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Confidential (FR) Class II FOMC

Part 2

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System

CONFIDENTIAL (FR)

December 14, 1977

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

December 14, 1977

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	Nov.	12-2-77	99.0	11.0	5.3	3.3
Unemployment rate (%) 1/	Nov.	12-2-77	6.9	7.0	7.1	8.0
Insured unemployment rate (%) 1/	Nov.	12-2-77	4.0	4.0	4.1	4.9
Nonfarm employment, payroll (mil.)	Nov.	12-2-77	83.2	4.5	3.6	3.9
Manufacturing	Nov.	12-2-77	19.7	3.8	2.5	3.4
Nonmanufacturing	Nov.	12-2-77	63.5	4.7	3.9	4.0
Private nonfarm:						
Average weekly hours (hr.) 1/	Nov.	12-2-77	36.1	36.2	36.0	36.2
Hourly earnings ($) 1/	Nov.	12-2-77	5.39	5.37	5.28	5.00
Manufacturing:						
Average weekly hours (hr.) 1/	Nov.	12-2-77	40.5	40.4	40.3	40.1
Unit labor cost (1967=100)	Oct.	11-30-77	156.7	13.2	5.7	6.3
Industrial production (1967=100)	Oct.	11-15-77	139.1	3.5	1.2	6.8
Consumer goods	Oct.	11-15-77	146.0	6.6	1.7	7.4
Business equipment	Oct.	11-15-77	151.8	3.2	1.6	11.9
Defense & space equipment	Oct.	11-15-77	78.4	-35.6	-10.0	.5
Materials	Oct.	11-15-77	138.8	3.5	-.3	5.3
Consumer prices (1967=100)	Oct.	11-22-77	184.3	3.3	3.7	6.5
Food	Oct.	11-22-77	194.9	1.2	1.9	7.0
Commodities except food	Oct.	11-22-77	166.7	3.6	3.4	4.8
Services	Oct.	11-22-77	198.4	4.2	5.5	7.8
Wholesale prices (1967=100)	Nov.	12-8-77	197.8	7.9	7.8	6.1
Industrial commodities	Nov.	12-8-77	199.7	4.8	7.1	6.5
Farm products & foods & feeds	Nov.	12-8-77	188.9	27.3	12.7	4.9
Personal income ($ bil.) 2/	Oct.	11-16-77	1580.9	15.6	10.8	11.8
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Oct.	12-1-77	62.5	5.9	11.6	23.2
Capital goods industries	Oct.	12-1-77	20.7	16.1	26.6	22.0
Nondefense	Oct.	12-1-77	16.4	1.1	13.6	15.9
Defense	Oct.	12-1-77	4.3	165.1	123.7	52.1
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Sept.	12-12-77	1.47	1.46	1.45	1.51
Manufacturing	Oct.	12-1-77	1.57	1.57	1.60	1.72
Trade	Sept.	12-12-77	1.36	1.35	1.34	1.35
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	Oct.	12-1-77	.629	.640	.638	.641
Retail sales, total ($ bil.)	Nov.	12-12-77	61.6	1.5	4.3	12.3
GAF	Nov.	12-12-77	13.5	1.1	3.6	10.4
Auto sales, total (mil. units) 2/	Nov.	12-7-77	10.4	-4.8	-10.6	6.6
Domestic models	Nov.	12-7-77	8.3	-8.3	-12.2	4.5
Foreign models	Nov.	12-7-77	2.0	13.1	-3.4	16.3
Plant & Equipment expen. ($ bil.) 2/	1977 3/	12-7-77	137.02	---	---	13.7
All Industries	QIII '77	12-7-77	140.38	4.6	---	14.5
	QIV '77 3/	12-7-77	142.38	1.4	---	13.7
	QI '78 3/	12-7-77	146.26	2.7	---	12.4
	QII '78 3/	12-7-77	149.86	2.5	---	11.6
Capital Appropriations, Mfg.	QIII '77	12-1-77	17,716	17.7	---	49.8
Housing starts, private (thous.) 2/	Oct.	11-16-77	2,179	5.6	4.6	27.1
Leading indicators (1967=100)	Oct.	11-30-77	133.8	.7	2.8	6.1

1/ Actual data used in lieu of per cent changes for earlier periods.
2/ At annual rate.
3/ Planned-Commerce December Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent economic indicators suggest an increased rate of growth of final demand in the fourth quarter. Retail sales showed another very strong gain in November, despite reduced auto sales. Housing starts continued at a rapid pace in October, and new orders for nondefense capital goods increased further from the advanced rate of the previous month. Activity levels also have picked up; the growth in industrial production accelerated in November, and the increase in total employment was quite large. Over the longer term, however, the Commerce survey of anticipated plant and equipment spending taken in November indicates a slowing of the rate of growth of business fixed investment in the first half of next year.

Industrial production is estimated to have increased by 0.5 per cent in November, following a rise of 0.3 per cent in the preceding month. Output growth was widespread among products and materials. Large gains occurred in durable and nondurable goods materials, construction supplies and manufacturing and commercial equipment. Coal production continued at an historically high level in anticipation of the UMW strike that began on December 6. In contrast, auto assemblies declined almost 5 per cent from October to a 9.1 million unit annual rate, primarily due to cutbacks at Chrysler and brief strikes at two GM assembly plants. A disappointing rate of domestic auto sales recently has led to a reduction in assemblies scheduled for December.

INDUSTRIAL PRODUCTION-1977
(Change from preceding comparable period; based on seasonally adjusted data)

	1967 Proportion	Quarters % change at a compound annual rate QI	QII	QIII	Months % change Sept	Oct.	Nov.	Year ago
Total	100.0	6.3	10.5	4.4	.4	.3	.5	6.2
Final products	47.82	8.6	9.0	5.6	.4	.1	.1	6.0
Consumer goods	27.68	7.7	6.3	4.9	.1	.4	-.1	5.1
Durable	7.89	10.4	14.8	8.1	.7	1.3	-1.3	8.5
Autos	1.90	10.5	31.7	7.3	.5	1.8	-4.4	6.6
Nondurable	19.79	6.6	2.9	3.4	0	-.1	.5	3.7
Business equip.	12.63	12.5	15.3	7.6	.7	.3	.3	9.2
Def. & space eq.	7.51	3.8	8.9	3.4	.1	-2.0	-.4	1.8
Intermediate prod.	12.89	7.2	4.7	8.0	.2	.3	.8	6.5
Materials	39.29	3.5	14.5	1.7	.4	.7	.7	6.2
Durable	20.35	2.6	20.0	2.6	.2	1.0	.9	7.9
Raw steel	.72	-13.6	83.8	-2.2	-2.5	-1.5	-4.0	4.3
Nondurable	10.47	7.4	14.3	0	-.4	0	.8	5.8
Energy	8.48	-.1	2.2	2.7	1.9	1.1	.4	3.0
Coal	.69	-43.4	86.6	-7.2	17.1	6.3	-.6	15.2

Note: Calculated from unrounded indexes.

As a result of output gains, capacity utilization in manufacturing and in materials production is estimated to have risen 0.3 percentage point in November. Both materials and manufacturing utilization rates are still near 83 per cent, the same level that has persisted since the spring.

The coal strike may be lengthy. The parties remain far apart on a number of issues, including the right to strike over local grievances. The immediate impact on economic activity, however, will be blunted by continued non-UMW production of coal, which normally accounts for about 40 per cent of total domestic output, and by large inventories of coal built up by major users in anticipation of the strike. On average, electric utilities were estimated to have had on hand at least a 90-day supply of coal as of the beginning of November.

Demand for labor was strong in November. Nonfarm payroll employment rose 312,000 last month, and the proportion of industries reporting increases in hiring was the highest since April. Two-thirds of the employment gain occurred in the service-producing sector with substantial increases in services, trade, and State and local government. Manufacturing employment rose 65,000 in November, and the factory workweek edged up 0.1 hour to 40-1/2 hours. Employment continued to expand at a healthy pace in the durable goods sector and jobs at nondurable firms increased for the first time in five months. So far this year, an impressive 2.8 million jobs have been added to nonfarm payrolls;

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 Nov. 77	Sept. 77 to Oct. 77	Oct. 77 to Nov. 77
Nonfarm payroll employment	195	298	212	142	312
(Strike adjusted)	191	305	223	187	302
Manufacturing	45	83	21	43	63
(Strike adjusted)	45	90	33	85	67
Durable	38	53	32	52	48
Nondurable	8	30	-11	-9	15
Construction	3	47	13	32	29
Trade	53	57	40	-20	54
Services and finance	69	70	89	75	96
State and local government	18	25	43	16	60
Total household employment	250	373	300	135	950
Nonagricultural	250	360	295	78	860

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1976				1977				
	QI	QII	QIII	QIV	QI	QII	QIII	Oct.	Nov.
Total, 16 years and older	7.6	7.4	7.8	7.9	7.4	7.0	7.0	7.0	6.9
Men, 20 years and older	5.8	5.7	6.0	6.2	5.6	5.1	5.1	5.3	4.9
Women, 20 years and older	7.4	7.1	7.7	7.6	7.1	6.9	7.0	6.8	7.1
Teenagers	19.2	18.8	18.8	19.1	18.6	18.1	17.7	17.3	17.1
Household heads	5.0	4.9	5.3	5.3	4.8	4.4	4.5	4.6	4.3
Married men	4.1	4.1	4.4	4.4	3.9	3.5	3.4	3.7	3.4
Fulltime workers	7.1	7.0	7.4	7.5	6.8	6.5	6.6	6.6	6.4
White	6.9	6.8	7.1	7.2	6.7	6.3	6.1	6.1	6.0
Black and other	13.1	12.9	13.1	13.4	12.8	12.8	13.6	13.9	13.8
Total, alternative seasonal adjustment method									
All additive factors	7.8	7.4	7.7	7.8	7.5	7.0	7.0	7.0	6.8
1975 factors	7.8	7.5	7.6	7.9	7.6	7.1	6.8	6.9	6.8

two-thirds of this gain has been in the private service-producing sector. Jobs in government have increased 375,000 during 1977, almost entirely at the State and local levels.

