports	6.4	2.3	1.7	-0.1	0.4
Excluding net exports	72.8	18.3	18.5	12.8	14.1
Personal consumption expenditures	67.9	17.8	18.2	13.5	12.0
Durable goods	-0.3	0.0	0.0	0.0	-0.5
Nondurable goods	40.4	10.8	11.2	6.5	5.5
Services	27.8	7.0	7.0	7.0	7.0
Residential structures	-10.2	-4.0	-2.7	-2.2	0.6
Nonresidential fixed investment	15.0	4.0	3.0	1.5	1.5
Government	27.1	7.3	6.0	6.6	6.5
Federal	6.5	2.2	0.8	1.4	1.0
State and local	20.7	5.1	5.2	5.2	5.5
GNP in constant (1958) dollars	21.2	5.4	4.9	2.1	2.3
Final purchases	19.5	6.0	5.6	1.9	2.8
Private	14.6	4.3	4.2	0.3	1.4
-----Per Cent Per Year <sup>1/</sup> -----					
Gross National Product	8.4	8.4	7.5	5.6	5.7
Final purchases	8.3	8.7	8.0	5.7	6.1
Private	7.9	8.2	7.9	4.8	5.4
Personal consumption expenditures	8.4	8.8	8.8	6.4	5.6
Durable goods	-0.2	0.0	0.0	0.0	-1.5
Nondurable goods	12.0	12.8	12.9	7.1	5.9
Services	8.3	8.3	8.2	8.0	7.9
Gross private domestic investment	3.2	-0.4	-1.7	-1.5	1.5
Residential structures	-17.5	-26.0	-19.5	-16.9	5.3
Nonresidential fixed investment	10.9	13.1	8.3	4.0	4.0
Gov't. purchases of goods & services	9.7	10.5	8.4	9.0	8.7
Federal	6.0	8.2	2.9	5.0	3.5
Defense	1.7	0.5	0.0	3.2	3.2
Other	15.6	25.9	8.8	8.6	4.2
State and local	12.1	12.0	11.8	11.5	11.9
GNP in constant (1958) dollars	2.5	2.5	2.3	1.0	1.1
Final purchases	2.3	2.8	2.7	0.9	1.3
Private	2.1	2.5 <sup>2/</sup>	2.5	0.1	0.8
GNP implicit deflator	5.7	5.7 <sup>2/</sup>	5.1	4.6	4.6
Private GNP fixed weighted index <sup>3/</sup>	5.7	5.9	5.2	4.6	4.6
Personal income	8.8	9.9	7.4	6.9	6.6
Wage and salary disbursements	8.7	8.8	8.5	7.5	7.4
Disposable income	8.7	10.1	7.5	6.9	6.7
Corporate profits before tax	2.9	-2.9	0.0	-12.5	-8.8
Federal government receipts and expenditures (N.I.A. basis)					
Receipts	7.8	8.3	5.0	2.3	3.7
Expenditures	9.7	16.5	6.0	5.5	6.8
Nonfarm payroll employment	2.0	2.1	1.6	1.0	1.0
Manufacturing	-0.5	0.0	-2.0	-2.0	-2.0
Industrial production	3.1	2.8	2.3	0.8	0.6
Housing starts, private	-22.2	-23.9	-21.5	0.0	27.4
Sales new autos	-14.6	-20.5	-5.8	0.0	-18.5
Domestic models	-14.8	-23.5	-6.8	0.0	-21.5
Foreign models	-13.8	0.0	0.0	0.0	0.0

<sup>1/</sup> Percentage rates of change are annual rates compounded quarterly.<sup>2/</sup> Excluding Federal pay increase, 5.6 per cent annual rate.<sup>3/</sup> Using expenditures in 1967 as weights.

Industrial production. Industrial production is tentatively estimated to have advanced about three-fourths of one per cent in September. The increase in output results primarily from a significant recovery in autos from the reduced August rate and a further large increase in business equipment. Production worker manhour data indicate relatively small gains in output in a number of other industries. If the rise in September is realized, the total index would be about 8.5 per cent above a year earlier.

Auto assemblies rose 13 per cent to an annual rate of 9.0 million units (preliminary) from the low August rate. Production schedules for October and the fourth quarter are set at a 10.0 million unit rate. Output of most other durable consumer goods--furniture, appliances, TV sets--is expected to have continued at record levels, and production of consumer staples apparently increased further. Among materials, output of raw steel increased and production of chemicals is estimated to be up somewhat further, and output of paper and products, crude oil, and petroleum products was maintained at record levels.

Retail sales. Total retail sales in September are estimated on the basis of weekly data, to have declined three-fourths of 1 per cent despite a strong rise in unit auto sales. On the basis of more complete sample counts, sales in August were revised down sharply to show a decline of 1.3 per cent. The increase in retail sales in July is estimated slightly higher at 3.9 per cent. For the third quarter as a whole sales are tentatively estimated to be 2.3 per cent above the second quarter.

Unit sales of consumer durables. Domestic-type auto sales showed a substantial rise in September, as sales of foreign cars slowed somewhat while the introduction of 1974 domestic models were well received. Sales of new domestic-type autos were at a 10.6 million unit annual rate, 9 per cent above August and 4 per cent above a year earlier. In the first nine months of 1973, sales have been at an average rate of 10.1 million units. Auto stocks were equivalent to a 42 day supply at the end of September, down 16 per cent from August with the Chrysler strike and parts shortages, as well as continued strong consumer demand contributing factors.

Sales of foreign cars were at a 1.5 million unit rate in September, 2 per cent below August and 7 per cent below a year earlier. Import sales have declined steadily since their peak in February. The import share of the market on a seasonally adjusted basis was down to 12.7 per cent in September from 14.0 per cent in September 1972.

September factory sales of major appliances, TVs, and radios are estimated to have risen 5 per cent from August. The increase is attributable to a large advance in color TVs and radios. Appliance sales, however, were down 3 per cent.



UNIT SALES OF SELECTED CONSUMER DURABLES  
(Seasonally adjusted)

	1972	1973		Per cent change from		
	Sept.	July	August	Sept.	Month ago	Year ago
Annual rate, million of units						
Auto sales	11.9	11.8	11.3	12.1	7	2
Domestic	10.2	10.0	9.7	10.6	9	4
Foreign	1.7	1.8	1.6	1.5	-2	-7
Indexes, 1967=100						
Home goods factory unit						
sales	141	142	146	153e	5	8
TVs <sup>1/</sup>	149	145	137	159e	16	6
Radio <sup>1/</sup>	98	77	62	99e	60	1
Major appliances	140	146	158r	154e	-3	10

<sup>1/</sup> Includes foreign-made units sold under domestic labels; foreign-label units not included.

Consumer attitudes and buying plans. The latest Michigan Survey Research Center and Conference Board surveys indicate further erosion of consumer confidence but this was coupled with fairly strong purchase plans for durable goods. Usually, attitudes about personal finances and the business outlook are broadly consistent with plans to make discretionary purchases.

The index of consumer sentiment, computed by Michigan for almost 25 years from responses to five questions, declined to a historical low in the August-September survey. Much of the deterioration since May has been attributable to pessimistic answers to two questions on present and expected personal financial situations. But responses to two questions about business conditions--already gloomy in May--became even worse. Evaluations of whether it is a "good time to buy" household

durables were also somewhat less favorable, but responses to this question were still optimistic enough to suggest that inflationary hedge buying may continue.

The Conference Board's index of consumer confidence was lower in July-August than in May-June, but still above the 1970 recession levels. This new index, which is a composite of attitudinal questions on economic conditions constructed from surveys beginning in January 1967, peaked in November-December and has subsequently tended downward. In the latest survey, more families than in the previous bi-monthly survey expected business conditions to worsen and jobs to be harder to find in the next six months. Attitudes toward future income gains were unchanged from May-June.

The Conference Board's new index of buying plans--a composite of intentions to purchase cars, homes, and appliances--was essentially unchanged in the most recent survey. Small declines in plans to purchase automobiles and major appliances were slightly more than offset by an increase in plans to buy houses. In contrast, the outlook for demand for houses worsened in the Michigan survey with only 24 per cent of respondents saying it was a good time to buy. This is a dramatic shift from a year earlier when the comparable figure was 51 per cent.

Construction and real estate. Seasonally adjusted value of new construction--revised downward somewhat for August--declined further in September to an annual rate approaching \$137 billion. Outlays for private nonresidential construction, at a new high in August, apparently changed little in September. However, outlays for residential and public construction continued to drop.

Reflecting partly an upward revision in construction cost estimates for single-family homes, the Census Bureau's composite construction cost index is now reported to have been running in recent months nearly 10 per cent above a year earlier--about one percentage point more than had been indicated earlier. This compares with an average year-to-year rise of 7 per cent in each of the previous two years. Since the first quarter of this year, higher costs have accounted for all of the over-all rise in construction outlays in current dollars.

Seasonally adjusted private housing starts, which had risen in July, resumed their decline in August to an annual rate of 2.05 million units. With residential mortgage commitments continuing downward and with building permits in August quite low, private housing starts in September probably fell below the 2 million unit mark for the first time in 2-1/2 years. This possibility suggests an average starts rate for the third quarter as much as 15 per cent below the first quarter peak, although still high by pre-1971 standards. Mobile home shipments are also indicated to have declined appreciably from their first quarter peak. Meanwhile, although limited in some areas by difficulties in securing needed materials and supplies, completions of conventional housing units have tended irregularly higher this year.

NEW CONSTRUCTION PUT IN PLACE  
(Seasonally adjusted annual rates, in billions of dollars)

	1973			Per cent change in September from	
	QI(r)	QIII(p)	Sept. 1/	Aug. 1973	Sept. 1972
Total - current dollars	136.5	137.6	136.7	- 1	+ 9
Private	103.3	106.6	106.4	--	+13
Residential	60.5	59.9	59.5	- 1	+ 7
Nonresidential	42.8	46.8	46.9	--	+20
Public	33.2	30.9	30.3	- 2	- 1
State and local	28.0	26.6	26.6	--	+ 1
Federal	5.2	4.3	3.7	-17	-13
Total - 1967 dollars	94.0	91.2	89.2	- 1	--

1/ Data for September 1973 are confidential Census Bureau extrapolations.  
In no case should public reference be made to them.

-- = Change of less than 1 per cent.

PRIVATE HOUSING PERMITS, STARTS, AND COMPLETIONS  
(Seasonally adjusted annual rates, in millions of units)

	1973				Per cent change in August from:	
	QI(r)	QII(r)	July(r)	Aug. (p)	Month ago	Year ago
Permits	2.19	1.94	1.78	1.71	- 4	- 25
Starts	2.40	2.22	2.18	2.05	- 6	- 16
1-family	1.35	1.20	1.24	1.13	- 9	- 18
2- or more-family	1.05	1.02	.94	.92	- 1	- 13
Completions	2.11	2.13	1.98	N.A.	- 8 <sup>1/</sup>	+ 5 <sup>1/</sup>
MEMO:						
Mobile home shipments	.68	.65	.57	.55	- 4	+ 2

p/ Preliminary.

1/ Per cent changes shown based on July 1973.

Anticipated plant and equipment spending. The latest (confidential) results of two private surveys indicate that in 1974 businesses plan to spend 12 to 15 per cent more than in 1973. Lionel D. Edie and Co. is predicting that businesses plan a 12 per cent gain in 1974, while Rinfret-Boston Associates is estimating (based on a response of 67 per cent of its sample) a 15 per cent increase. Both surveys expect manufacturers to increase investment in 1974 at least as much as in 1973.

**EXPENDITURES FOR NEW PLANT AND  
EQUIPMENT BY U.S. BUSINESS**  
(Per cent change from prior year)

	1971	1972	1973	1974	
			Commerce September Survey	Rinfret- Boston <sup>1/</sup> Fall Survey	Lionel D. Edie <sup>2/</sup> Fall Survey
-----Anticipated-----					
All industries	1.9	8.9	13.2	15	12
Manufacturing	- 6.1	4.5	19.4	22	19
Durable goods	-10.4	10.5	21.9	24	21
Nondurable goods	- 1.9	- .8	16.9	20	17
Nonmanufacturing	7.2	11.5	9.9	11	7

<sup>1/</sup> Confidential, preliminary results (as of October 5) based on a response of 67 per cent of its sample.

<sup>2/</sup> Confidential results.

The track record of the Rinfret-Boston survey has not been as accurate as the Edie survey. Since the inception of his independent survey in 1968, Rinfret has over-predicted growth of investment

(through 1972) by an average of 2.6 percentage points per year. For the same time span the Edie survey has over-predicted percentage changes in capital spending by an average of 1.4 per cent per year.

Manufacturers' orders and shipments. New orders for durable goods were off nearly 1 per cent in August (p) following a slight decline in July. Defense capital goods orders rose almost 60 per cent, recovering most of the July drop which had reflected turn-of-fiscal-year volatility. Excluding defense, the decline in orders came to 2.6 per cent after an increase of 1.6 per cent in July. Nondefense capital goods orders were off 4.0 per cent, compared with little change in June.

