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CONFIDENTIAL (FR)

October 12, 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 rate)		
Civilian labor force	Sept.	10-7-77	97.9	2.1	.9	2.8
Unemployment rate (%)1/	Sept.	10-7-77	6.9	7.1	7.1	7.8
Insured unemployment rate (%)1/	Sept.	10-7-77	4.1	4.1	3.7	5.0
Nonfarm employment, payroll (mil.)	Sept.	10-7-77	82.8	4.2	3.1	3.5
Manufacturing	Sept.	10-7-77	19.6	2.3	-.1	2.7
Nonmanufacturing	Sept.	10-7-77	63.1	4.8	4.1	3.8
Private nonfarm:						
Average weekly hours (hr.)1/	Sept.	10-7-77	35.9	36.0	36.2	36.0
Hourly earnings ($)1/	Sept.	10-7-77	5.29	5.28	5.22	4.92
Manufacturing:						
Average weekly hours (hr.)1/	Sept.	10-7-77	40.0	40.2	40.5	39.7
Unit labor cost (1967=100)	Aug.	9-29-77	154.4	1.6	1.3	6.7
Industrial production (1967=100)	Aug.	9-15-77	138.2	-6.0	3.5	5.3
Consumer goods	Aug.	9-15-77	144.1	-11.5	2.8	5.2
Business equipment	Aug.	9-15-77	151.0	-4.7	5.6	9.7
Defense & space equipment	Aug.	9-15-77	80.1	-1.5	.5	2.0
Materials	Aug.	9-15-77	138.7	-1.7	2.6	4.3
Consumer prices (1967=100)	Aug.	9-21-77	183.2	3.9	5.1	6.6
Food	Aug.	9-21-77	194.5	3.1	4.4	7.0
Commodities except food	Aug.	9-21-77	165.8	3.6	2.7	5.1
Services	Aug.	9-21-77	196.7	6.1	8.3	8.0
Wholesale prices (1967=100)	Sept.	10-6-77	194.8	5.5	1.9	5.8
Industrial commodities	Sept.	10-6-77	197.8	9.8	7.4	7.1
Farm products & foods & feeds	Sept.	10-6-77	182.3	-5.2	-18.2	.7
Personal income ($ bil.)2/	Aug.	9-16-77	1547.2	6.2	7.9	11.0
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Aug.	10-3-77	58.4	4.2	-1.4	15.9
Capital goods industries	Aug.	10-3-77	16.8	2.7	-8.3	14.9
Nondefense	Aug.	10-3-77	14.7	2.3	-1.7	16.1
Defense	Aug.	10-3-77	2.0	5.5	-38.1	6.2
Inventories to sales ratio:1/						
Manufacturing and trade, total	July	9-15-77	1.49	1.47	1.45	1.50
Manufacturing	Aug.	10-3-77	1.58	1.60	1.58	1.65
Trade	July	9-15-77	1.37	1.37	1.34	1.36
Ratio: Mfrs.' durable goods inventories to unfilled orders1/	Aug.	10-3-77	.637	.638	.627	.634
Retail sales, total ($ bil.)	Aug.	9-12-77	59.9	1.7	1.2	9.6
GAF	Aug.	9-12-77	15.1	1.4	5.8	11.7
Auto sales, total (mil. units)2/	Sept.	10-7-77	10.4	-10.6	-12.2	4.4
Domestic models	Sept.	10-7-77	8.4	-11.4	-12.8	2.1
Foreign models	Sept.	10-7-77	1.9	-6.6	-9.8	15.9
Housing starts, private (thous.)2/	Aug.	9-19-77	2,022	-2.6	4.4	32.2
Leading indicators (1967=100)	Aug.	9-29-77	131.3	.8	.8	4.5

1/ Actual data used in lieu of per cent changes for earlier periods.
2/ At annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Industrial production and employment apparently picked up in September. However, retail sales are estimated to have declined a little, and indicators of business investment are mixed. Housing starts in August remained at a high level. Late summer price increases have been small at retail, but wholesale prices in September rose more than in recent months.

Industrial production is estimated to have risen about 1/2 per cent in September, reversing the August decline. About one-third of the estimated increase apparently resulted from the resumption of coal and copper production after strikes that began in July. Auto assemblies, at an estimated 9-1/2 million unit annual rate, were fractionally above the August level, but raw steel production weakened somewhat. Industrial production apparently rose at an annual rate of about 5 per cent between the second and third quarters, about half the pace of the prior quarter.

Capacity utilization in manufacturing is estimated to have risen slightly to 83 per cent in September; this rate has been little changed since spring. Operating rates in materials industries also have been at about 83 per cent since May--substantially below 1973 peak rates of 93 per cent.

Manufacturing employment increased 43,000 in September but the factory workweek declined for the third consecutive month. Employment in service-producing industries continued to advance briskly,

AVERAGE MONTHLY CHANGES IN EMPLOYMENT
(Thousands of jobs; seasonally adjusted)

	Average Monthly Change		Recent Months		
	Dec. 75 to Dec. 76	Dec. 76 to June 77	June 77 to July 77	July 77 to Aug. 77	Aug. 77 to Sept. 77
Nonfarm payroll employment	194	296	245	93	291
(Strike adjusted)	191	303	279	81	281
Manufacturing	45	88	26	-68	38
(Strike adjusted)	45	90	30	-67	43
Durable	37	56	39	-6	42
Nondurable	8	32	-13	-62	-4
Construction	3	45	41	-33	4
Trade	53	58	47	62	71
Services and finance	68	66	144	103	96
State and local government	18	25	29	13	52
Total household employment	254	373	-118	210	324
Nonagricultural	252	360	7	171	361

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1976				1977				
	QI	QII	QIII	QIV	QI	QII	QIII	Aug.	Sept.
Total, 16 years and older	7.6	7.4	7.8	7.9	7.4	7.0	7.0	7.1	6.9
Men, 20 years and older	5.8	5.7	6.0	6.2	5.6	5.1	5.1	5.2	4.9
Women, 20 years and older	7.4	7.1	7.7	7.6	7.1	6.9	7.0	7.1	7.0
Teenagers	19.2	18.8	18.8	19.1	18.6	18.1	17.7	17.5	18.1
Household heads	5.0	4.9	5.3	5.3	4.8	4.4	4.5	4.6	4.5
Married men	4.1	4.1	4.4	4.4	3.9	3.5	3.4	3.5	3.4
Fulltime workers	7.1	7.0	7.4	7.5	6.8	6.5	6.6	6.8	6.5
White	6.9	6.8	7.1	7.2	6.7	6.3	6.1	6.1	6.1
Black and other	13.1	12.9	13.1	13.4	12.8	12.8	13.6	14.5	13.1
Total, alternative seasonal adjustment method									
All additive factors	7.8	7.4	7.7	7.8	7.5	7.0	7.0	7.1	6.9
1975 factors	7.8	7.5	7.6	7.9	7.6	7.1	6.8	7.0	6.7

and total payroll jobs increased by 281,000 (after adjustment for strike activity).

The household survey showed a similar gain in employment--up 324,000 from August, with growth concentrated among adult women. The civilian labor force rose 171,000 last month as a sharp rise in adult female labor force participation more than offset declines among adult men and teenagers. The unemployment rate was 6.9 per cent in September, down 0.2 percentage point from August. Despite the September improvement, the over-all jobless rate has now remained in the neighborhood of 7 per cent for six consecutive months. The September improvement in joblessness was widespread among persons who lost or left their last job as well as new entrants. In addition, unemployment rates for full-time workers and married men fell, reversing their August increases.

The growth of private wage and salary disbursements slowed sharply in August. This, coupled with the continuing decline in farm income (associated with declining farm prices) reduced the rate of total personal income growth in August to about half its earlier rate of rise. Employment and earnings data suggest that private wage and salary disbursements improved somewhat in September.

Reflecting sluggish production and a rebound in shipments in August, the book value of manufacturers' inventories increased at a modest $4.4 billion annual rate, following a $9.0 billion rate of

PERSONAL INCOME
(Per cent change from preceding comparable period at a compound annual rate; based on seasonally adjusted data)

	1976				1977			
	QI	QII	QIII	QIV	QI	QII	July 1/	August 1/
Current dollars								
Total personal income	10.8	8.9	8.2	11.5	13.1	11.4	11.7	6.2
Nonagricultural income	13.0	8.4	10.0	11.4	12.0	11.9	13.4	7.1
Wage and salary disbursements	13.4	10.1	8.3	10.7	12.7	13.0	7.8	2.7
Private	16.2	11.2	8.9	10.9	14.9	15.1	8.2	1.1
Manufacturing	21.4	11.2	6.0	8.4	17.9	17.5	4.9	-2.2
Government	3.6	5.8	6.2	9.5	4.9	5.0	6.1	9.0
Nonwage income	7.6	6.7	7.9	12.3	14.5	8.5	18.0	11.8
Transfer payments	11.5	-3.1	12.4	7.6	11.6	-1.0	43.2	8.1
Dividends	14.2	17.7	11.9	29.5	1.0	20.1	2.9	11.4
Constant dollars 2/								
Total personal income	5.4	3.8	2.4	6.8	4.3	2.4	7.1	2.3
Nonagricultural income	7.4	3.4	4.1	6.8	3.3	2.9	8.8	3.1
Wage and salary disbursements	7.8	5.0	2.4	6.0	4.0	3.9	3.2	-1.3

1/ Per cent change at annual rate, not compounded.
2/ Deflated by CPI, seasonally adjusted.

rise in July. The August increase was the smallest since the outright liquidation last December and suggests continuation of conservative inventory policies. Durable goods producers added to stocks at a $2.0 billion annual rate in August--off from the $6.7 billion July rate; the slowing in this grouping was widespread with actual declines in furniture, steel, and motor vehicles. Nondurable manufacturers increased inventories in August at a $2.4 billion rate--the same as in July. Petroleum inventories rose more slowly in August than in the previous month when the Alaskan pipeline was being filled; accumulation of coal inventories was depressed in August by strike activity.

Retail sales excluding autos and mainly nonconsumption items are tentatively estimated on the basis of weekly data to have edged down in September, following two months in which sales had rebounded sharply. Sales of general merchandise and furniture and appliances, which had contributed significantly to gains in July and August, apparently declined in September. Increases in apparel and gasoline sales slowed considerably from their August pace.

Total auto sales dropped to a 10.3 million unit annual rate in September, as domestic car sales fell to their lowest level since last fall. The decline in domestic sales was concentrated in the last 10 days of the month--a period when new models normally are first available for sale. A more extensive model changeover this year meant that the introduction of some 1978 models was later than usual,

BUSINESS INVENTORIES
(Change at annual rates in seasonally adjusted book value; billions of dollars)

	1976				1977			
	QI	QII	QIII	QIV	QI	QII	July	Aug.
Manufacturing and trade	23.1	31.5	29.6	10.3	32.8	32.5	20.6	n.a.
Manufacturing	7.5	14.2	15.4	6.5	11.2	17.8	9.0	4.4
Durable	1.7	6.8	6.7	6.4	7.8	10.9	6.7	2.0
Nondurable	5.8	7.5	8.6	0	3.3	6.8	2.4	2.4
Trade, total	15.6	17.3	14.2	3.9	21.6	14.8	11.6	n.a.
Wholesale	5.1	9.0	4.3	1.6	9.7	2.9	-3.1	n.a.
Retail	10.5	8.3	9.9	2.2	12.0	11.8	14.7	n.a.
Auto	1.1	.1	4.8	1.3	2.2	2.4	8.7	n.a.