Total employment, as measured in the household survey, showed an even stronger advance (950,000), but the magnitude of the rise probably was exaggerated by problems of seasonal adjustment, the early survey week, and sampling variability. Nevertheless, all demographic groups shared in the gains with much of the growth occurring among full-time workers. So far this year, household employment has expanded by an exceptional 3-3/4 million, and the proportion of the civilian noninstitutional population with jobs has risen to a record high of 58.6 per cent. With labor force growth nearly matching the rise in employment in November, the unemployment rate dropped 0.1 percentage point to 6.9 per cent. The number of job losers--primarily experienced workers--declined in November, while there was an increase in jobless new entrants and reentrants to the labor force.

Personal income advanced sharply in October. Gains were widespread by source of income, although particular impetus was provided by the October 1 pay raises for Federal civilian and military personnel. In addition, farm income rose for the first time in seven months, a reflection of higher farm price supports for grains and sugar.

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

	1976				1977				
	QI	QII	QIII	QIV	QI	QII	QIII	Aug. to Sept.1/	Sept. to Oct.1/
Current dollars									
Total personal income	10.8	8.9	8.2	11.5	13.1	11.4	8.7	9.6	15.6
Nonagricultural income	13.0	8.4	10.0	11.4	12.0	11.9	10.0	9.8	15.0
Wage and salary disbursements	13.4	10.1	8.3	10.7	12.7	13.0	7.3	9.9	17.0
Private	16.2	11.2	8.9	10.9	14.9	15.1	7.4	10.2	14.9
Manufacturing	21.4	11.2	6.0	8.4	17.9	17.5	6.3	8.5	16.4
Government	3.6	5.8	6.2	9.5	4.9	5.0	7.1	8.4	24.9
Nonwage income	7.6	6.7	7.9	12.3	14.5	8.5	10.8	9.0	13.2
Transfer payments	11.5	-3.1	12.4	7.6	11.6	-1.0	11.7	9.2	12.0
Dividends	14.2	17.7	11.9	29.5	1.0	20.1	21.4	5.7	2.8
Constant dollars2/									
Total personal income	5.4	3.8	2.4	6.8	4.3	2.4	3.3	5.7	12.3
Nonagricultural income	7.4	3.4	4.1	6.8	3.3	2.9	4.5	5.8	11.8
Wage and salary disbursements	7.8	5.0	2.4	6.0	4.0	3.9	2.0	5.9	13.6
Memorandum:									
Real disposable per capita income	4.5	2.3	.5	4.1	2.4	6.4	2.7		

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

Recent increases in employment and income have been reflected in some improvement in consumer attitudes. The latest Conference Board Index of consumer confidence (1969-1970=100) rose from 86.9 in October to 89.6 in November as expectations about business conditions and income improved somewhat. The volatile buying plans index for automobiles, homes, and major appliances also edged up.

Strong income gains and the high level of consumer confidence have been accompanied by sharp advances in consumer spending over the last two months. Retail sales exclusive of autos and mainly nonconsumption items posted back to back increases of 1.6 per cent in October (revised upward) and November. The advance in such sales, as indicated so far for the fourth quarter, would be the largest in at least 10 years. Sales at apparel outlets have risen very sharply over the past two months after a lackluster performance during the second and third quarters. All other major types of stores contributed to the November increase, although sales of general merchandise rose only modestly after large gains in October and the two prior quarters. Spending at food stores was up a very strong 2.9 per cent in November, the third sizable monthly advance.

Exceptionally large gains in nonauto retail spending often are associated with some weakening of automobile sales. November purchases of domestic and foreign autos were at a 10.4 million unit rate, off 500,000 from both October and the third quarter average. Improved

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

	1977					
	QII	QIII	QIII Nov.	Sept.	Oct.	Nov.
Total sales	1.7	1.5	4.6	0	2.7	1.5
(Real*)	-.3	.7	n.a.	-.2	2.5	n.a.
Total, less auto and nonconsumption items	2.1	1.9	3.6	.5	1.6	1.6
GAF 1/	1.8	3.4	3.9	-.8	3.3	1.1
Durable	1.2	.8	6.9	-1.1	5.1	1.7
Auto	-.3	-.5	7.7	-2.4	6.9	1.5
Furniture and appliances	2.8	2.1	1.1	-2.1	1.7	.5
Nondurable	2.0	1.9	3.5	.6	1.6	1.5
Apparel	-2.3	1.3	8.3	-3.1	5.5	4.0
Food	3.8	.4	4.0	.7	.7	2.9
General merchandise 1/	3.0	4.7	3.3	.5	3.1	.3
Gasoline	2.1	0	2.5	-.4	2.6	.2

*Deflated by all commodities SA consumer price index.

1/ Excludes mail order stores.

AUTO SALES

(Millions of units; seasonally adjusted)

	1977								
	QI	QII	QIII	June	July	Aug.	Sept.	Oct.	Nov.
Total	11.1	11.7	10.9	11.8	10.8	11.6	10.4	10.9	10.4p
Imports	1.8	2.4	2.0	2.2	2.1	2.1	1.9	1.8	2.0p
Domestic	9.3	9.3	8.9	9.6	8.7	9.5	8.4	9.1	8.3
Large	6.2	5.9	5.5	6.1	5.6	6.0	4.9	5.5	5.1p
Small	3.1	3.3	3.4	3.5	3.2	3.5	3.4	3.7	3.2p

inventory conditions helped return the sales of imported autos to a 2.0 million unit pace--the highest rate since August. Purchases of domestic models, however, slowed to a 8.3 million unit rate from 9.1 million in October and 8.9 million in the third quarter. The slippage was in sales of both small and full size models.

Businesses apparently are continuing to keep their stocks closely in line with sales. Manufacturers' and trade inventories in book value terms increased at a $23 billion annual rate in the third quarter, somewhat less than the average increase in the first half of the year. In October, manufacturers accumulated stocks at an $8 billion annual rate, off from $12.7 billion for September and $9.4 billion for the third quarter. Moderation was most evident in nondurables. By stage of processing, all gains were concentrated among stocks of finished goods as materials and work-in-process holdings declined. The ratio of manufacturers' inventories to sales in October were little changed at a relatively low level.

Commitments data for near-term capital spending were somewhat mixed in October. New orders for nondefense capital goods advanced further, rising 1.1 per cent following a 10.3 per cent jump in September; as a result, the level of these orders in October was 8-1/2 per cent above the third quarter. In contrast, construction contracts for commercial and industrial building declined further in October from the

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

	1976			1977				
	QII	QIII	QIV	QI	QII	QIII	Sept.	Oct.(p)
Manufacturing and trade	33.8	29.5	11.4	34.2	32.1	23.4	22.9	n.a.
Manufacturing	14.2	15.4	6.5	11.2	17.8	9.4	12.7	8.0
Durable	6.8	6.7	6.4	7.8	10.9	5.5	4.0	3.5
Nondurable	7.5	8.6	.0	3.3	6.8	3.9	8.7	4.5
Trade, total	19.6	14.1	4.9	23.0	14.3	14.0	10.2	n.a.
Wholesale	11.6	4.1	3.5	12.0	2.6	1.7	3.5	n.a.
Retail	8.0	10.1	1.5	11.1	11.8	12.3	6.7	n.a.
Auto	.1	4.8	1.3	2.2	2.4	1.3	-7.1	n.a.

INVENTORY RATIOS

	1976		1977				
	QIII	QIV	QI	QII	QIII	Sept.	Oct.(p)
Inventory to sales:							
Manufacturing and trade	1.51	1.49	1.46	1.46	1.48	1.47	n.a.
Manufacturing	1.67	1.66	1.58	1.58	1.59	1.57	1.57
Durable	2.04	2.04	1.94	1.94	1.93	1.91	1.90
Nondurable	1.27	1.25	1.20	1.20	1.22	1.21	1.21
Trade, total	1.36	1.34	1.34	1.34	1.36	1.36	n.a.
Wholesale	1.24	1.24	1.24	1.21	1.23	1.24	n.a.
Retail	1.47	1.42	1.43	1.45	1.48	1.48	n.a.
Inventories to unfilled orders:							
Durable manufacturing	.640	.632	.635	.631	.640	.640	.629

exceptionally high August total. However, the dollar value of such contracts was 18 per cent above their year-earlier level. Nonbuilding contracts also fell sharply in October, but the cummulative increase in this volatile component so far this year is 6 per cent above the comparable period in 1976.

Underlying strength in business fixed investment is suggested by an 18 per cent increase in newly approved capital appropriations of large manufacturing corporations during the third quarter. Much of the third quarter rise was in the volatile petroleum industry. Excluding the petroleum industry, total new appropriations rose 30 per cent over the past four quarters and the backlog of unspent appropriations rose 18 per cent. These appropriations, which tend to lead expenditures by about a year, provide a foundation for further growth of capital outlays by the manufacturing sector in 1978.