Shipments of durable goods fell (3.7 per cent) in August, partly as the result of curtailed auto production. Backlogs of unfilled durable goods orders rose 3.1 per cent, with similarly large increases in nearly all industry and product groupings.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS  
(Per cent changes)

	1973			
	QI from QIV 1972	QII from QI	July from June	Aug. from July (p)
Durable goods total	6.3	5.7	- .7	- .9
Excluding defense	5.9	5.4	1.6	- 2.6
Primary metals	10.2	13.8	- 5.1	7.7
Motor vehicles and parts	3.5	- 1.8	7.9	- 6.4
Household durables	4.8	3.6	2.5	- 5.5
Capital goods industries	6.8	7.2	- 7.3	1.7
Nondefense	5.6	6.5	- .1	- 4.0
Defense	14.7	11.2	-44.9	56.8
Construction & other durables	5.8	4.7	3.4	- 3.7

Inventories. Book value of manufacturers' inventories rose at an annual rate of \$11.6 billion in August, slightly more than the revised July rate of \$10.6 billion and showing little change from the second quarter average. By stage of fabrication, materials' stocks rose at a \$6.2 billion annual rate--down somewhat from July but above the relatively high rates in the first two quarters. Work in process inventories rose at a \$7.3 billion rate, the most rapid gain this year. But finished goods stocks declined. Wholesale trade inventories rose at a \$4.3 billion annual rate in August--off from the upward revised \$6.1 billion July rate.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES  
(Seasonally adjusted annual rate, \$ billions)

	1973			
	Q I	Q II	July (Rev.)	August (Prel.)
Manufacturing and trade	21.5	22.9	18.8	n.a.
Manufacturing, total	9.8	11.4	10.6	11.6
Durable	6.6	7.7	5.7	11.5
Nondurable	3.2	3.7	4.9	.1
Trade, total	11.7	11.5	8.2	n.a.
Wholesale	6.1	3.6	6.1	4.3
Retail	5.6	7.9	2.1	n.a.

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

The inventory-shipments ratio for manufacturing rose in August to 1.58 from 1.56 in July, as shipments declined 1.0 per cent. The ratio of inventories to unfilled orders for durable goods producers



declined further, reaching the lowest level since August 1969. The wholesale trade inventory-sales ratio remained at a low 1.14 in August.

## INVENTORY RATIOS

	1972		1973	
	July	August	July (Rev.)	August (Prel.)
<u>Inventories to sales:</u>				
Manufacturing and trade	1.53	1.49	1.41	n.a.
Manufacturing, total	1.71	1.66	1.56	1.58
Durable	2.06	1.98	1.82	1.92
Nondurable	1.31	1.28	1.22	1.19
Trade, total	1.34	1.32	1.27	n.a.
Wholesale	1.23	1.20	1.14	1.14
Retail	1.42	1.40	1.36	n.a.
<u>Inventories to unfilled orders:</u>				
Durable manufacturing	.894	.893	.746	.733

Cyclical indicators. The Census composite index of leading indicators rose 1.2 per cent in August (p), following gains of 0.6 per cent in July, and 1.0 per cent in June. The coincident and lagging indicators also rose. The deflated coincident indicator was unchanged.

CHANGES IN COMPOSITE CYCLICAL INDICATORS  
(Per cent change from prior month)

	1973				
	April	May	June	July	August (p)
12 Leading, trend adjusted	- .9	1.9	1.0	.6	1.2
12 Leading, prior to trend adjustment	-1.4	1.5	.6	.2	.9
5 Coincident	.7	.9	.8	1.2	.7
5 Coincident, deflated	.1	.3	.3	1.5	.0
6 Lagging	2.3	1.6	1.5	1.8	1.0

Of the eight leading series available, the only series increasing in August were price related--the ratio of price to unit labor cost in manufacturing and industrial materials prices. Series declining included both current dollar and physical quantity series: down were initial claims for unemployment insurance (inverted), the manufacturing workweek, common stock prices, new orders for durable goods, contracts and orders for plant and equipment, and housing permits.

In September, stock prices rose as did the manufacturing workweek.

Labor market. Demand for labor continues relatively strong, although the pace of employment expansion has slowed somewhat in recent months. Reflecting gains in service-type industries, nonfarm payroll rose by nearly 200,000 in September--the same as the (downward revised) August increase. Growth of payroll employment has slowed in the past few months from the previous exceptionally rapid pace. Most of the recent additions have been in services and trade, as growth in manufacturing employment has been at a near standstill since June. Both total employment and the labor force increased substantially in September following little change during the two prior months and the unemployment rate remained at 4.8 per cent. Over the past year the civilian labor force has shown an exceptionally large increase of 2.3 million.

CHANGES IN NONFARM PAYROLL EMPLOYMENT  
(Seasonally adjusted, in thousands)

	Sept. 1972- March 1973	March 1973- June 1973	June 1973- Sept. 1973
	----- Annual Rate -----		
Total	3,292	2,448	1,464
Private	2,914	2,108	1,384
Goods-producing	1,262	1,128	152
Manufacturing	1,148	852	28
Construction	106	200	128
Service-producing	1,652	980	1,232
Trade	738	396	416
Services	626	416	644
Government	378	340	80
Federal	-4	-72	0
State and local	382	412	80

Unemployment. Unemployment rates for most labor force groups showed little change over the month except the volatile Negro rate which rebounded 0.7 percentage points to 9.4 per cent, the same rate as in July. Over the past year the number of unemployed workers has declined by half a million, and the average duration of unemployment has shortened by nearly three weeks.

SELECTED UNEMPLOYMENT RATES  
(Seasonally adjusted)

	1972		1973	
	September	March	August	September
Total	5.5	5.0	4.8	4.8
Men 20 years and over	3.8	3.4	3.1	3.1
Women 20 years and over	5.4	4.9	4.9	4.8
Teenagers	16.2	14.2	14.3	14.4
Household heads	3.3	3.0	2.8	2.7
White	5.0	4.4	4.2	4.2
Negro and other races	10.0	9.0	8.7	9.4

Earnings and collective bargaining. The index of average hourly earnings for the private nonfarm economy rose at an 8-1/2 per cent annual rate in September, reflecting large increases in manufacturing and service industries. Over the past three months the nonfarm earnings index rose at a 7 per cent annual rate, compared to a 6.3 per cent rate in the preceding nine months. The recent speed-up has occurred in the more heavily unionized

industrial sectors, reflecting a number of automatic cost-of-living increases and the introduction of some new contracts.

AVERAGE HOURLY EARNINGS INDEX\*  
(Seasonally adjusted; per cent change at annual rates)

	Sept. 1972- Sept. 1973	Sept. 1972- June 1973	June 1973- Sept. 1973
Private nonfarm	6.6	6.3	7.1
Manufacturing	6.4	5.7	8.1
Construction	7.3	6.7	8.7
Transportation	9.1	8.3	10.7
Trade	5.9	6.3	4.5
Service	6.1	6.2	5.4

\* Average hourly earnings adjusted for inter-industry shifts and, in manufacturing only, for overtime hours.

Following a one-week strike, the UAW and Chrysler agreed to a new collective bargaining agreement. The contract, which covers 117,000 production workers, is expected to serve as a general pattern for over half a million workers at Ford and GM. Overall, Chrysler estimates that the new agreement will increase labor costs (including fringes) by about 7 per cent a year during the three year contract period. But the company's assumption as to the extent of the cost-of-living increases during the three year period is not known. The settlement calls for first-year wage increases averaging more than 25 cents an hour, which includes an allowance for cost-of-living increases since June. Increases in the second and third years will average 3 per cent (over 15 cents an hour)--equivalent to the "annual improvement factor" under previous contracts--plus a sweetened cost-of-living adjustment. The contract contains substantial gains in fringe benefits, especially in pension payments--allowing workers to retire after thirty years of service regardless of age--and the introduction of voluntary over-time provisions.

Consumer prices. Consumer prices jumped 1.9 per cent in August, seasonally adjusted, as foods posted a record 6 per cent increase following the relaxation of controls. Prices of other commodities were up 0.5 per cent, although ceilings were not removed for these until August 12, and the rate of rise in service costs accelerated markedly to 0.7 per cent, the largest rise in nearly 3 years.

## CONSUMER PRICES

(Percentage changes, seasonally adjusted annual rates)

	Relative importance to Dec. 1972	Nov. 1971 to Jan. 1973 (14 months)	Jan. 1973 to June (5 months)	June 1973 to July (1 month)	July 1973 to Aug. (1 month)
All items	100.0	3.6	8.3	2.8	25.7
Food	22.5	6.5	20.3	6.2	104.7
Commodities less food	40.1	2.4	5.2	1.0	6.0
Service <u>1/</u>	37.4	3.5	4.3	2.6	8.1
Addendum:					
All items less mortgage costs <u>2/</u>	96.3	3.7	8.7	4.7	23.1
Services less home finance <u>1/ 2/ 3/</u>	30.9	3.3	4.6	3.6	4.5
Commodities less food, used cars home purchase <u>3/</u>	31.8	2.1	6.1	1.0	4.2

1/ Not seasonally adjusted.2/ Home financial costs excluded from services reflect property taxes and insurance rates as well as mortgage costs, which in turn move with mortgage interest rates and house prices.3/ Confidential.

The leap in food costs reflected extraordinary increases for pork, and poultry and eggs--which had been allowed to rise at retail to reflect a dollar-for-dollar pass-through of farm prices--but beef prices also rose substantially despite ceilings and all major food components posted (seasonally adjusted) advances. In September, the retail cost of the USDA's market basket of U. S. farm food dropped about 2 per cent, seasonally adjusted, according to preliminary (confidential) estimates. Declines were sharpest for poultry, eggs and fresh fruits and vegetables. Pork was down about 5 per cent, but cereal and bakery, oilseed and dairy products were up.

The August increase for other commodities includes a contra-seasonal advance for apparel and a large increase for houses, and a drop in 1973-model car prices which was less than seasonal.

A sharp increase in mortgage interest rates was mainly responsible for the acceleration in the index for services. Rents, which are reflected in the index with a lag, rose more than in any month since early 1971.

Wholesale prices. Wholesale prices dropped 1.5 per cent in September, seasonally adjusted, as a result of a decline of over 5 per cent in farm, food, and feed prices following an even sharper climb in August. Meat, poultry and egg prices declined sharply, but dairy prices rose sharply. Industrial prices rose 0.7 per cent, however. From June, when a general price freeze was imposed, to September, wholesale prices climbed about 3 per cent and farm and food prices 8 per cent on a seasonally adjusted basis.

WHOLESALE PRICES  
(Per cent change, seasonally adjusted)

	Sept. 1972 to Sept. 1973	Jan. to July	1973		Phase
			June to July	July to August	IV August to Sept.
All commodities	16.6	8.0	-1.4	6.2	-1.5
Farm products	39.4	12.9	-4.6	19.3	-5.2
Industrial commodities	7.9	5.8	.1	.4	.7
Crude materials	21.4	11.4	1.2	1.2	3.3
Intermediate materials	8.8	6.1	- .1	.7	.5
Finished goods	5.3	4.7	- .1	.3	.2
Producer	3.6	2.8	.1	.6	.3
Consumer	6.2	5.7	- .2	.2	.2
Consumer finished foods	26.3	9.0	- .8	10.8	-1.7

Note: Farm products include farm products and processed foods and feeds.

Large price changes for livestock and meat in recent months have reflected distortions in the market attributable to the ceiling on red meat imposed in March, the freeze on processors and distributors imposed in June, and to high but fluctuating grain and feed prices. In July, as the adverse effect of the freeze on food supply became apparent, food price controls were relaxed to allow processors and distributors of food to pass through to consumers farm level cost increases. Beef prices were an exception--ceilings were maintained until September 10 causing marketings to be sharply curtailed. Pork and broiler prices began to shoot up and grain and soybean prices also soared in response to high world demand. The rapid rise in farm prices



continued until mid-August, when a sharp reversal roughly coincided in time with the beginning of Phase IV.

CONSUMER WHOLESALe FOOD PRICES  
(Per cent change, seasonally adjusted)

	Sept. 1972 to Sept. 1973	Aug. 1973 to Sept.
Consumer finished foods	26.3	- 1.7
Meats, poultry and fish	42.2	- 4.1
Fresh fruits and vegetables	7.9	-10.6
Eggs	66.7	-24.7
Cereals and bakery products	27.2	8.4
Dairy products	15.3	4.7
Processed fruits and vegetables	8.2	1.0

Phase IV regulations in effect after August 12 allowed dollar-for-dollar cost pass-throughs on non-farm commodity prices, subject to profit-margin limitations. However, the largest firms were restrained from price increases in September because of pre-notification requirements. Nevertheless, industrial prices rose 0.7 per cent, seasonally adjusted, in September, with continued large increases for fuels and textiles. One major factor was a 35 cents a barrel boost in crude oil on September 7 when Phase IV took effect for the oil industry.

Since early September, metals, textiles, and petroleum products have moved higher. The increases in prices granted thus far to automobile companies on 1974 models will be approximately offset

by the quality improvements, so that, on a seasonally-adjusted basis auto prices may drop in October. (Price rises to offset cost increases will be delayed until all labor-management negotiations are completed.) Price increases for sheet steel, detergents, gasoline, paper products and tires have recently been approved by the CLC.

Agriculture. Prices received by farmers fell 8 per cent during the month ending September 15, partly offsetting the record 20 per cent rise of a month earlier. Livestock prices had fallen still further by early October but grain and soybean prices had stabilized at the high mid-September level. Strength in the grain and soybean markets recently has resulted from delays in crop harvesting caused by rain.