INVENTORY RATIOS

	1975	1976		1977			
	QII	QII	QIV	QI	QII	July	Aug.
Inventory to sales:							
Manufacturing and trade	1.62	1.51	1.51	1.48	1.47	1.49	n.a.
Manufacturing	1.84	1.64	1.66	1.58	1.58	1.60	1.58
Durable	2.40	2.03	2.04	1.94	1.93	1.95	1.91
Nondurable	1.26	1.23	1.25	1.20	1.20	1.21	1.21
Trade, total	1.40	1.37	1.36	1.36	1.36	1.37	n.a.
Wholesale	1.26	1.22	1.22	1.22	1.19	1.18	n.a.
Retail	1.50	1.48	1.47	1.47	1.50	1.52	n.a.
Inventories to unfilled orders:							
Durable manufacturing	.612	.625	.632	.635	.631	.638	.637

and this presumably damped sales. In addition, inventory shortages of large 1977 models reportedly held down sales somewhat for the month as a whole. Foreign car sales dropped from a 2.1 million unit annual rate in July and August to a 1.9 million rate in September, also reflecting sharply reduced inventories.

Recent reports indicate that consumer confidence has edged down from earlier levels. According to the latest Michigan and Conference Board surveys, opinions about near-term business conditions remain quite optimistic, but opinions about conditions in the longer-term were somewhat less favorable than at mid-year.

Indicators of future business investment spending have been mixed recently. New orders for nondefense capital goods increased 2.3 per cent in August, regaining only a portion of the 7.2 per cent July decline. The machinery component of these bookings--generally a more reliable indicator of underlying trends in investment spending--rose sharply by 7.7 per cent in August. In July and August orders for such machinery averaged 4-1/2 per cent above the second quarter, somewhat more than the average quarterly gains over the past year.

Recent strength in nonresidential building commitments is encouraging. Construction contracts for commercial and industrial buildings measured in current dollars rose 23 per cent in August to a level about 50 per cent higher than the May reading. In floor space

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

	1977					
	QI	QII	QIII 1/	July	Aug.	Sept. 1/
Total sales	3.7	1.5	.9	.9	1.7	-.2
(Real) 2/	1.6	-.5	n.a.	.8	1.4	n.a.
Total, less auto and nonconsumption items	1.8	1.8	1.3	1.9	.9	-.3
GAF	.1	2.2	5.0	5.7	1.4	-1.2
Durable	7.3	1.3	.6	-.5	3.6	-.1
Auto	11.0	-.6	-1.2	-3.1	4.5	-.2
Furniture and appliances	1.6	3.0	4.7	6.0	2.0	-1.7
Nondurable	2.0	1.6	1.1	1.6	2.2	-.2
Apparel	-.7	-1.7	2.8	2.2	2.2	.6
Food	1.4	3.4	1.0	.7	-.3	.8
General merchandise	-.1	3.0	5.7	6.5	1.1	-1.5
Gasoline	2.7	1.4	.5	1.0	2.6	.9

1/ Staff estimate from weekly data.
2/ Deflated by all commodities SA consumer price index.

AUTO SALES
(Seasonally adjusted, million of units)

	1977							
	QI	QII	QIII	May	June	July	Aug.	Sept.
Total	11.1	11.7	10.9p	11.7	11.8	10.8	11.6	10.3p
Imports	1.8	2.4	2.0p	2.6	2.2	2.1	2.1	1.9p
Domestic 1/	9.3	9.3	8.9p	9.1	9.6	8.7	9.5	8.4p
Large	6.2	5.9	n.a.	5.7	6.1	5.6	6.0	n.a.
Small	3.1	3.3	n.a.	3.3	3.5	3.2	3.5	n.a.

1/ Parts may not add to total because of rounding.

terms, such contracts rose 21.5 per cent in August to the highest level in almost three years.

In contrast, a preliminary tabulation of the Rinfret survey of anticipated plant and equipment expenditures for 1978 indicates that businesses plan to increase their spending by only 8 per cent over 1977. However, the final tabulation of this survey may vary significantly from the preliminary report, and the Rinfret canvass has proven to be the least reliable of the major business spending surveys.

New building activity in the residential sector continued at a robust pace in August. Total private housing starts, though down slightly from July, were at an annual rate of more than 2.0 million units, 6 per cent above the average for the April-June period. In the single-family sector, August starts--at 1.44 million units--were close to the strong July rate. New home sales, after declining sharply in July, rebounded in August. Starts in the multifamily sector slowed in August from the higher July rate but were still at a rate one-fifth above the second quarter average. The August decline was due primarily to a drop in the number of Federally-assisted starts under the Section 8 rental subsidy program.[1/]

1/ Support for this sector is suggested by recent budget actions and proposals. Continued and in some cases liberalized support for both multifamily and single-family construction activity in the period ahead is authorized under the provisions of the omnibus Housing and Community Development Act of 1977, which was signed by the President on October 12, 1977. Among other features, this act extends various FHA mortgage insurance programs--many of which had expired on September 30, 1977--broadens FHLMC and FNMA support for the secondary mortgage market; eases S&L mortgage lending restrictions and provides additional authority for certain Federally subsidized housing programs.

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

	1976		1977				Aug. 76 to
	QIII	QIV	QI	QII	July	Aug.	Aug. 77
Contracts and orders for plant & equip.[1/]							
Current dollars	2.3	3.1	6.3	12.2	-9.3	10.2	33.8
1972 dollars	.7	1.8	4.6	11.0	-9.8	10.4	26.0
New orders received by manufacturers							
Total durable goods							
Current dollars	-.8	5.5	5.8	4.1	-4.0	4.2	15.9
1967 dollars[2/]	-2.3	3.1	4.1	2.8	-4.9	3.5	7.8
Nondefense capital goods							
Current dollars							
Total	5.8	1.9	6.7	4.1	-7.2	2.3	16.1
Machinery	3.6	1.9	6.2	1.8	-.5	7.7	21.7
Other equipment[3/]	13.8	1.8	8.4	11.5	-25.9	-17.8	-4.9
1967 dollars							
Total	4.5	.3	5.0	2.8	-7.8	1.8	9.0
Construction contracts for commercial and industrial buildings[4/]							
Current dollars	4.5	10.4	0	1.9	7.0	23.2	65.6
Square feet of floor space	-4.9	4.8	8.5	4.6	-4.3	21.5	40.0

1/ The Commerce Department creates this series 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.)

2/ Deflated by appropriate wholesale price index.

3/ Includes civilian purchases of nonvehicular transportation equipment, communications equipment, and ordnance. Unpublished FR estimates.

4/ Current dollars series obtained from FR seasonal. Floor space is seasonally adjusted by Census.

In the State and local sector the value of construction put-in-place dropped by 4.9 per cent in August--the second consecutive monthly decline following steady increases earlier in the year. These government units apparently are still being cautious in undertaking large capital investments and it appears that public works grants are not being spent as rapidly as the Administration had anticipated. State and local employment increased by more than 50,000 in September, bringing gains for the third quarter to almost 130,000--part of the gain probably was attributable to the Federally-subsidized public-service employment program.

For the fiscal year ending September 30, Federal outlays are now estimated to have been $401.5 billion, about $6 billion below the Administration's "April Budget Update." About $3 billion of the shortfall appears to have occurred in the third quarter and was spread across most of the budget's functional categories. The Federal budget presently is estimated to have been in deficit by $11-1/2 billion in the third quarter after registering an $8.6 billion surplus in the second quarter. This shift from surplus to deficit was due mainly to a falloff in receipts following the large seasonal inflow during the second quarter.

Wholesale prices for finished goods rose 0.4 per cent in September, a more rapid rate than in the previous three months. The larger increase was due both to a faster rise in nonfood prices--which

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

	1976		1977				Per cent change[3/] from:	
	QIII	QIV	QI	QII[1/]	July[1/]	Aug[2/]	Month ago	Year ago
Single & Multifamily								
Permits	1.34	1.53	1.52	1.63	1.64	1.77	+8	+35
Starts	1.57	1.77	1.76	1.91	2.08	2.02	-3	+32
Under construction[4/]	1.11	1.19	1.24	1.32	1.35	n.a.	+2	+26
Completions	1.37	1.39	1.59	1.57	1.65	n.a.	+1	+25
Single-family								
Permits	.89	1.03	1.06	1.08	1.09	1.14	+5	+30
Starts	1.19	1.28	1.31	1.42	1.45	1.44	--	+23
Under construction[4/]	.64	.69	.73	.79	.80	n.a.	+1	+29
Completions	1.05	1.05	1.19	1.20	1.25	n.a.	+4	+21
Multifamily								
Permits	.45	.50	.46	.56	.55	.63	+15	+46
Starts	.39	.49	.45	.49	.63	.58	-8	+63
Under construction[4/]	.47	.51	.51	.54	.55	n.a.	+3	+22
Completions	.32	.35	.39	.37	.40	n.a.	-10	+42
Mobile home shipments	.24	.25	.27	.26	.25	.25	—	+5

1/ Revised.
2/ Preliminary.
3/ Per cent changes based on latest available data.
4/ Seasonally adjusted, end of period.

rose at the highest rate since April--and to a smaller rate of decline in food prices. Price increases for nonfood items were concentrated in consumer nondurables, particularly gasoline, home heating oil, apparel, and cigarettes. Producer finished goods prices increased only slightly faster than in each of the three previous months. Crude materials prices, a volatile component of the wholesale index, rose modestly in September following a large increase in August.

For the fifth consecutive month wholesale prices for unprocessed farm products declined, but by only 0.2 per cent--well below the average 4 per cent drop of the previous four months. Prices of finished consumer foods fell in September for the fourth month in a row.

Wholesale prices of all commodities--a measure which entails doublecounting of some price changes as goods pass through the production process--rose 0.5 per cent last month. Overall industrial commodities prices were up 0.8 per cent, the largest rise in almost a year. Continuing large increases in lumber prices and a sharp rise in the fuels component contributed to the September increase.