On the other hand, the Commerce Department's November survey of anticipated plant and equipment expenditures indicates that capital outlays will increase at an average annual rate of only about 9 per cent between the third quarter of 1977 and the second quarter of 1978. This compares with a 16-1/2 per cent rate of rise over the first three quarters of this year. In part becsuse recent surveys have been taken at a time of continuing uncertainty about tax and energy policies, the quarterly anticipations data have not been an accurate indicator of actual

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

	1977					Oct.76 to Oct.77
	QI	QII	QIII	Sept.	Oct.	
Contracts and orders for plant & equip.[1]						
Current dollars	6.3	12.2	1.7	11.7	-17.4	2.2
1972 dollars	4.6	10.7	-.6	9.5	-17.2	-4.3
New orders received by manufacturers						
Total durable goods						
Current dollars	5.8	4.1	-1.6	1.3	5.9	23.2
1967 dollars[2]	4.1	2.7	-3.4	.4	5.0	14.8
Nondefense capital goods						
Current dollars	6.7	4.1	.1	10.3	1.1	15.9
1967 dollars[2]	5.0	2.8	-1.5	9.6	.2	8.6
Construction contracts for commercial and industrial buildings[3]						
Current dollars	1.1	1.9	31.9	.8	-21.2	18.0
Square feet of floor space	8.5	4.6	9.5	-4.6	-7.0	22.5

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

MANUFACTURERS' NEW CAPITAL APPROPRIATIONS[1/]

(Seasonally adjusted, quarterly rate)

	Billions $	Percentage Change		
	77QIII	77QI to 77QII	77QII to 77QIII	76QIII to 77QIII
All Manufacturing	17.7	2.9	17.7	49.8
Ex. Petroleum	12.1	11.9	2.5	30.1
Durables	6.6	4.2	-4.0	17.4
Nondurables	11.1	1.7	36.1	79.3
Petroleum	5.7	-20.3	72.6	121.3
Ex. Petroleum	5.4	24.9	11.6	49.8

1/ Conference Board data obtained from a sample of the 1000 largest manufacturing corporations as ranked by total assets.

Commerce Surveys of Anticipated Plant
and Equipment Expenditures for 1977

(Per cent increase from 1976)

	Dec. 1976	Feb. 1977	May 1977	Aug. 1977	Nov. 1977
All Business[1/]	11.3	11.7	12.3	13.3	13.7
Manufacturing	12.5	12.7	14.2	15.5	16.3
Durables	12.2	13.5	15.9	17.9	19.3
Nondurables	12.7	12.1	12.7	13.5	13.8
Nonmanufacturing	10.4	10.9	10.9	11.6	11.7
Mining	11.0	7.2	10.3	11.3	11.1
Transportation	-5.9	-12.8	-8.3	-6.8	-6.2
Utilities	14.1	17.9	17.2	18.0	17.3
Communications	14.4	13.2	15.3	14.2	15.5
Commercial and Other	9.5	11.0	8.4	9.7	9.8

[1/] Commerce results are corrected for systematic bias. On an unadjusted basis the survey showed an 11.7 per cent increase in December, a 14.2 per cent increase in February, a 13.7 per cent increase in May, a 15.3 per cent increase in August, and a 14.1 per cent increase in November.

Business Expenditures for New Plant and Equipment

(Annual rate percentage change from previous quarter)

	1977				1978	
	I	II	III	IV	I	II
					Anticipated[1/]	
All Industry	16.7	13.1	19.6	5.8	11.4	10.2
Manufacturing	15.4	23.3	26.2	9.2	-1.7	24.3
Durables	13.1	15.4	32.2	9.2	8.0	19.1
Nondurables	17.7	30.3	21.4	9.2	-9.6	29.2
Nonmanufacturing	17.8	5.8	14.5	3.1	23.1	.0

[1/] Expenditure plans from November Commerce survey.

spending. The November survey, for example, indicates a slow 5.8 per cent growth in the fourth quarter of this year. However, current quarter outlays appear likely to exceed these survey anticipations--particularly if the recent rates of increase of shipments, truck sales, and construction put in place are sustained. With respect to 1977 as a whole, the latest figures result in the fourth successive upward revision of anticipated spending.

During the fourth quarter, additional support for private investment spending appears forthcoming from residential construction activity. Total private housing starts increased 6 per cent further in October to a seasonally adjusted annual rate of 2.18 million units--the highest monthly rate of the current housing upswing. Single-family starts were at a 1.56 million unit annual rate, the highest level since the series began in 1959. Also, combined sales of new and existing homes advanced to another new high in October.

In the multifamily sector, starts rose 15 per cent to 624,000 units. The sharp increase in multifamily starts was due, in part, to a large number of Federally-assisted units processed at the end of fiscal 1977 under HUD's Section 8 Rental Assistance Program--the Administration's main rental subsidy effort. Section 8 approvals totaled 28,900 units in September (the last month of fiscal 1977), and these boosted the October multifamily starts level. Section 8 approvals dropped to 2,600 in October and 2,400 in November, but HUD officials predict a resumption of more vigorous activity in coming months.

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

	1976	1977					Per cent change from:	
	QIV	Q1	QII 1/	QIII 2/	Sept. 1/	Oct. 2/	Month ago	Year ago
Single & Multifamily								
Permits	1.53	1.52	1.63	1.70	1.70	1.85	+ 9	+25
Starts	1.77	1.76	1.91	2.06	2.06	2.18	+ 6	+27
Under construction 4/	1.18	1.24	1.32	1.38	1.38	n.a.	+ 1	+25
Completions	1.39	1.59	1.57	1.68	1.68	n.a.	- 1	+20
Single-family								
Permits	1.03	1.06	1.08	1.13	1.14	1.20	+ 6	+21
Starts	1.28	1.31	1.42	1.47	1.52	1.56	+ 2	+23
Under construction 4/	.69	.73	.79	.80	.80	n.a.	--	+25
Completions	1.05	1.19	1.20	1.27	1.25	n.a.	- 2	+22
Multifamily								
Permits	.50	.46	.56	.58	.56	.65	+17	+32
Starts	.49	.45	.49	.59	.55	.62	+14	+40
Under construction 4/	.50	.51	.54	.57	.57	n.a.	+ 2	+24
Completions	.34	.39	.37	.42	.43	n.a.	+ 3	+13
Mobile home shipments	.25	.27	.26	.27	.30	.32	+ 8	+23

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

Another source of strength in demand recently has been the government sector. The strong growth in Federal spending registered at the end of fiscal 1977 appears to have continued into the current fiscal year, although perhaps at a rate somewhat below the Administration's estimates. Expenditures during the month of October--on a unified budget basis--were $38.8 billion compared with $35.1 billion in September. Most of the increase in October spending occurred in Commodity Credit Corporation payments, outlays for veterans' educational benefits, and general and countercyclical revenue sharing payments to States and localities.

In mid-November, the Office of Management and Budget released revised budget outlay estimates for fiscal 1978. Projected outlays were reduced from the mid-session review estimate of $462.9 billion to $459.8 billion. The receipt forecast, however, remained unchanged at $401.5 billion, and the Administration now projects that the deficit will be $58.5 billion. Overall, the Administration now expects outlays to increase 15 per cent in fiscal 1978 compared to an increase of 10 per cent in fiscal 1977.

State and local spending continues to register sizable gains, consistent with generally improved fiscal conditions. However, advances have been more moderate than might be expected in a period when large amounts of Federal countercyclical grants are being disbursed. State and local employment rose 60,000 in November to a level almost 300,000 above last May. Much of the gain reflects the approximately 200,000 Federally-funded public service jobs added to State and local payrolls since last spring. Despite the volume of Federal public works grants, the level of State and local construction activity is still quite depressed. New construction in October was 5 per cent below the rates of late last spring and more than 10 per cent lower than peak levels of activity less than two years ago.

Consumer prices rose 0.3 per cent in October, the fourth consecutive month of moderate increases. Retail food prices increased only 0.1 per cent in October, the fourth small increase after a steep rise over the first half of the year. Nonfood commodities rose a modest 0.3 per cent due in part to another large decline in used car prices, which have been falling at an annual rate of 25 per cent since June. Service prices increased only 0.4 per cent as electricity rates and home mortgage costs registered seasonally adjusted declines.

The apparent deceleration of retail prices from an 8 per cent annual rate over the six months ending in April 1977 to a 5 per cent rate over the past six months is due in part to the reversal of the strong run-up of used car prices last winter and spring. The underlying rate of inflation, if food and energy as well as used car prices are excluded, has changed very little over the past year, rising from a 6.1 per cent rate between October and April to a 6.4 per cent rate since April.

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 QIII	1977 October
All items	100.0	7.0	5.0	4.8	10.0	8.1	4.2	3.3
Food	23.7	6.5	.2	.8	14.6	12.7	1.7	1.2
Commodities (nonfood)	38.8	6.2	4.8	5.6	7.4	4.2	2.7	3.6
Services	37.5	8.1	8.5	6.3	9.8	9.4	7.4	4.2
Memoranda:								
All items less food and energy 2/3/	68.9	6.7	6.9	5.5	8.3	7.1	4.6	4.0
Petroleum products 2/	4.5	10.1	-2.2	9.7	7.1	7.0	3.2	12.9
Gas and electricity	2.9	14.2	9.8	15.4	10.7	12.1	13.2	10.9

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.

At the wholesale level, finished goods prices rose 0.4 per cent in November, about half of the October rise. Wholesale prices of consumer foods were up 0.4 per cent, the second month of increase following a steady decline from May to September. The rise in prices for producer goods--0.7 per cent--was much less than in October but was still the second largest rise this year. Higher wholesale prices were reported for commercial furniture, construction machinery, aircraft, and railroad equipment. On the basis of commodity groupings, wholesale prices of farm and food products continued to accelerate, rising 2.3 per cent last month (not at an annual rate). Industrial commodities prices rose 0.4 per cent, the smallest monthly increase since June. The overall wholesale price index was up 0.7 per cent in November, a slightly smaller increase than the previous month.

