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CONFIDENTIAL (FR)

March 9, 1977

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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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	Feb.	3-4-77	96.1	7.9	1.1	2.7
Unemployment rate (per cent)	Feb.	3-4-77	7.5	7.3[1/]	8.0[1/]	7.6[1/]
Insured unemployment rate (%)	Feb.	3-4-77	4.3	4.1[1/]	5.1[1/]	4.3[1/]
Nonfarm employment, payroll (mil.)	Feb.	3-4-77	80.8	3.9	3.6	2.8
Manufacturing	Feb.	3-4-77	19.2	.0	3.1	2.3
Nonmanufacturing	Feb.	3-4-77	61.6	5.1	3.7	2.9
Private nonfarm:						
Average weekly hours (hours)	Feb.	3-4-77	36.4	35.9[1/]	36.2[1/]	36.4[1/]
Hourly earnings ($)	Feb.	3-4-77	5.07	5.05[1/]	5.00[1/]	4.75[1/]
Manufacturing:						
Average weekly hours (hours)	Feb.	3-4-77	40.4	39.6[1/]	40.1[1/]	40.3[1/]
Unit labor cost (1967=100)	Jan.	2-28-77	147.8	9.8	1.6	4.9
Industrial production (1967=100)	Jan.	2-15-77	131.5	-11.7	3.4	4.6
Consumer goods	Jan.	2-15-77	139.5	-17.8	7.6	4.8
Business equipment	Jan.	2-15-77	140.9	-6.8	14.7	7.6
Defense & space equipment	Jan.	2-15-77	79.2	16.9	3.6	1.5
Material	Jan.	2-15-77	130.2	-14.6	-4.3	3.9
Consumer prices (1967=100)	Jan.	2-18-77	175.6	9.6	6.0	5.1
Food	Jan.	2-18-77	183.5	10.6	2.9	1.3
Commodities except food	Jan.	2-18-77	161.6	8.2	6.5	5.5
Services	Jan.	2-18-77	187.2	11.0	7.0	7.2
Wholesale prices (1967=100)	Jan.	2-11-77	188.5	5.8	6.9	5.0
Industrial commodities	Jan.	2-11-77	189.0	5.7	6.0	6.2
rm products & foods & feeds	Jan.	2-11-77	184.5	3.9	10.0	.1
sonal income ($ billion)[2/]	Jan.	2-17-77	1443.3	3.2	11.1	9.3
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Jan.	3-3-77	55.0	-4.3	7.9	19.8
Capital goods industries	Jan.	3-3-77	16.4	-10.3	-4.5	25.3
Nondefense	Jan.	3-3-77	14.8	3.1	3.2	26.5
Defense	Jan.	3-3-77	1.7	-58.3	-42.5	15.9
Inventories to sales ratio:						
Manufacturing and trade, total	Dec.	2-16-77	1.48	1.52[1/]	1.53[1/]	1.52[1/]
Manufacturing	Jan.	3-3-77	1.61	1.58[1/]	1.71[1/]	1.66[1/]
Trade	Dec.	2-16-77	1.34	1.37[1/]	1.38[1/]	1.35[1/]
Ratio: Mfrs.' durable goods inventories to unfilled orders	Jan.	3-3-77	.632	.633[1/]	.642[1/]	.616[1/]
Ratail sales, total ($ bil.)	Jan.	2-10-77	56.6	-2.0	3.6	9.7
GAF	Jan.	2-10-77	13.9	-1.6	.5	10.3
Auto sales, total (mil. units)[2/]	Feb.	3-3-77	10.7	2.3	10.5	6.1
Domestic models	Feb.	3-3-77	8.9	.5	11.2	1.6
Foreign models	Feb.	3-3-77	1.9	11.9	7.2	34.2
Plant & Equipment Expen. ($ bil.)[2/]						
All Industries	1976	3-8-77	120.49	---	---	6.8
	1977[3/]	3-8-77	134.58	---	---	11.7
	QI '77[3/]	3-8-77	129.19	3.2	---	12.6
	QII'77[3/]	3-8-77	132.71	2.7	---	12.4
C ital Appropriations, Mfg.	QIV '76	3-7-77	15,308	32.7	---	19.0
ng starts, private (thous.)[2/]	Jan.	2-16-77	1,375	-27.0	-19.8	9.2
ing indicators (1967=100)	Jan.	2-28-77	127.4	-1.2	.8	5.1

1/ Actual data. 2/ At Annual rate. 3/ Planned-Commerce March Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Weather-related problems had significant cumulative impacts on economic activity in January and early February, but current information suggests both a prompt recovery of activity and somewhat more underlying strength than had been indicated by earlier information. Crop damage, of course, has pushed up wholesale and retail food prices and this should be reflected in forthcoming price data.

The most substantial current evidence of a quick recovery from weather-related problems is provided by the recent performance of labor market indicators. Total employment rose by 400,000 between early January and early February. The civilian labor force also grew rapidly--by 630,000--more than offsetting January's sharp drop. The unemployment rate, rose to 7.5 per cent in February from 7.3 per cent in January. The increase in unemployment appears to have resulted from energy and weather-related job losses. The number of workers on layoff for any reason rose 210,000 over the month, and there was an increase of similar magnitude in energy-related claims for unemployment insurance. The latter had declined to a level of less than 10,000 by early March.

The strong gain in employment indicated by the household survey is supported by estimates from the survey of business establishments. Nonfarm payroll employment rose 260,000 over the month. The faster pace of employment growth over the past three months about matched the rate of recovery during the initial year of expansion.

The reacceleration of employment growth was widespread among private industries and, as the tabulation below shows, included renewed hiring in manufacturing, where production had been damped between spring and early winter by excessive inventories as well as by strikes.

AVERAGE MONTHLY CHANGES IN NONAGRICULTURAL EMPLOYMENT
(In thousands, seasonally adjusted)

	June 1975- May 1976	May 1976- Nov. 1976	Nov. 1976- Feb. 1977
Employed persons 1/	288	111	300
Payroll employment 2/	267	113	229
Manufacturing	88	-2	48

1/ Household survey data.
2/ Establishment survey data, adjusted for strikes.

In February, manufacturing employment, which was most directly affected by gas curtailments, remained at the advanced early January level. But, the average factory workweek jumped 0.8 hour from the weather-depressed January reading of 39.6 hours. The lengthened workweek raised total factory manhours sharply in February. At 40.4 hours in February, average weekly hours were significantly higher than in December and 1976 as a whole. The indicated strength may be somewhat overstated, however, since the February survey had a response rate somewhat below normal, making these data subject to larger than usual revisions.

SELECTED UNEMPLOYMENT RATES*
(seasonally adjusted)

	1975	1976				1976	1977	
	IV	I	II	III	IV	Feb.	Jan.	Feb.
Total, 16 years and older	8.4	7.6	7.4	7.8	7.9	7.6	7.3	7.5
Men, 20 years and older	6.9	5.8	5.7	6.0	6.2	5.8	5.6	5.8
Women, 20 years and older	7.9	7.4	7.1	7.7	7.6	7.4	6.9	7.2
Teenagers	19.6	19.2	18.8	18.8	19.1	19.1	18.7	18.5
Household heads	5.8	5.0	4.9	5.3	5.3	5.0	4.8	4.9
Married men	5.0	4.1	4.1	4.4	4.4	4.2	3.8	4.1
Total, Alternative Seasonal Adjustment Method								
All Additive Factors	8.3	7.8	7.4	7.8	7.8	7.8	7.5	7.7
1975 Factors	8.4	7.8	7.5	7.6	7.9	7.8	7.6	7.6

* The revised labor force data reflect the inclusion of the 1976 experience in the seasonal adjustment procedure. However, problems in seasonal adjustment apparently are continuing to bias the seasonally adjusted unemployment figures downward slightly over the first half of the year with a corresponding upward bias later in the year.

CAPACITY UTILIZATION RATES
Per Cent of Capacity

	Historical Average1/	1973 Monthly High	1976 Q1	1976 Q2	1976 Q3	1976 Q4
Manufacturing	83.2	88.0	79.0	80.2	80.8	80.5
Materials	85.9	93.1	79.0	80.6	81.3	80.4
Basic Metal	86.4	97.7	72.8	77.4	81.5	74.3
Textile, Paper & Chemicals	87.6	94.5	85.1	85.0	84.0	83.8
Energy	91.4	94.6	85.3	84.8	84.0	84.1

1/ The historical average for manufacturing covers the period from 1955 to 1975 while that for the materials series includes 1967-1975.

AVERAGE WEEKLY HOURS OF PRODUCTION WORKERS
(Seasonally adjusted)

	1976		1977	
	Average	Dec.	Jan.	Feb.
Private industry	36.2	36.2	35.9	36.4
Manufacturing	40.1	40.0	39.6	40.4

Based largely on the establishment survey manhours data, industrial production is tentatively estimated to have increased about 1 per cent in February, recovering the entire January decline. A generally widespread rebound in output is suggested for consumer goods, business equipment, and most materials. However, weekly production data for autos and raw steel indicate no increase from depressed January output levels in these sectors.

Capacity utilization in February also appears to have returned to about the December level. In manufacturing, the operating rate probably averaged near 81 per cent, with materials capacity utilization somewhat lower than the over-all rate. The manufacturing utilization rate has fluctuated within a narrow band of 79 to 81 per cent since last March as a consequence of nearly equal rates of growth in both manufacturing capacity and output. Rates of growth of capacity and output--both at about 2-1/2 per cent over this recent period--were well below the postwar historical average.

Personal income advanced at only a 3.2 per cent annual rate in January, following three months of relatively strong growth.

Curtailments in the workweek were a major reason for the January slowdown, bringing an estimated weather-related loss of $2.0 billion (annual rate) in wages and salaries. Manufacturing and construction payrolls were most severely affected. Other significant factors in slower income growth in January were a sharp drop in dividends from an unusually high December level and an increase in employee social security payments.

Consumers continue to be relatively confident in their attitudes about their prospective economic situation. The University of Michigan Survey Research Center index of consumer sentiment, according to its February survey which is still confidential, had recovered some of the small decline shown in November. The Conference Board index of consumer confidence for late January and early February (slightly earlier than the Michigan survey period) was little changed from its improved December level. The two surveys, however, differ somewhat in their assessment of consumers' buying attitudes for autos: the Michigan survey indicated a substantial increase in the proportion of respondents considering this a good time to buy autos, while the Conference Board survey shows a decline in the proportion of consumers with plans to buy autos. The Michigan results usually have been better indicators of auto purchases than the Conference Board survey. The Conference Board also indicated a decline in the proportion of consumers with plans to buy major appliances.

PERSONAL INCOME

(per cent change from previous quarter at a compound annual rate; based on seasonally adjusted data)

	1976 I	1976 II	1976 III	1976 IV	Nov. 76- Dec. 76*	Dec. 76- Jan. 77*
Current Dollar						
Total Personal Income	10.1	9.5	7.3	10.7	15.3	3.2
Nonagricultural Income	12.6	7.8	9.2	11.2	12.8	2.6
Wage and Salary Disbursements	12.6	9.4	7.8	10.7	11.2	6.3
Private	14.1	10.1	8.2	10.5	12.4	6.6
Manufacturing	18.0	10.9	5.7	8.6	11.3	7.8
Government	7.2	7.1	6.7	11.5	6.7	5.4
Nonwage Income	7.1	9.3	6.3	10.8	21.8	1.7
Transfer Payments	14.1	-2.3	10.9	9.0	4.3	11.5
Dividends	11.7	16.7	12.1	28.6	131.5	-103.7
Constant Dollars**						
Total Personal Income	4.7	4.4	1.5	6.1	10.4	-6.4
Nonagricultural Income	7.1	2.8	3.3	6.6	7.9	-7.0
Wage and Salary Disbursements	7.0	4.3	2.0	6.1	6.3	-3.3
Addenda:						
Real Disposable Per Capita Income	5.4	4.0	-0.1	2.5		

* Per cent change at annual rate, not compounded.
** Deflated by CPI, seasonally adjusted.

Despite adverse weather early in the month auto sales in February were at a 10.7 million unit annual rate, close to their strike rebound level of 10.9 in December and 200,000 units above January. Most of the advance was due to sharply improved sales of imports. At a 1.9 million unit annual rate, foreign cars were selling better than at any time in the past two years; these sales likely were boosted by dealer incentive contests and cash rebates.

According to staff estimates based on weekly data for February, retail sales of goods other than autos and nonconsumer items increased about 1 per cent from the weather-affected January level. Spending for furniture and appliances was up 2 per cent, extending the gain in January and the strong fourth quarter showing. Outlays for food rose more than 1 per cent. Spending for general merchandise, which had been strong during the second half of 1976, was about unchanged for the month as a whole after declining sharply in January. Such sales, which are particularly likely to be postponed due to severe weather, appeared to improve somewhat during the final weeks of the month.