Consumer prices increased 0.3 per cent in August, the smallest rise since last November. Both food and nonfood commodity prices were up a modest 0.3 per cent--more than the fractional July increase but well below the average rate over the first half of the

RECENT CHANGES IN WHOLESALE PRICES
(Per cent changes at compound annual rates; based on seasonally adjusted data)1/

	Relative Importance Dec. 76	1975	1976 HI	1976 HII	1977 QI	1977 QII	1977 QIII	September
Finished goods	41.2	6.6	2.9	3.9	8.8	8.4	1.8	4.6
Consumer foods	10.4	5.5	-1.3	-3.2	12.7	13.8	-7.5	-3.8
Consumer nonfoods	18.7	6.7	3.3	6.4	8.5	6.5	5.2	8.3
Producer goods	12.1	8.2	5.8	7.0	5.5	6.3	5.6	5.8
Intermediate materials 2/	45.3	5.4	4.7	7.9	7.6	4.7	7.8	8.8
Crude materials 3/	3.8	4.5	10.9	16.1	21.7	-2.0	8.9	3.8
All commodities	100.0	4.2	3.9	5.3	10.2	3.6	1.9	5.6
Farm and food products	21.6	-.3	1.0	-3.2	19.1	-2.5	-17.0	-5.2
Industrial commodities	78.4	6.0	5.0	7.8	7.9	5.3	7.6	9.8
Industrial commodities ex. fuels and power	67.7	5.0	5.8	6.4	6.4	4.0	7.2	7.2

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Excludes intermediate materials for food manufacturing and manufactured animai feeds.
3/ Excludes crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco.

year. Among foods, price increases slowed for cereal and dairy products while declines occurred for beef, pork, sugar, and ground coffee. Among nonfood commodities, used car prices receded for the fourth successive month and have reversed much of their spectacular surge of late last year and early this year. The rise in service prices was 0.5 per cent in August, the smallest increase this year. The slowing reflected a reported decline in the BLS mortgage interest costs measure as well as a deceleration in gas and electricity rate hikes.

The often-volatile index of average hourly earnings, a measure of wage rates in the private nonfarm economy adjusted for employment shifts and overtime pay in manufacturing, rose at a 4.5 per cent annual rate in September following a 2.0 per cent rate of increase in August. Since December, the index has increased at a 7.1 per cent annual rate--in line with the 6.9 per cent increase during 1976.

RECENT CHANGES IN CONSUMER PRICES
(Per cent changes at compound annual rates; based on seasonally adjusted data)1/

	Relative Importance Dec. 76	1975	1976 HI	1976 HII	1977 QI	1977 QII	1977 July	1977 Aug.
All items	100.0	7.0	5.0	4.8	10.0	8.1	4.6	3.9
Food	23.7	6.5	.2	.8	14.6	12.7	.6	3.1
Commodities (nonfood)	38.8	6.2	4.8	5.6	7.4	4.2	1.5	3.6
Services	37.5	8.1	8.5	6.3	9.8	9.4	9.3	6.1
Memoranda:								
All items less food and energy 2/3/	68.9	6.7	6.9	5.5	8.3	7.1	6.8	3.4
Petroleum products2/	4.5	10.1	-2.2	9.7	7.1	7.0	-2.4	4.7
Gas and electricity	2.9	14.2	9.7	15.4	10.7	12.1	21.4	11.6

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Estimated series.
3/ Energy items excluded: gasoline and motor oil, fuel and coal, gas and electricity.

HOURLY EARNINGS INDEX[1/]
(Per cent change from preceding comparable period at a compound annual rate; based on seasonally adjusted data)

	1976				1977				
	QI	QII	QIII	QIV	QI	QII	QIII	Aug.	Sept.[2/]
Private nonfarm	7.0	6.7	7.1	6.4	8.2	6.6	7.5	2.0	4.5
Construction	5.6	7.4	5.3	3.6	6.0	4.2	4.7	-3.9	-1.5
Manufacturing	7.4	6.4	9.2	6.5	7.8	7.6	9.2	3.4	7.1
Trade	5.2	5.7	6.7	8.2	9.4	6.6	6.2	.1	7.1
Transportation and public utilities	9.1	9.3	6.6	4.7	5.9	7.5	8.1	7.7	9.2
Services	8.3	6.6	4.8	7.8	10.9	5.6	7.3	10.2	-2.0

1/ Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2/ Monthly change at an annual rate, not compounded.

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SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Latest data Level	Net change from: Month ago	Three months ago	Year ago
		$ billions	Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	September	35.68	1.4	6.0	5.5
Nonborrowed reserves	September	35.06	16.6	5.3	3.8
Money supply					
M1	September	330.5	8.0	10.7	7.7
M2	September	793.1	8.2	10.5	10.7
M3	September	1342.7	12.1	13.3	12.5
Time and savings deposits (less CDs)	September	462.6	8.4	10.4	13.0
CDs 2/	September	63.2	—	-0.7	0.1
Thrift deposits (S&Ls + MSBs + Credit Unions)	September	549.6	17.7	17.5	15.1
Bank credit (end of month)	September	847.1	3.7	8.5	10.5

Indicator		Latest data Period	Latest data Per cent or index	Net change from: Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	10/5/77	6.41	.44	1.06	1.24
Treasury bill (90 day)	"	10/5/77	5.98	.41	.92	.91
Commercial paper (90-119 day)	"	10/5/77	6.31	.43	.93	1.06
New utility issue Aaa	"	10/7/77	8.14	.12	—	-.12
Municipal bonds (Bond Buyer)	1 day	10/6/77	5.60	.06	-.03	-.73
FNMA auction yield (FHA/VA)		10/3/77	8.77	.03	.05	-.03
Dividend price ratio (common stocks)	wk endg.	10/5/77	4.86	.14	.27	1.31
NYSE index (12/31/65=50)	end of day	10/10/77	52.09	-.45	-2.56	-2.23

Indicator	Period	Net Change or Gross Offerings: Latest Data	Year ago	Year to Date 1977	Year to Date 1976
		$ billions			
Credit demands					
Business loans at commercial banks 1/	Sept.	.3	1.0	12.8	-.7
Consumer instalment credit outstanding 1/	August	2.5	1.5	19.1	13.0
Mortgage debt outstanding (major holders) 1/	July	7.3	5.2	49.9	33.9
Corporate bonds (public offerings)	Sept.	1.8e	2.1	18.2e	19.9
Municipal long-term bonds (gross offerings)	Sept.	3.8e	2.8	35.3e	26.0
Federally sponsored agcy. (net borrowing)	Sept.	1.1e	.3	6.0e	2.4
U.S. Treasury (net cash borrowing)	October	1.9e	2.3	36.8e	53.6

1/ Seasonally adjusted.
2/ $ billions, not at annual rates.
e Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

As in previous months, aggregate credit flows in September gave only limited evidence of the slower pace of economic expansion. Total short- and intermediate-term borrowing by nonfinancial business appears to have been quite small in September--perhaps reflecting in part continued caution in inventory accumulation--but public offerings of corporate bonds, especially by utilities, were large. Long-term financing by State and local governments also remained heavy, bolstered by advance refundings, and the Treasury continued to tap the coupon sector to cover a sizable Federal budget deficit. In the household sector, available information points to persistent strength in mortgage credit demands; however, reduced sales of autos and other durables in September suggest a possible slackening in consumer instalment credit expansion following some acceleration in August.

Meanwhile, growth of the monetary aggregates has continued apace, with M_1 increasing at a 8 per cent annual rate in September. As the System acted to counter this rapid expansion, the Federal funds rate rose from the 6-1/8 per cent level at the time of the September FOMC meeting to around 6-1/2 per cent most recently. Most other key short-term, as well as intermediate-term, interest rates have increased by roughly similar amounts, but yields on long-term bonds generally have risen only about 10 basis points--thus continuing

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1976 1/ May-June High	1976 1/ December Low	1977 2/ June 30	1977 2/ Sept. FOMC 20	1977 2/ Oct. 4	1977 2/ Oct. 11	Change from: June 30	Change from: Sept. FOMC
Short-term rates								
Federal funds 1/	5.58	4.63	5.43	6.10	6.41	6.45 3/	+1.02	+.35
Treasury bills								
3-month	5.53	4.27	4.98	5.87	6.10	6.27	+1.29	+.40
6-month	5.93	4.50	5.19	6.02	6.29	6.46	+1.27	+.44
1-year	6.32	4.62	5.39	6.12	6.33	6.55	+1.16	+.43
Commercial paper								
1-month	5.65	4.48	5.25	6.05	6.20	6.30	+1.05	+.25
3-month	5.90	4.63	5.38	6.13	6.30	6.45	+1.07	+.32
Large negotiable CD's 4/								
3-month	5.95	4.60	5.35	6.20	6.50	6.55	+1.20	+.35
6-month	7.00	4.71	5.55	6.40	6.85	6.95	+1.40	+.55
Bank prime rate	7.25	6.25	6.75	7.25	7.25	7.50	+.75	+.25
Intermediate- and Long-term rates								
Corporate								
New AAA 5/	8.95	7.93	--	8.08	8.14	8.14p	--	+.06
Recently offered 6/	8.84 7/	7.84	8.03	8.07	8.12	8.15p	+.12	+.08
Municipal (Bond Buyer) 8/	7.03 9/	5.83	5.56	5.51	5.51	5.60	+.04	+.09
U.S. Treasury (constant maturity)								
3-year	7.52	5.64	6.33	6.82	6.95	7.11	+.78	+.29
7-year	7.89	6.32	7.00	7.20	7.30	7.46	+.46	+.26
20-year	8.17	7.26	7.57	7.58	7.62	7.69	+.12	+.11

Stock prices	January Low	December High	June 30	FOMC Sept. 20	Oct. 4	Oct. 11	June 30	Sept. FOMC
Dow-Jones Industrial	881.51	994.18 10/	916.30	851.78	842.00	832.38	-83.92	-19.40
N.Y.S.E. Composite	49.06	56.96	55.10	52.49	52.60	52.09	-3.01	-.40
AMEX	86.42	107.26	120.32	118.07	118.80	117.99	-2.33	-.08
Keefe Bank Stock 6/	520	664	619	605	597	602	-17	-3

1/ Daily average for statement week.
2/ One-day quotes except as noted.
3/ Average for first 6 days of statement week ending October 12.
4/ Highest quoted new issues.
5/ 1977 figures are averages for preceding week.
6/ 1977 figures are one-day quotes for preceding Friday.
7/ High for the year was 8.94 on January 7.
8/ 1977 figures are one-day quotes for preceding Thursday.
9/ High for the year was 7.13 on January 7.
10/ High for the year was 1003.87 in statement week ending September 29.

the trend toward a flatter yield curve that began in April. Data available during the quarter pointing to a slower pace of inflation and economic growth, the evident commitment of the System to resist excessive monetary expansion, and the strong cash flows of institutions that are primarily long-term investors all seem to have contributed to the relative stability of long-term yields.

Monetary Aggregates and Bank Credit

Growth in all three major monetary aggregates accelerated in September from their moderate August rates--the pick-up being most pronounced for M_1. Technical factors, such as the early disbursement of Social Security checks in the first week of the month and large tax payments at mid-month, probably accounted for some of the increase in M_1, but continued strong growth of this aggregate appears primarily to reflect underlying strength in money demand. With bulges in growth in April and June and only one month of weak growth in the second and third quarters, M_1 expansion during these quarters averaged a record 9 per cent annual rate.