The often-volatile average hourly earnings index rose at a 3-1/2 per cent annual rate in November compared to a 10.7 per cent rate of increase a month earlier. This broad measure of wage rates has increased at a 7.4 per cent annual rate thus far in 1977, up from the 6.9 per cent change during 1976. Compensation per hour in nonfinancial corporations also has continued to rise at a rapid rate (8.8 per cent) over the past four quarters, placing substantial upward pressure on labor costs.

A relatively strong third quarter increase in productivity, however, offset much of the rise in compensation and contributed to a

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	1977 Oct.	1977 Nov.
Finished goods	41.1	6.6	2.9	3.9	8.8	8.4	1.8	9.2	5.2
Consumer foods	10.4	5.5	-1.3	-3.2	12.7	13.8	-7.5	3.8	5.1
Consumer nonfoods	18.7	6.7	3.3	6.4	8.7	6.3	5.2	6.9	3.4
Producer goods	12.1	8.2	5.8	7.0	5.5	6.3	5.6	18.1	8.3
Intermediate materials2/	45.3	5.4	4.7	7.9	8.0	4.3	7.8	6.4	2.3
Crude materials3/	3.8	4.5	10.9	16.1	21.7	-2.0	8.9	-3.0	15.3
All commodities	100.0	4.2	3.9	5.3	10.6	3.2	1.9	9.9	8.6
Farm and food products	21.6	-.3	1.0	-3.2	19.1	-2.5	-17.0	15.8	27.3
Industrial commodities	78.4	6.0	5.0	7.8	8.1	5.1	7.6	6.7	4.8
Industrial commodities ex. fuels and power	67.7	5.0	5.8	6.4	6.7	3.8	7.2	8.4	3.2

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

HOURLY EARNINGS INDEX1/
(Per cent change from preceding comparable period at a compound annual rate; based on seasonally adjusted data)

	1976 QI	1976 QII	1976 QIII	1976 QIV	1977 QI	1977 QII	1977 QIII	1977 Oct. 2/	1977 Nov. 2/
Private nonfarm	7.0	6.7	7.1	6.4	8.2	6.6	8.0	10.7	3.5
Construction	5.6	7.4	5.3	3.6	6.0	4.2	5.0	10.4	.6
Manufacturing	7.4	6.4	9.2	6.5	7.8	7.6	9.9	7.7	6.5
Trade	5.2	5.7	6.7	8.2	9.4	6.6	6.5	10.5	0
Transportation and public utilities	9.1	9.3	6.6	4.7	5.9	7.5	8.5	6.7	11.6
Services	8.3	6.6	4.8	7.8	10.9	5.6	7.6	16.4	-.6

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.

substantial increase in profits during the quarter. Corporate profits from current operations--after adjustments to exclude inventory profits and the effect of inflation on the replacement costs of fixed assets--increased at a 23 per cent annual rate on a before-tax basis. One measure of profit share--the ratio of after-tax adjusted profits to gross product originating in the nonfinancial corporate sector--has increased more than 1 percentage point from the first quarter to 5-1/2 per cent in the third quarter. Adjusted profits plus net interest payments as a proportion of corporate gross product rose in the third quarter, returning to its average level over the past 20 years.

DOMESTIC FINANCIAL SITUATION

III-T-1

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	November	36.03	4.3	4.3	5.0
Nonborrowed reserves	November	35.16	19.8	6.7	2.7
Money supply					
M1	November	333.2	-1.8	5.8	7.3
M2	November	802.6	4.5	7.6	9.6
M3	November	1365.4	7.3	10.8	11.6
Time and savings deposits (less CDs)	November	469.4	9.0	8.8	11.2
CDs	November	70.9	4.5	7.7	8.7
Thrift deposits (S&Ls + MSBs + Credit Unions)	November	562.8	11.4	15.6	14.6
Bank credit (end of month)	November	870.5	11.8	9.8	11.2

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.	12/7/77	6.51	.01	.54	1.73
Treasury bill (90 day)	"	12/7/77	6.05	-.12	.48	1.65
Commercial paper (90-119 day)	"	12/7/77	6.54	-.03	.66	1.86
New utility issue Aaa	"	12/9/77	8.35	.06	.33	.42
Municipal bonds (Bond Buyer)	1 day	12/8/77	5.54	.03	.06	-.42
FNMA auction yield (FHA/VA)		12/13/77	8.89	.04	.15	.38
Dividend price ratio (common stocks)	wk endg.	12/7/77	5.13	-.01	.41	1.19
NYSE index (12/31/65=50)	end of day	12/12/77	51.73	-.97	-.81	-4.60

Indicator	Period	Latest Data	Net Change or Gross Offerings: Year ago	Year to Date 1977	Year to Date 1976
			$ billions		
Credit demands					
Business loans at commercial banks 1/	Nov.	2.5	2.2	22.8	4.1
Consumer instalment credit outstanding 1/	Oct.	2.6	1.1	25.1	15.9
Mortgage debt outstanding (major holders) 1/	Sept.	9.3	6.2	67.7	44.7
Corporate bonds (public offerings)	Nov.	2.1e	1.3	22.5e	23.9
Municipal long-term bonds (gross offerings)	Nov.	3.3e	3.3	42.9e	32.8
Federally sponsored agcy. (net borrowing)	Nov.	.5e	-.6	6.7e	2.9
U.S. Treasury (net cash borrowing)	Dec.	9.2e	6.3	56.0e	68.8

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

DOMESTIC FINANCIAL DEVELOPMENTS

The volume of funds raised in financial markets during November apparently remained at about the strong pace of recent months. While borrowing by nonfinancial businesses at banks did not match October's exceptional volume, it was still substantial and more than offset a decline in outstanding commercial paper. At the same time, corporations increased their offerings of equities, and their issuance of longer-term debt is estimated to have continued relatively large. Households continued to borrow heavily in the home mortgage and consumer credit markets, though perhaps at a somewhat slower pace than in October. The Treasury has raised an increased volume of funds in recent weeks to finance its swollen fourth quarter deficit, and the volume of bonds issued by State and local governments, although it has edged off recently from earlier this year, remains large relative to earlier periods.

Growth rates in the monetary aggregates slowed considerably in November. Indeed, M_1 declined slightly, while M_2 expanded at less than half the October rate. All of the gain in M_2 was attributable to strong inflows to banks of large time deposits included in that aggregate.

Federal funds have continued to trade around 6-1/2 per cent in the intermeeting period, and with the marked slowing in the key monetary aggregates, most market participants have apparently concluded

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1976 1/		1977 2/				Change from:	
	May-June High	December Low	Oct. FOMC 18	Nov. FOMC 15	Dec. 6	Dec. 13	Oct. FOMC	Nov. FOMC
Short-term rates								
Federal funds 1/	5.58	4.63	6.50	6.42	6.56	6.50 3/	0	+.08
Treasury bills								
3-month	5.53	4.27	6.28	6.10	6.07	6.05	-.23	-.05
6-month	5.93	4.50	6.53	6.40	6.38	6.38	-.15	-.02
1-year	6.32	4.62	6.63	6.51	6.51	6.51	-.12	0
Commercial paper								
1-month	5.65	4.48	6.63	6.44	6.41	6.53	-.10	+.09
3-month	5.90	4.63	6.63	6.56	6.54	6.62	-.01	+.06
Large negotiable CD's 4/								
3-month	5.95	4.60	6.80	6.65	6.63	6.70	-.10	+.05
6-month	7.00	4.71	7.10	6.95	6.90	7.00	-.10	+.05
Bank prime rate	7.25	6.25	7.50	7.75	7.75	7.75	+.25	0
Intermediate- and Long-term rates								
Corporate								
New AAA 5/	8.95	7.93	8.20	8.29	8.26	8.35p	+.15	+.06
Recently offered 6/	8.84 7/	7.84	8.23	8.26	8.23	8.34p	+.11	+.08
Municipal (Bond Buyer) 8/	7.03 9/	5.83	5.70	5.51	5.47	5.54	-.16	+.03
U.S. Treasury (constant maturity)								
3-year	7.52	5.64	7.28	7.18	7.27	7.28	0	+.10
7-year	7.89	6.32	7.49	7.41	7.54	7.56	+.07	+.15
20-year	8.17	7.26	7.73	7.74	7.80	7.83	+.10	+.09

Stock prices	January Low	December High	FOMC Oct.18	FOMC Nov.15	Dec. 6	Dec. 13	Oct. FOMC	Nov. FOMC
Dow-Jones Industrial	881.51	994.18 10/	820.51	842.78	806.91	815.23	-5.28	-27.55
N.Y.S.E. Composite	49.06	56.96	51.19	52.72	51.33	51.69	+.50	-1.03
AMEX	86.42	107.26	114.59	118.59	122.42	123.96	+9.37	+5.37
Keefe Bank Stock 6/	520	664	588	593	601	601	+13	+8

1/ Daily average for statement week.
2/ One-day quotes except as noted.
3/ Average for first 6 days of statement week ending December 14.
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.

that the System is unlikely to raise its funds rate target over the remainder of this year. Given this near-term outlook and heavy foreign purchases of Treasury bills, bill rates have changed little, while most private short-term rates have edged upward. Yields on long- and intermediate-term securities have generally moved higher since the last FOMC meeting, and interest rates on home mortgages have also risen slightly in both primary and secondary markets.

Monetary Aggregates and Bank Credit

M_1 declined at a 2 per cent seasonally adjusted annual rate in November, following a relatively strong 12 per cent increase in October--thus repeating the recent pattern of rapid growth in the first month of a quarter followed by relatively sluggish performance in the next one or two months. For October and November together, M_1 expanded at a 5 per cent annual rate, compared with 9-1/4 per cent in the third quarter.