The book value of manufacturing inventories rose at a $10.2 billion annual rate in January, following a revised $3.1 billion rate of decline in December. While stocks at producers of nondurables were practically unchanged, durable manufacturers' inventories rose at a $9.9 billion rate in January. A significant factor in the rise in durable stocks was a sizable turnaround in stocks of

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

	1976					1977	
	II	III	IV	Nov.	Dec.	Jan.	Feb.[1/]
Total sales	1.9	1.2	3.4	1.7	3.9	-2.0	1.0
(Real*)	.9	.3	2.1	1.5	3.5	-2.5	n.a.
Total, less auto and noncomsumption items	1.3	1.7	3.1	.9	1.7	-1.2	.9
GAF	-.2	2.9	4.3	.8	1.3	-1.6	.9
Durable	3.4	.2	3.7	3.4	8.3	-3.2	1.6
Auto	4.5	-.7	4.1	4.0	13.9	-6.0	1.4
Furniture and appliances	2.7	-.2	4.0	3.0	-.3	.6	2.1
Nondurable	1.2	1.7	3.2	.9	1.8	-1.4	.8
Apparel	-3.4	5.7	1.5	-1.1	1.3	4.5	.3
Food	1.2	1.0	2.3	-.2	2.6	-2.0	1.2
General merchandise	-.1	3.1	5.2	.8	1.7	-3.8	-.2
Gasoline	.0	2.3	4.6	1.3	3.3	-.2	1.2

*Deflated by all commodities SA consumer price index.

[1/] Staff estimate from weekly data.

AUTO SALES
(Seasonally adjusted, millions of dollars)

	1976							1977	
	II	III	IV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.P
Total	10.3	10.2	10.0	9.9	9.3	9.7	10.9	10.5	10.7
Imports	1.4	1.6	1.7	1.7	1.7	1.7	1.6	1.7	1.9
Domestic	8.9	8.6	8.3	8.2	7.6	8.0	9.3	8.8	8.9

motor vehicle materials and supplies between December (-$8.2 billion)--when production and shipments were rebounding from the auto strike--and January (+$4.9 billion). It is possible that some of the January inventory buildup may have been due to the severe weather, which hampered shipments. The slow rate of accumulation during the fourth quarter--$7.6 billion, annual rate--and the relatively low inventory-sales ratio in January could set the stage for a building of stocks later this year.

In general, retailers entered 1977 with a lean inventory position. Although December nondurable retail trade stocks rose rapidly, offsetting the drop in November, the average fourth quarter annual rate of rise of nondurable retail stocks was still $1.5 billion lower than that in the third quarter. Durable stocks other than autos were run off in December because of strong sales.

Recent data indicate a strengthening pattern of capital spending. Revisions in contracts and orders data showed that there was more strength at year-end than was indicated previously, and this strength continued in January. The December increase in <u>nondefense capital goods orders</u> was revised up sharply to 11.1 per cent, more than recovering the November drop; the January increase was 3.1 per cent. Shipments of nondefense capital goods fell 2.3 per cent in January probably because of bad weather but unit truck sales and shipments of farm equipment both advanced.

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

	1975		1976					1977
	III	IV	I	II	III	IV	Dec.	Jan.
Manufacturing and trade	8.6	-.4	23.1	31.5	29.6	11.4	5.4	n.a.
Manufacturing	-4.2	.6	7.5	14.2	15.4	7.6	-3.1	10.2
Durable	-7.3	-4.4	1.7	6.8	6.7	7.5	-1.7	9.9
Nondurable	3.1	5.0	5.8	7.5	8.6	.1	-1.4	.4
Trade, total	12.8	-1.0	15.6	17.3	14.2	3.9	8.5	n.a.
Wholesale	3.1	-2.0	5.1	9.0	4.3	1.6	-.4	n.a.
Retail	9.7	1.0	10.5	8.3	9.9	2.2	8.9	n.a.
Auto	5.9	-.9	1.1	.1	4.8	1.3	5.7	n.a.

INVENTORY RATIOS

	1974	1975	1976				1977
	IV	IV	II	III	IV	Dec.	Jan.
Inventory to sales							
Manufacturing and trade	1.63	1.54	1.51	1.53	1.51	1.47	n.a.
Manufacturing	1.81	1.70	1.63	1.66	1.64	1.58	1.61
Durable	2.25	2.20	2.03	2.04	2.04	1.91	1.99
Nondurable	1.33	1.21	1.22	1.26	1.24	1.22	1.21
Trade, total	1.45	1.36	1.37	1.38	1.37	1.34	n.a.
Wholesale	1.23	1.21	1.22	1.22	1.23	1.22	n.a.
Retail	1.63	1.48	1.48	1.51	1.47	1.43	n.a.
Inventories to unfilled orders:							
Durable manufacturing	.551	.613	.625	.640	.633	.633	.632

COMMITMENTS DATA FOR BUSINESS FIXED INVESTMENT
(Percentage change from preceding period; based on seasonally adjusted data)

	1976 QI	1976 QII	1976 QIII	1976 QIV	1976 Dec.	1977 Jan.	Jan. 76 to Jan. 77
New Orders Received by Manufacturers							
Total Durable Goods							
Current Dollars	8.1	5.5	-.8	6.1	9.7	-4.3	19.8
1967 Dollars 1/	6.3	4.4	-2.3	3.6	8.9	-4.7	12.3
Nondefense Capital Goods							
Current Dollars	6.3	5.6	5.8	3.9	11.1	3.1	26.5
1967 Dollars 1/	4.7	4.5	4.4	2.1	10.6	2.3	19.5
Construction Contracts for Commercial and Industrial Building 2/							
Current Dollars	1.4	11.0	-7.1	19.2	-16.4	3.8	16.6
Square Feet of Floor Space	0.5	8.0	-4.9	4.8	4.3	-2.3	21.0
Contracts and Orders for Plant & Equip. 3/							
Current Dollars	14.2	2.0	1.6	7.8	11.2	6.3	17.3
1972 Dollars 4/	14.4	-.9	1.3	8.8	12.1	3.6	13.3

1/ FR deflation by appropriate WPI.

2/ Current Dollar series obtained from FR seasonal. Floor space is seasonally adjusted by Census.

3/ Contracts and orders for plant and equipment (BCD Series No. 10) is constructed by adding new orders for nondefense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and new contracts awarded for private nonbuilding (e.g. electric utilities, pipelines, etc.).

4/ BCD series No. 20.

Although there was some slowing in the growth of fourth quarter orders, the machinery component did not weaken, suggesting that the underlying trend in capital goods orders is strong. In addition, construction indicators appear somewhat firmer than previously estimated. The fourth quarter change in construction contracts for commercial and industrial buildings--measured in square feet of floor space--has been revised from a 2.8 per cent decline to a 4.8 per cent increase, just about offsetting the decrease that occurred during the third quarter. Nonresidential construction activity appears to have been considerably hampered by bad weather in January as the value of construction put in place fell 10 per cent.

Recent capital spending surveys and capital appropriations data indicate that investment prospects for later in the year have also improved somewhat. The latest Commerce survey--conducted from late January to mid-February--showed business planning to increase plant and equipment outlays by 11.7 per cent in 1977, a slight upward revision from the results reported in the December survey. The McGraw-Hill survey--taken at about the same time--indicated plans for a 15 per cent increase--up 2 percentage points from the fall survey. The two surveys also show significant differences in several industry categories. Some of the disparity between the overall change indicate by the two surveys can be attributed to coverage differences between the two samples and the adjustments for systematic bias employed in the Commerce survey.[1/] The Conference Board reported that newly approved capital appropriations of the 1,000 largest manufacturing companies rose by 33 per cent in the fourth quarter after falling in the previous quarter. Some of the fourth quarter jump was due to a sharp increase by petroleum producers. Excluding this volatile component, the increase in manufacturing appropriations was still a considerable 20 per cent--up from a 16 per cent decline in the third quarter.

Adverse weather also set back residential construction activity in January. Private housing starts dropped to 1.38 million units annual rate--more than a fifth below the advanced fourth quarter average. Declines in January were sharpest in the Northeast and North Central regions, where the winter had been most severe. Starts in the West, in contrast, were unchanged from December and 11 per cent above the fourth quarter pace. In addition to delaying housing starts, the severe weather conditions inhibited construction progress on units started in earlier months. Altogether, Census Bureau estimates indicate that residential construction outlays dropped nearly a tenth in January from the previous month.

1/ The methodologies used by Commerce to adjust responses for systematic bias are not the same for the annual (December) survey as for the recent quarterly survey. Thus, a comparison of the changes between these two surveys may not be entirely meaningful. On an unadjusted basis the increase shown in the Commerce survey was revised upwards from 11.7 per cent in December to 14.2 per cent in February.

SURVEY RESULTS OF ANTICIPATED PLANT AND EQUIPMENT EXPENDITURES
1977
(per cent increase from 1976)1/

	McGraw-Hill Nov. 1976	McGraw-Hill Feb. 1976	Commerce 2/ Dec. 1976	Commerce 2/ Feb. 1977
All Business	13.0	14.9	11.3	11.7
Manufacturing	15.4	16.7	12.5	12.7
Durable	22.6	23.1	12.2	13.5
Nondurable	9.4	11.6	12.7	12.1
Nonmanufacturing	11.0	13.4	10.4	10.9
Mining	10.1	25.1	11.0	7.2
Railroads	18.9	23.0	10.5	.3
Nonrail Transportation	8.3	25.9	-13.7	-19.3
Electric Utilities	12.0	11.0	13.5	17.0
Gas Utilities	17.1	22.0	17.2	23.1
Communications	11.0	16.0	14.4	13.2
Commercial and Other	9.0	6.0	9.5	11.0

1/ Preliminary estimate of 1976 spending as estimated by the November Commerce survey.

2/ Corrected for systematic bias. On an unadjusted basis, the December Commerce survey showed an 11.7 per cent increase for 1977 and the February survey showed a 14.2 per cent increase.

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

	1976					1977	Per cent change in Jan. from:	
	QI	QII	QIII	QIV(r)	Dec.(r)	Jan.(p)	Month ago	Year ago
All Units								
Permits	1.17	1.13	1.34	1.53	1.51	1.31	- 14	+ 14
Starts	1.39	1.44	1.57	1.77	1.88	1.38	- 27	+ 9
Under construction 1/	1.06	1.06	1.11	1.19	1.19	n.a.	+ 2*	+ 15*
Completions	1.30	1.33	1.37	1.38	1.38	n.a.	- 5*	+ 4*
Single-family								
Permits	.87	.81	.89	1.04	1.05	.97	- 8	+ 14
Starts	1.10	1.10	1.19	1.28	1.33	1.03	- 23	+ 6
Under construction 1/	.59	.61	.64	.69	.69	n.a.	+ 3*	+ 24*
Completions	.97	.99	1.05	1.05	1.04	n.a.	- 7*	+ 5*
Multifamily								
Permits	.30	.32	.45	.49	.46	.34	- 27	+ 14
Starts	.28	.34	.39	.49	.55	.35	- 37	+ 21
Under construction 1/	.46	.46	.47	.50	.50	n.a.	+ 2*	+ 4*
Completions	.33	.34	.32	.34	.34	n.a.	+ 2*	+ 1*
MEMO:								
Mobile home shipments	.27	.24	.24	.26	.25	.27	+ 9	+ 4

* Per cent changes based on December data.
1/ Seasonally adjusted, end of period.

NOTE: Per cent changes are based on unrounded data. A change of less than 1 per cent is indicated by --.

Underlying housing and mortgage market conditions suggest that the harsh weather's impact on residential construction will be short-lived. Home sales in January--both new and existing units--edged down only moderately from their record December rate. In addition, rental markets have continued to tighten in most areas and, with savings inflows still relatively substantial at thrift institutions, mortgage loan commitments outstanding at S&L's at the end of Janurry remained close to the record December volume.

Federal government outlays fell below budgeted amounts in January and February and growth of State and local government spending continues to be weak. Value of State and local construction put-in-place fell sharply again in January, largely, it appears, because extreme weather depressed building and road work. State and local employment in February was below the December figure and up only 160,000 from a year earlier--less than half the long term average. In contrast, State and local revenues have picked up sharply over the past year. Total receipts increased by nearly 12 per cent over the four quarters of 1976, led by a sharp increase in income tax payments as well as large gains in sales and property tax receipts.

The Carter Administration has issued a revised Federal Budget. Outlays are planned about $6 billion higher in fiscal year 1977 and $19 billion higher in fiscal 1978. Most of the increase in fiscal 1977 and approximately $8 billion of the fiscal 1978 rise due to

COMPARISON OF ALTERNATIVE BUDGET ESTIMATES
(Fiscal years, billions of dollars)

	1976	1977			1978	
	Actual	Ford Budget	Carter Budget	Cong.1/ Adjusted	Ford Budget	Carter Budget
Outlays	$366.5	$411.2	$417.4	$418.4	$440.0	$459.4
Receipts	300.0	354.0	349.4	348.6	393.0	401.6
Deficit (-)	-66.5	-57.2	-68.0	-69.8	-47.0	-57.7

1/ The Congress treats the regular earning income credit--worth about $.9 billion--as a tax cut; whereas the Board staff and OMB treat it as an expenditure. As adjustment, therefore, is needed to make the Congressional and Administrative totals comparable as regards budget accounting. The Congressional targets without this adjustment are: outlays $417.5 billion and receipts $347.7 billion.