Buoyed by inflows at commercial banks of time and savings deposits other than large CDs, M_2 grew at about an 8-1/4 per cent annual rate in September. The further upward movement in short-term interest rates may have had a significant impact on the composition of these deposit flows as savings deposits grew less rapidly--at a 9 per cent annual rate--than in August. By late September, as the accompanying chart indicates, yields on Treasury securities exceeded regulatory ceilings at banks and at thrift institutions in

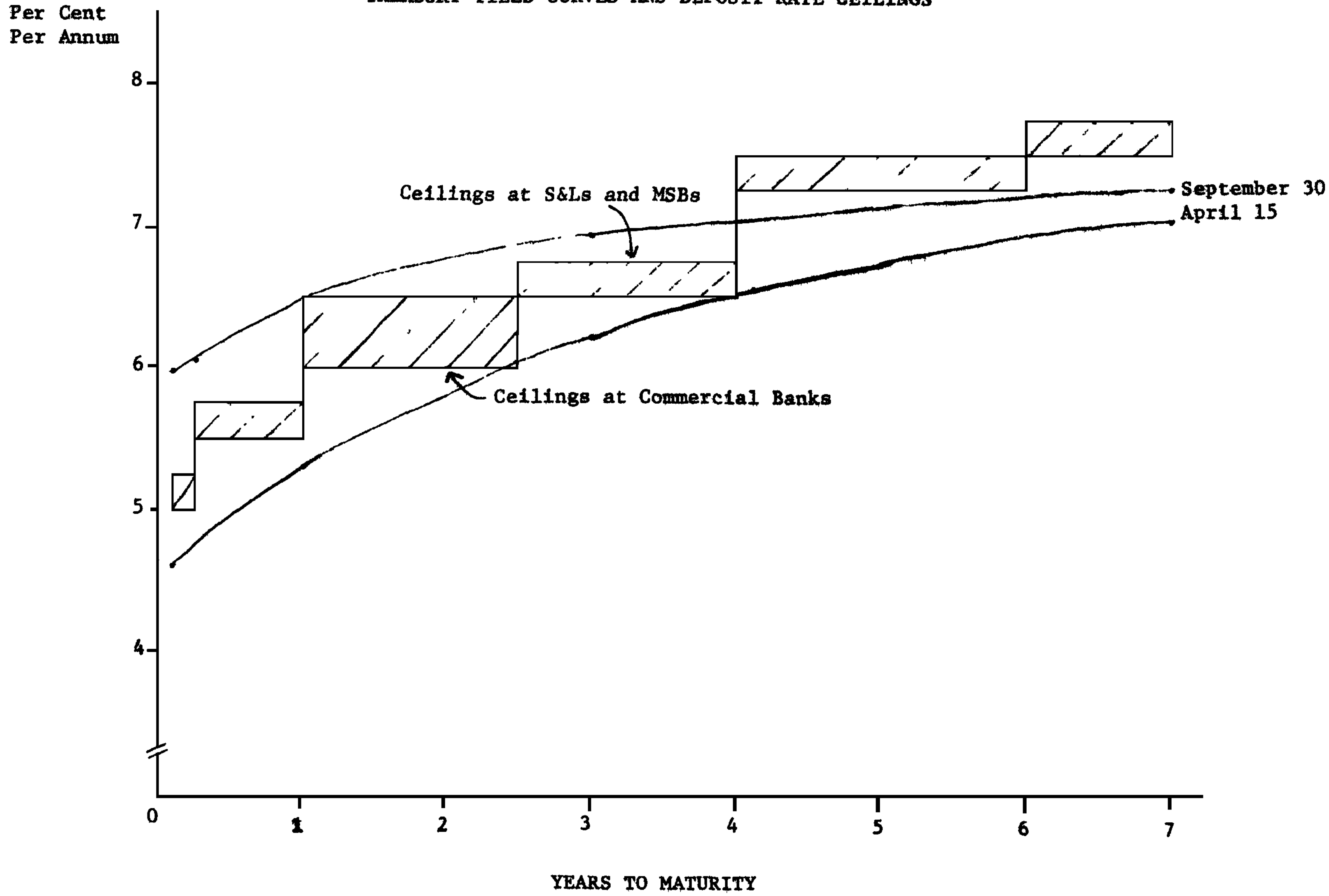
MONETARY AGGREGATES
(Seasonally adjusted)1/

	1977 QI	1977 QII	1977 QIII	1977 July	1977 Aug.	1977 Sept.	1977 through Sept.
	Net changes at annual rates, per cent						
Major monetary aggregates							
1. M_1 (currency plus demand deposits	4.2	8.4	9.3	18.3	5.5	8.0	7.7
2. M_2 (M_1 plus time & savings deposits at CBs other that large CDs)	9.9	9.2	10.3	16.6	6.4	8.2	9.5
3. M_3 (M_2 plus all deposits at thrift institutions	11.3	10.0	12.3	16.0	11.4	12.1	11.4
Bank time and savings deposits							
4. Total	12.5	8.3	10.0	11.0	6.9	7.6	9.4
5. Other than large negotiable CDs	14.0	9.8	11.0	15.4	7.1	8.4	10.8
6. Savings deposits	21.9	7.9	6.8	8.5	13.5	8.9	10.1
7. Individuals 2/	16.0	8.3	10.6	14.0	15.7	11.9	11.1
8. Other 3/	103.0	2.5	-37.7	-67.4	-11.9	-30.1	-1.6
9. Time deposits 4/	7.1	11.6	14.6	21.6	1.0	8.4	11.4
10. Small time 5/	7.9	14.2	13.2	15.5	9.5	17.4	13.4
11. Large time 4/	6.2	5.3	18.3	36.0	-17.4	-11.3	7.3
Deposits at nonbank thrift institutions 6/							
12. Total	13.4	11.1	15.3	15.3	18.7	17.7	14.2
13. Savings & loan assoc.	14.7	12.3	16.8	16.6	20.5	19.6	15.7
14. Mutual savings banks	9.2	6.6	10.1	9.8	12.7	12.3	9.1
15. Credit unions	16.2	14.5	18.8	20.6	20.4	17.3	17.4
	Average monthly changes, $ billions						
Memoranda:							
16. Total US Govt deposits	0.0	-0.4	0.2	1.7	-1.6	0.5	-0.1
17. Negotiable CDs	-0.4	0.6	-0.2	-1.1	0.4	0.0	0.0
18. Nondeposit sources of funds 7/	0.4	1.1	1.7	0.0	2.2	2.8	1.1
19. Total attracted from the public 8/	6.6	6.3	7.4	8.5	6.3	7.3	6.3

1/ Quarterly growth rates are computed on a quarterly average basis.
2/ Savings deposits held by individuals and nonprofit organizations.
3/ Savings deposits of businesses, governments, and others, not seasonally adjusted.
4/ Excluding negotiable CDs at weekly reporting banks.
5/ Small time deposits are total time deposits (excluding savings deposits) less large time deposits, negotiable and nonnegotiable, at all commercial banks.
6/ Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.
7/ This series represents nondeposit borrowings of commercial banks from nonbank sources. It includes Federal funds purchased and security RPs plus other liabilities for borrowed money plus Eurodollar borrowings and loans sold less interbank loans.
8/ Sum of the deposit component of M_2, negotiable CDs, and nondeposit sources of funds.

Chart 1

TREASURY YIELD CURVES AND DEPOSIT RATE CEILINGS



all maturity categories less than four years. Other evidence that higher market rates are beginning to cause some shifting of funds is to be found in some increase of late in noncompetitive tenders for Treasury bills and in modest growth of money market mutual funds. Time deposits other than large negotiable CDs rebounded from virtually no gain in August to an 8-1/2 per cent rate of expansion in September, reflecting strong growth in longer-term, small-denomination accounts.

Although data on the composition of deposit flows into thrift institutions during September are not yet available, it is likely that some slowing in savings deposit inflows are also occurred at savings and loan associations and mutual savings banks.1/ Total time and savings deposits at all nonbank thrift institutions (including credit unions) are estimated to have expanded at a 17-3/4 per cent annual rate in September, only slightly below their August pace.

Expansion of bank credit slowed in September to a 3.7 per cent annual rate, as bank holdings of securities declined, and growth in total loans moderated from the strong pace of the first two months of the quarter.2/ The decline in security holdings was

1/ In August, savings account growth at S&L's slowed, while time deposit growth accelerated to a record rate. Data from a San Francisco Home Loan Bank survey indicate that time deposit growth was predominantly in the 6-year category.

2/ The deviation between rapid growth of deposits and nondeposit sources on the one hand, and slow growth of bank credit on the other, is explained largely by the fact that the sources of bank funds are measured on a monthly average basis and bank credit on a last-Wednesday-of-the-month basis.

COMMERCIAL BANK CREDIT
(Seasonally adjusted changes at annual rates, per cent)1/

	1 9 7 7						1977 through Sept.
	QI	QII	QIII	July	August	Sept.	
Total loans & investments2/	9.5	11.2	8.5	9.3	12.3	3.7	10.0
Investments	10.6	10.3	-4.6	-5.6	3.3	-11.6	5.4
Treasury securities	25.9	6.6	-22.0	-27.4	-3.5	-36.3	3.0
Other securities	.5	12.9	7.3	9.4	7.8	4.6	7.0
Total loans2/	9.1	11.5	14.4	16.0	16.4	10.4	12.0
Business loans2/	8.1	11.9	7.5	8.2	12.5	1.9	9.4
Security loans	-2.3	2.3	20.3	20.3	46.7	-6.4	6.8
Real estate loans	12.6	15.1	16.1	14.3	16.4	16.9	15.1
Consumer loans3/	10.3	14.6	n.a.	13.4	20.9	n.a.	n.a.
Memoranda:							
1. Commercial paper issued by nonfinancial firms 3/	15.0	61.2	-12.9	-19.2	13.0	-38.7	20.5
2. Business loans at banks plus nonfinancial commercial paper	8.6	15.2	6.0	6.1	12.5	-1.1	10.1
3. Business loans at banks plus business loans at finance companies plus nonfinancial commercial paper	10.8	16.6	n.a.	10.6	18.3	n.a.	n.a.

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Loans include 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/ Measured from end-of-month to end-of-month.

n.a.--not available

solely in Treasury issues, which fell for the third consecutive month. Holdings of other securities, primarily tax-exempt issues, continued to increase as they have since April. The preference for such investments may be a consequence of improved bank profits; preliminary data for the first half indicate a significant increase in before-tax earnings as compared to 1976.

Total bank loans grew at a 10-1/2 per cent annual rate in September, bringing the rate for the quarter as a whole to 14-1/2 per cent--the largest quarterly advance in more than three years. Real estate loans continued to increase briskly last month, in line with the strong pace of housing activity. Business loans, however, increased at the slowest rate in eight months--about 2 per cent.

Business Credit

Commercial paper issued by nonfinancial firms fell $500 million (seasonally adjusted) in September, as utilities in particular reportedly paid down maturing obligations. The decline in outstanding paper more than offset the small rise in business loans at banks. Owing to the September decline, the third quarter increase in total credit from these two sources--at a 6 per cent annual rate--was the smallest since the summer of 1976, also a time of slowing economic activity.

