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Part 2

October 15, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the Federal Open Market Committee

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

CONFIDENTIAL (FR)

October 15, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

October 15, 1975

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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 Months Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Sept.	10-3-75	93.2	.6	3.7	1.6
Unemployment rate (per cent)	Sept.	10-3-75	8.3	8.4 ^{1/}	8.6 ^{1/}	5.8 ^{1/}
Insured unemployment rate (%)	Sept.	10-3-75	5.8	5.8 ^{1/}	6.9 ^{1/}	3.5 ^{1/}
Nonfarm employment, payroll (mil.)	Sept.	10-3-75	77.2	2.8	4.5	-2.1
Manufacturing	Sept.	10-3-75	18.4	12.0	7.3	-8.3
Nonmanufacturing	Sept.	10-3-75	58.8	.0	3.7	.1
Private nonfarm:						
Average weekly hours (hours)	Sept.	10-3-75	36.0	36.2 ^{1/}	36.0 ^{1/}	36.5 ^{1/}
Hourly earnings (\$)	Sept.	10-3-75	4.58	5.3	6.2	6.3
Manufacturing:						
Average weekly hours (hours)	Sept.	10-3-75	39.7	39.6 ^{1/}	39.3 ^{1/}	39.9 ^{1/}
Unit labor cost (1967=100)	Aug.	9-30-75	151.9	8.8	8.9	12.9
Consumer prices (1967=100)	Aug.	9-19-75	162.6	2.0	8.4	8.6
Food	Aug.	9-19-75	177.4	.2	13.0	9.4
Commodities except food	Aug.	9-19-75	150.7	6.4	7.8	8.2
Services ^{2/}	Aug.	9-19-75	167.4	5.8	7.1	8.6
Wholesale prices (1967=100)	Sept.	10-2-75	177.2	7.6	10.7	6.3
Industrial commodities	Sept.	10-2-75	173.0	8.5	7.1	6.3
Farm products & foods & feeds	Sept.	10-2-75	190.6	27.0	24.5	6.3
Personal income (\$ billion) ^{3/}	Aug.	9-17-75	1256.9	17.4	14.0	7.7
				(Not at Annual Rates)		
Mfrs. new orders dur. goods (\$ bil.)	Aug.	10-1-75	42.5	2.1	7.9	-13.5
Capital goods industries	Aug.	10-1-75	12.5	-.7	4.2	-17.1
Nondefense	Aug.	10-1-75	10.4	-3.1	.9	-12.0
Defense	Aug.	10-1-75	2.1	13.8	24.7	-35.9
Inventories to sales ratio:						
Manufacturing and trade, total	July	10-9-75	1.56	1.60 ^{1/}	1.65 ^{1/}	1.48 ^{1/}
Manufacturing	Aug.	10-1-75	1.72	1.78 ^{1/}	1.88 ^{1/}	1.63 ^{1/}
Trade	July	10-9-75	1.35	1.37 ^{1/}	1.43 ^{1/}	1.32 ^{1/}
Ratio: Mfrs.' durable goods inventories to unfilled orders	Aug.	10-1-75	.827	.836 ^{1/}	.846 ^{1/}	.678 ^{1/}
Retail sales, total (\$ bil.)	Sept.	10-10-75	50.0	.4	2.5	8.3
GAF	Sept.	10-10-75	12.6	-.3	1.6	5.7
Auto sales, total (mil. units) ^{3/}	Sept.	10-14-75	9.2	-1.0	5.3	-8.0
Domestic models	Sept.	10-14-75	7.4	-1.6	5.1	-9.2
Foreign models	Sept.	10-14-75	1.7	1.5	6.1	-2.4
Housing starts, private (thous.) ^{3/}	Aug.	9-17-75	1,260	1.7	11.5	9.0
Leading indicators (1967=100)	Aug.	9-30-75	101.7	.0	5.8	-6.5

^{1/} Actual data. ^{2/} Not seasonally adjusted. ^{3/} At annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Incoming data evidence continued a sharp rebound in activity as firms attempted to slow or reverse their liquidation of inventories. Industrial production, employment and hours have shown substantial further gains in September from their second-quarter lows. At the same time, however, there has been a pause in the rise of consumer spending since July. There have also been some tentative indications adversely affecting the outlook for capital outlays and State and local spending.

Industrial production is estimated to have risen by close to 2 per cent in September following an upward revised 1-1/2 per cent increase in August. Advances last month were widespread among final products. Most notably, the production of business equipment rose for the second month in a row, following a 10-month decline. Auto assemblies increased 2-1/2 per cent in September after allowance for the model changeover and were at a 7.6 million unit annual rate, the same as scheduled for October. Sales of new domestic autos were at an annual rate of 7.4 million units and new car inventories increased further in September.

Output of durable materials continued to increase in September, bolstered by an increase in raw steel production apparently in anticipation of the October 1 price hikes. In the last three weeks, however, raw steel output was curtailed. Producing-mill inventories are now somewhat replenished and users' stocks still relatively high. Output of other industrial materials, both durable and nondurable, is also estimated to have risen further in September. Capacity utilization of major materials

producers increased to nearly 80 per cent in September-- well above its March low of 63 per cent, reflecting mainly the recovery in nondurable goods industries.

Growth in output of the industrial sector gave rise to most of last month's improvement in the labor market. Nonfarm payroll employment as measured by the establishment survey increased by 130,000 in September and is now nearly 900,000 above its June low. The September increase in jobs was almost wholly in manufacturing where gains were widespread by industry. The factory workweek also continued its upward movement--edging up .1 hour last month to a level nearly an hour above its March low.

The unemployment rate in September was 8.3 per cent--down one-tenth from August and six-tenths below its second-quarter average. Both adult female and teenage joblessness fell last month while adult male rates rose. By industry, unemployment increased among workers in government--perhaps reflecting the fiscal difficulties of State and local governments--and in finance and services.

The rapid increase in production and employment in the third quarter occurred in part because of the completion of inventory liquidation in many industries, especially in nondurable manufacturing and trade. However, the stocks of durable goods producers remained high relative to shipments and were reduced further in August. The book value of total manufacturers' inventories decreased at a \$10.2 billion annual rate in August--about the same as in July but less than the \$12.5 billion

second quarter rate of decrease. The August liquidation continued to be concentrated in the metals and machinery industries. Nondurable manufacturing stocks, on the other hand, rose in August at a \$3 billion annual rate, following six months of decline. At the end of August, the inventory-sales ratio of nondurable goods manufacturers was at a postwar low. Wholesale trade inventories rose sharply in August--up at a \$12.8 billion annual rate compared to a \$2.4 billion rate decline in July. While this accumulation was widespread by product, most of the rise was in nondurable goods which increased at a \$10.2 billion annual rate.

Business fixed investment presents a mixed picture with few signs as yet of a substantial recovery. New orders for nondefense capital goods fell 3.1 per cent in August, reflecting considerable weakness in nonelectrical machinery, but the August volume was 9 per cent above the March low. Unfilled orders for nondefense capital goods continued to be worked down, a decline that began about a year ago. Orders for all durable goods rose by 2.1 per cent in August--the fifth consecutive monthly gain in this series. Excluding iron and steel, where there likely was some advance ordering to avoid scheduled price increases, the rise was less than 1 per cent.

Contracts for commercial and industrial buildings (measured in square feet) declined 13 per cent in August, following two months of increase. The manufacturing sector continued to be a source of weakness with a decline more than twice as large as the decrease in the commercial sector. The July-August average for total contracts was over 5 per cent below the second quarter figure.

A September Lionel D. Edie survey of business plant and equipment spending plans (confidential) reported 5 per cent increase in total capital expenditures for 1976. Excluding electric utilities--where an indicated 15 per cent increase in spending was considered unrepresentative of that industry--the projected rise was only 3 per cent. Within manufacturing, the major source of strength continued to be among the producers of nondurable goods. The track record of the Edie survey has been quite good in recent years, but it has on average underpredicted expenditure growth by about 6 percentage points in periods of cyclical recovery.

Private housing starts rose slightly further in August to a seasonally adjusted annual rate of 1.26 million units--2 per cent above the improved July rate. The rise was concentrated in single-family dwellings while starts of multi-family units declined. Starts in August were a fourth above their first-quarter low. Earlier large gains in mortgage loan commitments suggest a continued rise in housing starts during the current quarter, but there have been reports of some tightening in mortgage market conditions in September which may adversely affect the outlook for activity next year.

Retail sales in September were only slightly higher than in August, according to the advance estimate, as weakness in sales of food, apparel and general merchandise almost offset gains at furniture and appliance stores and gasoline stations. Unit sales of new domestic autos leveled off since July at about a 7-1/2 million unit annual rate.

In early October, sales were at a 7.7 million unit rate. The slower growth in retail sales recently follows a rapid rise from last spring through July, and retail sales in the third quarter were sharply higher than in the second quarter. Led by the automotive group, sales of durable goods rose 6-1/4 per cent. Outlays for nondurables also increased substantially, up over 3 per cent. Higher prices contributed to the unusually large increases in sales at food stores and gasoline stations in the third quarter.

Growth of State and local government expenditures appears to be decelerating from the high rates of recent years. The problems of New York City--reflected in the increased cost of and limited access to financing--appear to have generated a heightened caution about incurring spending commitments. But there were signs of difficulty even before the present crisis developed. For example, State and local budgets (including capital outlays but excluding net revenues in social insurance funds) swung from a surplus of \$1.3 billion annual rate in the second quarter of 1973 to a deficit of \$11.2 billion annual rate in the first two quarters of 1975. In this setting, total purchases of goods and services rose at a 9.3 per cent annual rate in the second quarter, down from the average 11.6 per cent increase over the last five years. Another indicator--outlays for structures--declined at an annual rate of 1.9 per cent from the third quarter of 1974 to the second quarter of 1975.

Recent telephone interviews with representatives of State and local governments indicate that, on the whole, a slower growth of State and local purchases is a real possibility for the near future. Higher interest costs are reported to exert dampening effects in older industrial States. Other reports, however, like those from localities in Texas indicate no effects on capital spending plans.