President Carter's previously announced fiscal package. In addition, for fiscal 1978 the new budget restores about three-quarters of the spending reductions proposed by President Ford, which had totaled some $12 billion. The receipts forecasts of $394.4 billion in fiscal 1977 and $401.6 billion in fiscal 1978 assume extension of the 1975 "temporary" tax reductions and the passage of the Administration's previously recommended personal and corporate income tax cuts. The Administration now estimates that the Federal deficit for fiscal years 1977 and 1978 will be $68 billion and $57.7 billion, respectively. These deficits are each about $10 billion more than was announced by the Ford Administration in January. Congress also has revised its budget targets for fiscal year 1977, The spending target set in the Third Concurrent Resolution--when made comparable to the Carter budget--is now projected to be $418.4 billion.

Recent developments on the inflation front continue mixed. In February, the average hourly earnings index for private nonfarm workers was only marginally higher following a sharp rise in January when minimum wage increases became effective. For the two months combined this index increased at a 5.7 per cent annual rate, compared to a 6.9 per cent rise during 1976.

The 0.8 per cent jump in the Consumer Price Index in January was not generally weather-related. Food, which is priced early in the month, rose 0.9 per cent after little net change over the three prior months. Much of the increase reflected higher coffee prices, which are now 70 per cent above a year earlier, and increases for meats, cereal and bakery products, which had declined during the fall of 1976. Prices of meats, cereal and bakery products were still below those of a year earlier.

Among nonfood items, car prices, particularly those for used cars, continued to accelerate, as did prices for fuel oil. Prices of natural gas and for medical care services continued rising at double digit rates. Some of the January advance, however, came from large, infrequent adjustments for property taxes and water and sewage rates.

The February CPI--to be reported March 18--is likely to show more of the effects of the severe weather on food prices. The

HOURLY EARNINGS INDEX*
(per cent change from preceding period, compound annual rate;
based on seasonally adjusted data)

	1976				Feb. 76-	Dec. 76-	Jan. 77
	I	II	III	IV	Feb. 77	Jan. 77**	Feb. 77**
Private Nonfarm	6.9	6.5	7.1	6.7	6.6	10.6	.8
Construction	5.1	7.6	5.5	4.0	5.8	18.9	-10.5
Manufacturing	7.4	6.3	9.2	6.7	7.0	7.1	2.7
Trade	5.2	5.6	6.9	8.0	7.1	10.7	4.6
Services	8.3	6.6	4.8	7.8	6.7	15.7	-1.8
Transportation and Public Utilities	9.1	9.3	6.6	4.6	5.5	2.9	3.8

* Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

** Monthly change at an annual rate, not compounded.

weather's effect on agricultural production and food prices can be only partially assessed as of this date. Indications are that the U.S. will have adequate citrus supplies in spite of the considerable freeze damage in Florida. Vegetable production in Florida was set back by the freeze, but loss estimates have been revised downward from $150 million to $110 million. Despite some recent rainfall the outlook for California crops this year continues to be poor. Cutbacks in water supplies are projected at 25 to 75 per cent in the Sacramento and San Joaquin valleys where a significant share of the nation's fruits and vegetables are produced. However, the nation's current meat supply situation continues to be favorable. Milk, meat, and poultry production as of early February all were several per cent higher than a year earlier.

The Wholesale Price Index for February will be released on March 10 and reported in the Greenbook Supplement.

RECENT PRICE CHANGE
(Per cent changes at annual rates; based on seasonally adjusted data)[1/]

	Relative importance Dec. 76	Dec. 75 to Dec. 76	Dec. 75 to June 76	June 76 to Sept. 76	Sept. 76 Dec. 76	Dec. 76 to Jan. 77
			Wholesale Prices			
All commodities	100.0	4.7	3.9	3.3	7.4	5.8
Farm and food products	21.6	-1.1	1.0	-12.2	6.6	3.9
Industrial commodities	78.4	6.4	4.8	8.2	7.8	5.7
Excluding fuels and related products and power	67.7	6.1	5.6	6.7	6.6	8.1
Materials, crude and intermediate 2/	49.1	6.7	5.4	7.7	8.4	4.8
Finished goods						
Consumer nonfoods	18.7	4.8	3.1	8.2	5.2	11.6
Producer goods	12.1	6.5	5.8	5.0	9.2	4.7
Memo:						
Consumer foods	10.4	-2.5	-1.2	-13.8	8.6	-1.3
			Consumer Prices			
All items	100.0	4.8	5.0	5.3	4.2	9.6
Food	23.7	0.6	0.2	1.6	0.0	10.6
Commodities (nonfood)	38.8	5.1	4.8	5.5	5.7	8.2
Services	37.5	7.3	8.5	7.5	5.1	11.0
Memo:						
All items less food and energy 2/3/	68.9	6.1	6.9	6.5	4.6	10.6
Petroleum products 2/	4.5	3.5	-2.2	9.9	9.5	-2.4
Gas and electricity	2.9	12.5	9.8	12.9	17.8	10.7

1/ Not compounded for one-month changes.
2/ Estimated series.
3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, gas and electricity.

Note: Seasonal factors have been revised.

III-T-1

SELECTED DOMESTIC FINANCIAL DATA

(Dollar amounts in billions)

Indicator		Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		February	34.40	-12.9	.9	2.5
Nonborrowed reserves		February	34.33	-13.0	.9	2.5
Money supply						
M1		February	314.1	1.9	5.2	5.8
M2		February	749.9	7.2	9.8	10.6
M3		February	1257.8	9.0	11.2	12.6
Time and savings deposits (Less CDs)		February	435.8	11.1	13.2	14.3
CDs (dollar change in billions)		February	63.3	.2	1.1	-12.1
Savings flows (S&Ls + MSBs + Credit Unions)		February	507.9	11.4	13.3	15.6
Bank credit (end of month)		February	787.0	14.8	8.7	7.6
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	3/2/77	4.68	.08	-.10	-.27
Treasury bill (90 day)	"	3/2/77	4.70	-.04	.24	-.41
Commercial paper (90-119 day)	"	3/2/77	4.75	-.05	--	-.50
utility issue Aaa	"	3/4/77	--	--	--	--
icipal bonds (Bond Buyer)	1 day	3/3/77	5.92	-.01	.14	1.12
auction yield	(FHA/VA)	3/7/77	8.66	.14	.15	-.40
Dividends/price ratio (Common stocks)	wk. endg.	3/2/77	4.35	6.10	8.80	17.30
NYSE index (12/31/65=50)	end of day	3/8/77	54.83	-.90	-2.00	9.50

Credit demands	Period	Net change or gross offerings: Current month 1977	Current month 1976	Year to date 1977	Year to date 1976
Business loans at commercial banks	February	1.5	-1.3	2.7	-.7
Consumer instalment credit outstanding	January	1.9	1.1	1.9	1.1
Mortgage debt outst. (major holders)	December 76	6.6	5.3	61.2	43.7
Corporate bonds (public offerings)	February	1.2e	2.1	4.1e	4.3
Municipal long-term bonds (gross offerings)	February	3.1e	2.7	6.5e	5.1
Federally sponsored Agcy. (net borrowing)	February	-.2	-1.1	.7	-.6
U.S. Treasury (net cash borrowing)	March	8.4	7.3	20.7	24.1
Total of above credits		22.5	16.1	97.8	77.0

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Securities markets in February were dominated by credit flows to the government sector. Treasury borrowing was much larger than in January, and State and local units issued a record amount of long-term debt for the month. Public offerings of corporate bonds, on the other hand, were down sharply from the January level, as prime-rated corporations were reluctant to bring issues to market against a background of higher interest rates. Although the volume of private placements is estimated to have been large by historical standards, total capital market issues of corporations in February were about 25 per cent below the average monthly pace of 1976. With long-term offerings reduced, businesses relied more on short-term borrowings--both at banks and in the commercial paper market--extending the broadly based pickup in such borrowings that began early in the fourth quarter of 1976.

Short-term interest rates have changed little on balance since the February FOMC meeting, as Federal funds generally traded in the 4-5/8 to 4-3/4 per cent range and published data showed only a moderate expansion in the monetary aggregates. Bond market yields, however, have risen slightly on balance.

The rise in market interest rates during January and February and the severe weather have had a depressive effect on deposit flows to banks and thrift institutions. Inflows of demand deposits and small denomination time and savings deposits to commercial banks in January and February were well below their his-

SELECTED FINANCIAL MARKET QUOTATIONS
(One day quotes, except as noted, in per cent)

	1976[1/]		1977			Change from:	
	May-June High	December Low	February FOMC Feb. 15	Mar. 1	Mar. 8	1976 Low	Feb. FOMC
Short-term rates							
Federal funds[1/]	5.58	4.63	4.70	4.70	4.67[6/]	+.04	-.03
Treasury bills							
3-month	5.53	4.27	4.63	4.70	4.66	+.39	+.03
6-month	5.93	4.50	4.85	4.97	4.97	+.47	+.12
1-year	6.32	4.62	5.09	5.27	5.25	+.63	+.16
Commercial paper							
1-month	5.65	4.48	4.63	4.63	4.63	+.15	0
3-month	5.90	4.63	4.75	4.75	4.75	+.12	0
Large neg. CD's[2/]							
3-month	5.95	4.60	4.75	4.88	4.80	+.20	+.05
6-month	7.00	4.71	5.10	5.20	5.15	+.44	+.05
Bank prime rate	7.25	6.25	6.25	6.25	6.25	0	0
Intermediate and Long-term rates							
Corporate							
New AAA[3/]	8.95	7.93	--	8.28	--	--	--
Recently offered[4/]	8.84[7/]	7.84	8.12	8.26	8.25p	+.41	+.13
Municipal (Bond Buyer)[5/]	7.03[8/]	5.83	5.86	5.92	5.92	+.09	+.06
U.S. Treasury (constant maturity)							
3-year	7.52	5.64	6.35	6.54	6.54	+.90	+.19
7-year	7.89	6.32	7.14	7.26	7.25	+.93	+.11
20-year	8.17	7.26	7.62	7.77	7.78	+.52	+.16
Stock prices							
Dow-Jones Industrial	1003.87	881.51	938.33	944.73	952.04	+70.53	+13.71
N.Y.S.E. Composite	56.96	49.06	54.80	54.68	54.83	+5.77	+.03
AMEX	107.26	86.42	112.24	111.13	111.42	+25.00	-.82
Keefe Bank Stock[4/]	664	520	645	623	623	+103	-22

1/ Daily average for statement week.
2/ Highest quoted new issues.
3/ Average for preceding week.
4/ One day quotes for preceding Friday.
5/ One day quotes for preceding Thursday.
6/ Average for first 6 days of statement week ending March 9.
7/ High for the year was 8.94 on January 7.
8/ High for the year was 7.13 on January 7.
n.a. -- Not available.
p -- Preliminary.

torically high levels in the fourth quarter, and flows to thrift institutions in this period show a similar--but not as dramatic--deceleration.