However, these figures may overstate the degree of moderation in aggregate demands for short- and intermediate-term business credit in recent months. Business loans at finance companies registered record gains in July and August, led by the wholesale auto category. Although this apparent strength may be partly attributable to problems of seasonal adjustment associated with shifting model changeover patterns, the increase over the quarter as a whole probably was sizable. Outstanding nonfinancial business credit from all three of the above sources probably increased somewhat in September.

Business demands for long-term credit, meanwhile, remained strong. Gross public offerings of corporate bonds (not seasonally adjusted) totaled $1.8 billion in September. Public utilities--which are engaged in sizable investment programs this year--sold the largest volume of issues since March, nearly offsetting a decline in offerings by industrial and financial corporations. September's volume boosted total corporate offerings in the third quarter to $6.1 billion from $5.6 billion in the previous quarter. Seasonally forces typically reduce public bond offerings in the third quarter, but an increase in offerings by manufacturing and other industrial concerns, many of which were rated less than Aa, increased seasonally adjusted public bond offerings to their highest quarterly level in more than two years.

Total external financing by nonfinancial corporations appears to have been considerably greater in the third quarter than dictated by the gap between capital outlays and internally-generated funds. Firms may have been induced to seek long-term credit by the relatively low level of long-term corporate bond yields prevailing over the quarter. Underwriters reported that several of the offerings had been accelerated to take advantage of what were felt to be attractive

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

	1976	1977					
	Year	HI	QIIIe/	Aug.e/	Sept.e/	Oct.f/	Nov.f/
				Gross offerings			
Corporate securities--total	4,445	4,149	3,566	3,400	3,300	4,100	3,700
Publicly offered bonds	2,204	2,018	2,033	1,900	1,800	2,400	2,000
By quality 1/							
Aaa and Aa	1,040	1,152	1,017	625	875	--	--
Less than Aa 2/	1,154	866	1,016	1,275	925	--	--
By type of borrower							
Utility	675	753	588	385	930	--	--
Industrial	874	590	750	750	300	--	--
Other 3/	655	675	695	765	570	--	--
Privately placed bonds	1,317	1,216	933	900	900	1,000	1,000
Stocks	924	915	600	600	600	700	700
By type of issue							
Common	692	672	333	400	250	--	--
Preferred	232	243	267	200	350	--	--
Foreign securities--total	852	581	707	345	700	--	--
Publicly offered 4/	520	443	520	150	475	300	300
Privately placed	332	138	187	195	225	--	--
State and local gov't. securities--total	4,756	6,335	5,173	5,300	5,600	5,800	5,700
Long-term	2,932	4,043	3,667	4,000	3,800	4,500	4,200
Short-term	1,824	2,292	1,506	1,300	1,800	1,300	1,500
				Net offerings			
U.S. Treasury	4,925	1,383	3,867	10,200	700	3,300	8,800
Sponsored Federal agencies	245	701	665	1,147	379	367	466

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

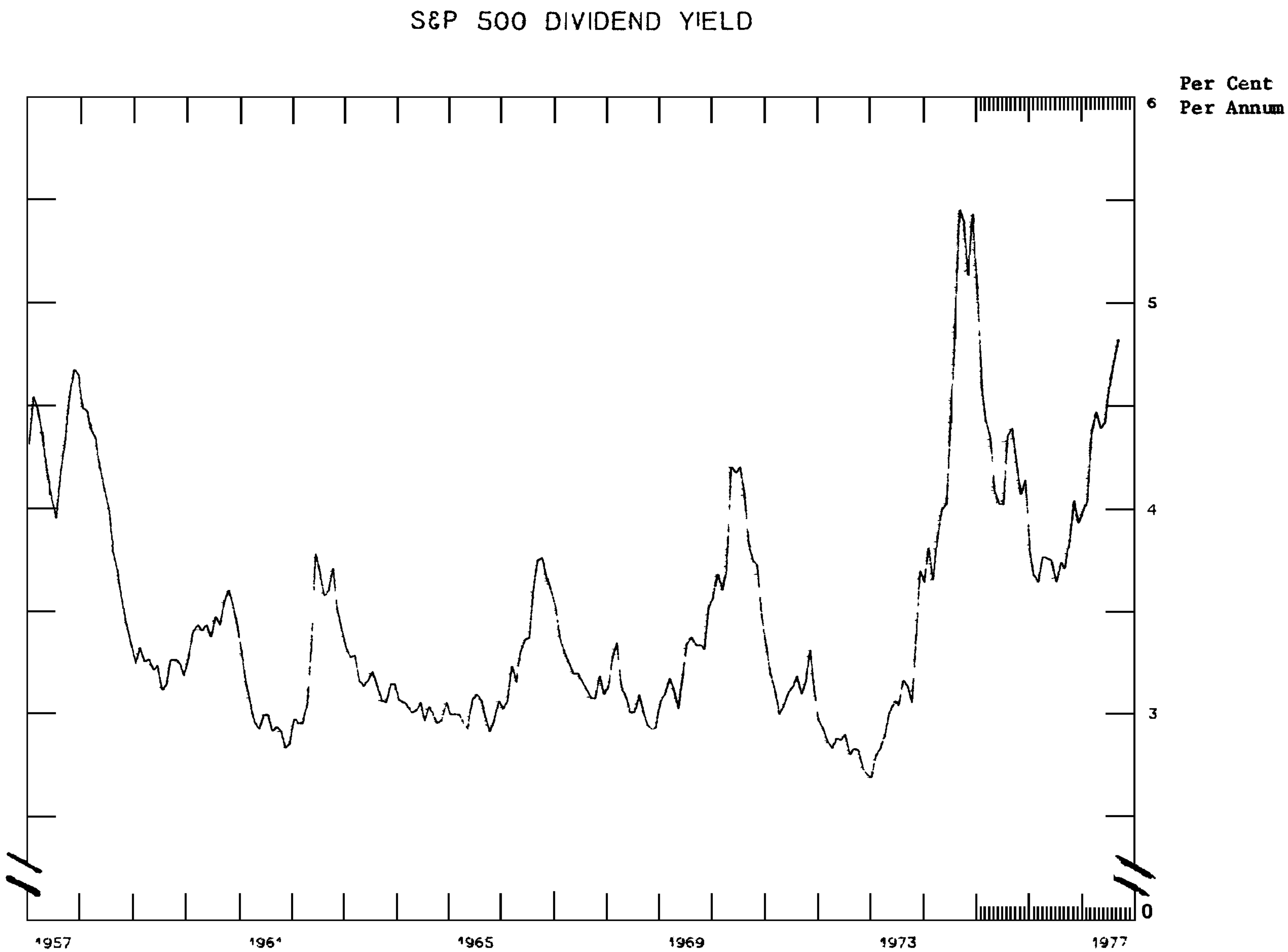
rates. In addition to funding short-term debt, nonfinancial corporations may have used the proceeds from their bond financings to add to liquid asset positions, thereby reversing some of the modest decline in balance sheet liquidity ratios that had occurred earlier in the year.

Stock prices have drifted down since the last FOMC meeting. Over the course of this year the weighted average of prices of N.Y.S.E., A.S.E., and NASDAQ stocks has declined about 7-1/2 per cent. The weakness has been most evident among stocks that have relatively low dividend yields. Given the uncertainty about economic trends, the poor performance of "growth" stocks in recent years, and the possibility of relatively favorable future tax treatment of dividend income, investors have displayed an apparent preference for stocks with high current yields. Corporations have responded by announcing a record number of dividend increases this year; the larger dividends, coupled with the decline in stock prices, have boosted average dividend yields to a high level by historical standards (see Chart 2).

Municipal and Treasury Securities

Advance refunding by State and local governments of previously issued high cost debt continues to bolster municipal bond volume. Of the $3.8 billion of municipal bonds offered in September, $830 million was accounted for by this type of issue. Indeed, total offerings of long-term tax-exempt securities thus far this year have exceeded the record volume sold in all of 1976, primarily because of the unprecedented level of advance refunding.

Chart 2



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Advance refunding activity, as well as other financing activity by States and municipalities, has been encouraged this year by the relatively strong performance of the tax-exempt market. On a taxable-equivalent basis,[1/] shorter-term municipal yields have risen less than rates on comparable maturity corporate and Treasury securities, while long-term municipal yields have declined this year while other bond rates have remained about unchanged. The strength of this market is attributable to the demand for tax-exempts by commercial banks, property/casualty insurance companies, and municipal investment companies. Banks--especially large money center institutions--apparently have concentrated their purchases more than usual in the shorter maturities, while the latter two groups typically have bought bonds with maturities of 20 years or longer.

The investment by State and local governments of proceeds from advance refundings in special nonmarketable securities provided the Treasury with $2.8 billion of the $19.5 billion it borrowed from the public (including $2.5 billion directly from the Federal Reserve) over the third quarter. The Treasury added to the supply of intermediate- and long-term securities in the July-September period by raising about $12 billion through the sale of marketable notes and bonds, more than double the net issuance of such securities in the second quarter. It also raised $1 billion net through additions to outstanding bills, after paying down more than $9 billion of bills in the second quarter when a seasonal surplus allowed a reduction in total debt outstanding. Most

1/ Assumes a marginal tax rate of 48 per cent.

recently, since the last FOMC meeting, the Treasury has sold $3.1 billion of 2-year notes to roll over a maturing issue and $2.5 billion of 5-year notes to raise new money. 1/

Mortgage and Consumer Credit

Mortgage lending activity in September apparently remained around the extremely strong pace registered earlier in the third quarter. Outstanding mortgage loans at commercial banks expanded by $2.4 billion in September, slightly above the July-August average, and issues of GNMA-guaranteed mortgage-backed securities were about $1.3 billion, down only moderately from the record August volume. At savings and loan associations, outstanding loan commitments rose $1.6 billion in August to a record $30.0 billion. About two-fifths of S&L commitments to originate or purchase mortgages were scheduled to be taken down during September, indicating that net mortgage acquisitions by S&L's were large in September. 2/ Furthermore, the strong deposit inflows during the month would have permitted S&L's also to make large amounts of spot loans, as they have in other recent months; the volume of loans made or purchased has exceeded scheduled takedowns by about 25 per cent, on average, since early 1977.

The high level of loan commitments does not seem to pose any imminent problem for the S&L industry since the ratio of outstanding commitments relative to cash flow, both seasonally adjusted, remains in a manageable range--comfortably below the levels of 1969 and 1973-

1/ Foreign official institutions took an additional $800 million of these issues.

2/ About 30 per cent of the mortgage commitments outstanding at S&L's at the end of August represented loans in process--about the same proportion as a year earlier. Loans in process are primarily undistributed portions of construction loans to builders.

early 1974.[1/] (Chart 3, Panel A). Moreover, S&L holdings of liquid assets are sizable, and indebtedness to Home Loan Banks remains well below the peak levels of 1974. In addition, S&L's have improved access to other sources of funds because of the opportunity to issue mortgage-backed bonds or mortgage pass-through securities, although these sources have not yet been tested in all phases of the credit cycle.