The movement of wage rates continued its recent saw-tooth pattern of monthly changes as the average hourly earnings index--which adjusts for variations in the industry distribution of employment and manufacturing overtime--rose 4.9 per cent, seasonally adjusted annual rate, in September, following a 7.3 per cent increase in August. When the monthly variations are smoothed out, the index appears to have been rising at a 7 to 7-1/2 per cent annual rate over recent months. Sharp upward movements in manufacturing and mining wages in September were partially offset by more moderate wage increases in trade, services, construction and transportation and public utilities.

Prices continued their volatile behavior, reflecting in large part the upward trend in the cost of fuels and the gyrations in food and farm products. In September, the wholesale price index, seasonally adjusted, rose at an annual rate of 7.6 per cent. Prices of farm and food products rose 2.3 per cent, (not at an annual rate), following their August decline. Increases for livestock, meats, milk

and fresh vegetables were most significant in the overall increase. Since the WPI September pricing date, prices for hogs have risen further while cattle prices have leveled off. The futures market suggests receding prices, particularly for cattle, in the coming months. Industrial commodity prices at wholesale, seasonally adjusted, increased at an annual rate of 8.5 per cent in September, well above the increases of last spring. Rising prices for fuels and power, machinery and metals were most important in this grouping, although the sharp rise in steel scrap has since been partially reversed.

The consumer price index, seasonally adjusted, rose at a 2.0 per cent annual rate in August, considerably less than the increases in the preceding two months. Food prices were unchanged while prices of other commodities and of services each rose at an annual rate of about 6 per cent, slightly less than the average monthly increase in these two groupings since the beginning of the year.

The staff is now projecting a unified budget deficit of approximately \$68 billion for FY 1976, about \$1 billion above the estimate contained in the last Greenbook. Federal tax receipts are now estimated at \$302 billion for the current fiscal year, some \$2 billion above last month's forecast. The higher receipts estimate primarily reflects a projected increase in corporate tax revenues, revised on the strength of September collections. At the same time,

however, the staff is now assuming that an extension of the 1975 tax cuts will be accompanied by lower withholding tax rates than previously assumed. Withholding rates had been assumed to increase somewhat at the beginning of 1976 due to the compression of the recent tax cuts into the last eight months of CY 1975. In the current Greenbook, these rates are maintained at 1975 levels, thereby reducing taxes on personal income by about \$4 billion.

In view of the continuing strength of Federal spending, the staff is now projecting unified budget outlays to total \$370 billion in FY 1976. This represents an upward revision of about \$3 billion over the forecast contained in the September Greenbook. The increase is almost entirely accounted for by non-discretionary programs, such as veterans benefits, extended unemployment compensation, and interest payments. These spending increases were partially offset by the recent Congressional decision to hold Federal pay raises to 5 per cent.

The projected high-employment budget shows a decline in fiscal stimulus from a deficit of about \$14 billion annual rate in the first half of CY 1975 to a \$6 billion deficit in the second half of the year, and it continues at that level in the first half of CY 1976. The President's recent program is not incorporated into our assumptions. Details of this program are discussed in the Appendix at the end of this Greenbook.

AUTO SALES
(Seasonally adjusted annual rates, in millions of units)

	TOTAL	Domestic			IMPORTS
		TOTAL	LARGE	SMALL	
1974 QI	9.0	7.5	4.8	2.7	1.6
QII	9.2	7.9	5.4	2.5	1.3
QIII	10.1	8.5	5.5	3.0	1.6
QIV	7.4	6.1	3.9	2.2	1.3
Oct.	8.0	6.4	3.9	2.5	1.6
Nov.	7.0	5.7	3.7	2.0	1.3
Dec.	7.2	6.1	4.0	2.1	1.1
1975 QI	8.3	6.6	3.6	3.0	1.7
QII	7.9	6.3	4.1	2.2	1.6
QIII	9.2	7.5	4.5	2.9	1.7
Jan.	8.1	6.6	3.7	2.9	1.5
Feb.	9.2	7.2	3.6	3.6	2.0
Mar.	7.7	6.0	3.6	2.4	1.6
Apr.	7.3	5.7	3.8	1.9	1.6
May	7.7	6.2	4.1	2.1	1.5
June	8.7	7.1	4.5	2.6	1.6
July	9.2	7.6	4.6	3.0	1.7
Aug.	9.2	7.5	4.5	3.0	1.7
Sept.	9.2e	7.4	4.5	2.8	1.7e

NONFARM PAYROLL EMPLOYMENT
(in thousands, seasonally adjusted)

	Employment (Sept. 1975)	Average Monthly Change		
		Sept. 1974- Sept. 1975	Mar. 1975- Sept. 1975	Aug. 1975- Sept. 1975
Total nonfarm	77,211	-135	+124	+182
Goods-producing	22,579	-178	+ 26	+178
Construction	3,401	- 42	- 11	- 3
Manufacturing	18,429	-140	+ 34	+183
Service-producing	54,632	+ 43	+ 98	+ 4
Trade	17,026	- 10	+ 29	+ 10
Services	14,085	+ 27	+ 37	+ 41
State & local government	12,076	+ 44	+ 32	- 57

SELECTED UNEMPLOYMENT RATES
(Seasonally Adjusted)

	1974	1975		
	Sept.	March	August	Sept.
Total	5.8	8.7	8.4	8.3
Men 20 years and over	3.9	6.8	6.6	7.0
Women 20 years and over	5.7	8.5	7.7	7.5
Teenagers	16.7	20.6	21.1	19.3
Household heads	3.4	5.8	5.5	5.7
White	5.3	8.0	7.6	7.6
Negro and other races	9.9	14.2	14.0	14.3
State insured*	3.5	6.4	5.8	5.8
Industry				
Construction	12.0	18.1	19.9	19.2
Manufacturing	6.0	11.4	10.5	10.6
Durable goods	5.3	11.3	11.3	11.3
Nondurable goods	6.9	11.6	9.5	9.4
Transportation and public utilities	3.3	5.6	5.7	5.8
Wholesale and Retail trade	6.6	8.7	8.9	8.7
Finance and service industries	4.8	6.7	6.1	6.3
Government workers	3.0	3.9	4.0	4.2

*per cent of covered workers

BUSINESS INVENTORIES
(Change at annual rates in seasonally
adjusted book values, \$ billions)

	1974	1975			
	QIV	QI	QII	July	August
Manufacturing and trade	52.9	-11.4	-18.1	-6.8	n.a.
Manufacturing	29.7	3.2	-12.5	-10.4	-10.2
Durable	19.1	7.6	-4.3	-7.3	-13.2
Nondurable	10.6	-4.5	-8.2	-3.2	3.0
Trade, total	23.2	-14.5	-5.6	4.9	n.a.
Wholesale	8.3	-4.1	-2.7	-2.4	12.8
Retail	14.9	-10.4	-2.9	7.3	n.a.
Auto	11.8	-8.5	-1.8	3.0	n.a.

INVENTORY RATIOS

	1974		1975	
	July	August	July	August
<u>Inventory to sales:</u>				
Manufacturing and trade	1.48	1.48	1.56	n.a.
Manufacturing total	1.63	1.63	1.78	1.72
Durable	2.04	2.04	2.38	2.29
Nondurable	1.19	1.19	1.18	1.15
Trade, total	1.32	1.32	1.35	n.a.
Wholesale	1.12	1.13	1.22	1.23
Retail	1.49	1.49	1.44	n.a.
<u>Inventories to unfilled orders:</u>				
Durable manufacturing	.689	.678	.838	.827

Manufacturers' New Orders
Durable Goods Industries

(Per cent change from prior month)

	Total Durable Goods	Nondefense Capital Goods
1974: Aug.	3.7	-7.8
Sept.	-6.0	.2
Oct.	-3.9	-3.8
Nov.	-3.8	-6.7
Dec.	-10.8	-1.5
1975: Jan.	-5.0	-3.7
Feb.	3.3	-1.1
Mar.	-3.7	-4.5
Apr.	8.4	8.3
May	1.1	-.1
June	.8	-1.6
July	4.9	5.8
Aug. (p)	2.1	-3.1

1976 Lionel D. Edie Survey
 Plant and Equipment Spending
 (Percentage change from prior year)

	1975 ^{1/}	1976 ^{2/}
All industry	1.0	5
Excluding Utilities	1.8	3
Manufacturing	5.3	1
Durables	-1.8	-3
Nondurables	12.1	7
Nonmanufacturing ^{3/}	-2.0	7
Railroads	.9	-12
Other transportation	11.2	-34
Electric Utilities	-3.3	15
Gas Utilities	9.9	n.a.
Communications	-4.9	n.a.
Commercial & Other	-6.5	-5

^{1/} Results of BEA plant and equipment survey taken in late July and August

^{2/} Taken in September

^{3/} Includes industries not shown separately

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

	1974	1975				Per cent change in	
	QIV	QI	QII	July(r)	Aug.(p)	Aug. from: Month ago	Year ago
Permits	.81	.69	.90	1.04	.99	- 5	+ 6
Starts	1.00	1.00	1.07	1.24	1.26	+ 2	+ 9
1-family	.76	.75	.84	.93	.98	+ 5	+18
2- or more-family	.24	.25	.22	.31	.28	- 8	-14
Under construction ^{1/}	1.23	1.11	1.05	1.05	n.a.	-- ^{2/}	-28 ^{2/}
Completions	1.63	1.39	1.21	1.21	n.a.	+ 5 ^{2/}	-27 ^{2/}
MEMO:							
Mobile home shipments	.21	.20	.21	.23	.24	+ 4	-26

^{1/} Seasonally adjusted, end of period.

^{2/} Per cent changes based on July.