Monetary Aggregates

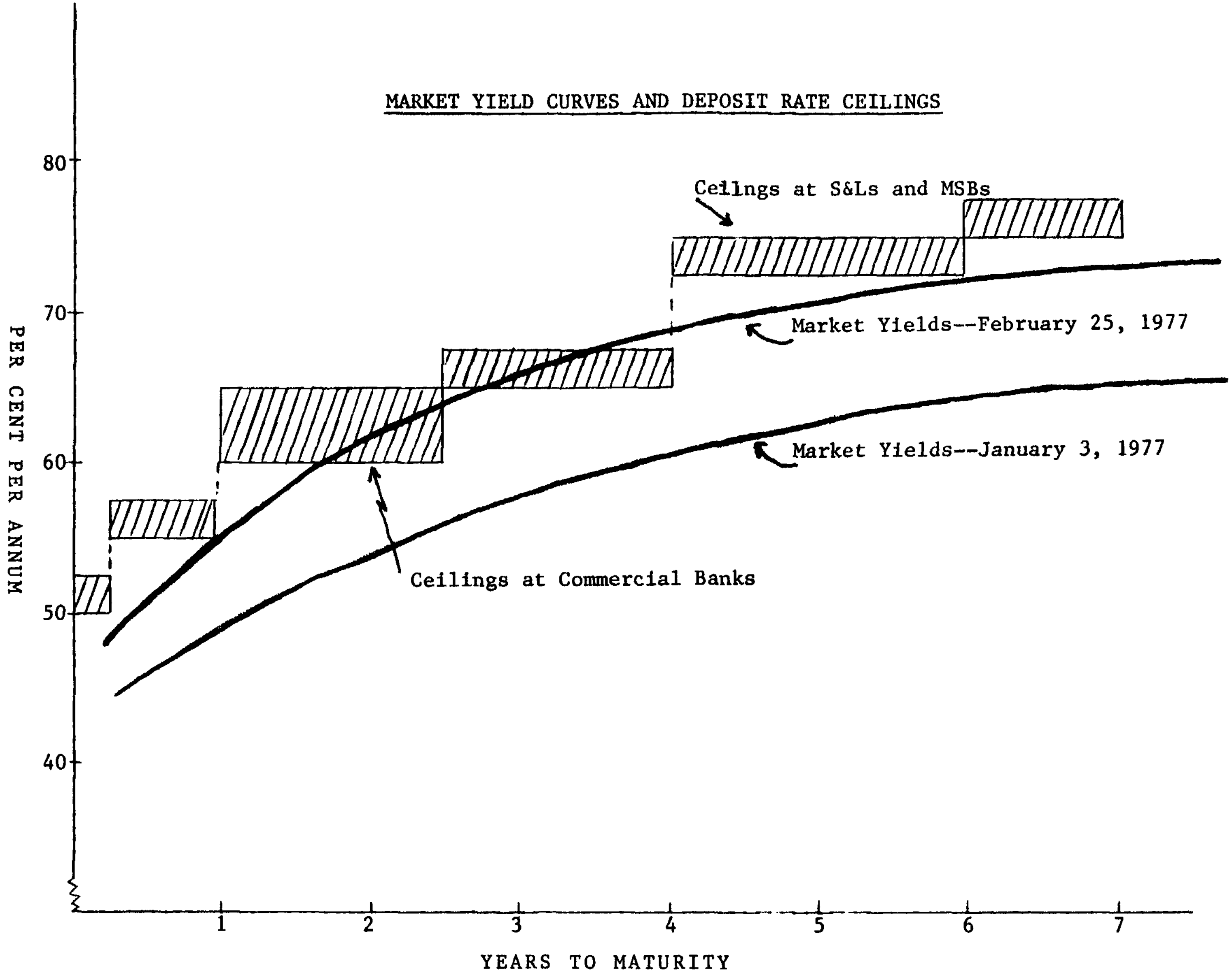
Reflecting sluggishness in demand deposit growth after mid-month, M_1 expanded at only about a 2 per cent annual rate in February, down sharply from the 5-1/2 per cent pace in January. The 3-3/4 per cent average rate of expansion of M_1 in January and February combined was almost 3 percentage points below that of the fourth quarter. The slower growth of M_1 and the diminished net inflows of savings and small denomination time deposits reduced the pace of M_2 expansion to a 7-1/4 per cent rate in February, also considerably below the pace of late last year. Similarly, smaller increases in deposits at thrift institutions last month contributed to a more moderate 9 per cent rate of expansion of M_3.

The slowdown in savings and small time deposit growth at commercial banks and at thrift institutions has stemmed in part from the firming in market yields since early in the year. Increases in market rates have been particularly large for intermediate-term securities (see chart). As a result, market interest rates have become more competitive with rates offered on time and savings deposits, especially since--as reported in earlier Greenbooks--many depository institutions have cut their offering rates on some deposit categories. In addition, the unusually severe winter weather has

MONETARY AGGREGATES[1/]
(Seasonally adjusted changes)

	QIII	QIV	Jan	Feb	Jan-Feb	12 months ending Feb
			Per cent at annual rates			
M_1 (currency plus demand deposits)	4.2	6.3	5.4	1.9	3.7	5.8
M_2 (M_1 plus time deposits at CBs other than large CDs)	9.2	12.3	9.2	7.2	8.3	10.6
M_3 (M_2 plus deposits at thrift institutions)	11.4	14.3	11.2	9.0	10.1	12.6
Adjusted bank credit proxy	4.0	8.3	4.5	-2.0	1.2	4.7
Time & savings deposits at CBs						
a. Total	7.3	11.8	10.0	10.4	10.3	9.3
b. Other than large negotiable CDs	13.0	16.8	12.4	11.1	11.8	14.3
1. Savings deposits	13.4	26.9	21.5	12.9	17.3	21.7
2. Time deposits	12.5	8.2	3.7	10.1	6.9	8.2
3. Small time deposits[2/]	25.2	26.9	1.5	3.6	2.5	18.5
Deposits at nonbank thrift institutions						
a. Savings and loan assoc.	15.9	18.8	15.3	12.4[e]	13.9[e]	17.0[e]
b. Mutual savings banks	11.4	12.8	9.4	7.8[e]	8.7[e]	11.2[e]
c. Credit unions	15.9	18.7	16.9	15.5[e]	16.3[e]	17.8[e]
			Billions of dollars (Average monthly changes, seasonally adjusted)			
Memoranda:						
a. Total U.S. Govt. deposits	1.1	-1.0	0.1	1.5	0.3	0.1
b. Negotiable CDs	-2.4	0.1	-0.2	0.2	0.0	-1.0
c. Nondeposit sources of funds	0.0	0.3	-0.8	-0.8	-0.3	0.0

1/ Quarterly growth rates are based on quarterly average data.
2/ Small time deposits are total time deposits (excluding savings) less all large time deposits, negotiable and nonnegotiable.
e -- Estimated.


MARKET YIELD CURVES AND DEPOSIT RATE CEILINGS
Ceilings at S&Ls and MSBs
Market Yields--February 25, 1977
Market Yields--January 3, 1977
Ceilings at Commercial Banks
PER CENT PER ANNUM
80
70
60
50
40
1
2
3
4
5
6
7
YEARS TO MATURITY

temporarily reduced wage and salary income for some workers and increased fuel bills for consumers in the affected areas. It is likely that these transitory changes in personal income and expenditures have been partially financed by reductions in savings flows to depository institutions.

With deposit flows reduced and loan demand remaining comparatively strong, outstanding negotiable certificates of deposit at large banks expanded in February. The $300 million seasonally adjusted increase, while modest by historical standards, is only the fourth monthly increase since January 1976.[1/]

Bank Credit and Short-term Business Credit

Both loans and investments increased sharply in February (last Wednesday of the month series) as bank credit expanded at a 14-3/4 per cent annual rate, faster than in any month since July 1974.[2/] Acquisitions of U.S. Government securities were unusually

1/ Recently available data indicate that banks have been obtaining an increasing volume of long-term nondeposit funds through issues of subordinated debt. June 1976 call date figures show a $460 million net increase in subordinated notes and debentures for all insured commercial banks during the first six months of 1976, the largest half-year increase since 1972. Gross issues of bank debt continued strong at about $1 billion in the last half of 1976, and issues for the first two months of 1977 have outpaced those for the comparable period last year. A relatively large volume of this debt has been placed privately with insurance companies. In addition, a large money center bank has just announced a public issue of $350 million of 30-year notes to be offered in March.

2/ In February, growth of bank credit and the credit proxy diverged sharply. Such a divergence is not unusualy for a single month and generally reflects changes in balance sheet items not included in one or the other of these measures as well as statistical problems in comparing averages of daily figures for member banks only for the proxy with last-Wednesday measures for bank credit at all commercial banks.

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

	HI	QIII	QIV	Jan	Feb	Oct-Feb	12 months ending Feb
Total loans & investments2/	4.9	7.2	7.9	9.0	14.8	9.6	7.6
Investments	12.4	5.0	8.0	-5.9	25.5	8.8	9.2
Treasury securities	36.8	0.0	10.6	-9.9	56.4	15.8	18.7
Other securities	-1.0	8.3	6.3	-3.2	5.6	4.2	3.6
Total loans2/	1.6	8.2	7.9	16.0	9.9	10.1	6.9
Business loans	-4.9	3.5	9.6	5.4	10.0	9.5	2.8
Real estate loans	8.0	6.0	8.1	8.2	11.5	8.9	7.9
Consumer loans	4.9	11.3	10.6	6.2	n.a.	n.a.	8.24/
Memoranda:							
a. Nonfinancial commercial paper 3/	50.9	-36.1	23.1	37.5	72.2	39.7	22.6
b. Business loans less bankers acceptances	-3.5	0.5	5.9	12.5	14.4	9.6	2.3
c. Business loans less bankers acceptances plus nonfinancial commercial paper	-0.3	-2.2	7.0	14.2	19.1	11.6	3.6
d. Business loans (including bankers acceptances) plus nonfinancial commercial paper	-1.7	0.6	10.5	7.5	14.3	11.4	4.0

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, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.
3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.
4/ Twelve months ending in January.
n.a.--not available

large, with both large and small banks increasing their holdings. Weekly reporting banks accounted for almost half of the $1.6 billion unadjusted increase, as their acquisitions in the 1-5 year maturity range more than offset declines in their holdings of bills and longer-term issues. Holdings of other securities--mostly tax-exempt issues--increased for the first time since November, but this rise was well below the average monthly increase in the last half of 1976.

Total bank loans grew at a 10 per cent annual rate last month. Real estate and consumer loans have expanded fairly rapidly in most recent months, reflecting underlying strength in residential construction and consumer durable sales and a greater willingness by banks to offer these loans at attractive terms.[1/]

Of particular significance is the continued strong expansion of business loans. Excluding holdings of acceptances, such loans increased in February at an annual rate of 14-1/2 per cent.[2/] Non-financial commercial paper also increased rapidly, advancing by $800 million, as industrial companies and communications firms were active borrowers. In total, short-term business credit excluding bankers acceptances (memo item c in the table) increased at a 19 per cent annual rate in February.

1/ According to the February Lending Practices Survey, nearly one-fourth of all respondents reported that they were more willing to make consumer loans, and none reported that they were less willing. Twenty per cent of the respondents were more willing to make single family mortgage loans, up significantly from the November Survey. A more detailed review of this survey and of an informal staff survey on loan commitment behavior appears in Appendix A.

2/ Bank holdings of acceptances declined on a seasonally adjusted basis by about $700 million in February, and now stand $200 million above the level at the end of September 1976.

The unusually rapid growth of short-term borrowing by businesses in February reflects in part a slowing of capital market financing. In addition, business credit demands may have been temporarily bolstered by production and distribution disruptions induced by the weather in late January and early February and by some bridge financing associated with several large advance refundings by telephone companies. As such, the developments in February are the latest in a series of "special factors" beginning last October--including inventory fluctuations, changes in holdings of bankers acceptances, and changing seasonal patterns--that have caused irregular movements in the growth of business loans.

Over the entire five months October through February, however, the effects of many of these special influences appear to cancel, and business loans increased at more than a 9 per cent annual rate while total short-term business credit rose at an 11-1/2 per cent annual rate. This suggests the possibility that a fundamental change may have occurred in short-term business credit markets. Further support for this view is that business loans appear now to be growing at both small and large banks.1/ Moreover, borrowing from large banks, seasonally adjusted, has increased since October for almost all categories of business borrowers.2/

1/ Business loans at large banks declined about $7 billion, seasonally adjusted, during the first three quarters of 1976.

2/ Showing particular strength have been primary metals manufacturing, other fabricated metal products, the residual category of nondurable manufacturing, mining, wholesale trade, and communications. Only loans for transportation equipment manufacturing decreased on balance over this period.

Still, the factors contributing to any fundamental resurgence in short-term credit demands since last fall are not readily apparent. While there has been some slowing in capital market financing over this period, long-term borrowing--with the exception of February--still has been quite large by historical standards. Moreover, although there was some involuntary inventory accumulation early in the fall and perhaps some effort more recently to replenish stocks drawn down at year end, inventory accumulation over the period has been quite modest. In addition, the total financing gap of the corporate sector remains moderate.

Changes in the availability and costs of bank financing may have been a small contributing factor to the strong expansion in business borrowing. According to the February Bank Lending Practices Survey, banks have continued to ease nonprice terms of lending and have been more aggressive in seeking business loans. Further evidence of an easing in bank loan terms was found in an informal System survey of banks which had reported growth in both takedowns and unused commitments in the monthly Loan Commitments Survey. Strong growth in takedowns such as occurred in late 1976 typically occurs simultaneously with a decline in unused commitments. However, both takedowns and commitments have increased at large banks in most recent months. The informal survey indicates that the growth in outstanding commitments has been due more to efforts by banks to attract customers than to increasing demands for commitments by business borrowers. Generally, banks in the survey have stepped up their marketing efforts and, to a lesser extent, have lowered fees and eased compensating balance requirements.