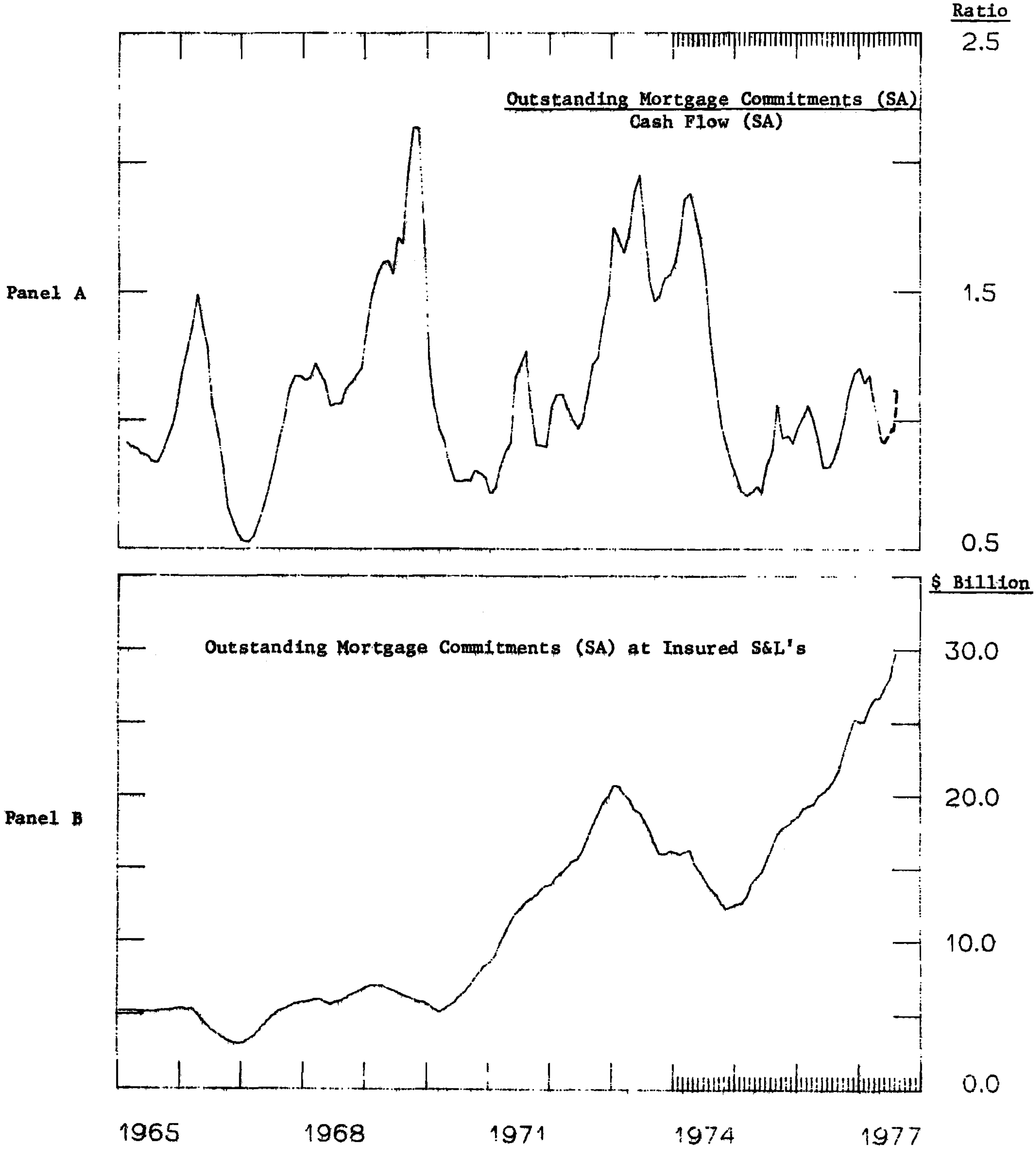
S&L's have been able to meet strong household demands for home mortgage funds at relatively stable interest rates. Average rates on new commitments for conventional home loans at S&L's edged up a bit during the third quarter and rose slightly further in early October. Yields in the secondary mortgage markets have shown a similar pattern.

A record amount of consumer instalment credit was extended in August, as sales of autos and other consumer durables posted strong increases. Repayments also reached a new high, but increased less than extensions. As a result, outstanding instalment credit rose at a 15.1 per cent annual rate--up somewhat from July, although still below the second quarter pace. Commercial banks had an especially large gain in outstandings, bolstered by a record increase in credit-card receivables.

1/ Because the majority of commitments are taken down within 3 months, this ratio was computed as month-end outstanding commitments relative to cash flow during the ensuing 3 months. The ratios for June-August 1977 were computed using forecast deposit growth and mortgage repayment figures for September-November 1977.

Chart 3

Outstanding Mortgage Commitments (SA) Relative to Cash Flow (SA) at Insured S&L's



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
1977--High	8.95	--	+92	14
Low	8.65	--	+37	2
1977--Mar.	8.70	+ 5	+48	2
Apr.	8.78	+ 8	+47	11
May	8.85	+ 7	--	12
June	8.88	+ 3	+81	8
July	8.93	+ 5	+76	7
Aug.	8.93	0	+92	14
Sept. 2	8.88	- 5	+91	13
9	8.90	+ 2	+88	10
16	8.90	0	+82	8
23	8.90	0	+82	10
30	8.90	0	+76	12
Oct. 7	8.93	+3	+79	11

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		
1977--High	416	278	9.13	7.23	4.22	8.79	8.16
Low	123	83	8.81	50	35	8.46	7.56
Sept. 6	139	114	9.06	50	35	8.74	7.96
12							8.07
19	108	71	9.05	63	40	8.74	8.01
26							8.08
Oct. 3	187	137	9.07	131	82	8.77	8.09
11							8.16

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

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

CONSUMER INSTALMENT CREDIT

	1974	1975	1976	1977 1/ QI	QII	July	Aug.
Total							
Change in outstandings 2/							
Billions of dollars	8.9	7.3	19.9	26.5	30.3	27.8	30.1
Per cent	6.1	4.7	12.3	14.6	16.0	14.1	15.1
Bank share (per cent)	41.5	39.6	54.0	44.0	49.2	43.3	52.0
Extensions 2/							
Billions of dollars	147.0	163.9	192.4	211.2	221.3	221.0	227.7
Bank share (per cent)	46.2	47.2	48.9	48.0	48.3	48.5	48.5
Liquidations 2/							
Billions of dollars	148.0	156.6	172.4	184.7	191.0	193.2	197.7
Ratio to disposable income	15.2	14.4	14.6	14.7	14.7	14.7	14.8
Automobile Credit							
Change in outstandings 2/							
Billions of dollars	0.3	3.2	10.2	12.1	13.0	12.1	11.9
Per cent	0.6	6.1	18.3	18.3	18.9	16.7	16.2
Extensions 2/							
Billions of dollars	45.3	51.5	62.8	69.3	71.9	70.5	72.8
New car loans over 36 months as per cent of total new car loans at:							
Commercial banks 3/	8.8	14.0	25.4	36.3	38.9	n.a.	n.a.
Finance companies	8.6	23.5	33.9	41.5	45.3	49.3	51.5
New car finance rate (APR)							
Commercial banks (36 mo. loans)	10.97	11.36	11.08	11.03	10.82	10.87	10.86
Finance companies	12.61	13.11	13.17	13.15	13.12	13.10	n.a.

1/ Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.
2/ Data are revised to reflect new historical benchmarks and other information.
3/ 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.

n.a. -- not available.

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

October 12, 1977

IV - T - 1

		1976		1977			
		YEAR	Q4	Q1	Q2	July	August
1.	Merchandise exports	114,694	29,711	29,458	30,488	10,184	9,621
2.	Merchandise imports	124,014	33,305	36,561	38,347	12,570	12,742
3.	Trade Balance	-9,320	-3,594	-7,103	-7,859	-2,386	-3,121
4.	Bank-reported private capital flows	-10,071	-4,511	-1,851	934	3,515	-3,001
5.	Claims on foreigners (increase -)	-21,039	-9,333	3,446	-5,394	2,113	1,074
6.	Long-term	-2,362	-718	-306	13	-21	-206
7.	Short-term	-18,677	-8,615	3,752	-5,407	2,134	1,280
8.	(of which on commercial banks in offshore centers 2/)	(12,633)	(4,352)	(2,058)	(-3,595)	(2,493)	(1,479)
9.	Liabilities to foreigners (increase +)	10,968	4,822	-5,297	6,328	1,402	-4,075
10.	Long-term	208	255	48	104	-106	88
11.	Short-term	10,760	4,567	-5,345	6,224	1,508	-4,163
12.	to commercial banks abroad	8,030	2,610	-4,502	3,869	3,295	-4,880
13.	(of which to commercial banks in offshore centers 3/)	(4,115)	(3,320)	(-3,315)	(3,271)	(2,125)	(-3,468)
14.	to other private foreigners	2,719	1,143	366	688	-223	133
15.	to int'l and regional organizations	11	814	-1,209	1,667	-1,564	584
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,783	-89	1,047	-1,308	-112	396
17.	Other private securities transactions (net)	-7,480	-2,150	187	-926	-320	-907
18.	Foreign net purchases (+) of U.S. corp. securities	1,250	21	879	820	147	148
19.	(of which stocks)	(853)	(-174)	(376)	(371)	(66)	(28)
20.	U.S. net purchases (-) of foreign securities	-8,730	-2,171	-692	-1,746	-467	-1,055
21.	(new foreign issues of bonds and notes)	(-9,954)	(-2,491)	(-1,272)	(-1,981)	(-481)	(-1,093)
22.	Change in foreign official res. assets in the U.S.	13,091	6,069	4,972	6,677	4,196	505
23.	OPEC countries (increase +)	6,770	540	2,694	1,014	1,758	-553
24.	(Of which U.S. corporate stocks)	(1,828)	(308)	(160)	(367)	(146)	(95)
	Other countries (increase +)	6,321	5,529	2,278	5,663	2,438	1,058
26.	Change in U.S. reserve assets (increase -)	-2,530	228	-388	6	263	-189
27.	Other transactions and statistical discrepancy (net payments (-))	13,527	4,047	3,136	2,476	-5,156	6,317
28.	Other current account items	8,355	2,102	2,983	3,399		
29.	Military transactions, net 4/	-34	120	416	364		
30.	Receipt of income on U.S. assets abroad	21,369	5,421	6,133	6,565		
31.	Payment of income on foreign assets in U.S.	-11,561	-2,997	-2,881	-3,164		
32.	Other services, net	2,743	598	340	629		
33.	Remittances and pensions	-1,878	-473	-526	-505		
34.	U.S. Gov't grants 4/	-2,284	-567	-499	-490		
35.	Other capital account items	-4,761	-1,808	-1,198	-4,258		
36.	U.S. Gov't capital, net claims 4/ (increase -)	261	-180	-235	-665		
37.	U.S. direct investment abroad (increase -)	-4,596	-822	-404	-2,602		
38.	Foreign direct investment in U.S. (increase +)	2,176	403	537	486		
39.	Nonbank-reported capital, net claims (increase -)	-2,602	-1,209	-1,096	-1,477		
40.	Statistical discrepancy	9,933	3,753	1,351	3,335		
MEMO:							
41.	Current account balance 4/	-965	-1,492	-4,120	-4,460	n.a.	n.a.
42.	Official settlements balance	-10,561	-6,297	-4,584	-6,683	-4,459	-316
43.	O/S bal. excluding OPEC	-3,791	-5,757	-1,890	-5,669	-2,701	-869

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 grants to Israel under U.S. military assistance acts, exports financed by those grants, and offsetting capital transactions.