Retail Sales
(Per cent change from previous period, seasonally adjusted)

	IV-I	I-II	II-III	July	August	Sept.
Total	2.7	3.5	4.1	1.8	.3	.4
Durable	5.3	4.5	6.2	1.8	.0	2.2
Automotive	7.2	5.6	8.1	2.3	-.4	2.2
Furniture & appliances	-.7	4.9	2.2	.1	1.1	1.0
Nondurable	1.6	3.1	3.1	1.8	.5	-.4
Apparel	5.0	3.3	2.9	.4	3.6	-1.9
Food	2.9	1.2	2.6	2.3	-1.7	-1.0
Gen. merchandise	.3	5.5	2.1	-1.1	2.6	-.2
Gasoline stations	1.2	2.7	7.8	4.8	2.1	.5
GAP	1.0	5.0	2.3	-.6	2.5	-.3
Total less autos & mainly nonconsumer items	1.6	3.1	3.2	1.7	.5	-.2
Real*	.9	2.2	n.a.	-1.2	.2	n.a.

*Deflated by BEA unpublished index

HOURLY EARNINGS INDEX*
(Seasonally adjusted; per cent change, annual rates)

	Sept. 1974- Sept. 1975	Mar. 1975- Sept. 1975	Aug. 1975- Sept. 1975
Total private nonfarm	7.9	7.0	4.9
Manufacturing	9.3	8.2	8.2
Construction	5.6	3.5	-3.9
Trade	6.9	6.0	.7
Services	7.1	5.5	4.9

* Excludes the effects of fluctuations in overtime premium in manufacturing and shifts of workers between industries.

PRICE BEHAVIOR

(Per cent changes at annual rates; based on seasonally adjusted indexes)

	Relative impor- tance Dec. 1974	Dec. 1973 to Dec. 1974	Dec. 1974 to Mar. 1975	Mar. to June 1975	June to Sept. 1975	Aug. to Sept. 1975 ^{1/}
Wholesale Prices						
All commodities	100.0	20.9	-6.3	7.2	11.1	7.6
Farm and food products	29.1	11.0	-27.6	17.0	26.8	27.0
Industrial commodities	70.9	25.6	4.2	2.6	7.3	8.5
Materials, crude and intermediate ^{2/}	46.0	28.0	1.4	1.6	7.8	11.3
Finished goods						
Consumer nonfoods	17.5	20.5	3.8	4.1	10.7	11.7
Producer goods	8.6	22.6	11.8	5.1	5.8	8.8
Memo:						
Consumer foods	13.4	13.0	-12.9	23.7	15.0	19.6
Consumer Prices						
					June to July	July to Aug.
All items	100.0	12.2	6.0	7.1	13.8	2.0
Food	24.8	12.2	-0.2	10.0	20.6	0.0
Commodities (nonfood)	39.0	13.2	7.4	5.9	11.3	6.4
Services	36.2	11.3	8.0	6.3	6.5	5.8
Memo:						
All items less food and energy ^{3/4/}	68.3	11.3	9.4	4.2	8.5	3.9
Petroleum products ^{3/}	4.4	22.8	-0.5	19.4	39.3	10.3
Gas and electricity	2.5	19.6	17.7	17.5	10.6	7.0

^{1/} Not compounded for one-month changes.

^{2/} FR estimate.

^{3/} Confidential -- not for publication.

^{4/} Energy items excluded: gasoline and motor oil, fuel oil and coal, and gas and electricity.

FEDERAL BUDGET
(In billions of dollars)

	Fiscal Year 1975*	Fiscal Year 1976 e/					Calendar Years		F.R.B. Staff Estimates					
		Admin. Est. 1/	Cong. 2/ Est.	F.R. Board	1974 Actual	1975 F.R.B. e/	Calendar Quarters							
							1975				1976			
							I*	II*	III	IV	I	II		
Unadjusted Data														
Federal Budget--Unified														
Surplus/deficit	-43.6	-59.9	-68.8	-68.4	-10.9	-71.8	-18.0	-12.0	-18.9	-22.9	-25.1	-1.6		
Receipts	281.0	299.0	298.2	301.6	280.5	282.4	65.1	76.1	73.1	68.1	66.6	93.8		
Outlays	324.6	358.9	367.0	370.0	291.4	354.1	83.1	88.1	91.9	91.0	91.7	95.4		
Means of financing:														
Net borrowing from the public	50.9	74.0	n.a.	75.6	11.8	82.1	19.4	16.6	23.1	23.0	24.7	4.9		
Decrease in cash operating balance	1.6	n.a. 4/	n.a.	1.6	4.5	-1.3	-.7	-1.0	-2.9	3.3	1.2	--		
Off-budget deficit 3/	-9.5	-14.2 4/	n.a.	-10.4	-3.6	-12.1	-5.3	-2.5	-1.1	-3.2	-3.0	-3.1		
Other 5/	.6	n.a.	n.a.	1.6	-1.7	3.1	4.6	-1.1	-.2	-.2	2.2	-.2		
Cash operating balance, end of period	7.6	n.a.	n.a.	6.0	5.9	7.2	6.6	7.6	10.5	7.2	6.0	6.0		
Memo: Sponsored agency borrowing 6/	10.8	n.a.	n.a.	n.e.	16.6	3.4	.1	-.2	.8	2.7	3.3	n.e.		
NIA Budget							Seasonally adjusted, annual rates							
Surplus/deficit	-47.2 2/	n.a.	n.a.	-65.2 7/	-8.1	-72.6	-54.4	-103.3	-67.5	-65.1	-62.6	-62.0		
Receipts	282.7 7/	n.a. 4/	n.a.	313.2 7/	291.1	284.8	284.1	251.8	294.2	308.9	322.4	331.0		
Expenditures	330.0 2/	371.4 4/	n.a.	378.4	299.1	357.3	338.5	355.0	361.7	374.0	385.0	393.0		
High employment surplus/deficit (NIA basis) 8/9/	4.3	n.a.	n.a.	-13.5	19.1	-12.0	11.0	-36.2	-10.7	-12.1	-14.8	-16.5		

* Actual

e--Projected

n.e.--Not estimated

n.a.--Not available

p--Preliminary

1/ Mid Session Review of the 1976 Budget, May 30, 1975.

2/ Concurrent Budget Resolution, May 14, 1975

3/ Deficit of off-budget Federal agencies, i.e., Federal Financing Bank, Postal Service, Export-Import Bank, Rural Electrification and Telephone revolving fund, Housing for the Elderly or Handicapped Fund, and Pension Benefit Guaranty Corporation.

4/ Unpublished, confidential O.M.B. estimate consistent with Mid-Session Review.

5/ Checks issued less checks paid, accrued items, and other transactions.

6/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

7/ Quarterly average exceeds fiscal year total by \$.6 billion for fiscal 1975 and \$.9 billion for fiscal 1976 due to spreading of wage base effect over calendar year.

8/ Estimated by F.R. Board staff.

9/ The high-employment budget estimates now fully incorporate taxes on inventory profits beginning 1973.

11-16

DOMESTIC FINANCIAL SITUATION

III-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	September	34.7	4.1	-2.1	-1.4	
Reserves available (RPD's)	September	32.8	.8	-2.5	-1.5	
Money supply						
M1	September	294.6	1.6	2.2	5.0	
M2	September	656.2	4.6	6.3	8.8	
M3	September	1070.8	7.4	9.8	11.0	
Time and savings deposits						
(Less CDs)	September	361.6	7.3	9.6	12.1	
CDs (dollar change in billions)	September	79.1	1.1	-5.0	-5.7	
Savings flows (S&Ls + MSBs & Credit Unions)	September	414.5	11.7	15.3	14.6	
Bank credit (end of month)	September	711.9	2.2	4.8	2.6	
<u>Market yields and stock prices</u>			<u>Percentage or index points</u>			
Federal funds	wk. endg.	10/8/75	6.06	-.09	.00	-4.37
Treasury bill (90 day)	"	10/8/75	6.32	-.07	.26	-.55
Commercial paper (90-119 day)	"	10/8/75	6.83	.08	.55	-3.30
New utility issue Aaa	"	10/10/75	9.60	-.04	.22	--
Municipal bonds (Bond Buyer)	1 day	10/9/75	7.48	.08	.50	.96
FNMA auction yield (FHA/VA)		10/6/75	9.95	.25	.85	-.37
Dividends/price ratio (Common stocks)	wk. endg.	10/8/75	4.22	-.20	.30	-1.27
NYSE index (12/31/65=50)	end of day	10/14/75	47.28	3.27	3.71	8.58
<u>Credit demands</u>			<u>Net change or gross offerings</u>			
			<u>Current month</u>		<u>Year to date</u>	
			1975	1974	1975	1974
Business loans at commercial banks	September		-1.2	.3	-7.9	25.9
Consumer instalment credit outstanding	August		.5	1.5	.7	13.7
Mortgage debt outst. (major holders)	July		3.9	3.6	22.0	29.7
Corporate bonds (public offerings)	September		1.4e	9.0	27.0e	16.7
Municipal long-term bonds (gross offerings)	September		2.1e	1.7	23.5e	17.4
Federally sponsored Agcy. (net borrowing)	September		.1e	3.1	.7e	13.2
U.S. Treasury (net cash borrowing)	October		11.8e	.7	70.9e	2.2
Total of above credits			18.6	19.9	136.9	118.2

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Rallies occurred in all sectors of the money and bond markets during the first half of October. Private short-term rates and long-term corporate bond yields are now moderately below levels prevailing at the time of the September FOMC meeting. Yields on short- and long-term U.S. Government securities have declined more substantially. Municipal bond yields, which reached new highs early in October, have since eased off to around the levels of mid-September. Mortgage yields, on the other hand, have continued to rise, particularly in the secondary market.

M_1 increased only slightly in September, and growth in consumer-type time and savings deposits at banks and nonbank thrift institutions slowed somewhat further. Bank loans to businesses dropped off again in September as business demands for external financing remained weak, in reflection of high corporate liquidity, inventory liquidation, and slow growth in capital outlays. Household demands for home mortgage and consumer credit have been relatively strong, but S&L's apparently have become more cautious in making mortgage commitments recently due to the slowing of deposit flows and concern over further competition for funds from Treasury issues.