Private Long-Term Securities Markets

Gross issues of publicly offered corporate bonds were $1.25 billion in February, less than half the volume in each of the previous two months. Some potential issuers, particularly higher-rated borrowers, apparently were discouraged by the rise in long-term rates. Offerings of high-rated (Aaa and Aa) firms totaled less than $500 million during February, compared to more than $2 billion in January. Offerings by lower-rated corporations declined to $700 million in both January and February after averaging more than $1.3 billion per month in the fourth quarter. Underwriters report that some of these companies have elected to place their debt issues privately rather than offer them publicly; life insurance companies continue to be flush with investable funds, and borrowing costs are reported to be favorable.

Takedowns of privately placed domestic corporate bonds have continued at a rapid rate. In 1976 private placements are estimated at more than $15 billion, almost 50 per cent above the previous record total in 1975. Life insurance companies--as is usual--have been the principal purchasers of these bonds. Lower-rated corporations, particularly manufacturing and other industrial concerns, were the largest borrowers (see table). Approximately three-fourths of the 1976 commitments by life insurance companies were for third and fourth quality issues, roughly equivalent to A and Baa-rated obligations, respectively.

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

	1976			1977			
	H1	QIII	QIV e/	Jan. e/	Feb. e/	Mar. f/	Apr. f/
		Gross offerings					
Corporate securities--							
Total	4,667	3,796	4,238	4,650	3,050	4,800	3,700
Publicly offered bonds	2,499	1,635	2,195	2,800	1,250	2,450	1,800
By quality 1/							
Aaa and Aa	1,354	700	792	2,075	475	--	--
Less than Aa 2/	1,145	935	1,403	725	775	--	--
By type of borrower							
Utility	720	575	735	660	400	--	--
Industrial	1,055	515	865	1,100	350	--	--
Other	724	478	500	1,040	500	--	--
Privately placed bonds	1,055	1,541	1,284	1,200	1,200	1,400	1,200
Stocks	1,112	620	759	650	600	950	700
Foreign securities--							
Total	928	702	808	411	1,173	--	--
Publicly offered 3/	530	422	598	300	433	50	200
Privately placed	398	280	210	111	740	--	--
State and local gov't. securities							
Total	5,033	4,428	4,351	4,800	4,200	4,700	5,600
Long-term	2,886	2,747	3,033	3,400	3,100	3,500	3,000
Short-term	2,147	1,681	1,318	1,400	1,100	1,200	2,600
		Net offerings					
U.S. Treasury	5,128	5,218	5,984	2,837	7,750	9,102	-4,500
Sponsored Federal agencies	207	383	647	658	-467	1,484	378

e/ Estimated.
f/ Forecast.
1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's.
3/ Classified by original offering date.

PRIVATE PLACEMENT TAKEDOWNS OF CORPORATE BONDS BY LIFE INSURANCE COMPANIES

Period	Total ($ mils.)	Percentage Distribution by Industry				
		Manuf.	Other indust.	Finance cos.	Public utils.	Rail-roads
1972	$ 8,948	23.2	34.6	16.2	24.0	2.0
1973	7,817	26.6	43.0	11.7	15.6	3.1
1974	5,981	32.4	39.5	6.6	16.9	4.7
1975	9,808	37.1	35.0	6.2	18.0	3.7
1976	15,313	32.8	43.5	6.8	15.7	1.2
1975-Q1	2,434	35.0	31.8	2.5	26.2	4.5
Q2	1,859	42.2	34.1	2.9	14.9	5.9
Q3	2,032	36.5	28.9	12.1	19.5	3.0
Q4	3,483	36.1	41.2	7.3	13.2	2.3
1976-Q1	2,817	39.4	36.6	6.9	14.1	3.0
Q2	3,389	28.0	43.9	7.1	19.9	1.2
Q3	4,081	31.7	41.4	7.4	18.5	1.0
Q4	5,026	33.3	48.8	6.1	11.4	0.4

SOURCE: American Life Insurance Association. Data are for companies representing nearly 80 per cent of assets of U.S. life insurance companies.

Corporate bond yields have continued to move higher since the February FOMC meeting. The Board's index of recently offered Aaa-rated utility bond yields currently stands at 8.25 per cent, about 10 basis points above its level just prior to the last FOMC meeting and about 40 basis points above its low in December. Apparently the rise in bond rates was the result of heightened concern about the outlook for inflation. Apprehension over future inflationary pressures appeared to have increased in response to signs that the economy was rebounding from the weather induced slowdown of late January and February at a time when passage of the new Administration's fiscal stimulus package seemed assured. The release of unfavorable CPI statistics for January reinforced such worries.

Stock market prices have changed little since the February FOMC meeting, and daily volume has remained moderate. Although many corporations recently have reported higher earnings per share for the final quarter of 1976, investors reportedly remain wary about the outlook for inflation as well as the impact of the cold weather on first quarter operating results. During February new stock offerings continued the moderate pace established in recent months but are scheduled to increase somewhat during March, in line with normal seasonal patterns.

Government Securities

During February, the Treasury raised $7.7 billion of new money in the market through auctions of notes and bonds. Thus far in

1977, the Treasury has raised $13.6 billion through marketable borrowing and another $1.5 billion through nonmarketable issues.

February's volume of long-term tax-exempt securities offerings is estimated at $3.1 billion, a record for the month and about 15 per cent above the volume sold in February last year. Advance refunding issues, amounting to $900 million last month, continue to bolster the credit demands of State and local borrowers. These funds are required to be reinvested in nonmarketable Treasury securities.

As in January, February's large volume of tax-exempt securities was absorbed at relatively stable yields, and the Bond Buyer index now stands at 5.92 per cent--about the level prevailing just before the February FOMC meeting. According to dealers, property-casualty insurance companies continued to be important institutional purchasers. Risk premiums in this market have narrowed since the turn of the year, as yields on lower-rated bonds have changed little while yields on the higher grade bonds have moved higher. Apparently, institutional interest has shifted to lower-rated securities in an effort to achieve larger returns on their portfolios.[1/]

Mortgage and Consumer Credit

Mortgage acquisitions by S&Ls slowed in January, probably a temporary interruption induced by the weather, but the volume was

1/ A review of the recent financial crisis in New York City will appear in the Supplement.

INTEREST RATES AND SUPPLY OF FUNDS FOR CONVENTIONAL HOME MORTGAGES AT SELECTED S&Ls

End of period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from month or week earlier	Spread 1/ (basis points)	Per cent of S&Ls with funds in short supply
1976--High	9.10	--	+93	11
Low	8.70	--	-17	0
Oct.	8.90	- 7	+61	8
Nov.	8.80	-10	+75	6
Dec.	8.78	- 2	--	3
1977--Jan.	8.73	- 5	+51	6
Feb. 4	8.68	- 5	+53	14
11	8.70	+ 2	--	12
18	8.65	- 5	+47	8
25	8.65	0	+37	6
Mar. 4	8.65	0	--	n.a.

1/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA auctions of forward purchase commitments						Yields on GNMA guaranteed mortgage backed securities for immediate delivery 2/
	Conventional			Govt.-underwritten			
	Amount ($ millions)		Yield to FNMA 1/	Amount ($ millions)		Yield to FNMA 1/	
	Offered	Accepted		Offered	Accepted		
1976--High	171	127	9.31	634	321	9.20	8.44
Low	33	23	8.80	21	19	8.39	7.57
1977--Jan. 24	143	106	8.83	362	263	8.49	7.92
Feb. 7	152	120	8.85	390	214	8.52	7.92
14							7.96
21	148	116	8.87	479	271	8.58	7.99
28							8.06
Mar. 7	206	153	8.90	703	325	8.66	8.08

1/ Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, reflect the average accepted bid yield for home mortgages, assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total bids received.

2/ Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate on such loans.

still large. At the end of January, outstanding mortgage commitments remained near their record December level. With deposit inflows at these associations slowing, net paydowns of Federal Home Loan Bank advances have been smaller than normal for this time of year.[1/]

Interest rates on new commitments for conventional home mortgages at reporting S&Ls have continued to edge down irregularly. In contrast, yields in secondary mortgage markets have moved upward since the last FOMC meeting. Since the beginning of 1977, rates on GNMA-guaranteed pass-through securities, which generally move closely with bond rates, have advanced about 50 basis points--somewhat more than the rise in corporate yields. While the increase in yields of FNMA forward purchase commitments has been more moderate, these rates also have continued to rise, as mortgage bankers--wary of possible further reductions in GNMA security prices--have maintained offerings in comparatively large volume.

Following four quarters of net expansion at about a 10 per cent annual rate, consumer instalment credit grew in January at nearly a 13 per cent rate--still below the 15 per cent average for the comparable phase of earlier recoveries. Expansion of automobile credit was less vigorous in January than in December, but most other types of consumer credit grew more strongly. Commercial banks accounted

1/ S&LS remain relatively liquid. Although their liquidity ratios likely have declined slightly in recent months, their holdings of short-term financial assets at the end of December were $8 billion above the minimum level required by the FHLBB.

for a smaller share of the total net change, although growth in bank card credit recovered from the small seasonally adjusted contraction experienced in December.

Recently available fourth quarter data indicate an improved consumer loan repayment performance, Instalment loan delinquency rates at commercial banks held steady at a level about one-fifth below their recession peak, while the number of personal bankruptcies was down nearly one-fourth from its peak.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976	1976 1/ QIII	QIV	Dec.	Jan.
Total							
Change in outstandings							
$ Billions	9.0	6.8	16.7	16.7	18.5	21.9	23.0
Per cent	6.1	4.4	10.3	10.0	10.7	12.5	12.9
Bank share (%)	44.4	41.7	39.7	43.8	42.4	50.0	29.5
Extensions							
$ Billions	160.0	163.5	186.6	186.8	194.1	200.4	202.4
Bank share (%)	45.4	47.2	47.5	47.9	48.0	49.0	44.7
Liquidations							
$ Billions	151.1	156.6	169.8	170.1	175.6	178.5	179.4
Ratio to disposable income	15.4	14.5	14.4	14.3	14.4	14.7	14.6
Delinquency ratio, banks (%)	2.64	2.60	2.39	2.38	2.37	2.40	--
Extensions/Sales Ratio (%) 2/	68.7	65.5	65.3	65.4	65.2	64.1	67.1
Automobile Credit							
Change in outstandings							
$ Billions	0.3	2.6	7.5	7.1	8.1	12.2	9.1
Per cent	0.7	5.2	14.2	12.6	13.6	20.3	15.0
Extensions							
$ Billions	43.2	48.1	55.8	55.8	57.9	63.2	59.3
Per cent of sales 3/	46.5	47.1	44.5	44.6	44.5	44.0	44.0
New-car loans over 36 mos. as % of total new car-loans							
Commercial banks 4/	8.8	14.0	25.4	28.5	30.7	--	--
Finance companies	8.6	23.5	33.9	35.8	37.4	38.2	38.6p
New-car finance rate (APR)							
Commercial banks (36 mo. loans)	10.97	11.36	11.08	11.07	11.03	11.02	10.99
Finance companies	12.61	13.11	13.17	13.18	13.21	13.21	13.18

1/ Quarterly and monthly dollar figures and related percentage changes are SAAR.
2/ Ratio = Total instalment credit extensions divided by selected categories of retail sales: auto dealers, general merchandise, apparel, furniture and appliances.
3/ Auto sales = Census automobile dealer retail sales series, which includes new and used models of both domestic and import makes.
4/ Series was begun in May 1974, with data reported for the mid-month of each quarter. Figure for 1974 is average of May, August, and November.