September red meat production was 4 per cent above the August level, seasonally adjusted, as increased cattle slaughter was partly offset by a decline in hog marketings. But production was 8 per cent below September a year ago. A 20-pound jump in the average weight of slaughter cattle indicates that some back-up occurred while the beef price ceiling was in effect, but marketings of these withheld animals has not been enough to raise slaughter to last year's level.

Corn and soybean harvesting has just begun but, like last year, delays caused by wet weather are developing as a factor (along with strong world demand) keeping feed prices high. The consequent low profitability in livestock feeding, dairy, and poultry operations provides no incentive for expansion of these food supplies.

# **DOMESTIC FINANCIAL SITUATION**

II-T-1  
 SELECTED DOMESTIC FINANCIAL DATA  
 (Dollar amounts in billions)

Indicator	Latest data		Net change from			
	Period	Level	Month ago	Three months ago	Year ago	
<u>Monetary and credit aggregates</u>			<u>SAAR (per cent)</u>			
Total reserves	Sept.	34.1	7.1	10.3	9.4	
Reserves available (RPD's)	Sept.	32.3	11.3	13.2	11.2	
Money supply						
M1	Sept.	263.1	-3.6	-0.2	5.2	
M2	Sept.	551.5	2.2	4.5	7.7	
M3	Sept.	867.8	1.9	3.9	8.6	
Time and savings deposits (Less CDs)	Sept.	288.4	7.5	9.1	10.1	
CDs (dollar change in billions)	Sept.	67.2	0.2	5.2	27.4	
Savings flows (S&Ls + MSBs)	Sept.	316.3	1.5	2.8	10.2	
Bank credit (end of month)	Sept.	622.8	4.1	11.4	15.8	
<u>Market yields and stock prices</u>			<u>Percentage or index points</u>			
Federal funds	wk. endg.	10/3/73	10.72	0.07	0.51	5.57
Treasury bill (90 day)	"	10/3/73	7.22	-1.47	-0.47	2.62
Commercial paper (90-119 day)	"	10/3/73	9.63	-0.87	1.07	4.50
New utility issue Aaa	"	10/5/73	7.74	-0.20	--	0.30
Municipal bonds (Bond Buyer) 1 day	1 day	10/4/73	5.04	-0.14	-0.30	-0.18
FNMA auction yield (FHA/VA)		10/2/73	9.11	-0.16	0.73	1.41
Dividends/price ratio (Common stocks)	wk. endg.	9/26/73	3.04	-0.13	0.10	0.22
NYSE index (12/31/65=50)	end of day	10/8/73	59.60	3.48	5.74	-0.43
<u>Credit demands</u>			<u>Net change or gross offerings</u>			
			<u>Current month</u>		<u>Year to date</u>	
			<u>1973</u>	<u>1972</u>	<u>1973</u>	<u>1972</u>
Business loans at commercial banks <sup>1/</sup>	Sept.	0.4	0.8	25.5	8.1	
Consumer instalment credit outstanding	August	1.9	1.6	14.9	9.7	
Mortgage debt outst. (major holders)	July	5.5	4.9	33.8	30.1	
Corporate bonds (public offerings)	July	0.9	1.8	7.1	11.8	
Municipal long-term bonds (gross offerings)	July	2.0	1.8	13.7	14.1	
Federally sponsored Agcy. (net borrowing)	Oct.	2.3	0.1	15.0	2.7	
U.S. Treasury (net cash borrowing)	Oct.	e 1.9	2.9	e 2.9	5.7	
Total of above credits			14.9	13.9	112.9	82.2

e - Estimated

<sup>1/</sup> Series revised to reflect both a new seasonal adjustment and a benchmark revision relating to the June 1973 Call Report.

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DOMESTIC FINANCIAL SITUATION

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With published data continuing to indicate a weakening in the monetary aggregates in the second half of September, a substantial rally in credit markets developed as market participants anticipated an easing of monetary policy. Apart from the Federal funds rate, short-term market rates declined about 100 to 150 basis points on balance since the last Committee meeting. Bond rates dropped as much as 30 basis points since mid-September, and currently are 50 to 70 basis points below their highs for the year. Some slight easing in average home mortgage rates also appears to have developed.

Credit demands in September were quite moderate, particularly in the business sector. Business loans at banks rose less than in any month since June 1972. Part of this slowdown reflected a diversion of credit demand to the commercial paper market as rates in that market declined, but total short-term borrowing by businesses still increased at the lowest rate in a year. In long-term markets, corporate offerings of bonds and stocks were modest, with total new issue volume nearly a third below the pace of the first eight months of the year.

As loan demands moderated, and as banks came to expect further declines in short-term rates, CD issuance slowed in September and banks experienced net run-offs late in the month and in early October. Inflows of consumer-type time and savings deposit also slowed, particularly flows into the four-year certificates at larger banks.

Outflows of funds from thrift institutions were quite moderate in September, and these institutions are expected to show modest seasonally adjusted net inflows for the month. Fragmentary information suggests only moderate outflows during the late September and early October reinvestment period.

Outlook. In the near-term, financial markets are likely to remain unusually sensitive to indications of changes in the stance of monetary policy, as well as to uncertainties generated by the war in the Middle East. Markets already appear to have discounted some decline in the Federal funds rate. Thus, if the funds rate were to remain around recently prevailing levels, market rates would be likely to rise. On the other hand, a fairly sizable drop in the funds rate could lead to a further expectational decline in market rates in the near-term. However, given our GNP forecast and associated credit demands, it would appear that market rates of interest could come under upward pressure by late fall or early winter.

External financing needs of corporations are projected to expand as outlays for fixed investment and inventories grow more rapidly than internal funds generation. Thus, corporations can be expected to draw upon their liquidity and to increase their borrowing demands on banks, other short-term credit markets, and the capital market. Underwriters indicate that they have received increased inquiries about capital market financing and are advising customers who need funds to enter the market soon.

The Treasury and Federal agencies combined are expected to borrow \$8 to \$10 billion in the fourth quarter (over and above the \$1.8 billion bill issue of early October). While Agency financing could be reduced somewhat by more favorable inflows at the thrift institutions, any such improvement is likely to be moderate--especially if market rates start to rise again. Even if inflows to the thrift institutions pick up somewhat, the overhang of forward mortgage commitments, reduced portfolio liquidity, and desire to repay high-cost FHLB borrowings are likely to keep new residential mortgage commitment activity quite limited at these lenders.

Monetary aggregates. Preliminary data for September indicate a further weakening of the major monetary aggregates.  $M_1$  declined at a 3.6 per cent annual rate, the second consecutive month of contraction. Moreover, growth in  $M_2$  and  $M_3$  slowed significantly in September--to rates of 2.2 and 1.9 per cent, respectively. The slower growth in  $M_2$  represents both the decline in  $M_1$  and a slower growth of consumer-type time deposits at banks. Deposits at nonbank thrift institutions--included in  $M_3$ --increased by a small amount, seasonally adjusted, in September after decreasing in August.

MONETARY AGGREGATES  
(Seasonally adjusted changes)

	1973					
	Q I	Q II	Q III <sup>p</sup>	July	Aug.	Sept. <sup>p</sup>
	Per cent at annual rates					
M <sub>1</sub> (Currency plus private demand deposits)	1.7	10.3	- .2	5.0	-1.8	-3.6
M <sub>2</sub> (M <sub>1</sub> plus commercial bank time and savings deposits other than large CD's)	5.7	9.5	4.5	5.1	6.4	2.2
M <sub>3</sub> (M <sub>2</sub> plus savings deposits at mutual savings banks and S&L's)	8.6	9.4	3.9	5.6	4.2	1.9
Adjusted bank credit proxy	15.0	12.2	10.5	8.8	17.0	5.4
Time and savings deposits at commercial banks						
a. Total	23.1	16.0	13.4	12.6	20.4	6.8
b. Other than large CD's	9.5	8.7	9.1	5.5	14.0	7.5
	Billions of dollars <u>1/</u>					
Memorandum:						
a. U. S. Government demand deposits	.3	- .8	--	- 1.7	.8	1.0
b. Negotiable CD's	3.9	2.4	1.7	2.4	2.5	.2
c. Nondeposit sources of funds	.2	.2	.6	.9	.6	.2

<sup>p</sup> - Preliminary and partially estimated.

1/ Month-to-month change in levels or monthly averages of last-month-in-quarter to last-month-in-quarter changes, not annualized.



The recent decline in  $M_1$  probably reflects the lagged impact of the earlier sharp advance in interest rates, but late September weakness also may have been associated with greater than usual use of demand balances to finance corporate tax payments. The August-September declines resulted in an essentially unchanged level of  $M_1$  for the third quarter; over the year ending in September,  $M_1$  rose 5.2 per cent.

After rapid growth in August, time deposits other than large CD's increased at a much slower pace in September. This reduced rate of growth appeared to reflect mainly a tapering off in the volume of 4 year certificates being issued by banks following the initial surge in such deposit inflows in late July and early August. In the 4 weeks ending September 26, such certificates outstanding at weekly reporting banks increased by about \$500 million after having expanded by an average of \$1 billion per month in July and August.

Net sales of large CD's slowed markedly in September despite relatively strong growth in the early part of the month. Contributing importantly to the September rise was a \$600 million (not seasonally adjusted) increase in time deposits issued by weekly reporting banks to other commercial banks--mainly, it appears, in the form of large CD's--and this followed an even larger increase in August. Apparently, smaller banks during this period found CD offering rates at large banks relatively attractive. As market rates

began to drop around mid-September, banks apparently were slow to adjust downward their offering rates on CD's, thus generating a contra-seasonal inflow of such deposits over the September tax payment period. However, with loan demands moderating and influenced by the higher marginal reserve requirements and perhaps by expectations of further declines in interest rates, banks subsequently backed away from CD's. The ensuing cut in CD rates-- although not as large as the decline in other market rates--resulted in a sharp run-off of these certificates late in the month and in early October.

Fluctuating relationships between foreign and domestic interest rates led to large week-to-week movements in bank borrowings of Eurodollars during September; over the month, such borrowings declined \$250 million. Although this decline was offset by continued growth in sales of bank-related commercial paper, the resulting \$200 million net increase in use of non-deposit funds was considerably below the increases in the two previous months. The weakness in both private deposit and non-deposit sources of funds in September resulted in a sharp deceleration in the growth rate of the bank credit proxy to 5.4 per cent-- the lowest monthly growth rate in two years.

Bank credit. The last-Wednesday-of-the-month bank credit series has been adjusted to incorporate June Call Report data for nonmember banks and new seasonal adjustment factors. Revised figures--on a preliminary basis--are shown in the table; a detailed discussion of the revisions and a comparison of the old and new series are presented in Appendix A.

COMMERCIAL BANK CREDIT ADJUSTED FOR  
LOANS SOLD TO AFFILIATES 1/  
(Seasonally adjusted changes at annual percentage rates)

	1973				
	Q I	Q II	Q III	Aug.	Sept.
Total loans and investments <u>2/</u>	20.0	12.7	11.4	16.7	4.1
U. S. Treasury securities	-11.7	10.0	-34.5	-38.3	-31.2
Other securities	2.4	9.2	12.3	16.8	7.8
Total loans <u>2/</u>	30.5	14.1	17.9	24.2	7.6
Business loans <u>2/</u>	37.7	18.4	17.3	19.5	3.1
Real estate loans	20.4	20.2	17.0	18.6	16.2
Consumer loans	17.6	14.1	16.8	18.8	16.9

1/ Last-Wednesday-of-month series.

2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

r/ Revised.

NOTE: Series has been revised. Revision included the updating of seasonal adjustment factors and the usual benchmark revision that incorporated June 30, 1973, Call Date information for nonmember banks. For discussion of revision, see Appendix A to the Greenbook. Seasonally adjusted data are still preliminary.

In September, the rate of growth of total loans and investments dropped sharply--to a 4.1 per cent annual rate. This slackening reflected a sharp moderation in loan expansion--mainly to businesses. As noted in the September Greenbook, the reported rate of growth of business loans in August (on the old basis) appeared to be biased upward. The revised credit data indicate that business loan expansion in August--although still strong--was considerably less than originally estimated. Furthermore, as noted earlier, little of the August increase occurred after midmonth. This slowing continued in September as business loans grew at a sharply reduced 3.1 per cent annual rate.

In part, the recent reduction in business loan growth may reflect the more restrictive credit policies reported by banks in the recent survey of lending practices. In addition, there have been unconfirmed reports that U. S. businesses have been arranging to borrow funds in the Euro-dollar markets--due to relative rate advantages--which may have contributed to the slowing in domestic business loan expansion. And, for the second consecutive month, there was a decline in outstanding loans to foreign businesses, also reflecting such a shift in relative interest rates.

Some moderation in bank loan demand also appears to have been the result of the decline in commercial paper rates relative to bank prime lending rates, and the decline in CD rates below the prime rate, which has eliminated the incentive to borrow for investment in CD's.

Evidence of the increasing attractiveness of commercial paper financing was indicated by the \$1 billion increase in dealer-placed commercial paper in September--the largest increase since June 1972. Even with this sizable expansion, however, total business short-term credit use, as measured by the sum of bank loans plus dealer-placed commercial paper, increased at only a 10 per cent annual rate in September--much less rapidly than in previous months of this year, but about the same as in most of 1972.