Short-term securities markets. Treasury bill rates, which showed little net change during the latter half of September, have dropped 50 to 75 basis points since then. The decline began when incoming data revealed little growth in the monetary aggregates

SELECTED FINANCIAL MARKET QUOTATIONS
(One day quotes--in per cent)

	Oct. '74 FOMC Oct. 15	July FOMC July 15	Aug. FOMC Aug. 19	Sept. FOMC Sept. 16	Sept. 30	Oct. 7	Oct. 14
<u>Short-term</u>							
Federal funds ^{1/}	10.11	5.93	6.15	6.28	6.36	6.06	5.80p ^{4/}
Treasury bills							
3-month	7.74	6.05	6.47	6.54	6.58	6.33	6.09
6-month	7.92	6.38	7.00	7.04	7.02	6.63	6.30
1-year	7.70	6.49	7.22	7.38	7.28	6.86	6.56
Commercial paper							
1-month	9.75	6.13	6.38	6.63	6.63	6.63	6.25
3-month	9.50	6.25	6.63	6.88	6.88	6.75	6.50
Large neg. CD's ^{2/}							
3-months	9.63	6.45	6.85	7.05	6.88	6.88	6.40
6-months	9.50	7.00	7.70	7.85	8.00	7.65	7.13
Federal agencies							
1-year	8.57	7.24	7.99	7.99	7.94	7.56	7.44p
Bank prime rate	11.75	7.00	7.75	8.00	8.00	8.00	8.00
<u>Long-term</u>							
Corporate							
New AAA ^{1/}							
Recently offered ^{3/}	10.61	9.38	9.43	9.64	9.70	9.72	9.60p
	10.36	9.45	9.49	9.50	9.70	9.70	9.56p
Municipal							
(Bond Buyer) ^{3/}	6.52	6.98	7.17	7.40	7.54	7.67	7.48
U.S. Treasury							
(20-year constant maturity)	8.31	8.10	8.53	8.71	8.61	8.48	8.36
<u>Stock prices</u>							
Dow-Jones	658.40	881.81*	808.51	795.13	793.88	816.51	835.25
N.Y.S.E.	37.67	51.24*	45.23	43.59	44.49	45.92	47.28

^{1/} Weekly average.

^{2/} Highest quoted new issues.

^{3/} One day quotes for preceeding Thursday.

^{4/} Average for first 6 days of statement week ending October 15.

* High for the year.

during September and gained momentum after the market noted a shift to a more accommodative monetary policy stance--evidenced by a decline in the funds rate to less than 6 per cent.

Private short-term market rates responded less rapidly to the reduction in the funds rate, but fell 25 to 35 basis points after the first week in October. Although commercial paper rates have continued low relative to the bank prime rate (the spread is currently about 140 basis points), preliminary data indicate that outstanding commercial paper of nonfinancial corporations declined in September on a seasonally adjusted basis. Total commercial paper outstanding fell appreciably as net issues by financial corporations--primarily finance company subsidiaries of auto companies--also declined.

Long-term securities markets. Recent declines in Federal funds and Treasury bill rates have contributed to a general strengthening of the market for longer-term Government securities, where yields have fallen by 25 to 45 basis points from the near-record levels prevailing at the time of the September FOMC meeting. In its early stages this rally was bolstered by Desk purchases of coupon issues totaling \$367 million. In addition, Treasury auctions of two new notes carrying yields in excess of 8 per cent attracted non-competitive tenders totaling \$2.5 billion--roughly half of the total sold to the public. This raised market expectations that the prospective flow of new Treasury issues in coming months could be readily absorbed. The huge size of these tenders, moreover, reduced

dealer awards below expectations; although dealer allotments in the most recent auction of Treasury notes totaled \$1.2 billion, rapid progress has been made in distributing these awards.

Corporate bond yields moved upward in the last half of September, approaching the highs reached earlier in the year. Subsequently, however, corporate yields responded to the rate declines in the Federal funds and Treasury markets. Gross issues of publicly-offered corporate bonds remained on the light side in September, totalling only \$1.4 billion. Utilities again accounted for the largest share of this total, with industrial issues amounting to less than \$400 million. Demands for bond financing by industrial firms have declined appreciably in recent months as funds available from internal sources have expanded and capital expenditures have shown little growth.

New stock offerings by corporations rose to \$1.0 billion in September; as in the bond market, utilities accounted for the bulk of this supply. Major stock market price indexes have risen significantly since the September FOMC meeting. Although share prices of major New York City banks declined sharply in late September, in fact in response to the threat of default by New York City, the W.T. Grant bankruptcy, and publicity over possible losses on REIT loans, these prices recovered dramatically in early October along with some easing in the New York City crisis. Currently, prices of major New York City bank stocks are about 3 per cent above their mid-September level.

RECENT TREASURY NOTE AUCTIONS
(Dollar amounts in billions)

Auction date	Maturity (months)	Amount sold to public			Yields	
		Total	Noncompetitive tenders Amount	% of total	Auction average	Current (10/14/75)
Sept. 16	24	\$3.0	\$1.4	47	8.44%	
Sept. 24	29	\$2.0	\$1.1	55	8.10%	
Oct. 7	38	\$2.5	\$0.3	11	8.14%	

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

	1975					
	QII	QIII ^{e/}	Aug. ^{e/}	Sept. ^{e/}	Oct. ^{f/}	Nov. ^{f/}
	<u>Gross offerings</u>					
Corporate securities--Total	5,218	3,350	2,650	3,400	4,000	3,450
Publicly-offered bonds	3,503	1,833	1,400	1,400	2,100	2,000
Utility	900	740	670	810	900	800
Industrial	2,160	587	450	345	1,200	1,200
Other	443	506	280	245		
Privately-placed bonds	521	733	600	1,000	700	700
Stocks	1,194	784	650	1,000	1,200	750
Foreign securities ^{1/}	392	408	0	300	60	150
State and local government securities						
Long-term	2,763	3,154	3,302	2,625	1,900	2,100
Short-term	3,101	1,798	1,336	2,500	2,000	2,000
	<u>Net offerings</u>					
U.S. Treasury ^{2/}	5,536	7,696	7,189	8,100	11,800	4,400
Sponsored Federal agencies	-115	262	70	57	1,245	626

^{e/} Estimated.

^{f/} Forecast.

^{1/} Includes issues of foreign private and official institutions.

^{2/} Total Treasury issues, including Federal Financing Bank.

Developments in the municipal securities market are still dominated by the continuing New York City financial crisis. The Bond Buyer Index (seasoned 20-year bonds) reached an all-time high of 7.67 per cent in the week of October 2, following a court ruling that the legislature could not compel the State Comptroller to make pension fund investments in MAC securities. Since these investments were an essential part of the \$2.3 billion financing package designed to meet the City's cash needs until early December, the prospect of a New York City default once again loomed on the horizon. On October 2, Moody's downgraded N.Y. State bonds from Aa to A1, removed its rating on two categories of State notes, and lowered its rating on City bonds to Ba; Standard and Poor's had already suspended the City's bond rating on April 2. The Bond Buyer Index fell in the week of October 9 to 7.48 per cent, as all components of the index, other than New York State, declined. The improvement in the market resulted primarily from the decision of the State Comptroller to buy State notes, thus preserving at least temporarily the viability of the NYC financing package. On October 13, the state supreme court dismissed a challenge to this decision, but the case still may be appealed to a higher court.

Monetary aggregates. M_1 --which had risen at a seasonally adjusted annual rate of about 3 per cent in August--increased at an annual rate of only 1-1/2 per cent in September, according to staff estimates. The weakness during July and August probably reflected

portfolio adjustments by depositors to the earlier large rise in M_1 stemming from tax rebates and special social security payments. This process may have continued into September, and weakness in M_1 in the latter half of September was apparently also due in part to an unusually heavy corporate reliance on liquid assets--rather than borrowing at banks--to make quarterly tax payments. 1/

Growth of the more broadly defined money stock measures-- M_2 and M_3 --also slackened in September. This was due primarily to the moderation in M_1 growth, but there was also some slowing in the expansion of time and savings deposits other than large CD's at commercial banks, as well as in deposits at nonbank thrift institutions. The slowing in consumer-type deposit flows presumably reflected in part the large volume of noncompetitive tenders in recent Treasury auctions. Recent Treasury note issues carried rates above those paid on thrift accounts and were available in minimum denominations of \$5,000.

Large negotiable CD's outstanding rose appreciably in September--the first increase since last January; but this expansion was concentrated at a few money-center banks and apparently reflected in part a desire to acquire liquid assets for statement-date window dressing and to fall back on in the event some adverse market development were to trigger a temporary run-off of funds. Expectations of rising interest rates also may have been a factor influencing some banks to expand the volume and extend maturities of their outstanding CD's.

1/ Despite the weakness of M_1 in each month of the third quarter, the narrowly defined money stock grew at an annual rate of nearly 7 per cent on a quarterly average basis, reflecting the high level of the money stock in the early part of the third quarter.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1975						Twelve months ending Sept. 1975 ^p
	HI ^{1/}	QII ^{2/}	QIII ^{3/}	July	Aug.	Sept. ^p	
	Per cent at annual rates						
M ₁	4.2	8.6	6.9	2.0	2.9	1.6	5.0
M ₂	8.5	11.2	10.4	8.2	5.9	4.6	8.8
M ₃ ^{2/}	10.9	13.8	13.1	12.2	9.4	7.4	11.0
Adjusted bank credit proxy	4.8	5.2	1.3	-5.2	-5.5	6.9	3.4
Time and savings deposits at commercial banks:							
a. Total	9.1	5.2	4.9	5.5	-4.6	9.1	8.1
b. Other than large CD's	12.3	13.3	13.1	13.3	8.1	7.3	12.1
Deposits at nonbank thrift institutions:							
a. Savings and loan assoc's. ^{3/}	19.2	20.5	15.6	18.6	14.2	13.3	16.5
b. Mutual savings banks ^{3/}	12.9	14.9	9.5	11.0	10.1	7.2	10.3
c. Credit unions	20.6	22.5	17.3	15.7	19.4	-	18.0

Billions of dollars

Memoranda:

a. U.S. Gov't demand deposits	.3	1.0	-0.3	-1.3	0.4	0.1	-3.3
b. Negotiable CD's	-1.0	-1.9	-1.7	-2.0	-4.1	1.1	-5.7
c. Nondeposit sources of funds	-.2	.2	-	-.2	0.2	-	-1.6

^{1/} Except where otherwise defined, growth rates are based on changes in the average amounts outstanding for the whole quarter.