U.S. International Transactions
(In millions of dollars, seasonally adjusted 1/)

March 9, 1977

IV - T - 1

		1975	1976				
		YEAR	Q2	Q3	Q4	Dec.	Jan.
1.	Merchandise exports	114,518	28,379	29,466	29,676	10,344	9,712
2.	Merchandise imports	124,028	29,914	32,553	33,237	11,632	11,606
3.	Trade Balance	-9,510	-1,535	-3,087	-3,561	-1,288	-1,894
4.	Bank-reported private capital flows	-9,813	-1,243	-1,590	-4,022	-1,821	161
5.	Claims on foreigners (increase -)	-20,789	-4,764	-3,355	-9,038	-5,058	5,211
6.	Long-term	-2,135	-381	-993	-470	-63	-11
7.	Short-term	-18,654	-4,383	-2,362	-8,568	-4,995	5,222
8.	(of which on commercial banks in offshore centers 2/)	(-11,788)	(-2,323)	(-2,386)	(-3,467)	(-2,093)	(3,430)
9.	Liabilities to foreigners (increase +)	10,976	3,521	1,765	5,016	3,237	-5,050
10.	Long-term	160	-25	66	222	44	66
11.	Short-term	10,816	3,546	1,699	4,794	3,193	-5,116
12.	to commercial banks abroad	8,087	2,220	1,977	2,802	2,056	-4,030
13.	(of which to commercial banks in offshore centers 3/)	(4,148)	(1,204)	(300)	(2,867)	(1,901)	(-3,546)
14.	to other private foreigners	2,718	471	916	1,178	290	-97
15.	to int'l and regional organizations	11	855	-1,194	814	847	-989
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,815	-592	3,026	-56	-605	463
17.	Other private securities transactions (net)	-7,778	-1,262	-2,821	-2,148	-1,048	159
18.	Foreign net purchases (+) of U.S. corp. securities	1,094	187	*	-82	246	199
19.	(of which stocks)	(924)	(189)	(-32)	(-178)	(158)	(170)
20.	U.S. net purchases (-) of foreign securities	-8,872	-1,449	-2,821	-2,066	-1,294	-40
21.	(new foreign issues on bonds and notes)	(-9,803)	(-1,622)	(-3,011)	(-2,340)	(-1,504)	(-373)
22.	Change in foreign official assets in the U.S.	12,962	3,314	1,267	6,056	4,261	1,244
23.	OPEC countries (increase +)	6,558	2,737	1,228	363	367	1,442
24.	(of which U.S. corporate stocks)	(1,828)	(591)	(374)	(308)	(116)	(101)
25.	Other countries (increase +)	6,404	577	39	5,693	3,894	-198
26.	Change in U.S. reserve assets (increase -)	-2,530	-1,578	-407	228	740	-419
27.	Other transactions and statistical discrepancy (net payments (-))	13,854	2,896	3,612	3,503	-239	286
28.	Other current account items		2,159	1,977			
29.	Military transactions, net 4/		-146	366			
30.	Receipt of income on U.S. assets abroad		5,594	5,797			
31.	Payment of income on foreign assets in U.S.		-3,134	-3,085			
32.	Other services, net		765	824			
33.	Remittances and pensions		-452	-464			
34.	U.S. Gov't grants 4/		-468	-1,461			
35.	Other capital account items		-1,202	49			
36.	U.S. Gov't capital, net claims 4/ (increase -)		-212	301			
37.	U.S. direct investment abroad (increase -)		-202	-1,245			
38.	Foreign direct investment in U.S. (increase +)		422	784			
39.	Nonbank-reported capital, net claims (increase -)		-1,210	209			
40.	Statistical discrepancy		1,939	1,586			
MEMO:							
41.	Current account balance	n.a.	624	-1,110	n.a.	n.a.	n.a.
42.	Official settlements balance	-10,432	-1,736	-860	-6,284	-5,001	-825
43.	O/S bal. excluding OPEC	-3,874	1,001	368	-5,921	-4,634	617

NOTES:

1/ Only trade and services, U.S. Govt. grants and U.S. Govt. capital are seasonally adjusted.
2/ Offshore centers are United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda).
3/ Represents mainly liabilities of U.S. Banks to their foreign branches in offshore centers which are the United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda).
4/ Excludes prepayments for military purchases.
*/ Less than $50,000.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. In foreign exchange markets during the past four weeks, the dollar appreciated against the Canadian dollar, Italian lira and Swiss franc and depreciated against the Japanese yen and the European snake currencies, remaining virtually unchanged on a trade-weighted average basis.

. The recent announcements of a record U.S. trade deficit and a decline in leading indicators in January had little lasting impact on the dollar in exchange markets.

The Canadian dollar dropped 2-1/2 per cent during the past four weeks, to a level of 95.37 cents.

. The two major factors underlying the downward pressure on the Canadian dollar were a decline in Canadian interest rates relative to U.S. rates and continuing uncertainty about future political and economic developments in Canada, following the Quebec election late last year. While U.S. interest rates have remained little changed since early February, Canadian three-month interest rates have dropped 25 basis points, and are expected to decline further, reflecting the Bank of Canada's efforts to raise its M1 growth rate. The impact of the political situation in Quebec was reflected in a drop in Cnandian bond issues in the United States during January-February. Quebec, which accounted for one fourth of Canada's $5-1/2 billion new issues in 1976, has sold no new issues in the U.S. market so far this year.

The Italian lira came under downward pressure in late February, following the easing of restrictions on capital outflows. Italy's foreign currency purchase tax was removed and the non-interest-bearing import deposit requirement was reduced from 25 per cent to 10 per cent. These moves led to a substantial net private capital outflow,

The Swiss franc has dropped nearly 2 per cent since mid-February and 4-1/2 per cent since the beginning of the year.

The continued downward pressure on the Swiss franc probably reflects the market's reassessment of the relative attractiveness of franc-denominated financial assets. With interest yields on these assets well below interest yields on financial assets elswwhere, their major attraction was in the expectation of the continued appreciation of the Swiss franc. The decline in the franc early this year, following a period of fairly steady increase throughout 1976, may have altered this expectation. Moreover, statements in the market that Swiss price inflation may be higher this year than earlier anticipated have probably contributed to this revision of expectations. Current projections of Swiss money and income growth rates could be consistent with an inflation rate of 4 per cent or more in 1977, compared with 1.7 per cent in 1976.

The Japanese yen has appreciated against the dollar by about 1-1/2 per cent in the past four weeks, and nearly 4 per cent since the beginning of the year. This appreciation reflects a substantial increase in Japan's current-account surplus in January and the impact of various public and official statements suggesting that the yen may be undervalued and should be allowed to appreciate.

The pound dropped 1.3 per cent in mid-February, following the announcement of a very large U.K. trade deficit and an acceleration of price inflation in January. Most of that drop has been recovered since.

The Mexican peso has fluctuated in a narrow range against the dollar during the past four weeks,

The price of gold has jumped $12.00 since mid-February to $148.25, its highest level since September 1975. While no hard information is available on shifts in underlying demand or supply conditions that could explain this price increase, factors that have been cited in the market include inflationary expectations, reports of increased industrial demand

and optimism following the market's relatively easy absorption of IMF auction sales and reported sales by China, the Soviet Union and countries that have received gold under the IMF restitution. At the seventh IMF gold auction on March 2, the first on the new monthly schedule, 524,400 ounces were sold at an average price of $146.51 per ounce.

International capital markets. New medium-term credits arranged in the Euro-currency market rose markedly in the fourth quarter of 1976 as developing countries borrowed more heavily, and for the full year 1976 new credits were almost 25 per cent greater than in the preceding year. After a pause in January, activity in this market was up again very sharply in February as several industrial countries raised large sums. In the Euro-bond and foreign bond markets, new issue volume in the fourth quarter of last year continued to run below the high rates of the first half of 1976. Subsequently, Euro-bond activity rose smartly early this year, but sales of foreign bonds in national markets, especially in the U.S. market, are lagging somewhat.

Medium-term Euro-credits of $8.0 billion in the fourth quarter of 1976 were up about 40 per cent from the seasonally-low third quarter and 30 per cent from the quarterly rate in the first half of last year. Borrowings by industrial countries remained high, the principal loans being those arranged by the U.K. Electricity Council ($500 million), the government of Denmark ($400 million), the governments of Austria and Ireland ($300 million each), and the government of South Africa

Borrowing in International Capital Markets
(in billions of dollars)

		1974	1975	1976				1977
		Year	Year	Year	1st H	Q-3	Q-4	Jan.
I.	Medium-term Euro-credits:1/							
	total	28.5	20.6	26.1	12.3	5.8	8.0	.7
	Industrial countries	19.5	6.6	9.7	3.9	3.0	2.8	.1
	Denmark	.4	.3	.8	.4	0	.4	.0
	France	3.3	.5	.8	.7	.1	0	.1
	Spain	1.1	1.0	1.7	.3	1.2	.2	*/
	United Kingdom	5.7	.6	2.2	1.0	.6	.6	0
	Other	9.0	4.2	4.2	1.5	1.1	1.6	.1
	Oil-exporting countries	.8	3.2	3.6	1.7	.4	1.5	0
	Algeria	0	.5	.6	.4	.1	.1	0
	Indonesia	.4	1.6	.4	.3	*/	.1	0
	Iran	.1	.2	1.0	.7	.2	.1	0
	Venezuela	.1	.2	1.0	0	0	1.0	0
	Other	.2	.7	.6	.3	.1	.2	0
	Othet developing countries	6.7	7.7	10.6	4.5	1.8	3.4	.5
	Argentina	.5	*/	1.1	.1	0	1.0	0
	Brazil	1.6	2.1	2.3	1.2	.8	.3	.1
	Mexico	1.5	2.2	2.0	.7	.4	.9	0
	Philippines	.9	.3	.9	.7	.1	.1	0
	Other	2.2	3.1	4.3	1.8	.5	1.1	.4
	Socialist countries + org's.	1.1	2.7	2.2	1.4	.5	.3	.1
	Int'l. org's. and others	.4	.4	1.0	.9	*/	.1	0
II.	Euro-bonds: total	4.5	10.2	15.2	8.4	3.3	3.6	1.5
	Canada	.4	1.2	2.9	1.9	.6	.4	.3
	France	.3	1.3	1.3	.8	.3	.2	.2
	Japan	.2	1.2	1.1	.7	.2	.2	.1
	Other ind. countries	1.4	4.4	5.4	2.4	1.2	1.9	.6
	Developing countries	.1	.5	1.3	.4	.4	.5	.1
	Int'l. org's.	2.0	1.4	3.0	2.0	.6	.4	*/
III.	Foreign bonds: total	7.8	11.9	17.6	9.6	4.1	3.9	1.0
	By borrower: Canada	2.0	3.4	5.5	3.4	1.2	.9	.6
	IBRD	3.1	2.4	2.7	1.6	.6	.5	.2
	Other	2.7	6.1	9.4	4.6	2.3	2.5	.2
	By market:2/ U.S.3/	3.6	6.8	10.0	5.4	2.1	2.5	.6
	Switzerland	1.0	3.4	5.0	2.6	1.3	1.1	.4
	Other	3.2	1.7	2.6	1.6	0.7	.3	*/

1/ Publicized credits of over one-year maturity.
2/ Breakdowns may not add to totals because of lack of comprehensive revised data.
3/ Figures differ from those from U.S. sources.
*/ Less than $50 million.
Source: World Bank.

(two loans totalling $240 million). In 1976 the largest borrowers in this market among the industrial countries were the United Kingdom ($2.2 billion and Spain ($1.7 billion) followed at some distance by Denmark, France and South Africa ($700-800 million each). Borrowings by industrial countries as a group in 1976 were nearly 50 per cent greater than in 1975, although still only one-half of 1974's record amount.

Credits arranged by oil-exporting countries and non-oil developing countries rose sharply in the fourth quarter of last year to rates substantially above those of the first half. A $1 billion 7-year credit to Venezuela to refinance short-term debts dominated activity by the oil-exporting countries. For the year, both Venezuela and Iran arranged $1 billion of credits, several times their 1975 borrowings; credits to Algeria and Indonesia in 1976 were sizeable, but well below 1975 in the case of Indonesia.

Mexico raised about $900 million in the fourth quarter, of which $800 million in a 5- and 7-year two-tranche loan from a predominantly North American syndicate, while Argentina received 4-year loans from syndicates of U.S. banks ($500 million), Canadian banks ($66 million), European banks ($312 million) and Japanese banks ($75 million) to restructure its external debt. After lengthy negotiations the Peruvian Government signed agreements in December for 5-year loans from syndicates of U.S. banks ($210 million), Canadian banks ($30 million), and European banks ($90 million), of which one-half of each was drawn immediately and the remainder in February. In early March Peru arranged dollar and yen loans from Japanese banks for $33 million equivalent. Euro-credits announced for non-oil LDC's came to $10.6 billion last year, 38 per cent more than in 1975. For the fourth consecutive year the largest borrowers in this group were Brazil and Mexico ($2.3 billion and $2.0 billion, respectively); other large borrowers in 1976, including the Philippines, Argentina, and South Korea, also tended to be countries that have used the medium-Euro-credit market for some time.

Loans to Socialist countries declined again in the fourth quarter, and the $2.2 billion total of credits to those countries in 1976 was less than in 1975. Legal uncertainties may hold back further loans to the two Comecon banks in coming months.

Few Euro-credits were completed in January, but February was extremely active with over $4-1/2 billion. The United Kingdom borrowed $1.5 billion for seven years to bolster reserves; $1 billion is scheduled to be drawn by mid-March. The Government of Sweden arranged a 7-year loan of $1 billion as part of a program to borrow $2-3 billion in 1977, the Caisse Nationale des Telecommunications in France arranged to borrow $500 million for 7-8 years, Pemex of Mexico $300 million, and three loans for a Brazilian steel plant totaled almost $500 million. The Swedish and French loans carried an interest rate of 7/8 per cent over LIBO for the first five years and 1 per cent for the remainder, the lowest spreads since the current downtrend in spreads began last year. Another large loan was a further credit to Venezuela, this time for $1.2 billion for seven years.

Euro-bond issues rose seasonally in the fourth quarter but stayed considerably below first-half levels. While total Euro-bond issues in the second half were down from the first half, issues by developing countries increased notably, and for the year 1976 developing countries' issues rose 2-1/2 times in volume to 9 per cent of total Euro-bonds compared with 5 per cent the year before. Brazilian and Mexican issues accounted for much of this rise. Total Euro-bond issues of $1.5 billion in January were followed by about the same volume in February according to preliminary data, indicating a return to a substantially higher level of activity this year.