Reflecting the relative attractiveness of short-term market rates, savings deposits at commercial banks declined in November, and despite a favorable rate differential on the longer-maturity certificates, small time deposits at commercial banks are estimated also to have declined last month.[1/] Thus all of November's increase in M_2--at

1/ The breakdown between the rates of increase of large and small denomination time deposits included in M_2 may be distorted somewhat in November by estimation and seasonal adjustment problems. Nevertheless, it seems clear that small time deposits were weak last month, while the inflow of large time deposits accelerated sharply.

MONETARY AGGREGATES
(Seasonally adjusted) 1/

	1977 QI	1977 QII	1977 QIII	1977 Sept	1977 Oct	1977 Nov p	1977 through Nov p
	Net Changes at Annual Rates, Per Cent						
Major Monetary Aggregates							
1. M_1 (currency plus demand deposits)	4.2	8.4	9.3	7.3	12.0	-1.8	7.3
2. M_2 (M_1 plus time & savings deposits at CBs other than large CDs)	9.9	9.2	10.3	7.9	10.1	4.5	9.2
3. M_3 (M_2 plus all deposits at thrift institutions)	11.3	10.0	12.4	12.3	12.5	7.3	11.3
Bank Time and Savings Deposits							
4. Total	12.5	8.3	10.0	7.6	14.6	18.3	10.9
5. Other than large negotiable CDs	14.0	9.8	10.9	8.6	8.6	9.0	10.6
6. Savings deposits	21.1	8.5	6.6	8.9	3.3	-0.5	8.9
7. Individuals 2/	15.4	9.2	10.0	11.3	5.3	1.8	10.1
8. Other 3/	99.2	5.0	-36.8	-32.2	-24.8	-33.8	-6.0
9. Time deposits 4/	8.0	10.8	15.0	8.4	13.2	17.5	12.1
10. Small time 5/	13.0	18.8	7.4	5.1	5.1	-9.4	9.6
11. Large time 5/	-2.7	-6.0	32.6	15.4	30.5	74.3	17.2
Deposits at Nonbank Thrift Institutions 6/							
12. Total	13.4	11.2	15.5	18.8	15.9	11.4	14.5
13. Savings & loan assoc.	14.7	12.3	16.8	19.8	16.3	12.3	15.7
14. Mutual savings banks	8.9	6.8	10.5	12.1	11.1	7.3	9.3
15. Credit unions	16.7	15.0	19.3	30.4	27.0	15.8	19.9
	Average Monthly Changes, $ Billions						
Memoranda:							
16. Total US Govt deposits	0.0	-0.4	0.2	0.5	-0.4	-3.6	-0.4
17. Total large time depos. 7/	-0.7	0.9	1.4	1.0	5.2	9.5	1.8
18. Nondeposit sources of funds 8/	- -	0.7	1.4	2.1	-0.3	2.6	0.8

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. Large time deposits exclude negotiable CDs at weekly reporting banks.
6/ Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.
7/ Total large time deposits include all large time certificates, negotiable and non-negotiable, at all commercial banks.
8/ The nondeposit sources of funds series represents nondeposit borrowings of commercial banks from nonbank sources. It includes Federal funds purchased and security RPs plus other liabilities for borrowed money, Eurodollar borrowings, loans sold less interbank loans.
p-- preliminary

a 4-1/2 per cent annual rate--was apparently associated with the record inflows of large-denomination time deposits included in this aggregate. Inflows to thrifts also abated somewhat, though not so markedly as at commercial banks, and M_3 slowed from a 12-1/2 per cent annual rate in October to 7-1/4 per cent in November.

Recent deposit weakness at thrifts, as at commercial banks, has been most pronounced in passbook accounts, with short-term market rates remaining well above comparable Regulation Q ceilings for the third consecutive month. The latest available data indicate that S&L passbook account growth was at only a 5-1/2 per cent seasonally adjusted annual rate in October, following more sizable increases during the three preceding months. Meanwhile, New York State MSBs reported larger than seasonal net withdrawals from passbook accounts. However, time account growth at thrift institutions continued to be substantial, as ceiling rates on 4- and 6-year time accounts have remained attractive compared with market yields; promotional activity reportedly has also increased in some localities.

Total loans and investments at commercial banks expanded at a 12-1/2 per cent annual rate in November (last-Wednesday-of-the-month series), only slightly slower than during October. Banks continued reducing their holdings of Treasury securities, and although acquisitions of other securities increased further, seasonally adjusted holdings of total securities declined slightly, extending the trend

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

	1977 QI	1977 QII	1977 QIII	1977 Sep	1977 Oct	1977 Nov	1977 through Nov
Total loans & investments2/	10.6	12.6	8.6	3.8	13.5	11.8	11.4
Investments	10.9	9.4	-2.9	-11.1	-3.7	-2.3	4.2
Treasury securities	26.7	5.4	-19.4	-34.9	-27.6	-34.3	-2.6
Other securities	0.5	12.1	8.4	4.6	11.5	17.5	8.6
Total loans2/	10.5	14.0	13.7	10.4	20.9	17.8	14.7
Business loans	11.4	12.6	10.2	3.0	26.1	14.8	13.7
Security loans	--	18.1	4.3	-6.4	-12.8	110.2	15.4
Real estate loans	15.0	17.9	16.3	14.4	14.3	15.5	17.1
Consumer loans	11.8	16.5	18.4	18.2	12.7	n.a.	16.0 3/
Memoranda:							
1. Commercial paper issued by nonfinancial firms 4/	15.4	59.3	-7.7	-23.2	-7.9	-31.8	14.3
2. Business loans at banks net of bank holdings of bankers acceptances	16.4	13.3	8.9	3.7	22.9	14.6	14.6
3. Sum of memo items 1 and 2	16.3	16.7	7.4	2.3	20.7	11.3	14.6
4. Memo item 3 plus business loans from finance companies	17.1	17.7	8.2	-6.0	28.6	n.a.	16.5 3/

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/ 1977 through October.
4/ Measured from end-of-month to end-of-month.
NOTE: Data revised to reflect benchmarking to the June 30, 1977 Call Report. A description of the revision will be available in the Greenbook Supplement.
n.a.--not available

which began in August. Total loans, however, continued to grow rapidly, expanding at an 18-1/2 per cent annual rate in November. The strength in lending was broadly based among the major loan categories. Business loans grew at a 15-3/4 per cent rate in November and real estate loans at a 16-1/2 per cent rate. Security lending at banks was also large in November, principally in association with bank financing of System matched sale-purchase agreements.

Commercial banks financed the continued strong demand for credit in November entirely through managed liabilities. Negotiable CDs at weekly reporting banks increased $4.5 billion during the month, and other large time deposits included in M_2--non-negotiable large CDs at weekly reporters and all large time deposits at nonweekly reporters--expanded by $5.0 million. The combined $9.5 billion increase in these large time deposits is a record and follows substantial growth in October. Banks have been issuing large amounts of CDs in the past two months despite a rise in interest rates on CDs relative to other money market instruments. Staff contacts indicate that many bankers believe that short-term interest rates in the first half of 1978 will be above those implied by the current yield curve, apparently encouraging banks to extend the maturity of their managed liabilities.[1/] Even so, funds from nondeposit sources increased rapidly in November, after declining the previous month.

1/ Also, banks are lengthening the maturities of their CDs. The survey of maturity structure of CDs at large weekly reporting banks for October 26 shows that the average maturity structure of negotiable Cds sold during October was 2.9 months, compared to 2.5 months in August and September.

Business Credit

Another month of strong business loan growth at banks in November has made clear that such credit is expanding more rapidly than earlier in the year. Commercial and industrial loans at weekly reporting banks rose during November at a rapid 13-1/2 per cent annual rate, though somewhat below the extraordinary October pace. Since June, this relatively volatile series has grown at a seasonally adjusted 12-1/2 per cent rate, compared with the first half's 3-3/4 per cent rate.[1/] It further appears that business lending at small banks had been considerably stronger earlier in the year than was originally estimated,[2/] and, based on reports for small member banks, this strength apparently continued at least through October, principally reflecting heavy lending by agricultural banks.

In recent weeks, the financial press has been reporting more aggressive lending practices by a few major banks. At least two of them have begun pricing short-term loans to top-rated commercial paper

1/ The accelerated pace of business lending by large banks does not reflect to any important degree acquisitions of bankers acceptances, as occurred during the fourth quarters of 1975 and 1976 when banks were enlarging their business loan portfolios to permit larger loan loss provisions. This year, with loan growth already substantial at large banks and with concerns about the adequacy of loan loss provisions diminished, the need for expanding loan portfolios for this purpose is apparently not felt at most large banks.

2/ Real estate and business loans were each revised upward by about $2 billion as of June 1977, based on the mid-year Call Report. As a result, loan/deposit ratios of small banks are now known to have risen during the first half. The benchmarking to the mid-year Call Report will be discussed in detail in an appendix to the Greenbook Supplement.

issuers below the prime rate, and other large banks have launched campaigns to generate loans to small- and intermediate-size firms which have not been major traditional customers of these banks. However, the more competitive posture of some large banks appears related to lackluster loan growth at these particular institutions, and their policies do not appear to be characteristic of most or even of many large banks. The November Quarterly Lending Practices Survey, discussed in fuller detail in an appendix to the Greenbook Supplement, shows some intensification of the limited moves toward a firming of bank lending policies noted in the August survey.

The recent strength in short-term business loans at banks has occurred against a backdrop of continued contraction in outstanding commercial paper issued by nonfinancial corporations, which began well before the recent innovations in the pricing of bank loans. Staff conversations with commercial paper dealers indicate that their principal issuers are not turning to commercial banks for loans; internally generated funds and capital market financing are apparently providing sufficient funds for these firms. Business borrowing from finance companies, however, increased sharply in October (the most recent data available), and for the two months September and October combined, business loans at finance companies expanded at a 14.6 per cent annual rate.