^{2/} M₃ is defined as M₂ plus credit union shares, mutual savings bank deposits, and shares of savings and loan associations.

^{3/} Based on month-end series.

^{4/} Changes in average levels month-to-month or average monthly change for the period, measured from last month in period to last month in period, not annualized.

p - Preliminary

Loan developments. Total loans outstanding at commercial banks declined slightly in September, but total bank credit rose moderately due to acquisitions of Treasury securities. Business loans, which had changed little on balance in recent months, declined sharply on a seasonally adjusted basis.

Given the contraction in both bank loans to business and commercial paper issued by nonfinancial corporations, total short-term business credit outstanding declined by about 14 per cent in September, resulting in a modest decline in the combined total over the third quarter as a whole. With inventory liquidation continuing, business needs for working capital have remained moderate. Consequently, many firms have been able to rely on internal funds and the proceeds of earlier large capital market financings, without further borrowing.

In mid-August, a large number of banks reporting in the Survey of Bank Lending Practices indicated that they expected an upturn in business loan demand in the months ahead. In a more recent informal survey of 150 banks, however, many respondents report that they have reassessed the situation and are now less confident about an increase in business borrowing--although strength is expected in a few areas, particularly retail trade and such energy-related activities as oil and gas production and coal mining. In most Federal Reserve Districts, banks expect that loan demand from small- and intermediate-sized firms will be stronger than from large firms with ready access to capital markets. Several respondents noted that large business customers have little need to borrow because cash flows are high.

COMMERCIAL BANK CREDIT
(Seasonally adjusted changes at annual percentage rates) ^{1/}

	1 9 7 5					
	QI	QII	QIII	July	Aug.	Sept.
Total loans and investments ^{2/}	4.3	2.3	4.8	5.3	6.8	2.2
U.S. Treasury securities	81.1	97.4	26.8	16.4	37.3	25.2
Other securities	-1.4	4.9	4.5	8.5	5.1	--
Total loans ^{2/}	-1.5	-9.5	1.6	2.7	2.7	-7
Business loans ^{2/}	-4.5	-10.9	-1.8	4.0	-1.3	-8.1
Real estate loans	3.7	1.5	.9	.9	--	1.8
Consumer loans	-6.7	-6.8	n.a.	5.9	3.0	n.a.

MEMO:

Business loans plus non-financial commercial paper ^{3/}

-2.6	-13.2	-2.3e	6.9	--r	-13.8e
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- ^{1/} Last Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
- ^{2/} Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, non-consolidated nonbank affiliates of the bank holding companies (if not a bank), and non-consolidated nonbank subsidiaries of holding companies.
- ^{3/} Nonfinancial commercial paper is measured from end-of-month to end-of-month.
- n.a. - Not available.
r - Revised.
e - Estimated.

Savings and loan associations continue to dominate the private mortgage market, as home mortgages remain relatively unattractive to the more diversified investors.^{1/} In August, the volume of new mortgage commitments made by S&L's was the largest since early 1973, and outstanding commitments reached \$17.1 billion--the highest level in two years. Preliminary data suggest that new commitments showed little or no further increase in September, as S&L's became apprehensive about continued slowing in deposit flows. By October 10, S&L's in 3 of the 12 FHLBank Districts were reporting mortgage funds to be in short supply relative to demand.

Average interest rates on new commitments for conventional home mortgages at S&L's have edged up 7 basis points further since mid-September, reaching 9.21 per cent. Average yields in FNMA's auctions of 4-month commitments to purchase home mortgages showed a larger rise over this period, although less than in August and early September. Demands for FNMA's commitments declined markedly in the most recent auctions as conditions in the money and bond markets improved and prices of GNMA-guaranteed mortgage-backed securities became attractive relative to prices paid by FNMA.^{2/}

^{1/} The results of a special survey of residential construction loan commitments at commercial banks, mortgage companies, and S&L's will be summarized in an appendix to the Supplement.

^{2/} These securities, which represent ownership interests in pools of mortgages, have become a major marketing alternative to FNMA for originators of FHA/VA mortgages--primarily mortgage companies. An active dealer market in the securities has developed, and prices tend to move with bond prices generally.

INTEREST RATES AND SUPPLY OF FUNDS FOR
CONVENTIONAL HOME MORTGAGES
AT SELECTED S&L's

End of period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from month or week earlier	Number of Federal Home Loan Bank Districts with funds in short supply
1974--High	10.03	--	12
Low	8.40	--	0
1975--High	9.59	--	10
Low	8.80	--	0
Sept. 5	9.07	+ 5	0
12	9.17	+10	2
19	9.14	- 3	3
26	9.14	0	3
Oct. 3	9.20	+ 6	2
10	9.21	+ 1	3

FNMA AUCTIONS OF HOME MORTGAGE PURCHASE COMMITMENTS

	Government-underwritten			Conventional		
	Amount (In millions of dollars)		Yield to FNMA	Amount (In millions of dollars)		Yield to FNMA
	Offered	Accepted		Offered	Accepted	
1974--High	1,155 (3/25)	333 (3/25)	10.59 (9/9)	164 (4/8)	63 (4/8)	10.71 (9/9)
Low	26 (11/18)	18 (11/18)	8.43 (2/25)	14 (10/21)	7 (11/18)	8.47 (3/11)
1975--High	643 (8/25)	366 (8/11)	9.95 (9/22)	100 (4/7)	51 (4/21)	10.02 (9/22)
Low	25 (2/10)	18 (2/10)	8.78 (3/10)	11 (1/27)	9 (2/10)	8.96 (3/10)
Sept. 8	530	198	9.70	97	44	9.75
22	293	142	9.86	69	35	9.92
Oct. 6	199	143	9.95	28	24	10.02

NOTE: Average secondary market yields are gross before deduction of the fee of 38 basis points paid for mortgage servicing. They reflect the average accepted bid yield for home mortgages assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA commitment fees and FNMA stock purchase and holding requirements on 4-month commitments. Mortgage amounts offered by bidders relate to total bids received.

Consumer credit outstanding increased at an annual rate of \$9.7 billion in August following a \$12.3 billion advance in July. The slowing occurred mainly in the automobile and personal loan components of instalment credit, and reflected sharp increases in repayments on these types of indebtedness; total extensions of instalment credit remained close to the accelerated July pace. Credit unions have been accounting for about half of the total net change in instalment credit in recent months. On a seasonally adjusted basis, the rise in outstanding consumer credit during the third quarter will be the largest since the \$15.8 billion rate in the corresponding quarter of 1974. Interest rates on consumer loans have been essentially unchanged in recent months, and nonrate terms also have stabilized.

CONSUMER INSTALMENT CREDIT

	Change in outstandings (SAAR)		Credit extensions			New-car finance rates
	(\$ billions)	(Per cent)	Total, SAAR (\$ billions)	Bank share (Per cent)	Open-end share* (Per cent)	Annual Per- centage Rate at finance companies
1973 - I	24.0	19.1	162.4	42.5	25.9	11.85
II	20.0	15.3	164.2	41.8	27.3	11.94
III	21.0	15.4	170.1	42.3	27.1	12.28
IV	15.3	10.9	164.4	42.3	28.5	12.42
1974 - I	8.8	6.1	164.3	41.9	29.2	12.29
II	14.0	9.5	172.9	41.5	30.0	12.50
III	14.1	9.3	172.5	42.3	30.6	12.84
IV	-3.2	-2.1	155.7	41.1	33.2	13.10
1975 - I	-2.4	-1.6	156.5	41.9	32.5	13.07
II	.2	.1	161.2	41.5	32.7	13.09
July	10.4	6.8	172.5	41.4	31.2	13.09
Aug.	6.0	3.6	172.3	42.1	32.6	13.10

*Open-end credit consists of extensions on bank credit-card and check credit plans, and retail "other consumer goods" credit extensions.

October 15, 1975

Note to Reader

On page IV-5 (Part II) of this Greenbook certain information has been deleted that pertains to financial transactions of named foreign central banks, governments, or other official entities. That information was supplied to the Federal Reserve on a confidential basis.