Foreign bond issues dipped in the fourth quarter and in the second half of 1976 were down 15 per cent from the first half, reflecting lower issues by Canadian borrowers and the World Bank. This decline was felt primarily in the U.S. market. New foreign issues in January were at a quarterly rate well below that of the fourth quarter.

U.S. International Transactions. Among the major developments in January, the merchandise trade deficit widened to a record $22.7 billion at an annual rate, there was a small net inflow of bank-reported private capital after sizable outflows in December and in the fourth quarter, sales of new foreign bonds in the United States dropped off, and foreign official assets in the United States (other than OPEC funds) declined, reversing the build-up in December.

In January, the United States had a record merchandise trade deficit of $22.7 billion at an annual rate (international accounts basis). This followed a December deficit rate of $15.5 billion (revised). The sharply larger January deficit occurred as exports dropped back from the unusually high December levels and imports were little changed.

U.S. Merchandise Trade, International Accounts Basis
(billions of dollars, seasonally adjusted annual rates)

	1976r	1976r						1977
	Year	1Q	2Q	3Q	4Q	Nov.	Dec.	Jan.
EXPORTS	114.5	108.0	113.5	117.9	118.7	115.3	124.1	116.5
Agric.	23.4	21.5	23.1	25.3	23.7	21.2	23.0	22.3
Nonagric.	91.1	86.5	90.4	92.6	95.0	94.1	101.1	94.3
IMPORTS	124.0	113.3	119.7	130.2	132.9	130.1	139.6	139.3
Fuels	37.1	32.5	35.3	40.1	40.5	41.0	42.3	40.6
Nonfuels	86.9	80.8	84.4	90.1	92.5	89.1	97.2	98.7
BALANCE	-9.5	-5.3	-6.1	-12.3	-14.2	-14.7	-15.5	-22.7

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

The January decline in exports occurred largely in nonagricultural shipments and was concentrated in those commodities that had increased sharply the previous month -- machinery, transportation equipment (primarily aircraft), and chemicals. Only a small part of the decline can be directly attributed to delivery or production problems resulting from the unusually cold weather; the drop in coal exports by $1.2 billion at an annual rate was the clearest example of such reduced exports. Even so, the level of nonagricultural exports in January, $94.3 billion at an annual rate, was about the same as in November and both months were slightly stronger than the level of nonagricultural exports in the third quarter. While new orders for machinery exports declined in January, slow but continuing growth in economic activity in other industrial countries, and continuing demand from OPEC countries suggest a gradual rise in the value of U.S. nonagricultural exports.

Exports to the developing countries dropped sharply in January to a level lower than in any month in 1976, but exports to the major industrial countries were still above the level of most of 1976, and shipments to the smaller industrial countries have been gradually increasing in recent months.

Agricultural exports declined slightly in January. The value of wheat, corn, and rice exports all declined; with good wheat crops and larger stocks around the world than in recent years, the volume of wheat exports in January was the lowest since April 1972. However, the value of soybean and tobacco exports increased. The average price paid for soybean exports rose to $7.26 per bushel, the highest since February 1975.

Imports amounted to $139.3 billion at an annual rate in January, about the same as in December and about 5 per cent higher than the fourth quarter average. Fuel imports, on an international accounts basis, fell by 4 per cent. This decline was entirely due to a sharp drop from a record December volume of petroleum imports into the U.S. Virgin Islands, mostly crude oil for a refinery on St. Croix. (Imports into the U.S. Virgin Islands are not included in Census Bureau statistics and recent press reports of rising oil imports in January referred just to imports into the rest of the United States.) The quantity of oil imported daily fell to 8.4 million barrels per day (mbd) from 8.8 mbd in December. The average price of oil rose to $12.48 per barrel in January from $12.35 in December and an average of $12.32 in the fourth quarter of 1976.

Nonfuel imports rose to $98.7 billion at an annual rate in January, 1-1/2 per cent above the December level and 6-1/2 per cent higher than the fourth quarter rate. Increases in food imports (owing to higher coffee and cocoa prices), iron and steel products, capital goods, and consumer goods were partly offset by declines in other industrial materials (largely nonferrous metals) and foreign-type cars (as inventories reached a five-month high.)

<u>Bank-reported private capital transactions</u> resulted in a net inflow of $160 million in January -- a partial reversal of the $1.8 billion outflow in December. Both claims on, and liabilities to, foreigners were reduced sharply from their end-of-year peaks. U.S. banks reduced their borrowings from their overseas branches by about $2 billion in January, partly owing to reduced needs for funds and partly to the cessation of certain year-end tax incentives to place loans on head office books. The latter effect is most readily seen in the $1.8 billion fall in January in bankers' acceptances held by weekly-reporting banks. The reduction in bank-reported claims also reflects a large withdrawal of year-end placements by U.S. offices of foreign banks with banks abroad.

<u>New foreign bond issues</u> in the United States dropped to $400 million in January. Foreign issues expected in the first quarter should amount to $1.65 billion -- $1.2 billion of Canadian issues and $450 million of other foreign issues. This compares with fourth quarter new issues of $2.3 billion.

Canadian issuers may find the U.S. market somewhat less attractive in 1977 than last year, as the differential between Canadian and U.S. interest rates has narrowed. In addition, Quebec Hydro and the Province of Quebec have not yet appeared in the U.S. market this year; last year they and the municipalities of Quebec accounted for about 25 per cent of total Canadian borrowings in the United States.

The uncertainty concerning Quebec's future political status has been reflected in the bond markets: the spread between Ontario and Quebec U.S. issues increased from 25 basis points prior to the provincial election to 105 basis points in February just after the visit to the New York investment community by Quebec's Premier Levesque. U.S. issues of the province of Ontario have only shown a slight widening of spread against prime U.S. borrowers. At the end of February, the province of Quebec successfully marketed $175 million in new issues in Canada, its first long-term borrowing in the Canadian public capital market since the provincial election in November. Given the large capital needs of national resource development projects in the province, it is likely that an effort will be made in the second quarter to re-enter the U.S. markets.

U.S. net purchases of foreign securities dropped to under $50 million in January (compared to a $750 million monthly average in 1976). This drop reflected both the lull in offerings of new foreign bonds and $300 million of redemptions of maturing securities of the IBRD.

Foreign net purchases of U.S. stocks (excluding purchases by OPEC) continued at a moderate rate in January. Amounting to $170 million, they were slightly above December's rate and ran contrary to the usual pattern of foreign net purchases in a rising market and net sales in a declining market.

<u>OPEC reserve assets</u> in the United States increased by $1.4 billion in January, an increase only slightly below that of the entire second half of 1976. Recorded second half inflows from OPEC had been low relative to the surpluses that were accumulated, but the January increase does appear to reflect a rebuilding of liquidity positions by some of the high absorption countries who benefited from the run-up in oil demand for stockpiling in the latter part of 1976.

<u>Foreign official assets in the United States (excluding OPEC)</u> decreased by $200 million in January.

A $400 million increase in <u>U.S. reserve assets</u> in January largely corresponds to the increase in the United Kingdom drawing on the IMF stand-by facility. Also included was a $60 million increase in U.S. gold reserves as a result of IMF gold sales for "restitution" to member countries; the counterpart of this transaction was a decrease in the U.S. reserve position in the IMF. In February, total U.S. reserve assets were little changed from the January level.

Price Developments in Major Foreign Industrial Countries. Price inflation rates in most of the major foreign industrial countries remain high. During the course of 1976, consumer price increases showed little tendency to decelerate, while wholesale price inflation rates tended to accelerate in the first half of 1976 and then to decelerate in the second. (See following table.) Inflation rates continue to vary widely among the major countries, with Germany at one extreme and Italy at the other.

Consumer price inflation in 1976 (December 1975 to December 1976) was relatively moderate in Germany and Canada (4-6 per cent) but was at or near double-digit rates for the rest of the major foreign industrial countries. For this latter group, the rate of inflation ranged from about 10 per cent in France to 22 per cent in Italy. A disturbing feature of consumer price performance in 1976 is that only the United Kingdom and, to a lesser extent, Canada made substantial progress in reducing their rates of inflation below those prevailing in 1975. Furthermore, in all of the major foreign industrial countries except Germany, there has been no significant and sustained decline in consumer price inflation from first-half 1976 rates. With the exception of Switzerland, where consumer prices are rising at an annual rate of less than 2 per cent, inflation rates in the smaller industrial countries are mostly in the 7-10 per cent range and are exhibiting little tendency to decline.

Wholesale price inflation was higher in 1976 than in 1975 in almost all countries, but has moderated considerably in recent months in all of the major foreign industrial countries except Italy and the United Kingdom. Again individual country experience was diverse, with Japan joining Canada and Germany with relatively moderate (5-6 per cent)

Changes in Consumer and Wholesale Prices
in Major Industrial Countries
(Not Seasonally Adjusted)

	Percentage Change		Annual Rate of Change Quarter over Previous Quarter (per cent)					
			1976					
	Dec.75 / Dec.74	Dec.76 / Dec.75	Q1	Q2	Q3	Q4	Latest 3 Months	Latest Month
CONSUMER PRICES:								
Canada	9.5	5.8	5.4	6.2	6.0	6.0	5.9	January
France	9.6	9.8	10.1	9.4	9.6	10.6	8.7	January
Germany	5.4	3.9	7.0	6.0	0.5	2.0	3.6	January
Italy	10.8	21.8	17.7	27.8	11.7	27.9	27.9	December
Japan	8.5	10.6	11.1	11.7	2.5	12.6	11.0	February
United Kingdom	24.9	15.1	15.2	15.5	9.5	19.7	21.0	January
United States	7.0	4.8	3.9	5.0	6.5	4.6	4.4	January
WHOLESALE PRICES:								
Canada	3.7	4.7	1.0	7.4	1.0	2.6	2.6	December
France	-4.5	12.3	10.0	19.5	18.9	3.2	2.5	January
Germany	4.3	4.7	13.1	8.3	1.1	-1.6	-1.2	January
Italy	4.9	31.5	29.0	55.1	17.3	26.0	25.2	January
Japan	1.1	6.1	8.1	6.6	7.8	3.2	2.3	January
United Kingdom	20.0	17.8	16.5	15.4	17.3	20.7	25.0	February
United States	4.2	4.7	2.0	5.9	4.8	3.8	5.2	January

Definitions and Sources: All countries; consumer or retail price index; all countries except France and the United Kingdom: general wholesale price index; France: industrial products; United Kingdom: manufactured products, home sales. National sources.

rates for 1976, and with rates in the remaining countries ranging from France's 12 per cent to Italy's 32 per cent. Only in the United Kingdom was there an improvement in wholesale price performance in 1976 relative to that in 1975, and even the U.K.'s improvement was slight. The widespread increases in wholesale price inflation rates were due in part to a sharp increase in commodity prices during the year. Between December 1975 and December 1976, the Economist dollar index for all commodities rose some 34 per cent. During the second half of 1976 pressure from commodity prices abated somewhat as the index rose at an annual rate of only 15 per cent, but the 49 per cent (annual rate) increase between December and February could indicate renewed upward pressure on wholesale prices and eventually consumer prices as well.

To a large extent the disparity of inflation rates among the major foreign industrial countries reflects the differing rates of monetary growth that they have experienced during the last several years. The monetary growth may have merely accommodated upward price pressures or it may have been the actual initiator of the price changes; and in the latter case the mechanism may have involved direct aggregate demand effects or simply expectations effects. But in any case, as the following table shows, those foreign countries with the lowest rates of inflation in 1976 -- Canada and Germany -- have also had the lowest rates of monetary growth, and the countries with the highest rates of inflation have had the highest monetary growth rates. In fact, reading across the table, the rankings are remarkably consistent.

Among other factors associated with recent inflationary experience has been the divergent growth of nominal wages; for example, in Germany between October 1975 and October 1976, hourly wages and salaries in

The Growth of Money and Prices in Major Industrial Countries

	Money Stock (M1)				Prices (Dec.76/Dec.75) Rank		Memorandum: Trade-weighted Exchange Rate (May 1970=100) Dec.76/Dec.75	
	Annual Rate		Rank					
	End1976 / End1971	End1976 / End1975	End1976 / End1971	End1976 / End1975	Consumer Prices	Wholesale Prices	Rank	Annual Rate
Canada	10.4	1.8	3	1	3	1(tie)	4	+ 3.3
France	11.4	11.8	4	4	4	5	5	- 8.2
Germany	8.4	2.0	2	2	1	1(tie)	1	+16.0
Italy	15.5	21.7	7	7	7	7	7	-20.4
Japan	14.5	13.2	6	5	5	4	2	+ 8.1
United Kingdom	11.6	13.3	5	6	6	6	6	-16.3
United States	5.8	5.8	1	3	2	1(tie)	3	+ 4.5

Definitions and Sources: "End" denotes the latest month available in the year and refers to December in all countries except France where it refers to November, and Italy where it refers to October. All money stock data refer to M1 and are from national sources. Prices are from Table 1. Trade-weighted exchange rates are calculated by FRB staff.

industry rose 8 per cent whereas in Italy during the same period minimum contractual wages, although not strictly comparable, grew by 27 per cent. Wage increases such as those in Italy create a difficult choice between unemployment and inflation for policy-makers, even where they reflect mainly compensation for past or expected inflation rather than an autonomous wage-push. Thus, in some cases wage demands may have induced the monetary expansion noted in the table. The European drought and the general revival of world economic activity also put upward pressures on prices during 1976. However, fairly strong growth in labor productivity, particularly in the first half of 1976, eased price pressures somewhat.