CHANGES IN BUSINESS LOANS AND COMMERCIAL PAPER <sup>1/</sup>  
 (Amounts in billions of dollars, seasonally adjusted monthly changes)

	Business loans at all commercial banks <sup>2/</sup>	Dealer placed commercial paper	Total	Annual per- centage rate of change in total <sup>3/</sup>
Average monthly changes				
1973--QI	4.1	-1.3	2.8	23.7
QII	2.2	.2	2.4	18.7
QIII	2.2	.2	2.4	17.6
January	3.6	- .3	3.3	28.7
February	5.2	-1.9	3.3	27.0
March	3.6	-1.7	1.9	15.2
April	2.4	- .1	2.3	18.2
May	2.8	--	2.8	21.8
June	1.4	.6	2.0	15.3
July	3.6	--	3.6	27.2
August	2.5	- .5	2.0	14.8
September	.4	1.0 <sup>e/</sup>	1.4	10.2

<sup>1/</sup> Changes are based on last-Wednesday-of-month data.

<sup>2/</sup> Adjusted for outstanding amounts of loans sold to affiliates.

<sup>3/</sup> Measured from end-of-month to end-of-month.

<sup>e/</sup> Partially estimated.

Real estate loans continued to expand at a rapid rate in September--16.2 per cent. Most other categories of loans--including consumer loans--also remained strong. Banks liquidated Treasury securities for the third consecutive month while adding moderately to their holdings of other securities, primarily municipals and agency issues.

The new monthly survey of bank loan commitments at 130 large banks, which will be discussed in more detail in the Supplement, indicates a moderate increase in outstanding loan commitments to businesses in August accompanied by a sharp increase in commitments to nonbank financial institutions--presumably reflecting in part efforts by thrift institutions to increase lines of credit as a hedge against future deposit outflows. In contrast, the survey results showed a moderate drop in mortgage commitments. It should be noted that the loan commitment survey is new and untested, and the monthly data are likely to be subject to considerable volatility.

Nonbank financial institutions. FHLBB estimates based on sample data indicate that net deposit outflows at S&L's (before interest crediting) were about \$250 million in September--substantially less than the \$1.2 billion outflow in August. The September growth rate for S&L's is projected at about 4.5 per cent (SAAR), although this figure tends to overstate the improvement in deposit performance since the large volume of interest crediting accounted for all the

deposit growth on unadjusted basis. However, these institutions apparently fared relatively well during the grace day period at month-end, as compared with other recent tight money periods.

The grace day experience of a sample of large New York City mutual savings banks was also relatively favorable. Net outflows at these institutions were only moderately larger than in 1971 and 1972, and substantially less than in the comparable 1969 period. A factor that may have contributed to the reduced pressure on thrift institutions was the rapid decline in short-term market rates in recent weeks. Moreover, it is likely that the greater portion of the most interest sensitive depositors already had shifted funds out of these institutions into higher yielding instruments.

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS  
(Seasonally adjusted annual rates, in per cent)

	Mutual savings banks	Savings and loan associations	Both
1972 - QI	13.6	22.5	19.7
QII	10.7	15.9	14.3
QIII	11.6	18.2	16.2
QIV	11.0	14.2	13.2
1973 - QI	8.1	16.0	13.6
QII	6.8	10.4	9.2
QIII <u>e/</u>	.5	2.0	1.5
1973 - July	- 2.5	2.9	1.3
Aug. <u>p/</u>	- .5	- 1.3	- 1.1
Sept. <u>e/</u>	4.0	4.5	4.3

p/ Preliminary.

e/ Estimated on the basis of sample data.

After record increases in FHLB advances of \$1.2 and \$1.1 billion in July and August, S&L's borrowed \$785 million from the FHLBanks during September. This reduced rate of advances reflects not only the better deposit experience at S&L's, but also continued reductions in their holdings of liquid assets as well as the restrictive lending policies of the FHLBanks. At the same time, however, in response to the President's recent message on housing, the FHLBB initiated effective September 24, a forward commitment program designed to foster continued S&L participation in the mortgage market. Under this plan, the FHLBanks are authorized to make up to \$2.5 billion in commitments to member S&L's to be taken down 6 months to 1 year from the date of the commitment, at a rate of 8-1/2 per cent plus 1/4 per cent commitment fee. By early October about \$100 million had been committed under this program, and an additional \$430 million in applications for such commitments had been received.

Although no data are available on life insurance company policy loan activity since the recent decline in market rates, new policy loans reached a record high during August. Data for 15 large life insurance companies holding about 2/3 of all policy loans outstanding indicate that gross loans made were nearly 50 per cent higher than in July and exceeded by more than 25 per cent the previous record month of July 1969. Although the cash position of life insurance companies may have eroded somewhat recently, these



institutions entered the third quarter in a relatively strong liquidity position which should provide some short-run cushion against larger than expected policy loan demands.

Consumer credit. Net growth of consumer credit remained at a high level during July and August, and it appears that the rate of expansion during the third quarter as a whole will be close to the record reached in the fourth quarter of 1972. During August, the seasonally adjusted annual rate of increase in consumer credit slightly exceeded \$24 billion, or 14 per cent. For the 12 months ending in August, consumer credit rose 16 per cent to a total of \$172 billion, with instalment debt up 17 per cent and noninstalment credit up 12 per cent. Part of the recent growth has reflected the influence of higher prices on goods purchased, and possibly also inflation hedge-buying of durable goods during Freeze II.

The rate of growth in auto credit, which had slackened from January through June, turned up again this summer. The monthly volume of credit extensions on purchased new car contracts increased nearly 20 per cent at commercial banks and 16 per cent at finance companies from July 1972 to July 1973; direct loan volume at banks rose 17 per cent over this period. Part of the gain reflects an increase in the average amount borrowed, which has risen about 7 per cent.

Interest rates on automobile loans have risen significantly since June. Finance company rates on purchased new car contracts increased 8 basis points in July and another 11 basis points in August, while bank rates on direct new car loans rose 2 points in July and 15 basis points in August. By way of contrast, these rates rose only 2 and 7 basis points, respectively, during the first half of the year.

Commercial paper outstanding. Total commercial paper outstanding increased an estimated \$1.0 billion, seasonally adjusted, during September. Nonbank-related dealer placed paper grew \$1.0 billion, as effective commercial paper rates declined relative to the bank prime rate, encouraging some former issuers to return to the commercial paper market. In addition, bank-related commercial paper increased \$200 million.

Directly placed nonbank paper, on the other hand, declined \$200 million during the month, in part as a result of sharply curtailed demand for funds by finance company subsidiaries of automobile companies. Also, some firms--expecting stringent short-term market conditions over the mid-September tax date--reportedly had issued paper in advance of their needs in August, when finance company paper increased by an exceptionally large \$1.8 billion.

COMMERCIAL PAPER OUTSTANDING  
(Seasonally adjusted, billions of dollars<sup>1/</sup>)

	Sept. 28, 1973	Estimated change in outstandings during period: 1973			
		Sept.	QIII	QII	QI
Total commercial paper outstanding	38.7	1.0	2.5	2.2	-1.5
Bank-related	5.3	.2	1.0	.8	.8
Nonbank-related	33.4	.8	1.5	1.4	-2.4
Dealer	9.0	1.0	.5	.6	-3.9
Direct	24.4	-.2	1.1	.8	1.6

<sup>1/</sup> Seasonally adjusted figures are unavailable for bank related paper. The unadjusted data for bank-related paper are combined with seasonally adjusted nonbank-related data to obtain the total for commercial paper outstanding.

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

Short-term rates. Short-term interest rates have fallen sharply, on balance, since the September FOMC meeting. Rates on Treasury bills in the 3 and 6-month maturity areas, for example, which had declined about 40 to 50 basis points in the week prior to that meeting, have dropped an additional 100 to 150 basis points since then. Similarly, rates on private short-term instruments, which had stabilized at about their yearly highs in the week preceding the last meeting, have since fallen from 90 to as much as 150 basis points.

Short-term rates began to decline sharply on the Thursday following the September FOMC meeting, when a small outright System purchase of Treasury bills was interpreted as signaling a modification of the tight stance of monetary policy. Once underway, the rally seemed to generate its own steam, with short rates generally moving

SELECTED SHORT-TERM INTEREST RATES  
(Per cent)

	Daily rates				Change
	Sept. 18	Sept. 25	Oct. 2	Oct. 9	Sept. 18 - Oct. 9
Treasury bills					
3-months	8.68	7.20	7.64	7.13	-1.55
6-months	8.58	7.63	7.86	7.19	-1.39
1-year	8.16	7.66	7.68	7.18	- .98
Commercial paper					
90-119 days	10.50	9.88	9.63	9.50	-1.00
4-6 months	10.50	9.88	9.50	9.00	-1.50
Large negot. CD's <sup>1/</sup>					
3-months	10.88	9.88	9.63	9.38	-1.50
6-months	10.00	9.00	9.00	8.75	-1.25
Federal agencies					
1-year	8.95	8.55	7.98	7.80 <sup>2/</sup>	-1.15
Bank prime rate (most prevalent)	10.00	10.00	10.00	10.00	--
	Statement week ended				Change--week ending
	Sept. 19	Sept. 26	Oct 3	Oct. 9	Sept. 19 to week ending Oct. 9
Federal funds (daily average)	10.80	10.84	10.72	10.43 <sup>2/</sup>	- .37

<sup>1/</sup> Highest quoted new issues.

<sup>2/</sup> Average for first 6 days of the week.

on an unbroken downward course through the remainder of September. In the early part of last week, however, bill rates and bank CD rates backed up sharply and other short rates stabilized. This interruption in the downtrend apparently was attributable to a heavy schedule of Treasury bill financing and an inability of market participants to perceive confirming evidence in the Federal funds market of any policy shift. Late last week, the downtrend in short-term rates resumed, as market participants again concluded that monetary policy had shifted toward ease.

Evidence leading to this conclusion included the continued weakness displayed in recent data on the monetary aggregates and the sharp drop in net borrowed reserves during the statement week ended last Wednesday, when the System had been active in supplying reserves. Desk injection of reserves last Friday, when the Federal funds market was already easing, also added further strength to the renewed downward trend.

Treasury and agency financing. The Treasury securities market generally continues in a strong technical position. Dealers presently are carrying relatively small positions in both coupon issues and bills, with holdings of bills in the 3-month or less maturity area being unusually low.

On October 3, the Treasury auctioned \$1.8 billion of 42-week bills, at an average rate of 7.70 per cent, thus filling the 13th slot in its 52-week bill cycle. Over the remainder of the calendar year, the Treasury probably will need to raise at least an additional \$2 billion, and quite possibly as much as \$4 billion of new money. To cover this need, the Treasury's temporary debt ceiling must be raised from the current level of \$465 billion, since there is only about \$2.0 billion of leeway under the current ceiling level and even this will expire at the end of November. Present staff projections suggest that the Treasury could postpone borrowing in the market until the mid-November refunding. If it begins to appear that Congress may delay in renewing the Treasury's authority to borrow from the Federal Reserve, however, it is possible that the Treasury will push forward its borrowing to early November in order to build some precautionary balances.

Pressures to be placed on credit markets by Federal agency issues (including sales of financial assets) between now and the end of the year appear to be about as projected in the last Greenbook. That is, the total volume of issues to be absorbed by the market in the fourth quarter should amount to about \$6 billion.

Long-term security markets. The rally in corporate, municipal, and long-term government security markets which began in early August continued throughout September. On balance, long-term rates have dropped about 50 to 75 basis points from their August peaks. The rally was sparked initially by technical factors--low dealer inventories and the need to cover short positions. But it was sustained increasingly by market expectations of an easing in monetary policy at a time of relatively light new issue volume.

In the past few weeks stock prices also have advanced steadily in unusually heavy trading. Since mid-September the Dow Jones Industrial average has risen more than 90 points, or 10 per cent, closing at 974 on October 9. During this period daily trading volume averaged over 21 million shares compared to an average of 12 million shares per day in August. The rally appears to have been broadly based and dealers apparently have encountered no major problems in handling the increased volume.

The September volume of new publicly offered corporate bonds is estimated to have been about \$575 million, about \$200 million less than forecast in the September Greenbook because of the rescheduling for October of one large offering expected late in September. With

SELECTED LONG-TERM INTEREST RATES  
(Per cent)

	New Aaa utility bonds <sub>1/</sub>	Recently offered Aaa utility bonds <sub>1/</sub>	Long-term State and local bonds <sub>2/</sub>	U.S. Government bonds (10-year constant maturity)
1971 - High	8.26 (7/30)	8.19 (1/2)	6.23 (6/24)	6.89 (7/20)
Low	7.02 (2/5)	7.14 (12/31)	4.97 (10/21)	5.87 (1/14)
1972 - High	7.60 (4/21)	7.46 (4/21)	5.54 (4/13)	6.58 (9/27)
Low	6.99 (11/24)	7.21 (12/1)	4.96 (12/7)	5.87 (1/14)
1973 - High	8.52 (8/10)	8.32 (8/10)	5.59 (8/3)	7.55 (8/10)
Low	7.29 (1/12)	7.28 (1/5)	5.00 (9/25)	6.42 (1/3)
Sept. 7	7.94	8.02	5.18	7.13r
14	7.74	8.06	5.18	7.19
21	8.03	8.03	5.05	7.09
28	7.81	7.84	5.00	6.95
Oct 5	7.74p	7.86p	5.04	6.90p

1/ FRB series.