In long-term markets, gross public offerings of corporate bonds edged lower in November, and with December's volume expected to drop about seasonally, such offerings in 1977 will be about 10 per cent below last year's total.[1/] Even so, total gross issues of corporate securities are estimated to have picked up, reflecting a marked increase in stock offerings.

New equity offerings totaled $1.7 billion in November, the largest amount in almost two years. The heavy slate of offerings was due primarily to a record AT&T issue totaling more than $700 million, the proceeds of which were used to retire a like amount of debentures. Several other public utilities also sold new common and preferred stock but, as in other recent months, industrial issues were light owing in part to the continued relatively low price-earnings ratios.

Treasury and Municipal Finance

The Treasury substantially increased its borrowing in late November and early December. In addition to $3.0 billion of 139-day cash management bills, the Treasury raised a total of $1.3 billion of new cash in the four weekly bill auctions--the first significant amounts of new money raised in the weekly auctions since early 1976. Additional new money totaling $5.9 billion was raised through auctions of 1-year bills and 2- and 4-year notes.

1/ This year's more moderate pace of public bond offerings by industrial corporations--mainly by lower-rated concerns, which are estimated to have arranged private placements in near-record volume--more than accounts for the overall decline. Offerings by public utilities and by financial concerns--mostly finance company issues and mortgage-backed S&L bonds--increased on a year-over-year basis.

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

	1976	1977						1978
	Year	H1	QIIIe/	QIVf/	Oct.e/	Nov.e/	Dec.f/	Jan.f/
				Gross offerings				
Corporate securities--total	4,445	4,148	3,565	4,267	3,800	4,800	4,200	3,200
Publicly offered bonds	2,204	2,018	2,036	2,000	2,200	2,100	1,700	1,800
By quality 1/								
Aaa and Aa	1,040	1,152	1,025	--	1,075	1,258	--	--
Less than Aa 2/	1,154	866	1,011	--	1,125	842	--	--
By type of borrower								
Utility	675	753	588	--	825	780		
Industrial 3/	984	678	864	--	342	805	--	--
Financial	545	587	584	--	1,033	515	--	--
Privately placed bonds	1,317	1,215	912	1,267	1,000	1,000	1,800	800
Stocks	924	915	617	1,000	600	1,700	700	600
Foreign securities--total	852	581	740	--	433	589	--	--
Publicly offered 4/	520	443	520	352	300	425	330	300
Privately placed	332	138	220	--	133	164	--	--
State and local govt. securities--total	4,756	6,421	5,403	4,567	5,000	4,800	3,900	5,000
Long-term	2,932	4,128	3,667	3,267	3,800	3,300	2,700	3,300
Short-term	1,824	2,293	1,736	1,300	1,200	1,500	1,200	1,700
				Net offerings				
U.S. Treasury	4,967	1,400	3,833	7,641	6,612	11,382	4,930	3,700
Sponsored Federal agencies	452	626	531	648	516	614	815	720

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.

A substantial portion of the large Treasury debt increase was acquired by foreign holders, which tended to moderate the potential impact on Treasury yields. Foreign official institutions made net acquisitions of about $5.4 billion of marketable Treasury securities in November, following a $5 billion purchase in October. In all, these institutions have increased such holdings this year by about $24 billion through November, slightly more than 70 per cent of the net increase over this period in marketable Treasury debt.

State and local governments offered $3.3 billion of long-term tax-exempt debt in November, down somewhat more than seasonally from the large volume of offerings in October. Advance refunding issues accounted for about one-fifth of the November total--the same proportion that has prevailed throughout the year.[1/]

The heavy supply of State and local issues this year has been readily absorbed, in large part by commercial banks and property/casualty insurance companies. With their financial positions improved

1/ The volume of advance refundings in November was likely reduced by a Treasury announcement November 5 stating that new regulations would be put out in December, retroactive to the November announcement date, severely restricting advance refunding of certain types of issues whose proceeds benefited a non-governmental entity. In the wake of the Treasury's announcement, one issue for $46 million was canceled and dealers reported that $500 million of issues covered by the proposed ruling were in preparation for offering in November and subsequent months. While the rules released on December 1 are still being analyzed and interpreted by issuers, it appears that around one-fourth of advance refunding thus far during 1977 would have been covered by the new rule.

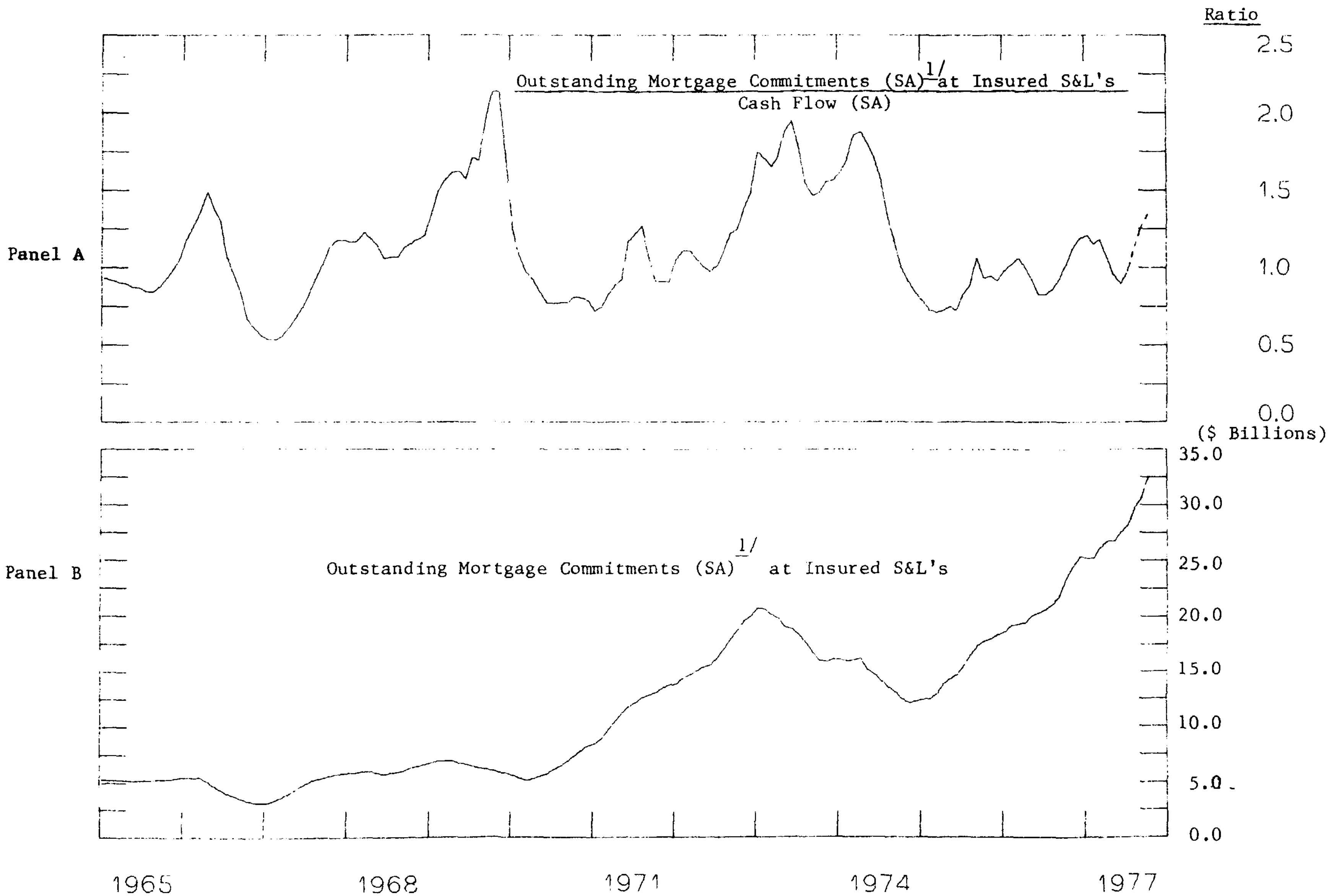
and their need for tax-exempt income increased, banks increased their holdings of non-Treasury securities, primarily municipals, at about a 7 per cent annual rate in the first three quarters of this year and at a 13-3/4 per cent rate in October and November combined. Despite the comparatively wide spread between tax-exempt and taxable yields, individuals also made large purchases of these securities through municipal bond investment companies.

Mortgage and Consumer Finance

The volume of mortgage lending in November apparently held near the extremely strong pace registered in other recent months. Real estate loans at commercial banks increased $2.3 billion, slightly above the average for previous months of 1977.1/ Issues of GNMA-guaranteed mortgage-backed securities continued large in November as prices available to mortgage originators through these instruments remained favorable relative to prices under FNMA commitments. At savings and loan associations, outstanding mortgage commitments (including loans in process) rose by 6 per cent in October to $33.4 billion, spurred by extremely strong activity on the West coast. In view of this increase, it is likely that mortgage lending at S&Ls

1/ Call Report data for all commercial banks indicate that loans on 1-4 family homes increased at a 16 per cent annual rate (NSA) in the first half of 1977, construction loans rose at a 22 per cent rate, and the small multifamily category showed no change. Farmland and other real estate loans together increased at about a 15 per cent annual rate.

Outstanding S&L Mortgage Commitments Relative to Prospective Cash Flow



1/ Including loans in process.

continued large in November, despite the further slowdown in deposit flows. While the S&Ls may have cut back their spot lending somewhat, about two-fifths of the record level of outstanding commitments to originate or purchase loans was scheduled to be taken down during November.