Foreign industrial countries continue to consider inflation a major policy problem. All countries are pursuing cautious demand-management policies, despite the continued high levels of unemployment, and many have incomes policies aimed at controlling wage and price increases directly.

The dramatic acceleration of inflation in Italy during 1976 has led the Italian government to adopt new anti-inflationary measures. In particular, attention has been focussed on the wage indexation scheme (the *scala mobile*) which automatically passes on nearly 100 per cent of any change in the cost-of-living to money wages. However, the government has been unsuccessful in fundamentally reforming the *scala mobile* and has had to settle for some other changes: 1) an agreement between industry and the unions to boost productivity; 2) the taking-over of some employer social insurance payments by the government, to be paid for by an increase in indirect taxes that will not be included in the *scala mobile* index; and 3) a few minor reforms in the indexation scheme itself. The exclusion of the indirect tax increases from the scala mobile index is being protested by some unions and their opposition jeopardizes the change in social insurance payments. Average labor costs -- offset to an extent by strong productivity gains unlikely to be repeated in 1977 -- are estimated to have grown 28 per cent in 1976, but it is hoped that the above-mentioned measures will help to reduce this figure in 1977. In addition, Italian macroeconomic policy has been tightening. There have been substantial tax increases and the government budget deficit should fall as a percentage of national income. Monetary policy -- as indicated by the rate of increase in the monetary base -- tightened in 1976 and is expected to be somewhat restrictive this year. However, despite these policy measures and the prospect of sluggish real growth, most forecasters expect Italian inflation to be around 20 per cent this year, with some deceleration toward the end of the year. A depreciation of the lira similar to that experienced last year would put considerably more upward pressure on Italian prices.

In the United Kingdom, considerable progress was made in reducing the rate of price inflation between 1975 and 1976. However, in recent months inflation has accelerated again due in part to the decline in the exchange value of the pound sterling last fall, some indirect tax increases in January, and perhaps to the adverse expectations effects of high money supply growth rates last summer and fall. The inflation rate has increased despite the U.K.'s depressed level of economic activity and its success at holding wage increases within the incomes policy's limits. During the twelve months to December 1976, average earnings rose by 12 per cent compared with 15 per cent for consumer prices; labor productivity in industry has been rising at an annual rate of about 3-5 per cent. If a third phase of the incomes policy satisfactory to all sides can be worked out -- negotiations should begin in earnest in April and are expected to result in a settlement -- it is likely that inflation will resume decelerating in the second half of 1977 since the pound has been strong recently and monetary growth has been quite low. Complementing the U.K.'s incomes policy are the prospect of subdued real growth, a continued high level of unemployment, and the restrictive monetary and fiscal policy measures adopted in part as conditions for a $3.9 billion IMF loan last December.

In Japan, the rate of increase in wholesale prices seems already to have subsided after its increase in the first three quarters of 1976, but consumer price inflation does not appear to be decelerating. The Japanese government's response to this situation has been to maintain an accommodative, but not a stimulative, monetary policy, and a fiscal policy that is only moderately expansive. Although Japan has no formal incomes policy, it does urge the unions and industry to hold wage increases within certain limits. During 1976, wages and labor productivity grew at about the same rate and the yen appreciated some 8 per cent. Both of these factors eased Japanese price pressures in 1976 and may continue to do so this year, although increased economic activity -- both domestic and foreign -- could result in inflation rates in 1977 not much lower than those experienced last year.

In France, consumer price inflation has declined in the three months to January after accelerating to an annual rate of over 10 per cent between the third and fourth quarters of 1976. The extremely volatile French wholesale price index has fluctuated widely. The deceleration in inflation in the three months to January reflects the price freeze in effect between September and December, and a lowering of indirect taxes in January. Hourly wages in the third quarter of 1976 were 15 per cent higher than in the same period a year earlier. The government has now taken steps to limit the growth of wages in the public sector to the rate of increase in the cost-of-living, but no similar arrangement exists in the private sector. The French government is attempting to reduce inflation by means of agreements with industry to keep average price rises below certain limits and by following a restrictive demand-management policy. The government budget deficit is expected to be smaller in 1977 than in the two previous years -- both absolutely and as a percentage of national income. Targeted money stock growth and credit ceilings are intended to be moderately restrictive as well. During 1977, French consumer price inflation is expected to decline somewhat -- perhaps to 7-1/2 per cent (December over December).

Canada's improved price performance in 1976 can be attributed in part to government policy measures. M_1 growth has actually been even below the announced target range and fiscal policy has aimed at keeping the level of real government spending constant. In October 1975 -- in response to the persistent nature of Canadian inflation -- the government adopted an elaborate system of wage and price controls. This incomes policy, along with the demand-management policies mentioned, may have helped to improve price performance in Canada. However, much of the improvement in 1976 was due to the virtual stability of food prices, which are not subject to the controls. Wages do not appear to have been affected much by the incomes policy; between September 1975 and September 1976 average wages (in manufacturing) grew by 13 per cent, just as they did in the previous twelve months. The recent decline in the exchange rate for the Canadian dollar, if sustained, could have an adverse impact on Canadian inflation rates in 1977 and calls into question the likelihood of any further deceleration of inflation this year. On the other hand, real growth was sluggish in Canada during the last three quarters of 1976, which may indicate that inflation will continue to moderate.

Of the major foreign industrial countries, Germany has had the most success in keeping general price movements under control. Indeed, during the second half of 1976 both consumer and wholesale price increases were under 2 per cent at an annual rate. (The "jump" in consumer prices in January was due mostly to an increase in excise taxes.) Although recent wage increases have been around 6-8 per cent (annual rate), recent labor productivity gains have been within a few percentage points of this figure and it is unlikely that wages will exert much upward pressure on prices in 1977. Despite their success to date, the German authorities continue to consider inflation to be a major problem and are expected to press on in their attempt to establish general price stability. To that end, the authorities plan to continue reducing the public sector deficit and to enforce more rigidly the targets for monetary growth. Germany has no formal incomes policy but the government periodically meets together with business and labor to discuss wage and price developments.

Among the small foreign industrial countries, price developments in <u>Switzerland</u> are the most interesting. Among the factors contributing to Switzerland's extremely low rate of price inflation are the external strength of the Swiss franc in 1976, the deep and prolonged nature of the recession in Switzerland, modest wage increases, a policy of price surveillance, and low rates of monetary growth in recent years.

APPENDIX A*

RESULTS OF MOST RECENT SURVEY OF CHANGES IN BANK LENDING PRACTICES AND SURVEY OF LOAN COMMITMENTS

The Survey of Changes in Bank Lending Practices taken at 121 large banks in mid-February suggests that the recent strength in business loans reflects both a moderate upturn in demand and easier lending terms at banks. While two-thirds of the respondents reported that business loan demand was essentially unchanged as compared with three months earlier, about one-fourth reported moderately stronger demand. For the last two reporting periods taken together, over two-fifths of the respondents have reported stronger demands for business loans. Moreover, more than half the respondents in the February survey indicated that business loan demand was expected to strengthen in the next three months, up from one-third in November.

Easing of price and nonprice terms of lending was reported by a growing minority of large banks. Somewhat over one-fourth of the respondents reported moderately easier policy on interest rates for business loans.1/ Further, the trend toward easing of compensating balance requirements has continued. During the six months covered by the February and preceding November surveys, about one-third of the sample banks reported easier policy toward compensating balances on business loans. There also appears to be a significant trend toward easier policies on extending term loans to business. One-third of the respondents reported easing of policy in negotiating maturities of term loans during the last two survey periods, and over one-half indicated that they were more disposed to make such loans. Banks, however, report no easing in standards of credit worthiness.

With regard to other types of loans covered in the Lending Practices Survey, about 20 per cent of the respondents reported greater willingness to make consumer instalment and single family mortgages loans. Only modest easing was reported on the terms of lending to finance companies and brokers.

The view that banks have become more aggressive in marketing their business loan services gains support from the Monthly Loan Commitments Survey taken at 135 large banks, including all of the 121 participants in the Quarterly Lending Practices Survey. Unused commitments to businesses rose by $1-3/4 billion in the second half of last year, when takedowns totaled $2-1/4 billion. This implies that net new commitments extended over this period totaled $4 billion.

1/ Interpretation of the responses is difficult since some banks consider a cut in the prime rate to reflect easier policy, while others focus on the relationship between the prime rate and open market rates.

* Prepared by John Scott, Economist, Banking Section, Division of Research and Statistics.

To determine the reasons for the recent growth in outstanding commitments, an informal System survey of participants in the commitments survey was conducted in the last week of February. Banks that lead reported increases in unused commitments at the same time that takedowns were large generally indicated that growth in commitments reflected aggressive marketing efforts. Most reported a desire to increase their share of the anticipated growth in business loans. Regional banks appeared to be more successful in marketing new commitments than money center institutions, reportedly because many firms do not see their credit demands in the near term being so large that they need commitments from major banks. Only a handful of respondents registering an increase both in takedowns and in unused commitments indicated that their growth in commitments reflected an underlying strengthening in demand for commitments.

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S. 1/
(STATUS OF POLICY ON FEBRUARY 15, 1977 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS & PERCENT OF TOTAL BANKS REPORTING)

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	121	100.0	0	0.0	33	27.3	81	66.9	7	5.8	0	0.0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	121	100.0	1	0.8	67	55.4	52	43.0	1	0.8	0	0.0

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	121	100.0	1	0.8	3	2.5	85	70.3	32	26.4	0	0.0
COMPENSATING OR SUPPORTING BALANCES	121	100.0	0	0.0	2	1.7	95	78.5	24	19.8	0	0.0
STANDARDS OF CREDIT WORTHINESS	121	100.0	0	0.0	3	2.5	118	97.5	0	0.0	0	0.0
MATURITY OF TERM LOANS	121	100.0	0	0.0	1	0.8	91	75.2	29	24.0	0	0.0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	121	100.0	0	0.0	1	0.8	110	90.9	10	8.3	0	0.0
NEW CUSTOMERS	121	100.0	0	0.0	3	2.5	109	90.1	9	7.4	0	0.0
LOCAL SERVICE AREA CUSTOMERS	121	100.0	1	0.8	0	0.0	112	92.6	8	6.6	0	0.0
NONLOCAL SERVICE AREA CUSTOMERS	121	100.0	1	0.8	2	1.7	107	88.4	11	9.1	0	0.0

1/ SURVEY OF LENDING PRACTICES AT 121 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF FEBRUARY 15, 1977.

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	121	100.0	2	1.7	8	6.6	98	81.0	12	9.9	1	0.8
INTENDED USE OF THE LOAN	121	100.0	1	0.8	1	0.8	115	95.1	4	3.3	0	0.0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	121	100.0	1	0.8	0	0.0	106	87.6	14	11.6	0	0.0
COMPENSATING OR SUPPORTING BALANCES	121	100.0	1	0.8	1	0.8	112	92.6	7	5.8	0	0.0
ENFORCEMENT OF BALANCE REQUIREMENTS	121	100.0	1	0.8	3	2.5	112	92.6	5	4.1	0	0.0
ESTABLISHING NEW OR LARGER CREDIT LINES	121	100.0	2	1.7	4	3.3	103	85.1	12	9.9	0	0.0

	ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	121	100.0	1	0.8	0	0.0	76	62.8	42	34.7	2	1.7
CONSUMER INSTALMENT LOANS	120	100.0	0	0.0	0	0.0	91	75.8	26	21.7	3	2.5
SINGLE FAMILY MORTGAGE LOANS	120	100.0	1	0.8	1	0.8	91	75.9	26	21.7	1	0.8
MULTI-FAMILY MORTGAGE LOANS	118	100.0	3	2.5	2	1.7	105	89.0	8	6.8	0	0.0
ALL OTHER MORTGAGE LOANS	120	100.0	3	2.5	1	0.8	101	84.2	15	12.5	0	0.0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	121	100.0	0	0.0	1	0.8	99	81.9	20	16.5	1	0.8
LOANS TO BROKERS	121	100.0	1	0.8	1	0.8	105	86.8	11	9.1	3	2.5

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.