2/ Bond buyer.

p/ Preliminary.

public bond volume at the lowest monthly level in over four years, a moderate volume of stock offerings, and only a seasonal rise in private placements, total corporate security volume in September was well below that in earlier months this year.

The volume of corporate public bonds is expected to pick up considerably in October and November. Current schedulings by utilities are relatively high, and the calendar also includes several offerings by industrial and financial firms. Underwriters report that the recent decline in interest rates, along with corporate desires to fund short-term debt and increasing needs for external financing because of

higher plant and equipment expenditures, has prompted an increasing number of inquiries from industrial firms concerning bond financing. Depending on market conditions and interest rate expectations, underwriters believe that a significant build-up in bond offerings could occur late this year.

The September volume of municipal offerings was somewhat lighter than expected--\$1,600 million--due mainly to postponements of several issues apparently because of expectations of lower interest rates in the future. In October the volume is expected to rise to about \$1,750 million because of a bunching of large issues. The November calendar probably will drop to about \$1,600 million. State and local governments continue to show large budgetary surpluses and maintain excellent liquidity positions. An increasing amount of the municipal volume is made up of industrial pollution control bonds. New offerings of this type of bond averaged \$134 million per month in the first six months of this year, compared to an average monthly volume of \$50 million in 1972.



CORPORATE AND MUNICIPAL LONG-TERM SECURITY OFFERINGS  
 (Monthly or monthly averages, in millions of dollars)

	1973				
	1st half	QIII <sup>e/</sup>	Sept. <sup>e/</sup>	Oct. <sup>f/</sup>	Nov. <sup>f/</sup>
Corporate securities - Total	2,772	2,025	1,925	3,200	3,200
Public bonds	1,039	720	575	1,400	1,300
Privately placed bonds	690	756	800	700	700
Stock	1,041	549	550	1,100	1,200
State and local government securities	1,955	1,677	1,625	1,750	1,600

<sup>e/</sup> Estimated.

<sup>f/</sup> Forecast.

Mortgage market. With securities market yields down substantially from their summer highs, a growing number of mortgage market analysts believe that rates in this market also have peaked and may now move downward. While the supply of new mortgage commitments has continued quite restrictive, there are field and other reports of some recent slackening in credit demand.

In the primary mortgage market, the FHLMC weekly survey of 120 S&L's indicates that contract interest rates on home mortgages edged down in early October, following increases of more than 10 basis points a week on average from early July through early September. On October 5, the average rate on 80 per cent conventional home loans dipped to 8.82 per cent, the first week-to-week decline since late January. Meanwhile, with mortgage rates still high and bond rates declining considerably from earlier peaks, the gross yield spread favoring mortgages over new issues of high-grade corporate bonds has widened from minus 12 basis points in early August to plus 100 basis points or more in most recent weeks.

The secondary mortgage market also has shown some signs of a turnaround. This change is confirmed not only by the weekly FHLMC survey of S&L's but also by the FNMA bi-weekly auction results. In the October 1 FNMA auction of short-term commitments to purchase FHA- and VA-underwritten home mortgages, the yield on an unusually small volume of offerings averaged 9.11 per cent--down 26 basis points from the average in the previous auction. 1/

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1/ Among the influences limiting the volume of offerings in the October 1 FNMA auction were: (a) seller expectations of declining market rates; (b) uncertainty about the extension of FHA mortgage insurance authority, which lapsed briefly at the end of September and then was extended for one year by Public Law 93-117, effective October 2; and (c) increased reliance by sellers on marketing arrangements involving issuance of GNMA-guaranteed securities backed by mortgage pools.

CONVENTIONAL HOME MORTGAGES  
AT 120 S&L's

End of period	Average going rate on 80% loans (per cent)	Basis point change from month or week earlier	Number of Federal Home Loan Bank districts with funds in short supply	Spread <sup>1/</sup> (basis points)
<u>1973</u>				
April	7.56	+ 7	4	11
May	7.70	+14	3	9
June	7.76	+ 6	4	3
July	8.18	+42	7	15
Aug.	8.66	+48	12	n.a.
Sept.	8.85	+19	11	104
Aug. 10	8.40	+14	9	-12
17	8.55	+15	10	25
24	8.61	+ 6	12	32
31	8.66	+ 5	12	n.a.
Sept. 7	8.77	+11	12	83
14	8.81	+ 4	11	107
21	8.83	+ 2	10	80
28	8.85	+ 2	11	104
Oct. 5	8.82	- 3	11	102p

<sup>1/</sup> Gross yield spread is average mortgage return before deducting servicing costs minus average yield on new issues of Aaa utility bonds with 5-year call protection.

FNMA PURCHASE AUCTIONS  
(FHA/VA HOME MORTGAGES)

	Offerings		Per cent of offers accepted	Yield to FNMA <u>1/</u> (per cent)
	Received (millions of dollars)	Accepted		
1972 - High	365 (5/1)	336 (5/1)	92 (5/1, 7/24)	7.74 (10/30)
Low	61 (11/27)	37 (11/27)	42 (3/20)	7.53 (3/20)
1973 - High	551 (9/4)	289 (9/4)	88 (4/16)	9.37 (9/17)
Low	33 (10/1)	24 (10/1)	43 (8/20)	7.69 (1/8)
July 9	539	245	46	8.38
23	351	181	52	8.54
Aug. 6	459	202	44	8.71
20	525	224	43	8.95
Sept. 4	551	289	52	9.27
17	138	108	79	9.37
Oct. 1	33	24	73	9.11

1/ Data show gross yield to FNMA on 4-month commitments, before deduction of 38 basis point fee paid for mortgage servicing, assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA charges for commitment fees and stock purchase and holding requirements.

Agricultural finance. Farm credit demand continued strong through August. Lending at production credit associations was unusually active, resulting in a contraseasonal rise in outstanding loans during August to a level 13 per cent above a year earlier.

Longer-term farm mortgage lending also continued its strong pace. For the year ended August 31, the volume of new loans closed by Federal Land Banks was up 62 per cent from the preceding 12-month period, and outstanding volume on August 31 was 20 per cent above a year earlier.

In reaction to their rising cost of funds, the Federal Land Banks have made upward adjustments since July in billing rates on their outstanding variable-rate mortgages.<sup>1/</sup> With four FLB's raising their billing rate to 8 per cent on October 1, rates at the 12 FLB's now range between 7.5 and 8 per cent, in contrast to the 7 to 7.5 per cent range that prevailed from January through July. Rates on farm production loans at banks and production credit associations also rose rapidly during the summer months. Rates most commonly charged are now in the 8 to 9 per cent range, generally more than 100 basis points above a year earlier.

Federal finance. Current staff estimates indicate a unified budget deficit of nearly \$1.7 billion for fiscal year 1974, a net change of \$2.8 billion from the surplus previously projected. Revised receipts and outlays are now projected at \$269.6 billion and \$271.3 billion, respectively.

Due largely to a downward revision in our estimate of the effective personal tax rate, the forecast of total receipts for fiscal year 1974 has been lowered by \$1.3 billion. An apparent shortfall in corporate tax collections for September suggests that corporations may be finding ways to postpone some tax payments until the second half of this fiscal year, in view of recently higher interest rates.

<sup>1/</sup> Federal Land Banks first offered variable rate mortgages in 1969 and have since put all new loans on this plan, so that variable rate mortgages now represent about 70 per cent of their outstanding loans of \$10.4 billion. Because the FLB's are cooperatives owned by the borrowers, the billing rate on these mortgages is set to reflect the average cost of funds plus a mark-up to cover operating expenses. During a period of rising market interest rates, FLB billing rates will tend to lag the upward move, because each FLB's average cost of funds will rise only as new money must be raised and as maturing issues must be refinanced.

Budgetary developments in recent months indicate strong pressures for spending in excess of the Administration's target for fiscal 1974. However, because the Administration seems determined to hold down spending, these developments have been only partly incorporated into our forecasts. We have thus raised total fiscal year spending by \$1.6 billion, making our current estimate \$2.6 billion more than the Administration's \$268.7 billion figure. Two recent Senate bills would add either 5.9 or 7.0 per cent to social security benefits as soon as enacted, replacing the previously legislated 5.9 per cent increase not due to take effect until July 1974. While no formal House action has been taken, there appears to be little opposition to some speed-up in benefit payments. Our present forecast, therefore, assumes a 5.9 per cent benefit hike effective in January, adding \$1.6 billion to fiscal 1974 expenditures. While the net effect of Congressional actions already taken would raise outlays by an additional \$2.8 billion over the Administration's fiscal year target, an expected \$1 - 2 billion cut in defense appropriations would offset much of this effect. Moreover, increased appropriations for domestic programs may be vetoed (or impounded) if they are not consistent with the Administration's goal of limiting spending since Administration goals are already being threatened by increased spending in uncontrollable categories such as interest.

Our high employment budget forecast continues to show a strong shift toward surplus in calendar year 1974. While about half of this movement is due to the effect of inflation on tax receipts, and thus does not reflect discretionary fiscal policy, the shift, nevertheless, does reflect budgetary restraint on the economy.

The end-of-September Treasury cash balance was \$8.3 billion, \$1.1 billion less than we had projected in the September Greenbook, apparently reflecting both stronger expenditures and weaker receipts.

PROJECTION OF TREASURY CASH OUTLOOK  
(In billions of dollars)

	Sept.	Oct.	Nov.	Dec.
<u>Total net borrowing</u>	0.4	1.9	1.7	2.0
Weekly and monthly bills	--	1.8	--	--
Tax bills	-2.0 <sup>c/</sup>	--	--	--
Coupon issues	2.0 <sup>c/</sup>	--	--	--
As yet unspecified new borrowing	--	--	2.0	2.0
Special foreign series	0.3 <sup>c/</sup>	--	--	--
Agency transactions, debt repayment, etc.	0.1 <sup>c/</sup>	0.1	-0.3	--
Plus: <u>Other net financial sources</u> <sup>a/</sup>	0.4	1.0	.8 <sup>b/</sup>	-.5
Plus: <u>Budget surplus or deficit (-)</u>	4.4	-6.4	-2.3	1.8
Equals: <u>Change in cash balance</u>	5.2 <sup>c/</sup>	-3.5	0.2	3.3
Memoranda: Level of cash balance, end of period	8.3 <sup>c/</sup>	4.8	5.0	8.3
Derivation of budget surplus or deficit:				
Budget receipts	26.5	17.2	19.7	23.2
Budget outlays	22.1	23.6	22.0	21.4
Maturing coupon issues held by public	--	--	3.7	--
Sales of financial assets	0.1	0.6	0.1	0.7
Budget agency borrowing	0.1	0.1	0.3	--
Net borrowing by government-sponsored agencies	2.2	2.3	1.1	0.9

a/ Checks issued less checks paid and other accrual items.

b/ Includes \$1.2 billion in receipts which would result from the monetization of gold.

c/ Actual.



FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS  
(In billions of dollars)

	Fiscal Year 1973*	Fiscal Adm. Est. 6-1-73 1/	F.R.B. Staff Estimates		Calendar Years		Calendar Quarters					
			1974 e/ F.R. Board	1974 e/ FRB e/	1973				1974			
					1972 Actual	1973	I*	II*	III	IV	I	II
<b>Federal Budget</b>												
Surplus/deficit	-14.4	-2.7	-1.7	-17.4	-9.8	-9.5	7.6	-.9	-6.9	-7.1	13.3	
Receipts	232.2	266.0	269.6	221.5	252.2	55.2	70.9	66.0	60.1	61.5	82.0	
Outlays	246.6	268.7	271.3	239.0	262.0	64.7	63.4	66.9	67.0	68.6	68.7	
Means of financing:												
Net borrowing from the public	19.3	5.5	-3.7	15.2	6.6	8.4	-6.5	-.9	5.6	2.3	-10.7	
Decrease in cash operating balance	-2.5	n.a.	3.6	0.2	2.8	-1.8	0.3	4.3	0.0	1.3	2.0	
Other <u>2/</u>	-2.4	n.a.	1.8	2.0	0.3	2.9	-1.4	-2.5	1.3	3.5	-.5	
Cash operating balance, end of period	12.6	n.a.	9.0	11.1	8.3	12.9	12.6	8.3	8.3	7.0	9.0	
Memo <u>3/</u> : Sales of financial assets <u>4/</u>	4.8	n.a.	4.1	3.1	4.7	1.2	1.6	0.5	1.4	1.1	1.1	
Budget agency borrowing <u>5/</u>	0.4	n.a.	1.4	0.9	0.1	0.1	-0.6	0.4	0.3	0.5	0.3	
Sponsored agency borrowing <u>6/</u>	8.7	n.a.	15.2	3.5	17.0	2.0	5.0	5.7	4.3	2.5	2.7	
<b>National Income Sector</b>												
Surplus/deficit	-12.1	-3.0	0.0	-15.9	0.3	-5.0	0.0	3.4	2.6	-2.5	-3.2	
Receipts	242.9 <u>7/</u>	273.3	279.4	228.7	266.2	253.6	262.4	271.4	277.2	282.8	286.3	
Expenditures	255.0	276.3	279.4	244.6	265.9	258.6	262.4	268.0	274.6	285.3	289.5	
High Employment surplus/deficit (NIA basis) <u>8/</u>	n.a.	n.a.	n.e.	0.4	-2.0	-0.9	0.1	-3.9	-3.2	-1.0	4.4	
* Actual                      e--projected                      n.e.--not estimated                      n.a.--not available												

Footnotes continued

- 1/ The President's statement of July 26, 1973, issued with the release of budget results for fiscal year 1973, indicated that a balance budget is expected for fiscal 1974, implying a further increase in receipts estimates to about \$268.7 billion.
- 2/ Includes such items as deposit fund accounts and clearing accounts.
- 3/ The sum of sponsored and budget agency debt issues and financial asset sales does not necessarily reflect the volume of debt absorbed by the public, since both the sponsored and budget agencies acquire a portion of these issues.
- 4/ Includes net sales of loans held by the Commodity Credit Corporation, Farmers Home Adm., Government National Mortgage Assn., Federal Housing Adm., and Veterans Adm. Receipts from these sales are netted against Federal Budget Outlays shown above.
- 5/ Includes, for example, debt issued by the U.S. Postal Service, Export-Import Bank, and Tennessee Valley Authority, which is included in the Net Treasury Borrowing from the Public shown above.
- 6/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
- 7/ Quarterly average exceeds fiscal year total by \$2.8 billion for fiscal 1973 due to spreading of wage base and refund effect over calendar year.
- 8/ Estimated by F.R. Board Staff.