INTERNATIONAL DEVELOPMENTS

CONFIDENTIAL (FR)

IV - T - 1

U.S. International Transactions
(In millions of dollars; seasonally adjusted)

	1974			1975	
	YEAR	Q-1	Q-2	July*	Aug.*
1. Trade balance	-5,277	1,830	3,345	601	841
2. Merchandise exports	98,309	27,188	25,694	8,750	9,003
3. Merchandise imports	103,586	25,358	22,349	8,149	8,162
4. Net service transactions	9,102	1,348	1,914		
5. <u>Balance on goods & services</u> 1/	3,825	3,178	5,259		
6. <u>Remittances and pensions</u>	-1,721	-448	-475		
7. <u>Gov't grants and capital, net</u>	-4,342	-1,201	-1,088		
8. <u>Bank-reported private capital, net change</u>	-2,534	-5,415	-4,190	1,464	2,080
9. Claims on foreigners (inc. -)	(-19,325)	(-3,756)	(-3,625)	(-109)	(381)
10. Short-term	-18,166	-3,358	-3,424	163	444
11. Long-term	-1,159	-398	-201	-272	-63
12. Liabilities to foreigners (inc. +)	(16,791)	(-1,659)	(-565)	(1,573)	(1,699)
13. Long-term liabilities	9	-39	-287	-77	-56
14. Short-term liabilities 2/	16,782	-1,620	-278	1,650	1,755
15. to commercial banks abroad	(12,636)	(-2,684)	(-286)	(962)	(1,155)
16. (of which liab. to branches) 3/	(2,349)	(-1,077)	(200)	(-490)	(3,266)
17. to other private foreigners	(2,851)	(202)	(104)	(-77)	(523)
18. to int'l & regional organizations	(1,295)	(862)	(-668)	(765)	(77)
19. <u>Private transactions in securities, net</u>	-1,317	-1,371	-323	91	-298
20. U.S. purchases (-) of foreign securities	(-1,989)	(-2,021)	(-1,001)	(-702)	(-359)
21. of which: New bond issues	-2,373	-2,108	-1,256	-854	(-214)
22. Foreign purch. (+) of U.S. corp. securities	(672)	(650)	(678)	(793)	(61)
23. Stocks	544	958	895	589	441
24. of which by OPEC	(190)	(324)	(319)	(155)	(82)
25. Bonds (includes U.S. Govt. agencies)	128	-308	-217	204	-380
26. U.S. direct investment abroad, (inc. -)	-7,455	-1,041	-2,001		
27. <u>Foreign direct investment in U.S., (inc. +)</u>	2,224	340	623		
28. <u>Nonbank-reported: liquid claims, (inc. -)</u>	-133	318	102		
29. other claims, (inc. -)	-3,004	231	-93		
30. liabilities, (inc. +)	1,493	272	119		
31. <u>Changes in liab. to foreign official agencies</u>	9,808	3,593	1,667	-763	-451
32. OPEC countries (inc. +) 3/	10,025	270	961	899	643
33. Other countries (inc. +)	-217	3,323	706	-1,662	-1,094
34. <u>Changes in U.S. reserve assets (inc. -)</u>	-1,434	-326	-51	-13	-16
35. Gold	--	--	--	--	--
36. Special drawing rights	-172	-5	-38	--	--
37. Reserve position in the IMF	-1,265	-307	-7	-36	-42
38. Convertible currencies	3	-14	-6	23	26
39. <u>Errors and omissions</u>	4,593	1,870	451		
Memo:					
40. Official settlements balance, S.A.		-3,267	-1,616		
41. N.S.A.	-8,374	-2,220	-1,203	776	467
42. O/S bal. excluding OPEC, S.A.		-2,997	-655		
43. N.S.A.	1,651	-1,950	-242	1,675	1,110

* / Not seasonally adjusted (except for merchandise trade data lines 1-3).

1 / Differs from "net exports" in the GNP account by the amount of special military shipments to Israel (excluding from GNP net exports).

2 / Includes transactions in U.S. Treasury bonds and notes.

3 / Not seasonally adjusted. p = preliminary.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. In the first two weeks of the 5 week period beginning September 10 the trade weighted value of the dollar increased about 2-1/2 per cent. In the last three weeks, however the dollar declined, and it is presently little changed from its level at the beginning of the period. Still it remains about 9 per cent above its value in mid-June, when a strong upward movement began.

The dollar's rise in the early part of the period was probably related to the continuation through August of the large U.S. trade surpluses, the slowing in the rate of U.S. inflation, and the rise in U.S. interest rates relative to those abroad. Factors contributing to the dollar's later decline included: a recent fall in dollar interest rates which appears to have led to revisions in market expectations about the near term outlook for interest rate differentials; growing concern about New York City's financial difficulties; and higher estimates of the U.S. budget deficit next year.

The pound sterling fell to all time lows during the period, both against the dollar and on a trade weighted basis. At the present time, buoyed by mid-month sterling oil payments, it is slightly above these lows.

In the last few days the Canadian dollar has dropped 1/2 of a per cent -- a very sharp fall for that currency -- in reaction to the program of wage, price, and dividend controls just announced by the Canadian government.

Foreign central bank intervention during the period resulted in net sales of over \$1 billion. The Bank of Japan was again the major seller of dollars as it reduced its reserves by over \$1 billion to prevent the yen from falling below successively lower floors. During the first week of the period the floor was 298 yen/dollar, but it was then reduced in two steps to the present level of 303 yen/dollar. The central banks of Italy and the U.K. also sold dollars -- about \$600 million and \$300 million respectively -- to slow the declines of their currencies in the foreign exchange market.

The Bank of France was the major purchaser of dollars during the period, acquiring about \$800 million to keep the franc from appreciating against the mark. Ever since France rejoined the European joint float on July 10, the Bank of France has maintained the franc-mark exchange rate within a very narrow band around 1.7 francs/mark.

The System purchased a net \$50 million equivalent of marks during the period to have available for later use, and, upon occasion, employed these balances to moderate sharp declines of the dollar. The System also purchased \$6 million equivalent of Belgian francs for the purpose of repaying the Belgian swap debt (incurred before August 15, 1971) once the price of that currency fell below the "break-even" rate, i.e., the rate at which the U.S. and Belgium have agreed in principle to re-write the swap debt. However at the request of Belgian authorities the System suspended further purchases pending formal acceptance by Belgian officials of this "break-even" point.

The Bank of Mexico drew the full amount of its swap line during the period in three installments: \$180 million on September 30, and \$90 million each on October 6 and 14.

Euro-dollar interest rates fluctuated considerably during the period, but on net are little changed. The only important movement in foreign interest rates occurred early in October when the Bank of England raised its minimum lending rate one percentage point to 12 per cent, which tended to raise other U.S. interest rates by a like amount.

The price of gold fell from about \$160 per ounce to about \$130 per ounce in the three weeks following the August 31 announcement of tentative plans to sell one-sixth of the IMF's gold stock. But in the last three weeks it has recovered about a third of that loss. Trading remains quite erratic, however, with large day-to-day price movements.

OPEC investment flows. The OPEC countries' investible surplus -- the surplus on goods and services less grant aid -- declined to about \$21 billion in the first half of 1975 (U.S. Treasury estimate) from about \$37 billion in the second half of 1974, as a result of both lower receipts and higher disbursements. Estimates of the OPEC surplus are subject to considerable margins of error, as seen from comparing the Treasury estimate for the first half of 1975 with the corresponding Bank of England estimate of \$17 billion. However, for 1974 the Bank of England estimates are very close to those shown in the accompanying table, which are largely based on Treasury calculations.

OPEC oil exports (government receipts on a cash basis) decreased to \$49 billion in the first six months of 1975 from \$63 billion in the second half of last year, a drop of 22 per cent. The physical volume of oil shipments fell 13 per cent, largely because of cyclically weaker demand. Average revenue per barrel rose slightly; however, the excess of cash receipts over accruals, stemming from lags in oil payments, was much smaller this year than in the second half of 1974. While oil export receipts fell, OPEC imports in value terms rose 23 per cent between the two half-years, to \$26 billion in the later period. Although rapid, this was a smaller increase in imports than the nearly 50 per cent increase between the first and second halves of 1974.

With the overall OPEC surplus substantially reduced, the amounts of new OPEC investments in particular markets have also generally been at lower rates this year. Additions to OPEC Euro-currency deposits -- still the dominant use of the surplus -- were about \$6 billion in the first six months of this year, down from \$11 billion in the preceding half-year. The share of the total investments absorbed by the Euro-currency market was just under 30 per cent in both of these periods. But that share declined markedly between the first and second quarters, and partial data suggest a further contraction in July-August. The proportion of total OPEC Euro-currency deposits held in dollars declined in the first quarter but probably rose again in the second.

New OPEC investments in the United States shrank abruptly to around \$700 million in the first quarter of 1975, about one-sixth the quarterly rate of inflow in the second half of 1974. Subsequently these

placements increased to \$1.3 billion in the second quarter and to \$1.9 billion in July-August, and for the months April-August appear to have amounted to roughly the same share of total OPEC investments as in 1974 as a whole. Of the total of \$3.9 billion for the first eight months, \$2.8 billion consisted of additions to holdings of Treasury securities, Agency and corporate bonds, and bankers acceptances held with the Federal Reserve Bank of New York; \$900 million was net purchases of stocks (almost entirely by Saudi Arabia and Kuwait); and \$200 million was increases in deposits and custody accounts at commercial banks.

The flow to the United Kingdom (excluding Euro-currency deposits) has been much smaller this year, both absolutely and as a percentage of the total, the share falling off to only 3 per cent in the first six months. From the end of March to about mid-August, the level of OPEC holdings of sterling bank deposits and money market instruments in fact declined by \$300 million even without allowing for the decline in the exchange rate of sterling relative to the dollar; the decline in the dollar value of these sterling investments is greater when the depreciation of sterling is taken into account. It is not yet known to what extent the decrease may have been offset by possible increases in holdings of Euro-sterling (which had risen \$350 million in the first quarter).

The flow of OPEC funds to the IBRD (through purchases of bonds) and to the IMF (through loans to the Oil Facility) have each been smaller this year. The residual uses of the OPEC surplus are estimated to have been about the same in absolute magnitude in the latest half-year as in the previous one, and as a proportion of the total they rose to about

50 per cent. Within this category, loans to LDC's (made on concessional terms) increased to perhaps \$1-1/2 to \$2 billion in January-June from \$700 million in all of last year. In 1974 the residual category was known to include several billion dollars of direct investment in industrial countries and direct loans to governments or other official borrowers in these countries, but almost no information is available on similar 1975 developments. However, it is believed that OPEC countries (mainly Saudi Arabia and Kuwait) increased their purchases of Euro-bonds from a very low level in 1974 to possibly \$500-750 million in the first six months of 1975.