*/ Less than $50,000.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. During the past four weeks, the foreign exchange value of the dollar declined by nearly 1 per cent on a weighted average basis, reversing much of its earlier 1.7 per cent appreciation from the low point reached at the end of July. The dollar's recent decline would have been even greater had it not been for a rise in U.S. interest rates relative to foreign interest rates

. The downward pressure on the dollar reflected in large part the market's adjustment to a revised outlook for the U.S. trade deficit, which is now expected to be larger for 1977 and 1978 than public official estimates had indicated earlier this year.

The dollar fell against all major currencies except the Canadian dollar, with the sharpest declines registered against the yen and the Swiss franc. The market took note of the heavy political pressure on Japan at the IMF meetings to do something about its large trade surplus, and apparently concluded that this would lead to an appreciation of the yen. Public statements by Japanese officials following the IMF meetings, which first indicated that Japan would resist and then indicated that it would not resist further yen appreciation, contributed to substantial fluctuations in the dollar-yen rate. On balance, the yen appreciated by 3-3/4 per cent over this period,

.

The Swiss franc rose by nearly 3-1/2 per cent against the dollar, and by 2 per cent against the mark and other European currencies (which appreciated by less than 1-1/2 per cent against the dollar). Speculative pressure in favor of the Swiss franc has reportedly reflected market expectations that the franc will achieve parity with the mark, possibly based on the fact that Switzerland's consumer price inflation has been running nearly 3 percentage points below Germany's.

The British pound was also under strong upward pressure during much of the current reporting period.

. The continuing strength of demand for the pound apparently reflects, at least in part, the market's increasingly optimistic assessment of Britain's economic prospects. The market responded favorably to statements during the IMF meetings by both IMF Managing Director Witteveen and British Chancellor Healey to the effect that Britain's financial condition had stabilized sufficiently to allow for somewhat more expansionary policies in the year ahead.

The Canadian dollar weakened considerably during the past four weeks, falling by 1-3/4 per cent against the dollar and by substantially more against other currencies. The Canadian currency fell to just below 91 cents, its lowest level since the float began in 1970. The Canadian dollar's recent decline has been attributed, in part, to a narrowing of the interest rate differential in favor of Canada, and, in part, to continued uncertainties about Canada's political and economic prospects.

The gold price has risen fairly steadily from about $148 an ounce four weeks ago to more than $156 an ounce. A pickup in industrial demand in the United States and market concern about the political situation in South Africa have been cited as factors underlying the price rise.

U.S. International Transactions. In August, the U.S. merchandise trade deficit was $37.5 billion at an annual rate. Private capital flows for which data are available shifted to a net outflow in August. OPEC holdings in the United States decreased by about $600 million while other foreign official assets in the United States increased by about $1 billion. "All other" items (line 9 below) have tended to fluctuate more in the monthly data than in the quarterly data. (See the summary table below.)

For July-August combined, the merchandise trade deficit was $33 billion at an annual rate. During the same period, foreign official assets in the United States other than OPEC funds increased by $3.5 billion while

U.S. International Transactions Summary
(in billions of dollars, (-) = Outflow)

	1976 Year	1977 Q1	1977 Q2	1977 July-Aug.	1977 June	1977 July	1977 Aug.
1. Trade balance 1/	-9.3	-7.1	-7.9	-5.5	-3.4	-2.4	-3.1
2. (annual rate)		(-28.4)	(-31.4)	(-33.0)	(-40.9)	(-28.6)	(-37.5)
3. Private capital trans. adj. 2/	-14.8	-.6	-1.3	-.4	-2.5	1.1	-1.5
4. Private capital as reported	-14.8	-.6	-1.3	-.4	-2.5	3.1	-3.5
5. Reporting bias 3/	--	--	--	--	--	-2.0	2.0
6. OPEC net investment in U.S.	6.8	2.7	1.0	1.2	-.9	1.8	-.6
7. Other foreign official assets	6.3	2.3	5.7	3.5	2.6	2.4	1.1
8. U.S. reserve assets	-2.5	-.4	*	.1	*	.3	-.2
9. All other 4/	13.5	3.1	2.5	1.1	4.2	-3.2	4.3
Memorandum:							
10. GNP Net Exports 5/	-7.7	-7.4	-8.7	n.a.	n.a.	n.a.	n.a.
11. CURRENT ACCOUNT BALANCE	-1.4	-4.2	-4.6	n.a.	n.a.	n.a.	n.a.

1/ Seasonally adjusted.
2/ Includes bank-reported capital, foreign private purchases of U.S. Treasury securities, and other private securities transactions.
3/ Adjustment for reporting bias in bank-reported data associated with weekend transactions. See pages IV 10-11 in the June 1976 green book.
4/ Includes service transactions, unilateral transfers, U.S. government capital, direct investments, nonbank capital transactions, and statistical discrepancy.
/ Includes revisions not yet included in published GNP accounts.
*/ Less than $50 million.

OPEC funds rose by $1.2 billion. As in the second quarter, the third quarter increase in foreign official assets is expected to exceed the third quarter U.S. current account deficit.

The U.S. merchandise trade balance in August (international accounts basis) was in deficit by $37.5 billion at an annual rate. For July-August combined the deficit was $33.0 billion at an annual rate, $1.6 billion larger than the second quarter deficit. Both exports and imports declined in July-August from second quarter rates, with the drop in the value of agricultural exports more than outweighing the reduction in imports.

In August, exports declined by 5 per cent from the July rate. About half of the decline was in agricultural commodities. The decline in nonagricultural exports occurred primarily in industrial materials--

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

	1976	1976				1977				
	Year	1Q	2Q	3Q	4Q	1Q	2Q	July & Aug.	July	Aug.
EXPORTS	114.7	108.0	113.5	118.4	118.8	117.8	122.0	118.8	122.2	115.5
Agric.	23.4	21.6	23.4	25.0	23.5	24.5	26.8	23.6	25.4	21.8
Nonagric.	91.3	86.4	90.1	93.5	95.3	93.4	95.2	95.2	96.8	93.6
IMPORTS	124.0	113.4	119.8	129.6	133.2	146.2	153.4	151.9	150.8	152.9
Petroleum	34.6	30.3	33.0	37.6	37.4	44.1	47.7	44.4	43.1	45.7
Nonpetrol.	89.4	83.1	86.8	92.0	95.9	102.1	105.7	107.4	107.7	107.2
BALANCE	-9.3	-5.4	-6.3	-11.2	-14.4	-28.4	-31.4	-33.0	-28.6	-37.5

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

largely a drop in coal exports as a result of miners' strikes in West Virginia and Tennessee. Imports increased by 1 per cent in August. This rise was more than accounted for by an increase in oil imports, including arrivals into the Virgin Islands.

For July-August combined, exports declined by 3 per cent with all of the fall occurring in agricultural commodities. Of the 12 per cent decline in agricultural exports in July-August, nearly all (about 10 per cent) was in prices. Good harvests in this country and abroad have led to declines in agricultural market prices in recent months, particularly in unusually high soybean prices. Decreases in exports of soybeans, corn and cotton caused by both price and quantity declines were fairly large. Wheat exports increased slightly.

Nonagricultural exports in July-August were unchanged from the second quarter rate as investment expenditures in major industrial countries have remained sluggish. A 1.5 per cent rise in prices offset a small decline in volume. Exports of consumer goods and civilian aircraft rose but exports of industrial supplies, and automotive vehicles and parts to Canada declined. The value of machinery exports has been virtually unchanged since the middle of last year; the volume has fallen slightly in recent months.

Imports of petroleum and products in July-August declined by 7 per cent from the second quarter rate to about the first quarter average. Since the beginning of the year, consumption has risen by more than had been expected because of unusual weather conditions that raised the demand for oil not only for heating purposes but also to replace hydroelectric generation lost because of the drought. Petroleum imports, moreover, have risen faster than consumption as stocks have reached record levels. Stocks are now believed to be at about capacity, and are expected to be maintained at these levels until after the December OPEC meeting and clarification of the status of the wellhead tax on crude oil. Oil imports in July-August combined averaged 9.2 million barrels per day (mbd) compared with 9.8 mbd in the second quarter and 9.3 mbd in the first quarter. The average import price at $13.29 for July-August was down slightly from the second quarter average, reflecting ample world spot supplies of refined products; but between January and August import price rose by over 6 per cent.

Non-oil imports in July-August rose by about 2 per cent from the second quarter rate as increases in capital goods, foreign cars, and industrial supplies out-weighed declines in foods, automotive vehicles and parts from Canada, and consumer goods. On a seasonally adjusted basis, foreign car imports rose by 18 per cent from the second quarter rate. The number of new cars imported has not dropped off during the third quarter as it usually does; strong U.S. sales and very low (and declining) stock positions have kept the pressure on foreign manufactures to supply additional cars even as the new model year approaches. Steel accounted for very little of the increase in industrial materials imports in July-August; steel imports have continued at unchanged, though relatively high, levels since May. The decline in food imports in July-August is largely attributable to a 50 per cent drop in the value of coffee imports, a return to the $2-3 billion annual rate level of a year ago; nearly all of the drop was in volume rather than in price.

Foreign official assets in the United States excluding those held by OPEC increased by $1 billion in August.

Private capital flows for which data are available shifted to a net outflow in August. U.S. banking offices reported a net outflow of $2.7 billion. After adjustment for weekend transactions, the net outflow of funds is estimated to be about $700 million, a $2 billion swing from comparably-adjusted July data. Complementing the swing in the bank-reported capital flows was the increase in reported net capital outflows resulting from private foreign transactions in the securities markets. Preliminary data for the third quarter as a whole indicate that new foreign bond issues amounted to $2.7 billion; this was higher than in the previous three quarters and reflects a resurgence of Canadian borrowing.

OPEC reserve assets in the United States decreased by about $600 million in August due largely to reduced holdings by one OPEC country. Preliminary data show that OPEC holdings in the United States didn't change much in September. Since the OPEC accumulation of investible funds probably did not decline abruptly, it appears that OPEC is placing a larger proportion of their funds in other markets, especially Euro-markets.

The $200 million increase in U.S. reserve assets in August reflected drawings on the IMF by the United Kingdom under its standby arrangement.