The ratio of outstanding mortgage commitments to cash flows at the S&Ls rose to its highest level in over three years at the end of October (Panel A of Chart), but remained well below the levels of 1969 and 1973-early 1974.[1/] It appears that S&Ls generally adjust commitment activity with some lag to changes in the direction of net deposit flows; however, this lag has been one quarter or less at turning points in deposit flows since the mid-1960's. In the face of slowing deposit flows, S&Ls recently have relied increasingly upon FHLB advances to help sustain mortgage lending. Outstanding advances increased by $1.2 billion (SA) during October and November to $18.5 billion, the highest level since early 1975.[2/] The liquidity ratio at insured S&Ls (cash and other liquid assets as a percentage of

1/ Because the majority of commitments are taken down within 3 months, the ratio was computed as month-end outstanding commitments (SA) relative to cash flow (SA) during the ensuing three months, with cash flow defined to include deposit growth plus mortgage repayments. The ratios for August-October 1977 were computed using projections of deposit growth and mortgage repayments for November 1977 through January 1978.

2/ Other borrowing by S&Ls increased by $450 million (NSA) during October, including $225 million in mortgage-backed bonds. An additional $240 million in mortgage-backed bonds were issued in November by California S&Ls.

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 2/ with funds in short supply
1976--High	8.95	--	+92	18
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.	8.90	-3	+65	12
Oct.	8.90	0	+62	11
Nov. 4	8.90	0	+55	16
11	8.93	+3	+64	14
18	8.93	0	+69	16
25	8.93	0	+70	18
Dec. 2	8.95	+2	+69	17
9	8.95	0	+60	16

1/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.
2/ Per cent reporting supply of funds slightly or substantially below normal seasonal patterns.

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	9.17	723	422	8.89	8.24
Low	123	83	8.81	50	35	8.46	7.56
Nov. 7							8.21
14	309	203	9.16	111	70	8.86	8.17
21							8.18
28	229	184	9.16	100	83	8.85	8.18
Dec. 5							8.23
12	262	169	9.17	329	224	8.89	8.24

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.

deposits plus borrowings) increased slightly to 9.0 at the end of October--considerably below the historically high levels of 1975-76, but well above the low of 7.2 per cent in September 1974.

S&Ls have continued to meet strong household demands for long-term mortgage funds at relatively stable interest rates. Average rates on new commitments for conventional home loans have edged up only slightly since the last FOMC meeting; the increase was due entirely to upward adjustments on the West Coast, where average rates have risen by 25 basis points since the end of October. Yields in the secondary markets have also increased slightly in recent weeks.

Latest available data indicate that life insurance companies issued a record volume of new commitments for non-residential property mortgages during the first 9 months of 1977, while new commitments for multifamily residential mortgages--although improved from the depressed levels of 1975--remained well below the record volume of 1971-73. The current expansion in commercial mortgage commitment activity parallels the cyclical recovery in the F.W. Dodge commercial construction contract series. Reflecting the pickup in new commitment activity, outstanding commercial mortgage commitments at life insurance companies reached a record $11.2 billion (SA) at the end of September, up from a trough of $6.9 billion in March 1976. Since life insurers concentrate on permanent mortgage financing of projects with long production periods, takedowns will, of course, lag the recent rebound in commitments to a considerable degree.

Growth in consumer instalment credit outstanding accelerated slightly in October to a seasonally adjusted annual rate of just over 15 per cent, as all major lender groups contributed to the pickup in activity. Auto credit growth slackened, but strength in bank-card credit and personal loans outweighed the pull-back in auto credit. Scattered indications for November suggest a somewhat slower pace than in October, partly reflecting a weakening of auto sales in the last half of the month.

Despite the advanced rate of growth through most of the year and a gradual uptrend in the ratio of instalment credit liquidations to disposable income, consumer loan delinquency rates have shown no tendency to rise during 1977. Delinquency rates at commercial banks were virtually unchanged in the third quarter, and edged down in September at major auto finance companies.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976	1977 1/ QII	QIII	Sept.	Oct.
Total							
Change in outstandings							
Billions of dollars	8.9	7.3	19.9	31.9	29.9	28.2	31.5
Per cent	6.1	4.7	12.3	16.8	15.1	13.9	15.4
Bank share (per cent)	41.5	39.6	54.0	51.6	51.2	52.2	50.1
Extensions							
Billions of dollars	147.0	163.9	192.4	224.4	228.0	230.0	237.4
Bank share (per cent)	46.2	47.2	48.9	49.0	49.1	49.3	49.5
Liquidations							
Billions of dollars	148.0	156.6	172.4	192.5	198.1	201.8	205.9
Ratio to disposable income	15.2	14.4	14.6	14.9	15.0	15.2	15.3
Automobile Credit							
Change in outstandings							
Billions of dollars	0.3	3.2	10.2	13.7	12.9	13.3	10.2
Per cent	0.6	6.1	18.3	19.8	17.8	17.7	13.4
Extensions							
Billions of dollars	45.3	51.5	62.8	72.8	72.9	73.3	73.0
New car loans over 36 months as per cent of total new car loans at:							
Commercial banks 2/	8.8	14.0	25.4	38.9	42.8	n.a.	n.a.
Finance companies	8.6	23.5	33.9	45.3	51.1	52.4	51.8
New car finance rate (APR)							
Commercial banks (36 mo. loans)	10.97	11.36	11.08	10.82	10.85	10.82	10.83
Finance companies	12.61	13.11	13.17	13.12	13.12	13.15	13.14

1/ Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.

2/ 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.

INTERNATIONAL DEVELOPMENTS

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

December 14, 1977

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	1976 YEAR	1977 Q1	Q2	Q3	Sept.	Oct.
1. Merchandise exports	114,694	29,458	30,488	30,855	11,042	9,469
2. Merchandise imports	124,014	36,561	38,347	38,338	12,961	12,786
3. Trade Balance	-9,320	-7,103	-7,859	-7,483	-1,919	-3,317
4. Bank-reported private capital flows	-10,302	-1,625	1,792	2,740	3,787	-3,586
5. Claims on foreigners (increase -)	-21,270	3,677	-4,554	244	-610	-2,947
6. Long-term	-2,362	-306	22	-440	-154	-105
7. Short-term	-18,908	3,983	-4,576	684	-456	-2,842
8. (of which on commercial banks in offshore centers 2/)	(12,863)	(2,058)	(-3,649)	(1,924)	(-616)	(-1,443)
9. Liabilities to foreigners (increase +)	10,968	-5,302	6,346	2,496	4,397	-639
10. Long-term	208	43	104	193	104	61
11. Short-term	10,760	-5,345	6,242	2,303	4,293	-700
12. to commercial banks abroad	8,030	-4,502	3,879	3,654	4,564	-1,658
13. (of which to commercial banks in offshore centers 3/)	(4,115)	(-3,315)	(3,271)	(3,098)	(3,644)	(-2,364)
14. to other private foreigners	2,719	366	696	176	275	44
15. to int'l and regional organizations	11	-1,209	1,667	-1,527	-546	914
16. Foreign private net purchases (+) of U.S. Treasury securities	2,783	983	-1,371	1,249	963	-927
17. Other private securities transactions (net)	-7,480	187	-926	-1,659	-520	95
18. Foreign net purchases (+) of U.S. corp. securities	1,250	879	820	515	135	255
19. (of which stocks)	(853)	(376)	(371)	(138)	(57)	(134)
20. U.S. net purchases (-) of foreign securities	-8,730	-692	-1,746	-2,174	-655	-160
21. (new foreign issues of bonds and notes)	(-10,122)	(-1,349)	(-1,995)	(-2,329)	(-696)	(-506)
22. Change in foreign official res. assets in the U.S.	13,091	4,916	7,436	7,901	3,169	5,932
23. OPEC countries (increase +)	6,820	2,435	1,368	1,418	110	442
24. (Of which U.S. corporate stocks)	(1,828)	(236)	(435)	(363)	(108)	(91)
25. Other countries (increase +)	6,271	2,481	6,068	6,483	3,059	5,490
26. Change in U.S. reserve assets (increase -)	-2,530	-388	6	153	77	44
27. Other transactions and statistical discrepancy (net payments (-))	13,758	3,030	922	-2,901	-5,557	1,759
28. Other current account items	8,355	2,983	3,399			
29. *Military transactions, net 4/*	-34	416	364			
30. Receipt of income on U.S. assets abroad	21,369	6,133	6,565			
31. Payment of income on foreign assets in U.S.	-11,561	-2,881	-3,164			
32. Other services, net	2,743	340	629			
33. Remittances and pensions	-1,878	-526	-505			
34. U.S. Gov't grants 4/	-2,284	-499	-490			
35. Other capital account items	-4,761	-1,198	-4,258			
36. U.S. Gov't capital, net claims 4/ (increase -)	261	-235	-665			
37. U.S. direct investment abroad (increase -)	-4,596	-404	-2,602			
38. Foreign direct investment in U.S. (increase +)	2,176	537	486			
39. Nonbank-reported capital, net claims (increase -)	-2,602	-1,096	-1,477			
40. Statistical discrepancy	10,164	1,245	1,781			
MEMO:						
41. Current account balance 4/	-965	-4,120	-4,460	n.a.	n.a.	n.a.
42. Official settlements balance	-10,561	-4,528	-7,442	-8,054	-3,246	-5,976
43. O/S bal. excluding OPEC	-3,741	-2,093	-6,074	-6,636	-3,136	-5,534

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. The weighted-average dollar depreciated by 3 per cent during the past five weeks, bringing its total depreciation since September to about 5 per cent. The day-to-day movements in exchange rates were more erratic than earlier this year,

. On several occasions daily changes of 1/2 per cent were recorded in the weighted-average value of the dollar, and changes of 1-2 per cent were recorded against the yen, the mark and the Swiss franc.

. The System increased its sales of marks in support of the dollar,

.