Estimated Uses of OPEC Countries' Investible Surpluses
(in billions of dollars)

	1974		1975			
	<u>1st Half</u>	<u>2nd Half</u>	<u>Q1</u>	<u>Q2</u>	<u>1st Half</u>	<u>July-Aug.</u>
I. In United States	3.1	8.2	0.7	1.3	2.0	1.9
A. Banking and money market placements ^{1/}	2.9	7.5	0.3	0.9	1.2	1.7
B. Other investments ^{2/}	0.2	0.6	0.4	0.4	0.8	0.2
II. In United Kingdom (excluding Euro-currency deposits)	3.0	4.2	0.8	-0.1	0.7	0.1
A. Banking and money market placements	2.2	3.1	0.8	-0.4	0.4	0.1 ^{2/}
B. Other loans and invest- ments ^{1/}	0.8	1.1	0	0.3	0.3	0 ^{3/}
III. In Euro-currency Market	12.0	10.8	4.2	1.8	6.0	0.6
A. In United Kingdom	7.0	6.8	1.7	0.3	2.0	1.6 ^{2/}
B. In other countries	5.0	4.0	2.5	1.5	4.0	-1.0 ^{3/}
IV. International Institutions	0.4	2.9	1.5	0.3	1.8	0.4
A. Bonds (mostly IBRD)	0.4	1.1	0.7	0.1	0.8	0
B. IMF Oil Facility	0	1.8	0.8	0.2	1.0	0.4
V. All Other	<u>1.5</u>	<u>10.9</u>	<u>4.8</u>	<u>5.7</u>	<u>10.5</u>	<u>n.a.</u>
Total	20.0	37.0	12.0	11.0	21.0	n.a.
Memorandum item: grant aid	1.4	1.6	1.3	0.4	1.7	n.a.

1. Equities, real estate, other direct investments; for the United Kingdom also includes direct loans to public sector borrowers.

2. Through August 20.

3. July only.

U.S. International Transactions. Data available for August indicate 1) a continued large merchandise trade surplus for the United States, 2) a reduction in claims on foreigners by U.S. banks and a substantial increase in liabilities to foreign banks (largely branches of U.S. banks) and other private foreigners, and 3) a second month of decline in liabilities to foreign official agencies. Preliminary data for September indicate an even larger decline in liabilities to foreign official agencies than in August.

Combining trade data for July and August, the U.S. merchandise trade balance showed a surplus of \$8.7 billion (seasonally adjusted annual rate), compared with an average surplus of \$10.4 billion in the first two quarters of 1975, and a deficit of \$5.3 billion in 1974. Both exports and imports rose in July-August, after sharp declines in the second quarter.

Most of the increase in exports was accounted for by a large increase in agricultural exports. The volume of agricultural exports in July-August was 18 percent above the second quarter with about one third of the increase attributed to higher shipments of wheat to the Soviet Union. The proportion of U.S. wheat exports going to the Soviet Union rose from an average of 6 percent in the first half of 1975 to 16 percent in July-August. The increase reflects the large grain sales made to the Soviet Union in early July, and the fact that shipments have been accelerated because of deteriorating crop conditions in that country. The longshoreman's embargo, which was effective for only a short period

in August, had very little impact on the shipments. The unit value of agricultural exports has changed little in the past two months, as the runup in cash prices for grain since July has counterbalanced the continuing effects on recorded unit values of the decline in cash prices earlier this year.

Nonagricultural exports have shown little change since the beginning of the year. The volume of these exports in July-August remained below the 1974 average, reflecting continuing slack foreign demand. The unit value of these exports has been unchanged since March at a level about 17 percent above the average level for 1974.

Total U.S. exports to the OPEC countries in July-August were only 17 percent above the rate in the fourth quarter of 1974, somewhat below earlier projections. Between the second half of 1974 and the first half of 1975, U.S. exports to the OPEC countries rose by 29 percent, slightly less than the percentage increase for exports from other OECD countries to the OPEC countries.

Nonfuel imports in July-August rebounded from their low second-quarter level, but still remained below the first-quarter and 1974 averages. Increases from very low volumes in the second quarter were registered in industrial materials, automobiles and other consumer goods, reflecting the pickup in domestic industrial production and consumer demand, as well as the slowdown in business inventory liquidation in the third quarter. The unit value of nonfuel imports in July-August declined by 5 percent from the second quarter level. Underlying this

abnormal price decline was a sharp decline in the prices of sugar and several other basic commodities. The unit value of consumer goods imports also fell. The appreciation of the dollar since June probably contributed to these import price declines and to the moderation of other import price increases.

U.S. MERCHANDISE TRADE

(values in billions of dollars, seasonally adjusted annual rates)

	1974	1975		July-Aug. Av.
		I	II	
Exports Total Value	98.3	108.8	102.8	106.5
Agricultural	22.4	25.1	19.3	22.1
Non-agricultural	75.9	83.7	83.5	84.5
Imports Total Value	103.6	101.4	89.4	97.9
Fuel	27.4	27.9	24.6	24.5
Non-fuel	76.2	73.5	64.8	68.4
Balance Total	-5.3	+7.3	+13.4	+8.7
" adj. (ex. ag. & fuel)	(-0.3)	(+10.2)	(+18.7)	(+16.1)
Volume (1974=100)				
Exports - Ag.	100.0	105.2	88.5	104.3
Nonag.	100.0	95.5	94.2	95.4
Imports - Fuels	100.0	97.8	87.0	105.0
Nonfuel	100.0	86.6	75.0	83.5P
Unit Value (1974=100)				
Exports - Ag.	100.0	106.4	97.4	94.4
Nonag.	100.0	115.4	116.7	116.7
Imports - Fuels	100.0	104.0	103.1	102.6
Nonfuel	100.0	111.5	113.4	107.5P

p = preliminary

The volume of fuel imports in July and August was much higher than the average for the year so far. The increase reflects, in part, the pickup in domestic activity, but stocks also rose in July-August in anticipation of the OPEC price increase, and the recent import level is not expected to hold up in the fourth quarter. The 10 percent oil price increase effective October 1 will probably not affect U.S. import prices for a month or more, owing to normal delivery lags. The full price increase will probably not be felt until demand picks up well into 1976, as some price shaving can be expected on the part of smaller producer countries in the meantime.

Bank-reported private capital transactions, which had shifted to a sizeable net inflow in July, showed an even larger inflow in August. These net inflows were probably in response to the relative tightening of credit conditions in this country since early June, and they were larger than they would have been in the absence of sizeable reductions in liabilities to foreign official agencies. The small net decline in short-term bank claims on foreigners in July grew to a decline of \$400 million in August. Much of this was a reduction of gross claims by U.S. banks on their foreign branches. Meanwhile, short-term bank-reported liabilities to foreigners rose by \$1.7 billion in August, about the same as in July. There were sizeable declines in these liabilities earlier this year. Most of the recent increase has been in short-term liabilities to commercial banks abroad. A very large increase in liabilities to foreign branches of U.S. banks was recorded for August.

This may, in part, be associated with special weekend transactions between U.S. banks and their foreign branches, and the fact that August ended on a holiday weekend. Weekly data indicate that these flows were reversed in early September.

Transactions in securities (other than U.S. Treasury issues) in August showed a return to a net outflow of funds at about the same rate as in the first half of 1975--there had been a net inflow in July. U.S. purchases of new foreign bond issues dropped, however, from \$900 million in July to \$400 million in August and to \$100 in September. New foreign bond issues were probably discouraged because of relatively unfavorable borrowing terms in the U.S. market. Some issues may have been switched to international markets, where the volume of transactions was high. Preliminary data for October indicate that new foreign issues in the United States are scheduled to be about \$400 million this month. Foreign purchases of U.S. stocks remained high in August. Most of the stock purchases were recorded for European countries, as direct OPEC purchases declined. The IBRD sold large amounts of U.S. bonds (mostly government agency bonds), and switched funds into short-term assets.

U.S. liabilities to foreign official agencies declined by about \$800 million in July and \$500 million in August, following sizeable increases in the first half of the year.

Liabilities to official agencies in non-OPEC countries declined by \$1.1 billion in August, following a \$1.7 billion decline in July. Partial data for September indicate another decline in these liabilities

of about \$1.6 billion. The continued large rundown of liabilities to non-OPEC countries reflects action by Germany, Italy, and more recently, Japan to prevent the decline of their currencies in foreign exchange markets. August data showed an increase of \$600 million in liabilities to official agencies of OPEC countries. In the two months July and August combined these liabilities rose by \$1.5 billion, compared with a total of \$1.3 billion in the first six months of the year.

Second-quarter data for service transactions and direct investment flows were recently released. Net service receipts increased from \$5.4 billion (seasonally adjusted annual rate) in the first quarter to \$7.7 billion in the second, but the net receipts were still below the 1974 rate of \$9.1 billion which was swelled by extraordinarily high oil profits. Most of the second-quarter increase was due to an increase in income from U.S. direct investments abroad (mostly from manufacturing concerns) and a decline in income payments to foreigners on their assets in the United States because of lower U.S. interest rates during the first half of the year.

Data for U.S. direct investment capital flows show a doubling of direct investment outflows in the second quarter and a record level of outflows on average for the past four quarters. However, these data are heavily influenced by the accounting treatment of certain oil-related transactions. Apart from oil-company transactions, U.S. direct investment abroad has shown only a moderate increase over the past year.

The plant and equipment spending intentions by foreign affiliates of U.S. firms for 1975 and 1976 were announced recently. These expenditures are expected to rise by four percent in 1975 and 12 percent in 1976 (to \$30.4 billion), compared with a 25 percent increase in 1974. Most of the increase in 1975 is attributed to petroleum affiliates, while both petroleum and manufacturing affiliates are expected to increase their spending in 1976. Though these expenditures do not necessarily lead to recorded direct investment outflows, they do give an indication of business expectations about the long-term investment climate abroad.

Foreign direct investment inflows into the United States rose from \$300 million in the first quarter of 1975 to \$600 million in the second quarter, although they were still below the record quarterly average of \$1.4 billion in the first half of 1974. These data are also influenced by oil-related transactions, and apart from those transactions they have shown little change on average over the past year and a half.

Price developments in major foreign industrial countries.

Inflation rates in most of the major foreign industrial countries have been lower in 1975 than they were in 1974, though they remain high and widely dispersed. With the exception of Canada, the deceleration in consumer price rises has continued into the third quarter. Monthly increases in consumer prices were smaller in August and September in most major foreign industrial countries than they had been earlier in the year. The decline was especially pronounced in the case of the United Kingdom.