# **INTERNATIONAL DEVELOPMENTS**

## STRICTLY CONFIDENTIAL (FR)

III -- T - 1

U.S. Balance of Payments  
(In millions of dollars; seasonally adjusted)

	1972	1 9 7 3 <sup>2/</sup>			
	Year	Q-I	Q-II	July*	Aug.*
<u>Goods and services, net 1/</u>	-4,609	150	616		
Trade balance 2/	-6,912	-960	-230	85	-90
Exports 2/	-48,769	15,320	16,747	5,833	5,975
Imports 2/	-55,681	-16,280	-16,977	-5,748	-6,065
Service balance	2,303	1,110	846		
<u>Remittances and pensions</u>	-1,570	-397	-381		
<u>Govt. grants &amp; capital, net</u>	-3,513	-681	-455		
<u>U.S. private capital (- = outflow)</u>	-8,534	-6,133	-1,930		
Direct investment abroad	-3,404	-2,025	-1,158		
Foreign securities	-614	51	-128	-99	-69
Bank-reported claims -- liquid	-742	-1,296	839	-670	32
" " " other	-2,764	-2,052	-1,687	374	126
Nonbank-reported claims -- liquid	-492	-643	-24	-46	
" " " other	-517	-168	228		
<u>Foreign capital (excl. reserve trans.)</u>	10,287	483	2,297		
Direct investment in U.S.	160	273	455		
U.S. corporate stocks	2,268	1,301	151	316	341
New U.S. direct investment issues	2,003	384	274		
Other U.S. securities (excl. U.S. Treas.)	64	61	87		
Liquid liabilities to:	4,776	-1,899	1,168	683	-187
Commercial banks abroad	3,862	-1,916	734	902	-297
Of which liab. to branches 3/	(178)	(-580)	(682)	(661)	(-206)
Other private foreign	810	7	361	-65	64
Intl. & regional organizations	104	10	73	-154	46
Other nonliquid liabilities	1,016	364	162		
<u>Liab. to foreign official reserve agencies</u>	10,308	10,279	-393		
<u>U.S. monetary reserves (increase, -)</u>	742	220	17	--4	-5
Gold stock	547	--	--	--	--
Special drawing rights 4/	7	--	9	--	--
IMF gold tranche	153	-13	8	-4	-5
Convertible currencies	35	233	--	--	--
<u>Errors and omissions</u>	-3,112	-3,921	229		
<u>BALANCES (deficit w) 4/</u>					
Official settlements, S.A.		-10,499	376		
" " " , N.S.A.	-11,050	-9,995	804	-327	629
Net liquidity, S.A.		-6,661	-1,607		
" " " , N.S.A.	-14,592	-6,286	-2,009	-294	
Liquidity, S.A. 5/		-8,600			
" " " , N.S.A.	-15,826	-8,162	-1,198	-1,010	816

\* Monthly, only exports and imports are seasonally adjusted.

1/ Equals "net exports" in the GNP, except for latest revisions.

2/ Balance of payments basis which differs a little from Census basis.

3/ Not seasonally adjusted.

4/ Excludes allocation of \$710 million SDRs on 1/1/72.

5/ Measured by changes in U.S. monetary reserves, all liabilities to foreign official reserve agencies and liquid liabilities to commercial banks and other foreigners.

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INTERNATIONAL DEVELOPMENTS

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Summary and outlook. The U.S. balance of payments improved further in the third quarter. There was a surplus on the official settlements basis in that period of about \$1-1/2 billion (seasonally adjusted, not at an annual rate), compared with a surplus of less than \$1/2 billion in the second quarter. The improved showing was accounted for by the behavior of current account transactions and long-term capital flows -- the components of the basic balance. In particular, the trade balance improved further in July-August, foreign purchases of U.S. securities increased substantially, and long-term U.S. bank lending to foreigners appears to have declined. Thus, the basic balance in the third quarter may have been only a very small deficit -- less than \$1 billion at an annual rate -- compared with \$3 billion in the second quarter.

The outlook for further gains in the basic balance in the immediate future appears to be good. The trade balance is expected to move into surplus, as exports, already buoyed by high agricultural shipments, advance further while imports expand less strongly. Prices for imports are likely to continue rising, but the volume of imports (aside from fuels) seems likely to decline somewhat in line with the projected slowing in the domestic economic advance. Foreign orders for U.S. machinery jumped sharply in August, reaching a record level, indicating probable further substantial gains in nonagricultural exports.

The recent heavy foreign purchases of U.S. stocks and bonds seem likely to continue, at least in the near term. These expanded purchases may reflect, among other things, a view that the U.S. dollar will continue to strengthen in foreign-exchange markets, an impression that interest rates on U.S. bonds may have peaked, and an expectation of further rises in the prices of U.S. stocks.

A major uncertainty in the balance-of-payments outlook is the effect of the new conflict in the Middle East, and the extent to which prices of oil imports will rise as a result of actions taken by foreign oil-supplying countries, not only those in the Middle East and North Africa but also Canada and Venezuela. Future developments in these areas may require a reassessment of our current account estimates for 1974.

Foreign exchange markets. Exchange markets have again turned quiet in the past few weeks following a period of unsettlement ensuing upon the surprise revaluation of the Dutch guilder on September 15. Dollar exchange rates for major foreign currencies have changed little, on balance, since immediately after the guilder revaluation. The Bank of Japan continues to sell large amounts of dollars, and, in recent days, the Netherlands Bank has purchased substantial amounts of dollars on a swap basis. Otherwise there has been no substantial net intervention in dollars by major foreign central banks. The outbreak of hostilities in the Middle East has as yet had little effect on the exchanges.

The five per cent revaluation of the guilder caught the market completely off guard. The guilder had moved to the top of the European band in the previous few days but Dutch reserve gains from intra-European intervention were not large (less than \$200 million equivalent, certainly the smallest reserve change for a major country ever to precede a parity change). Dutch authorities cited, however, a major strengthening of the current account balance and stated that the revaluation was intended as part of an anti-inflationary program.

The market immediately turned its attention to the Belgian franc and the French franc as candidates for revaluation and devaluation, respectively. Very quickly speculation spread to the mark, which replaced the Belgian franc as the currency in greatest excess demand. The central banks of Germany, France and Belgium intervened heavily in support of the European band limits. Total intervention in French francs amounted to something on the order of \$2 billion equivalent (mostly in marks) in the week of September 17-21. In moving to combat the speculation the Bank of France acted to raise French interest rates, while on the other side the Belgian central bank re-imposed a negative interest charge on non-resident deposits and the German Federal Bank did not immediately move to absorb the additional domestic liquidity created by exchange market intervention in marks. The combination of these moves together with the substantial intervention tended to dampen speculation, and by September 24 the pressures had subsided sufficiently to render unnecessary any further intervention.

The speculation in European currencies was mostly confined to the sale of one European currency for another -- there was only minor spillover into dollar exchange rates. The System and the Bundesbank did sell marks against dollars as the dollar eased somewhat against the mark, but most of this intervention was reversed subsequently as the dollar turned firmer.

After the markets had been quiet for two weeks, Germany acted to soak up excess domestic liquidity by raising reserve requirements and reducing banks' discount quotas, while Belgium dropped its negative interest charge and France dropped its restrictions on banks' franc loans to foreigners, abolished its 100 per cent reserve requirement on non-resident deposits and lifted its ban on the payment of interest on non-resident deposits. (During this period the Swiss also dropped their negative interest charge on non-resident deposits, which had been in effect since June, 1972).

In recent days the guilder firmed on the basis of a very tight domestic money market, and the Netherlands Bank acted to ease the pressures by purchasing nearly \$500 million on a swap basis from Dutch commercial banks. The guilder moved to its upper Benelux limit and the Belgian franc has received a modest amount of central bank support against the guilder. The relative weakness of the Belgian franc in the Benelux band encouraged the System to step up its regular purchases of Belgian francs to repay pre-August, 1971 swaps.

Among non-European currencies, the Canadian dollar has tended to firm over the past month, while sterling has held very steady, and the yen has eased against the dollar. The Bank of Japan sold nearly



\$800 million between September 12 and October 10, reflecting continued large deficits in Japan's basic balance.

Gold moved under \$100 on October 1 for the first time in several months and has generally stayed below that level, despite the events in the Middle East.

Euro-dollar market. Euro-dollar interest rates have eased over the past four weeks in line with the decline in U.S. money market rates during this period. The differentials between Euro-dollar and comparable maturity U.S. money market rates are little changed from their levels of one month ago.

Three-month Euro-dollar deposits were bid at an average rate of 10-3/4 per cent in the week ended October 10, 70 basis points below the average for the week ended September 12. The three-month CD rate declined by a similar amount during this period and remained 1 percentage below the three-month Euro-dollar rate. The average overnight Euro-dollar and Federal funds rates stood in near equality at approximately 10-3/4 per cent for the week ended October 10, the same position they held four weeks ago. In the interim, the overnight Euro-dollar rate was below the Federal funds rate on most days, but overnight Euro-dollar borrowing subject to the 8 per cent reserve requirement has remained more expensive than Federal funds borrowing throughout the past month.

U.S. banks' borrowings from their foreign branches averaged \$1,940 million in the week ended October 3, a decrease of \$67 million from the average level of borrowings in the week of September 12.

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES

Average for month or week ending Wednesday	(1) Over-night Euro-\$ <sup>1/</sup>	(2) Federal Funds <sup>2/</sup>	(3) Differ-entia (1)-(2)(*)	(4) 3-month Euro-\$ Deposit <sup>1/</sup>	(5) 60-89 day CD rate <sup>3/</sup>	(6) Differ-entia (4)-(5)(*)
1973-Feb.	9.03	6.58	2.45 (4.71)	7.46	6.16	1.30 (2.85)
Mar.	9.19	7.09	2.10 (4.40)	8.53	6.84	1.69 (3.46)
Apr.	7.43	7.12	0.31 (2.17)	8.15	7.10	1.05 (2.72)
May	7.74	7.84	-0.10 (0.90)	8.45	7.30	1.15 (1.87)
June	8.19	8.49	-0.30 (0.41)	8.81	7.94	0.87 (1.01)
July	9.75	10.40	-0.65 (0.20)	10.40	9.06	1.34 (1.45)
Aug.	10.70	10.50	0.20 (1.13)	11.49	10.20	1.29 (1.40)
Sept.	10.85	10.79	0.06 (1.00)	11.16	10.30	0.86 (0.81)
Sept. 5	11.35	10.79	0.56 (1.55)	11.55	10.50	1.05 (1.14)
12	10.70	10.74	-0.04 (0.89)	11.45	10.50	0.95 (1.03)
19	10.41	10.82	-0.41 (0.50)	11.40	10.50	0.90 (0.98)
26	10.23	10.84	-0.61 (0.28)	10.79	9.75	1.04 (0.77)
Oct. 3 <sup>P/</sup>	12.25	10.72	1.53 (2.60)	10.38	9.63	0.75 (0.46)
10 <sup>P/</sup>	10.65	10.71	-0.06 (0.87)	10.75	9.63	1.12 (0.86)

1/ All Euro-dollar rates are noon bid rates in the London market; overnight rate adjusted for technical factors to reflect the effective cost of funds to U.S. banks.

2/ Effective rates.

3/ Offer rates (median, as of Wednesday) on large denomination CD's by prime banks in New York City.

\*/ Differentials in Parentheses are adjusted for the cost of required reserves.