Foreign purchases of U.S. Treasury and agency issues totalled $2.3 billion in August. Official holders in particular continued to restructure their portfolios, decreasing their holdings of Treasury bills by $2.1 billion, and increasing their holdings of long-term Treasury and agency issues by $4 billion. Most of the foreign official activity appeared in the eighteen-month to three-year maturity range. Holdings of bonds and notes were increased, both through participations in Treasury auctions as well as through purchases in the secondary market. Foreign official holdings of U.S. Treasury securities have increased by $14 billion since the beginning of the year, of which $11 billion has been in Treasury coupon issues. G-10 countries increased their holdings of Treasury bonds and notes by $7 billion over this period. The shift into bonds and notes by the foreign central banks reflects, in certain cases, a willingness to lengthen portfolio maturities so as to increase yields on assets held in the United States.

Current Account Transactions. Recently published data on second quarter military and services transactions showed a greater than expected increase in net receipts: direct investment income receipts were raised by oil revenues, there were large deliveries of military aircraft and construction services, and a larger than expected increase in expenditures by foreign travelers in the United States. As a result, the U.S. current account deficit was a bit smaller than expected--$17.8 billion at an annual rate compared to a revised first quarter deficit of $16.5 billion at an annual rate.

U.S. Current Account Transactions
(in billions of dollars, seasonally adjusted annual rates)

	1976 Year	1977 Qtr. 1	1977 Qtr. 2	$ Change Q2-Q1
GNP net exports 1/	7.7	-7.4	-8.7	-1.3
Trade balance	-9.3	-28.4	-31.4	-3.0
Net military	*	1.7	1.5	-.1
Net investment income	14.3	17.9	18.7	.8
Other services	2.7	1.4	2.5	1.1
Other current account trans.	-8.7	-9.0	-9.1	-.1
U.S. CURRENT ACCOUNT BALANCE	-1.0	-16.5	-17.8	-1.3

*/ Less than $50 million
1/ These revisions for 1977 are not yet included in published GNP data.

Monetary and financial developments in major foreign countries. Interest rates abroad have continued to decline, as economic activity and the associated demand for funds have proved to be unexpectedly weak and as the outlook for inflation has improved slightly in some countries. Monetary policy is evidently perceived as being sufficiently accommodating that the fiscal policy actions recently announced or currently being considered in several countries are not likely to have a significant impact on interest rates.

Short-term interest rates abroad, which have been on a pronounced downward trend since the end of last year, continued to decline in virtually every country in the past several months (see table). The biggest declines have been in Italy and the United Kingdom: in both countries 3-month rates had been very high to combat inflation and external deficits and have declined about 250 basis points since June.

Yields on long-term bonds in most countries also remain well below their levels at the end of last year, and in some countries have declined since end-June (see table). Again, the largest decline has been seen in Britain, where the yield on the War Loan (a perpetuity) has fallen almost 300 basis points from 12.35 per cent at the end of June to 9.44 per cent currently. The sharp decline in bond yields in Britain reflects a massive shift since last December in the market's perception of the outlook for the British economy in general, and for the inflation rate and the external position of sterling in particular. This shift in perception has been manifested in all British financial markets.

3-MONTH AND LONG-TERM INTEREST RATES
IN SELECTED INDUSTRIAL COUNTRIES
(Per cent per annum)

1/	1976	1977					Latest
3-MONTH RATES	Dec*	Mar.*	June*	July*	Aug.*	Sept.*	
Belgium	10.73	7.07	6.88	6.85	6.20	6.20	6.25 (10/11)
Canada	8.51	7.63	7.16	7.27	7.44	7.31	7.13 (10/11)
France	10.55	9.87	9.01	8.67	8.51	8.38	8.38 (10/12)
Germany	4.82	4.70	4.24	4.20	4.04	4.07	4.10 (10/12)
Italy	17.13	16.57	14.65	14.09	13.94	12.42	12.13 (10/12)
Japan	8.00	7.20	6.05	6.26	6.24	5.32	5.25 (10/12)
Netherlands	6.51	5.73	2.84	3.05	3.48	4.39	4.38 (10/11)
Switzerland	1.98	2.88	3.80	3.01	2.41	2.37	2.50 (10/12)
United Kingdom	14.27	10.31	7.81	7.77	6.91	6.03	5.13 (10/11)
United States	4.54	4.74	5.35	5.32	5.79	6.02	6.30 (10/5)
LONG-TERM GOV'T. BOND YIELDS 2/							
Belgium	9.22	9.06	8.61	8.62	8.68	n.a.	8.68 (9/1)
Canada	8.47	8.82	8.70	8.70	8.68	8.61	8.66 (10/7)
France	10.72	10.65	10.92	10.85	10.80	10.81	10.81 (9/30)
Germany	7.26	6.68	6.11	5.88	5.69	5.70	5.70 (9/30)
Italy	13.92	14.72	14.71	14.92	14.62	14.58	14.58 (9/30)
Japan	8.73	8.42	7.32	6.75	6.82	6.86	6.86 (9/30)
Netherlands	7.43	7.55	7.15	6.92	6.85	7.18	7.18 (9/30)
Switzerland	4.42	3.96	4.53	4.22	4.08	3.94	3.94 (9/30)
United Kingdom	13.82	11.63	12.35	12.26	11.25	9.44	9.79 (10/7)
United States	7.17	7.72	7.57	7.68	7.53	7.61	7.69 (10/11)

* The 3-month rates shown are the average of daily rates in the month; long-term yields are end-month quotations.

1/ Interbank rates, except: Belgium-time deposit rate; Canada-fiance company rate; Japan - rate on paper of 2-month or greater maturity; U.S. - 90-day CD rate (most often quoted).

2/ The long-term rates are all government bond yields (mostly composite yields). For the United States, the 20-year constant maturity bond yield is quoted.

Bond yields also have declined on balance in Germany, Japan, and Switzerland since end-June -- a reflection more of the unexpected weakness of economic activity than of a change in inflation expectations.

In those countries where money growth targets have been announced, experience so far this year has been mixed (see table). In Canada, the growth rate of M_1 through August was within the target range of 8-12 per cent (based on February-April 1976), after rapid growth in May and June; a new target range was announced in October (see below). In France, Switzerland, and especially the United Kingdom, the growth rates of the relevant monetary aggregates have been below targets of 12, 5, and 9-13 per cent, respectively. In contrast, growth of Central Bank Money in Germany is running slightly above the announced target rate of 8 per cent.

A variety of policy actions have been announced recently in some major foreign countries -- notably Germany, Japan, and France -- and policy actions are being considered in others -- including Canada and the United Kingdom. These actions generally have taken the form of increases in public spending or decreases in taxes (both personal and corporate); government loan programs -- in which especially easy terms are offered to encourage investment spending -- are being enlarged.

The Bank of Japan lowered its discount rate in September -- for the third time this year -- from 5 to 4-1/4 per cent. On September 20, the Bank of Japan announced that it would lower the reserve requirement ratio by 0.125 percentage points for time deposits and 0.5 percentage

Growth of the Money Stock in Selected Industrial Countries
(percentage change from preceding month, seasonally adjusted)

	1977								Change in latest 3 months from same period year earlier
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	
Canada (M_1)	0.2	2.0	0.3	-1.4	3.1	2.7	-0.6	1.6	9.3
France (M_2)	2.1	1.1	0.2	1.1	0.9	-0.4	n.a.	n.a.	10.9
Germany (CBM 1/)	0.5	1.0	0.3	-0.4	0.8	1.2	1.1	1.1	9.2
Japan (M_2)	0.9	0.8	1.2	0.1	1.0	1.3	1.9	0.0	11.6
Switzerland (M_1 2/)	-3.8	-0.8	0.4	-0.4	-0.8	2.0	-3.1	n.a.	3.5
United Kingdom ($£M_3$)	-1.8	-1.0	0.2	2.4	0.6	1.0	1.3	0.0	7.5
United States (M_1)	0.4	0.1	0.5	1.6	0.1	0.4	1.5	0.4 6	6.8
(M_2)	0.8	0.6	0.7	1.1	0.4	0.7	1.4	0.5	10.9

1/ "Central Bank Money," approximately equal to weighted sum of the components of M_3.

2/ Not seasonally ajusted.

points for other deposits, effective October 1. This action -- the first such cut since February 1976 -- will release about 450 billion yen ($1.7 billion) to the banking system. Though the cut will have an easing impact on financial conditions, it seems to have been motivated at least in part by a desire to improve banks' profit positions, which may have suffered (relative to profits of nonbank financial institutions) as a result of recent interest-rate declines. Moreover, the impact on the economy of a reserve requirement reduction is constrained to a large extent by the direct influence exerted by the Bank of Japan on both bank lending rates and the amount of credit extended. Fourth-quarter 1977 ceilings for credit expansion by large city banks were announced in September, and allow for a considerable increase in credit.

The German Bundesbank, at the end of August, raised the bank's rediscount quotas slightly and lowered reserve requirements by 10 per cent, avowedly to offset seasonal tightness in the money market. But whatever the motivation, the actions tended to ease financial conditions. Moreover, the subsequent elimination of a special rediscounting facility -- a facility clearly designed to offset seasonal factors -- and the reimposition of that facility at the time of the major mid-September tax date suggests that changes in rediscount quotas and reserve requirements reflect more basic objectives of policy.

In particular, it is likely -- in the context of German economic policy generally -- that the Bundesbank is prepared to see Central Bank Money (CBM) growth at a rate somewhat above the 8 per cent target. In fact, CBM is likely to increase more than 9 per cent this year, although part of the rapid mid-year growth reflects the unblocking of savings temporarily invested under the Savings Premium Law and the Workers' Asset Formation Law.

The shift in the market's perception of the <u>British</u> economy has resulted in massive inflows of funds in expectation of further declines in long-term yields and an appreciation (over the near term) of the exchange value of sterling. Domestic money growth has, nevertheless, remained quite low -- and well below the IMF conditions -- because of the exceptionally large volume of sales of long-term government securities (gilts).

In <u>Italy</u>, the ceilings on bank lending in domestic currency left the banks with considerable excess reserves and induced them to buy Treasury bills in heavy volume. The fact that -- in contrast to earlier periods -- the Bank of Italy did not have to support the bill market and actually has engaged in substantial open market sales helped reduce significantly the growth of the monetary base in the first half of this year (although the base probably grew faster subsequently given the external surplus in July and August). On the other hand, large capital inflows, which have taken the form of borrowing by Italian banks who on-lend the foreign currency to domestic residents, has resulted in an increase in domestic credit expansion slightly above the IMF limits.

In <u>France</u>, ceilings on credit expansion continue to be binding, though less so than earlier this year (partly because the allowable rate of growth of short-term export credits was increased in July). Penalty reserves, which must be deposited by banks who exceed the ceilings, have declined recently; bank lending rates, which had remained high through July despite the downward movement in money market rates, declined somewhat in August. It has been reported that credit norms for next year will not be changed significantly.

Interest rates in Canada declined earlier this year as the Bank of Canada attempted to raise money growth rates to target levels, but rose somewhat in the past several months following rapid money growth in May and June. On October 7, the Bank of Canada announced a new target range for the trend growth rate of M_1 of between 7 and 11 per cent, based on June 1977.

Since the end of June, central bank discount rates have been lowered in France, Italy, Japan, and Switzerland; the Bank of England's Minimum Lending Rate has been reduced several times and now stands at 5-1/2 per cent, compared with 15 per cent a year ago.