In most of the smaller European countries declines in the rates of consumer price increases have been more gradual than in the larger countries. These countries had experienced more gradual increases in inflation rates than in the larger ones during recent years.

Although price level advances in most foreign countries have slowed during 1975, current rates of increase still remain uncomfortably high. Concern over the continued relatively high inflation has led several countries to institute or continue existing wage and price control programs. Of the major countries, France has continued its present system of controls, the United Kingdom has considerably strengthened its policy -- chiefly by setting a limit to wage increases, and Canada has recently announced a wage and price restraint program. Most of the small industrial countries have wage and price controls of some sort. Belgium has had a freeze on selected retail prices since May of this year. (Nevertheless, Belgian consumer prices have risen at an annual rate of over 10 per cent during July, August, and September.) In September, Norway imposed a price freeze which will last at least through December of this year.

Consumer and Wholesale Prices in Major Industrial Countries
(Percentage change from previous period, not seasonally adjusted)

	<u>CONSUMER PRICES</u>											<u>Change to Latest 3 Months from</u>			
	<u>1974</u>				<u>1975</u>			<u>1975</u>					<u>Year</u>	<u>Preceding</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Earlier</u>	<u>3 Months, Annual Rate</u>	
	(quarterly rates)											(monthly rates)			
France	3.7	4.1	3.3	3.1	2.8	2.4		0.7	0.7	0.7	0.7		11.3	9.2	
Germany	2.4	1.6	0.9	1.4	1.9	1.9	0.8	0.6	0.7	0	-0.1	0.5	6.1	3.1	
Italy	5.3	5.2	6.0	6.2	3.5	2.8		0.8	0.8	0.4	0.6		17.1	9.5	
U.K.	4.1	6.0	2.5	4.5	6.0	9.5		4.2	1.9	1.0	0.6		26.4	30.9	
Japan	9.4	5.0	3.5	4.2	1.5	4.0	0.9	1.1	0	0.2	-0.3	1.8	11.0	3.6	
Canada	2.4	3.3	3.0	2.7	2.2	2.2	3.4	0.8	1.5	1.4	1.0	0.2	10.9	14.4	
U.S.	2.8	2.8	3.1	2.9	1.8	1.6		0.4	0.8	1.1	0.3		9.2	8.7	
	<u>WHOLESALE PRICES</u>														
France	13.3	8.6	-0.6	-2.2	-3.3	-3.5		-1.5	-0.8	0.9	0.5		-9.4	-6.3	
Germany	7.1	4.9	1.0	1.7	3.3	0.5		0.2	0.5	-0.3	-0.2		5.7	1.6	
Italy	17.3	8.7	5.6	2.8	0.4	0.1		-0.5	-0.1	0.3	0.7		5.4	0.4	
U.K.	7.1	7.6	4.8	5.6	6.8	5.8	3.9	2.6	0.9	1.4	1.0	0.7	24.0	16.4	
Japan	14.6	3.3	2.9	1.2	-0.6	-0.2	0.5	0	-0.1	0.1	0.6	0.3	0.9	2.2	
Canada	7.0	3.7	3.1	3.4	-0.4	0.5		0.5	-0.3	1.3	1.9		6.2	7.9	
U.S.	6.6	3.6	7.1	3.5	0	1.1	2.1	0.6	0.3	1.2	0.6	0.6	6.8	8.8	

Sources: National sources.

Developments in unit labor costs, wholesale prices (including basic commodity prices), exchange rate movements, and aggregate demand have influenced the pattern of consumer price movements. In most countries labor costs have not been rising in 1975 as rapidly as they did in 1974; however, the rates of increase continue to be high except in Germany and, in recent months, Japan. Except in the United Kingdom, the rate of increase in wholesale prices in all of the major foreign countries began decelerating in the second quarter of last year, and wholesale prices now seem to have begun decelerating in the United Kingdom as well. In recent months, several countries have experienced actual declines in wholesale price levels. However, during July and August there was an acceleration in the rate of wholesale price increases in some countries (e.g., France, Italy, and Canada). World primary commodity prices (including petroleum and grain), expressed in domestic currencies, were essentially flat during 1974 and fell sharply in the first quarter of 1975 -- especially in countries such as Germany and France where the exchange rate was appreciating. The decline continued in the second quarter at a more moderate rate, but was reversed in the third quarter when prices of foodstuffs increased in August. Grain price movements, as well as the recent oil price increase, will tend to push up the basic commodity price index further.

In France, total labor costs increased at an annual rate of about 23 per cent during the first half of 1975 (during 1974 they increased by 20 per cent). The inflation rate has been less than that, however, as other input costs, particularly imported commodities, have declined

substantially. Other reasons given for the slowdown in French inflation are the recession and price controls. The present system of price controls, introduced last October, will be in effect at least through March 1976. Recent increases in raw materials prices and the recently announced oil price increase, which the French government intends to pass through in full to the consumer, will place pressure on consumer prices in the coming months. Nevertheless, the French government expects consumer price inflation in 1976 to be less than the 9 to 10 per cent foreseen for 1975; some observers believe the inflation rates in both years will be higher than the government is anticipating.

In Germany, unit labor costs rose by 10 per cent during 1974; this annual rate of increase was halved during the first half of 1975. On the other hand, firms have been trying to restore profit margins which deteriorated during 1974. Although fears that an economic upturn may lead to an increase in inflation rates are still expressed by government officials, German consumer price increases in the year ahead are likely to remain in the 5 to 6 per cent range.

Although the rate of inflation in Italy has declined, wage rates have continued to increase sharply. Minimum contractual wage rates increased at an annual rate of close to 30 per cent during the first seven months of 1975 and profit margins have been squeezed as unit labor costs have risen faster than prices. Aggregate demand has been weak due to the restrictive monetary and fiscal policies introduced in 1974. A continuation of inflationary pressures during the next 12 months is likely due to further rapid advances in wages, moves by firms to restore profit margins, oil price increases, and an economic upturn next year. The

rate of consumer price inflation in the next year is likely to be about 10 per cent or perhaps a little higher.

Japan's success in bringing down its rate of inflation is mainly attributable to its restrictive monetary and fiscal policies since early 1973 and to the world recession. Although Japan has no formal system of wage and price controls, the government did succeed in limiting the spring 1975 wage increases to about 13 per cent. More importantly, unit labor costs, which rose at an annual rate of nearly 40 per cent in the last half of 1974 and continued to climb through March of this year, fell at an annual rate of about 30 per cent between March and June (the latest month available). The Japanese government was able to achieve its goal of reducing the rate of consumer price inflation to below 15 per cent by March 1975 compared with March 1974. The government's goal of reducing inflation to less than 10 per cent by March 1976 compared with March 1975 will probably also be reached, despite the oil price increase which can be expected to affect Japan more adversely than most other countries. (The September rise in the consumer price index was due to a change in the government-controlled price of rice which is usually adjusted once a year.)

Canada has not been as successful in reducing its rate of inflation as most other major industrial countries. During the first half of 1975 the rise in the consumer price index slowed to an annual rate of less than 10 per cent, but increased slightly to an annual rate of 11 per cent during the third quarter. These rates compare with increases of over 12 per cent during 1974, 9 per cent during 1973, and

slightly over 5 per cent during 1972 and 1971. Unit labor costs during the first half of 1975 rose at an annual rate of 12 per cent compared with a rate of 17 per cent in 1974. The average base rate for wage settlements without cost of living adjustments rose over 21 per cent (annual rate) in the second quarter of 1975 (these apply to nearly two-thirds of employees covered by new settlements during the quarter); for settlements with cost of living adjustments the rise was over 14 per cent.

On October 13 the Canadian government announced a multi-year program of wage and price restraints. In the first year, wage increases in general will be limited to 10 per cent (2 per cent for productivity gains and 8 per cent for cost of living increases); in succeeding years, wage increases will be limited to 2 per cent for productivity gains and an adjustment for changes in the cost of living. These adjustments are expected to be 6 and 4 per cent in each of the next two years. However, the cost of living adjustment will be changed if future inflation rates differ from what they are now expected to be. All price increases must be justified by higher production costs. Increases in interest rates charged by banks and other financial institutions must be justified by higher operating or borrowing costs, and corporate dividends are frozen at current levels. A review board will be established to monitor the program and report excessive increases to a special administrator who will have the power to order price and wage rollbacks.

The United Kingdom has a very high inflation rate, although there are signs that the rate is beginning to decline. The large increase in consumer prices in May was primarily due to increases in indirect taxes;

since then the rate of price rises has moderated. (Some of this moderation, however, is due to the presence in the index of seasonal food prices.)

Although unit labor costs advanced more slowly during the first half of 1975 than in the preceding half year, during the six months ending August 1975 basic hourly wage rates increased at an annual rate of over 30 per cent and average earnings from January to July of this year increased at an annual rate of over 25 per cent. The new pay policy which went into effect in August is an effort to limit wage increases in the ensuing 12 months to no more than £6 per week, which is supposed to limit growth in average earnings to no more than 11 per cent. (The policy was described in the August Greenbook.) In recent weeks the Trades Union Congress and the militant miners' union have accepted the policy. The prices of basic nonlabor inputs (including fuel) to manufacturing industry during the first half of 1975 increased at an annual rate of less than 5 per cent as compared with an increase of 27 per cent in 1974 and over 47 per cent in 1973. However, from June to September of this year basic input prices increased at an annual rate of 29 per cent due largely to the depreciation of sterling in recent months. (In the half year ending October 8, sterling depreciated 10 per cent on a trade weighted basis.) Further depreciation of sterling and the recent oil price rise are likely to contribute to the continuation of this movement. However, relatively high unemployment and the government's pay policy will probably succeed in moderating somewhat the increases in labor costs. The announced goal of the U.K. anti-inflation policy is to reduce the year-on-year rate of inflation to

10 per cent by the third quarter of 1976. Although it appears unlikely that this goal will be achieved, it is reasonable to expect a significant decline in the rate of inflation.