P/ Preliminary

U.S. balance of payments. Preliminary data indicate that the balance on the official settlements basis in the third quarter was a surplus of about \$1-1/2 billion (seasonally adjusted). This compares with a surplus of less than \$1/2 billion in the second quarter. While information on most major components of the balance of payments in the third quarter is still very incomplete, the data available for July and August on trade, security transactions and U.S. bank claims on foreigners suggest that the improvement in the official settlements balance in the third quarter largely reflected a reduction in the "basic" deficit (on current transactions and long-term capital flows). The "basic" deficit, which was about \$3 billion at an annual rate in the second quarter, may have declined to a rate of about \$1 billion in the third quarter. While continued inflows of short-term capital contributed to the official settlements surplus in the third quarter, these appear to have been smaller than in the second quarter.

The trade balance for July-August was about zero, compared with deficits of \$4 and \$1 billion at annual rates in the first and second quarters, respectively. Led by an extremely large increase in the value of shipments of agricultural commodities, total exports in July-August continued to advance at a faster pace than imports (see below).

Foreign net purchases of U.S. equities picked up sharply in July and August -- averaging \$325 per month -- and brokers report further heavy foreign purchases in September. The estimated \$1 billion of foreign

net purchases in the third quarter (not at an annual rate) is considerably greater than the \$150 million of purchases recorded in the second quarter and approaches the record \$1-1/4 billion purchased in the first quarter. Private foreign purchases of U.S. bonds in July and August were also up over the second quarter level. Foreign purchases of Euro-bond issues of U.S. corporations (used to finance, in part, operations of U.S. foreign affiliates) are again expanding sharply following a slump in the second quarter; purchases of other types of U.S. bonds, particularly by investors in Western Europe, are also quite strong. U.S. purchases of foreign bonds in July-August show little change from the relatively small amounts of the earlier months of the year. However, greater purchases are anticipated in the fourth quarter as Canadian provinces step up bond flotations in the U.S. to finance extensive new hydro-electric projects.

U.S. bank-reported long-term claims on foreigners were reduced somewhat in July-August, following moderate increases in both the first and second quarters of this year. Short-term bank-reported claims in August also declined, partly offsetting a large rise in July. Preliminary weekly data indicate a further decline in claims in September. It appears that U.S. agencies and branches of foreign banks increased their claims on foreigners in August, but increased their liabilities to foreigners by about the same amount, thus holding their foreign net assets subject to the VFCR program at the June 30 level, as requested by the Federal Reserve Board in July.

U.S. foreign trade. The U.S. trade balance in August was a deficit of \$1.1 billion at a seasonally adjusted annual rate (balance of payments basis), compared to a July surplus (revised) of \$1.0 billion, as exports continued to rise but imports rose faster. While agricultural exports increased by 20 percent to a record \$20 billion annual rate (partly due to price rises but also due to an increased volume of wheat and corn shipments), the value of nonagricultural exports declined slightly. About two-thirds of the strong August increase in imports was due to a sharp recovery in fuel imports after a temporary dip in July. All other major import categories increased as well in spite of work stoppages in Canada which depressed imports from that country.

For July-August combined, the trade balance was zero. This was an improvement of about \$1 billion at an annual rate from the second quarter. Exports in July-August increased by 6 percent, while imports increased by 4 percent.

U.S. MERCHANDISE TRADE  
(billions of dollars, seasonally adjusted annual rates, BOP basis)

	1972			1973		
	<u>Year</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>July-Aug.</u>
Exports	48.8	49.4	52.9	61.3	67.0	70.8
Imports	<u>55.7</u>	<u>55.7</u>	<u>59.8</u>	<u>65.1</u>	<u>67.9</u>	<u>70.9</u>
Balance	-6.9	-6.3	-7.0	-3.8	-.9	--

Agricultural exports accounted for about half of the total increase in exports from the second quarter to July-August. All of the increase was due to price rises as the volume of shipments fell slightly.

The value of nonagricultural exports in July-August increased 4-1/2 percent from the second quarter. This increase was smaller than the increase in the first or second quarters but was about the same rate of increase as in the third and fourth quarters of last year. Virtually all of the increase was due to higher prices as the volume of non-agricultural exports has held steady since April (at a rate 20 percent above the average 1972 level) perhaps because of supply shortages in some industries. Declines in the volume of industrial supplies and consumer goods were offset by a small increase in the volume of machinery exports. In addition, foreign orders for U.S. machinery (which account for one-third of nonagricultural exports) rose very steeply in August from already high levels. This augers well for exports of these items in the future, particularly if domestic demand slows down as expected.

The 4 percent increase in the value of imports from the second quarter to July-August resulted mainly from strong increases in the value of most major import categories -- particularly cars from Europe and Japan, fuels, and nonferrous metals. Most of the increases can be attributed to higher prices. The major elements accounting for the leveling in the volume of imports since March appear to be higher prices for imports resulting from the exchange rate realignments and some supply limitations abroad.

Price and wage developments in major foreign industrial countries. Inflation rates in industrial countries on average have been markedly higher in the early 1970's than they were even in the second half of the 1960's. But the price changes observed over the past nine months or so have been extraordinarily high even within this generally accelerating trend. The slight deceleration in the rate of increase in the wholesale prices of manufactured products in recent months, as shown in Table 1, still leaves the rates of increase unusually high for most countries.

Largely as a result of the simultaneity of strong economic demand in virtually all industrial countries since late last year, and low agricultural output in many producing countries, the export prices of primary commodities have increased sharply this year. As indicated in Table 2, the United Nations' dollar-based index of commodity prices increased at an annual rate of 42.3 per cent from the fourth quarter of last year to the second quarter of this year. This rate of increase was triple that between the second and fourth quarters of last year and can only partly be attributed to the dollar devaluation this year. Prices of agricultural commodities registered the sharpest increase, but prices for fuels and metal ores also increased substantially.

Wages have increased at relatively high rates this year, and except for Japan and Germany (during the first quarter), have not

Table 1. Wholesale Prices of Manufactured Products  
(percentage changes at annual rate)

	1971 IV from 1971 II	1972 II from 1971 IV	1972 IV from 1972 II	1973 II from 1972 IV	Latest 3 mos. from pre- vious 3 mos.	Latest month
Belgium	4.5	2.9	3.4	1.9	2.7	July
France	3.7	5.2	9.4	10.4	9.5	July
Germany	1.2	4.2	4.0	8.6	7.1	August
Italy	2.3	2.8	6.1	18.1	22.5	June
Netherlands	0.6	5.2	5.1	15.2	16.2	June
United Kingdom	3.9	4.8	8.2	3.5	10.6	August
Japan	-1.7	1.7	6.5	17.4	16.5	August
Canada	5.9	7.7	9.1	18.4	14.7	July
United States	2.5	4.5	2.6	11.4	5.8	September

Source: Selected Economic Indicators for Major Industrial Countries.



Table 2. Export Prices of Primary Commodities<sup>1/</sup>  
(percentage changes at annual rate)

	1971-Q2 from 1970-Q4	1971-Q4 from 1971-Q2	1972-Q2 from 1971-Q4	1972-Q4 from 1972-Q2	1973-Q2 from 1972-Q4
Total	11.0	3.5	18.8	14.1	42.3
Food	7.0	0	18.8	18.8	48.6
Agricultural non-food	5.9	7.7	18.5	16.9	48.4
Metal Ores	8.3	1.6	12.6	4.4	14.5
Fuels	30.6	4.7	18.3	1.4	26.8

<sup>1/</sup> The indices are computed in U.S. dollars. 1963 = 100.

Source: Monthly Bulletin of Statistics, United Nations.

been matched by equivalent gains in productivity. But with the large price rises, labor costs per unit of turnover have probably decreased or, at least, are no higher than last year, so that unit profits have continued to rise or have remained stable.

In most industrialized countries, real incomes have increased since wage gains have generally exceeded the rise in consumer prices. The main exception is Canada where wages have increased only slightly faster than consumer prices.

In the United Kingdom, the rate of increase in retail prices has predictably accelerated since April of this year when the price-freeze imposed under Phase I of the price/wage control program was

superseded by Phase II. But even after the post-Phase I bulge, price increases were higher than in the preceding year. Between June and August, retail prices excluding seasonal food items rose at a 7.8 per cent annual rate, considerably more than the 6.6 per cent rate of a year earlier. Sharply higher prices for food, the introduction of the VAT on April 1, and the devaluation of the pound, combined with rising world commodity prices, have all contributed to the faster price trend.

However, the rate of increase at the wholesale price level may have reached its peak in the third quarter when it was 6.4 per cent higher than in August-October of 1972, the last three months before Phase I.

Despite the accelerating trend in living costs, wage rates have been increasing at only a slightly higher rate than last year. In August basic hourly wage rates were 15-1/2 per cent higher than in the same month a year earlier. Labor productivity in manufacturing has increased very rapidly, and in the second quarter was up an extraordinary 11 per cent as compared to the same period a year earlier. Although unit labor costs have been rising slightly, with higher prices, profit margins have been largely unaffected and total profits have been rising.

On October 8, Prime Minister Heath announced proposals for Phase III of the price/incomes policy, to become effective in November

and to last for about a year. It is proposed that weekly wage rates be allowed to rise 7 per cent (or an average of £2.25 per person). If the retail price index rises at the same -- 7 per cent -- rate during Phase III, wages can be increased by another £0.4 a week plus £0.4 a week for each additional 1 percentage point increase in the price index. Profit margins and dividends will again be controlled to limit price increases.

It would seem that in Germany some progress is being made toward slowing the rate of inflation, although the signs are still not very conclusive. Consumer prices have increased somewhat more slowly since June of this year, but the slower rate of rise was primarily because of an easing in the food supply situation. More significantly, the rate of increase in non-food prices, although still high, seems to be slowing slightly.

Some further evidence of a beginning success in containing inflation rates may be seen in the slight deceleration of the rise in wholesale prices of manufactured products in recent months, from a rate of 8.6 per cent to 7.1 per cent.

From mid-1972 through the first quarter of this year, large productivity gains roughly matched the increase in wages, so that unit labor costs were virtually flat. In the second quarter of this year, however, productivity gains halted, so that unit labor costs rose by 3-1/2 per cent over the preceding quarter. Preliminary data indicate

that this pattern may well have continued in the third quarter. Accordingly, if price rises moderate further, profit margins, which are quite wide currently, may shrink sufficiently to add a further cost-push element to the inflationary situation.

In France, as in most industrial countries, the rate of increase in both consumer and wholesale prices accelerated early this year. But the rise in wholesale prices, as elsewhere, has begun to moderate a little and the rise in consumer prices for non-food items, while continuing to accelerate, is considerably less than in other countries. Large increases in food prices, however, have brought the annual rate of increase in the consumer price index to about 7-1/2%, well within the range of other countries' inflation rates.

Hourly wages presently are rising at a 14 per cent annual rate, with no slowdown in sight as most wage contracts, as well as the minimum wage, are tied to the consumer price index. Shortages of skilled labor and the threat of continuing labor unrest are adding to wage pressures. Thus, despite substantial productivity gains, unit labor costs are increasing, but at a rather lesser rate than in previous periods of inflationary pressure.

In Italy, the strong inflationary pressures have prompted the Government to extend beyond October 16 the three-month price freeze for essential foodstuffs and other goods introduced in July. Until the

freeze, consumer prices were rising at an 11-1/2% annual rate with food prices increasing even faster.

With the introduction of the VAT in January 1973, movements in the wholesale price index are not comparable to those of earlier years, but there has clearly been an acceleration also in wholesale prices. Some of the major factors contributing to the price acceleration, in addition to the introduction of the VAT, were the depreciation of the lire coupled with sharp increases in the prices of imported foods and raw materials.

New three-year wage contracts were negotiated late in 1972 and it has been estimated that as a result of heavy "front-loading" of the contracts plus supplementary cost-of-living adjustments, labor costs per person in manufacturing will increase about 18 per cent in 1973. With an estimated increase in labor productivity of about 4.5 per cent this year, unit labor costs will rise about 13.5 per cent, adding a strong wage-push factor to the Italian inflation. Profits margins, which recovered somewhat in 1972, are expected to be squeezed again this year as unit labor costs rise substantially. But if the problem of labor unrest is indeed solved, and output can rise steadily, the total profit situation may well improve. So far proposed Government action to reduce the burden of social insurance costs imposed on employers has not materialized and may well have been postponed indefinitely.

Despite the Japanese revaluation of the yen, prices have accelerated even faster than in the devaluing countries. To some extent the increase in the Japanese rate of inflation reflects a rebound from the relatively stable price situation during the 1971 recession. Nevertheless, inflation rates are higher now than at any time since the Korean War.

Consumer prices in September were 14.5 per cent higher than a year earlier and wholesale prices in August were up 17.4 per cent. The main factors contributing to the rise in prices have been the strong domestic demand, sharply higher import prices for foodstuffs, textiles and lumber, and some supply constraints. The revaluation of the yen this year has helped some in holding down the rise in import prices, but this has been more than offset by the sharp increase in commodity prices on world markets.

Wages paid in the manufacturing sector have also been accelerating and in the first seven months of this year were up 20 per cent over the same period a year earlier. But labor productivity -- as output rose rapidly in the first half of this year -- was up 20 per cent over the same period a year earlier. As a result of these high productivity gains, unit labor costs have been relatively stable and business profits have expanded sharply. In the six months ending in March 1973, business profits were up 47 per cent over the same period a year earlier, whereas in the previous six-month period they were up only 7 per cent.

In Canada, a substantial increase in food prices has been the main factor contributing to the acceleration of consumer prices. Wholesale prices, as in the United States, reflect the high world-wide demand for agricultural products and raw materials. In June prices for these commodities were up 26 and 30-1/2 per cent, respectively, over a year earlier. Finished goods prices are rising at a lesser, but still accelerating rate.

Hourly earnings have been rising at about a 9-1/2 per cent annual rate this year. This is close to double the rise in productivity, so that unit labor costs have been rising at about a 4 per cent rate.

Nevertheless, business profits per unit of output rose sharply during the first quarter of this year. In the second quarter they fell back to a rate only slightly higher than the still substantial 13-1/2 per cent recorded in 1972. This suggests that eroding profit margins cannot be cited as a cause of inflationary pressure.

## APPENDIX A: BANK CREDIT REVISION \*

The seasonally adjusted series on commercial bank credit and its major components have been revised. The revision included the updating of seasonal adjustment factors and the usual benchmark revision that incorporates the latest Call Report data, June 30, 1973, for nonmember banks. Major changes were made in seasonal factors beginning in 1968 with minor scattered changes back to 1964. The benchmark revision covered the January-September 1973 period.

June Call Report data indicate that growth in commercial bank credit was at a somewhat faster pace in the first half of 1973 than had been estimated previously on the basis of incomplete information. As a result, the level of the series for this period has been raised by \$4.3 billion (Table 1). Over two-thirds of this amount was accounted for by increased investment holdings, particularly municipal and other securities, which were sharply higher--\$2.3 billion (Table 3). This was a considerably larger dollar adjustment than required in any previous benchmark revision. Total loans were somewhat higher on the revised basis, reflecting a sharp upward revision in real estate loans--and smaller upward revisions in security, agricultural, and "other loans"--offset in part by downward revisions in loans to businesses and nonbank financial institutions. (Consumer loans--which are taken from Consumer Credit statistics--were not affected by the benchmark revision.) As with "other securities", the upward adjustment in real estate loans--\$2.3 billion--was a record amount (Table 6). On the other hand, business loans were \$1.5 billion lower than previously estimated (Table 5)--one of the few Call dates for which the level of this series had been estimated too high. However, most of the difference reflected an error in estimating "window-dressing" between June 27 and June 30. Therefore, the basic level of the series was little changed and the only substantial monthly adjustments, occurring in June and July, were about offsetting.

The level of total loans and investments also was increased over the first half of 1973 as a result of the review and recomputation of seasonal adjustment factors. Seasonal pattern changes indicated that seasonally adjusted total credit increased \$2.2 billion more on the revised basis than on the old basis over this period. Over the third quarter, however, credit expansion was \$1.6 billion less than previously estimated with most of the downward adjustment occurring in August. Although the pattern of month-to-month fluctuations in credit growth has been revised substantially for the entire first half, all the additional expansion was concentrated in the second quarter.

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\* The revised seasonal factors were prepared by Edward R. Fry and Mary F. Weaver, and the benchmark revisions by Mary Jane Harrington, Banking Section, Division of Research and Statistics.



Seasonal pattern changes are most evident in loans and in holdings of U.S. Treasury securities. Growth in holdings of other securities is now indicated to have been less rapid in the first quarter and more rapid in the second quarter than previously, but remains the same for the two quarters combined. The faster pace continued into the third quarter. Over the first half, the reduction in U.S. Treasury securities was \$900 million less on the revised basis than on the old, with most of the revision in the second quarter (Table 2). In the third quarter, the new data show that holdings declined nominally. These changes in seasonal factors reflect in part changed Treasury financing patterns during the period under review.

Additional expansion in total loans--like total credit--was concentrated in the second quarter and was followed by a substantial slowing in the third quarter with a very sharp moderation in August (Table 4). Seasonal changes reduced growth in business loans by \$1.7 billion in that month and also reduced expansion in loans to security dealers and to nonbank financial institutions by lesser amounts. The only other major change in business loans indicated by seasonal factors was a \$900 million upward adjustment in June; changes in other months were small reductions and resulted in little change over the January-June period. Only nominal revisions were made in seasonal factors for real estate loans.

New seasonally adjusted data, on which the tables are based, are preliminary and may be subject to minor changes. Final seasonally adjusted series for all bank credit series will be available from the Banking Section later in October.

TABLE 1

SEASONALLY ADJUSTED BANK CREDIT<sup>1/</sup>  
 TOTAL LOANS AND INVESTMENTS <sup>2/</sup>  
 (Dollar changes in billions; annual rates in per cent)

	Old Seasonally Adjusted Series	Changes			New Seasonally Adjusted Series	Annual Rates	
		Due to:		Old		New	
		Bench- mark	Seasonal Factor				
1973: January	+ 7.2	+0.7	+0.5	+ 8.4	16.9	18.0	
February	+ 9.6	+0.7	+0.9	+11.2	21.6	23.7	
March	+ 9.0	+0.9	-1.6	+ 8.3	20.8	17.2	
April	+ 3.1	+0.9	+2.4	+ 6.4	8.2	13.1	
May	+ 9.3	+0.8	-1.9	+ 8.2	20.5	16.6	
June	+ 1.9	+0.3	+1.9	+ 4.1	4.2	8.2	
July	+ 5.4	+0.8	+0.5	+ 6.7	12.3	13.3	
August	+10.2	+0.1	-1.8	+ 8.5	20.4	16.7	
September	+ 2.5	--	-0.4	+ 2.1	4.9	4.1	
1st Half	+40.1	+4.3	+2.2	+46.6	14.3	16.7	
1st Qtr.	+25.8	+2.3	-0.2	+27.9	18.4	20.0	
2nd Qtr.	+14.3	+2.0	+2.4	+18.7	9.8	12.7	
3rd Qtr.	+18.1	+0.9	-1.7	+17.3	12.1	11.4	

<sup>1/</sup> Last Wednesday of month series.

<sup>2/</sup> Includes outstanding amount of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries and foreign branches.

Table 2

SEASONALLY ADJUSTED BANK CREDIT <sup>1/</sup>  
 U.S. TREASURY SECURITIES  
 (Dollar changes in billions, annual rates in per cent)

	Old Seasonally Adjusted Series	Changes		New Seasonally Adjusted Series	Annual Rates	
		Due to:			Old	New
		Bench- mark	Seasonal Factor			
1973--January	-0.5	+0.1	+0.5	+0.1	-9.6	1.9
February	-1.7	-0.2	+0.6	-1.3	-33.3	-25.2
March	+0.4	+0.2	-0.8	-0.2	8.0	-4.0
April	--	+0.1	+0.6	+0.7	--	13.9
May	-0.9	+0.1	+0.8	--	-17.8	--
June	+1.1	+0.1	-0.8	+0.4	22.1	7.9
July	-2.1	+0.1	+0.1	-1.9	-41.4	-37.1
August	-2.1	--	+0.2	-1.9	-42.9	-38.3
September	-1.1	--	-0.4	-1.5	-23.3	-31.2
1st Half	-1.6	+0.4	+0.9	-0.3	-5.1	-1.0
1st Qtr.	-1.8	+0.1	+0.3	-1.4	-11.5	-9.1
2nd Qtr.	+0.2	+0.3	+0.6	+1.1	1.3	7.3
3rd Qtr.	-5.3	+0.1	-0.1	-5.3	-34.9	-34.5

<sup>1/</sup> Last Wednesday of month series.

TABLE 3  
SEASONALLY ADJUSTED BANK CREDIT <sup>1/</sup>  
OTHER SECURITIES

(Dollar changes in billions; annual rates in per cent)

		Changes					
		Old Seasonally adjusted series	Due to:		New Seasonally adjusted series	Annual Rates	
			Bench- mark	Seasonal factor		Old	New
1973:	January	+0.2	+0.3	-0.1	+0.4	2.1	4.1
	February	+0.1	+0.3	+0.1	+0.5	1.0	5.1
	March	--	+0.3	-0.5	-0.2	--	-2.0
	April	-0.6	+0.3	+0.4	+0.1	-6.1	1.0
	May	+2.1	+0.3	-0.6	+1.8	21.6	18.4
	June	-0.7	+0.8	+0.7	+0.8	-7.1	8.0
	July	+1.5	-0.5	+0.2	+1.2	15.3	12.0
	August	+1.1	+0.1	+0.5	+1.7	11.0	16.8
	Sept.	+1.1	--	-0.3	+0.8	10.9	7.8
	1st Half	+1.1	+2.3	--	+3.4	1.9	5.8
	1st Qtr.	+0.3	+0.9	-0.5	+0.7	1.0	2.4
	2nd Qtr.	+0.8	+1.4	+0.5	+2.7	2.7	9.2
	3rd Qtr.	+3.7	-0.4	+0.4	+3.7	12.5	12.3

<sup>1/</sup> Last Wednesday of month series.

TABLE 4

SEASONALLY ADJUSTED BANK CREDIT<sup>1/</sup>  
 TOTAL LOANS <sup>2/</sup>  
 (Dollar change in billions; annual rates in per cent)

	Changes					
	Old Seasonally Adjusted Series	Due to:		New Seasonally Adjusted Series	Annual Rates	
		Bench- mark	Seasonal Factor		Old	New
1973: January	+ 7.4	+0.2	+0.4	+ 8.0	23.3	25.2
February	+11.1	+0.4	+0.4	+11.9	34.3	36.8
March	+ 8.8	+0.5	-0.6	+ 8.7	26.1	26.1
April	+ 3.5	+0.4	+1.8	+ 5.7	10.6	16.7
May	+ 8.2	+0.4	-2.3	+ 6.3	23.9	18.2
June	+ 1.5	-0.4	+1.7	+ 2.8	4.3	8.0
July	+ 6.0	+1.3	+0.2	+ 7.5	17.1	21.2
August	+11.2	+0.1	-2.6	+ 8.7	31.5	24.2
September	+ 2.5	--	+0.3	+ 2.8	6.8	7.6
1st Half	+40.5	+1.5	+1.4	+43.4	21.3	22.8
1st Qtr.	+27.3	+1.1	+0.6	+28.6	28.6	30.1
2nd Qtr.	+13.2	+0.4	+1.2	+14.8	13.0	14.5
3rd Qtr.	+19.7	+1.4	-2.1	+19.0	18.7	17.9

<sup>1/</sup> Last Wednesday of month series.

<sup>2/</sup> Includes outstanding amount of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries and foreign branches.

TABLE 5

SEASONALLY ADJUSTED BANK CREDIT<sup>1/</sup>  
BUSINESS LOANS <sup>2/</sup>

(Dollar changes in billions; annual rates in per cent)

	Changes					
	Old Seasonally Adjusted Series	Due to:		New Seasonally Adjusted Series	Annual Rates	
		Bench- mark	Seasonal factor		Old	New
1973: January	+ 3.9	--	-0.3	+ 3.6	35.7	32.9
February	+ 5.3	--	-0.1	+ 5.2	47.1	46.2
March	+ 3.6	--	--	+ 3.6	30.8	30.8
April	+ 2.6	-0.1	-0.1	+ 2.4	21.7	20.0
May	+ 3.0	-0.2	--	+ 2.8	24.6	23.0
June	+ 1.7	-1.2	+0.9	+ 1.4	13.7	11.3
July	+ 2.5	+1.1	--	+ 3.6	19.9	28.7
August	+ 4.2	--	-1.7	+ 2.5	32.8	19.5
September	+0.3	--	+0.1	+ 0.4	2.3	3.1
1st Half	+20.1	-1.5	+0.4	+19.0	30.7	28.9
1st Qtr.	+12.8	--	-0.4	+12.4	39.1	37.7
2nd Qtr.	+ 7.3	-1.5	+0.8	+ 6.6	20.3	18.4
3rd Qtr.	+ 7.0	+1.1	-1.6	+ 6.5	18.5	17.3

<sup>1/</sup> Last Wednesday of month series.

<sup>2/</sup> Includes outstanding amount of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries and foreign branches.

TABLE 6

SEASONALLY ADJUSTED BANK CREDIT <sup>1/</sup>  
REAL ESTATE LOANS

	Changes					
	Old Seasonally Adjusted Series	Due to:		New Seasonally Adjusted Series	Annual Rates	
		Bench- mark	Seasonal Factor		Old	New
1973--January	+1.3	+0.3	--	+1.6	15.9	19.6
February	+1.3	+0.4	--	+1.6	15.7	19.3
March	+1.3	+0.4	+0.1	+1.8	15.5	21.3
April	+1.1	+0.4	--	+1.5	12.9	17.5
May	+1.5	+0.4	--	+1.9	17.5	21.8
June	+1.4	+0.4	--	+1.8	16.1	20.3
July	+1.1	+0.2	+0.1	+1.4	12.5	15.5
August	+1.6	+0.2	-0.1	+1.7	17.9	18.6
September	+1.4	--	+0.1	+1.5	15.5	16.2
1st Half	+7.9	+2.3	--	+10.2	16.1	20.8
1st Qtr.	+3.9	+1.1	--	+5.0	15.9	20.4
2nd Qtr.	+4.0	+1.2	--	+5.2	15.7	20.2
3rd Qtr.	+4.1	+0.4	+0.1	+4.6	15.5	17.0

<sup>1/</sup> Last Wednesday of month series.