The yen appreciated by 4 per cent against the dollar during the first three weeks of the current reporting period, then fell by nearly 2 per cent within several days, and has since more than reversed that decline. It is currently 4-1/2 per cent above its level at the beginning of the period. Upward pressure on the yen has reflected the market's concern over the size of the U.S. trade deficit and the Japanese trade surplus, along with news reports of U.S. official pressure on the Japanese government to take action to reduce the Japanese surplus. The dollar's brief recovery against the yen followed a tightening of Japanese exchange controls and the appointment of a new Japanese cabinet apparently designed to take stronger measures to deal with domestic and international economic problems. The dollar's recovery against the yen was short-lived as it became evident that no immediately effective action would be taken to reduce Japan's trade surplus.

The Swiss franc, the mark and other snake currencies initially followed the yen's upward movement against the dollar and then surpassed it, appreciating by 6 to 7 per cent each over the past five weeks. The dollar's continuing decline against these currencies reflected the continuing impact of the large U.S. trade deficit and increasing uncertainty about the international economic policies of the United States and other major industrial countries.

With the mark's appreciation, the European joint float came under intense pressure on several occasions. At one point or another the other four member currencies were at their lower intervention points against the mark. The central banks of the member countries have thus far steadfastly maintained that the snake will be kept intact without realignment at this time,

. In addition, the National Bank of Belgium raised its discount rate from 6 per cent to 7 per cent and again to 9 per cent in order to ease pressure on the Belgian franc within the snake.

The Canadian dollar appreciated by 1 per cent against the U.S. dollar in the past two weeks. This was the first substantial upward pressure on the Canadian currency in many months, and was probably due to the announcement that several large Canadian borrowers planned sizable Euro-dollar borrowings in the near future.

The price of gold fell within one week at the beginning of the period from a high of nearly \$168 an ounce to less than \$158 an ounce. The price decline was attributed in part to the improved prospects for peace in the Middle-East that became evident at that time. The gold price has fluctuated between \$157 and \$161 an ounce since.

U.S. bank lending to foreigners. Outstanding claims on foreigners (non-U.S. residents) held by domestic and foreign offices of U.S. banks rose more slowly in the first nine months of 1977 than in the comparable period of 1976. The increase in 1977 has been $16 billion, or 7.7 per cent, compared with $20.5 billion, or 12.2 per cent, in January-September of last year. The increases in claims on both international financial centers and other countries have been smaller this year than last.

The accompanying table combines claims on non-U.S. residents held by domestic offices of U.S.-owned banks with claims held by reporting foreign branches, with adjustment to eliminate intrabank claims. The G-10 countries and Switzerland and the offshore banking centers have been combined under the heading "international financial centers" because claims on these countries are largely deposits with other commercial banks which, for the most part, relend externally-borrowed funds outside their own borders. Hence, the claims on the international financial centers, individually and collectively, are not indicative of the location of the final borrowers. By contrast, claims on the other groups of countries in the table, particularly the oil-exporting and non-oil developing countries and Eastern Europe, consist more largely of loans to non-bank borrowers, and commercial banks in those countries are more likely to employ domestically the funds they raise abroad.

In the first nine months of 1977 U.S. bank claims on international financial centers increased about $2 billion less than in the same months

U.S. Bank Claims on Foreigners[1/]
(end of month; in billions of dollars)

Claims on:	Outstanding 1975 Sept.[2/]	1975 Dec.	1976 Sept.	1976 Dec.	1977 Sept.	Increase in 9 mos. 1976	1977
I. International Financial Centers	103.0	107.4	114.1	126.7	131.5	6.7	4.8
United Kingdom	36.1	36.3	37.9	41.5	43.6	1.6	2.1
Japan	13.7	14.9	15.0	15.9	17.5	.1	1.6
Other G-10 countries and Switzerland	34.5	36.8	38.7	42.8	47.0	1.9	4.2
Offshore centers[3/]	18.7	19.4	22.5	26.5	23.4	3.1	-3.1
II. Other Countries	55.2	60.1	73.9	81.1	92.3	13.8	11.2
Smaller developed countries	10.0	10.7	13.6	15.0	18.1	2.9	3.1
Greece	1.3	1.4	1.6	1.7	2.0	.2	.3
Spain	1.6	1.9	2.5	2.8	3.4	.6	.6
Scandinavian countries[4/]	2.7	2.9	3.2	3.6	4.5	.3	.9
South Africa	1.0	1.2	2.0	2.2	2.3	.8	.1
Turkey	.5	.6	1.0	1.3	1.4	.4	.1
Others	2.9	2.7	3.3	3.4	4.5	.6	1.1
Oil-Exporting Countries	6.3	6.9	10.4	12.6	16.4	3.5	3.8
Venezuela	2.1	2.3	3.1	4.1	5.1	.8	1.0
Indonesia	1.2	1.6	2.1	2.2	2.2	.5	0
Middle East	1.6	1.6	3.3	4.2	6.2	1.7	2.0
Other	1.4	1.4	1.9	2.1	2.9	.5	.8
Non-Oil Developing Countries	31.7	34.0	40.1	43.3	47.6	6.1	4.4
Brazil	7.2	8.0	10.1	11.1	11.8	2.1	.7
Mexico	8.1	9.0	10.9	11.7	12.6	1.9	.9
Peru	1.3	1.4	1.8	1.8	1.9	.4	.1
Korea	2.3	2.4	2.9	3.1	3.6	.5	.5
Philippines	1.5	1.7	2.1	2.2	2.4	.4	.2
Taiwan	1.4	1.7	2.3	2.3	2.9	.6	.6
Other	9.9	9.8	10.0	11.1	12.4	1.2	1.3
Eastern Europe	3.1	3.7	4.8	5.2	5.1	1.1	-.1
U.S.S.R.	.8	1.0	1.3	1.5	1.5	.3	0
Other	2.3	2.7	3.5	3.7	3.6	.8	-.1
TOTAL[5/]	158.2	167.5	188.0	207.8	223.8	20.5	16.0

Footnotes are found on next page.

1/ Data are adjusted to exclude U.S. agencies and branches of foreign banks and to exclude accounts between offices of the same parent bank.

2/ First date for this series, which is quarterly.

3/ Principally Bahamas, Bermuda, Cayman Islands, Netherlands Antilles, Panama, Hong Kong, and Singapore.

4/ Denmark, Finland, Norway.

5/ Including miscellaneous and unallocated claims ($5.1 billion in September 1977).

of 1976, reflecting an absolute decline in claims on offshore centers and some acceleration in claims on the G-10 countries. Among the latter the faster rise this year was especially sharp for Japan, because of U.K. restrictions on sterling financing and because expectations of appreciation of the yen were an inducement to borrow dollars. The increase in claims on the smaller developed countries has been about the same so far this year as last. Larger increases have occurred this year in claims on Scandinavian and some other countries in this group, and claims on Spain have continued to rise by about the same amount as in the same period last year. However, claims on South Africa and Turkey leveled off early in 1977 and show little increase because of banks' more cautious attitudes towards those countries.

This year's rise in claims on oil-exporting countries has been slightly larger in absolute terms than last year, although much smaller in percentage terms. But there has been no increase this year in claims on Indonesia because of that country's reduced need for new external borrowing. Outstanding claims on non-oil developing countries rose 10 per cent in the first nine months of this year, well below the 18 per cent increase in the same period in 1976. This year has seen markedly smaller increases in claims on Brazil, Mexico, and the Philippines as those countries' trade balances have improved. The rise in claims on Peru has halted this year in response to the uncertainties about Peru's stabilization efforts and foreign exchange availability. There has been no further growth in U.S. bank claims on Eastern Europe partly because of lower trade deficits in those countries.

U.S. International Transactions. The U.S. trade accounts in October showed a deficit of nearly $40 billion (annual rate), compared with a third-quarter deficit rate of $30 billion. The $10 billion increase can be attributed entirely to the effects of the longshoremen's strike, which halted containerized shipping through Atlantic and Gulf Coast ports from

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

		1976 Year	1977 Q-1	Q-2	Q-3	Sept.	Oct.
1.	Trade balance 1/	-9.3	-7.1	-7.9	-7.5	-2.0	-3.3
2.	(annual rate)		(-28.4)	(-31.4)	(-29.9)	(-23.0)	(-39.8)
3.	Private capital trans. adj. 2/	-14.8	-0.6	-0.5	0.3	2.2	-2.0
4.	Private capital as reported	-14.8	-0.6	-0.5	2.3	4.2	-4.6
5.	Reporting bias 3/	--	--	--	-2.0	-2.0	2.6
6.	OPEC net investment in U.S.	6.8	2.4	1.4	1.4	0.1	0.4
7.	Other foreign official assets	6.3	2.5	6.1	6.5	3.1	5.5
8.	U.S. reserve assets	-2.5	-0.4	*	0.2	0.1	*
	All Other 4/						
9.	Not seasonally adjusted	13.5	2.8	0.5	2.4	-3.0	-1.2
10.	Seasonal component 5/	--	0.4	0.4	-1.5	-0.4	0.6
	Memorandum:						
11.	GNP Net exports 6/	7.7	-1.8	-2.2	-1.8e	n.a.	n.a.
12.	Current Accounts Balance	-1.4	-4.1	-4.5	-4.2e	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.
5/ Equal but opposite in sign to the seasonal component of the trade balance.
6/ Includes revisions not yet included in published GNP accounts.
*/ Less than $50 million.
e/ Estimated

October 1 through November 29. Private capital flows for which data are available showed an outflow of about $2 billion in October (after adjustment for reporting bias), while foreign official assets in the United States (excluding OPEC holdings) increased by $5.5 billion.

The U.S. merchandise trade deficit increased in October to $39.8 billion (annual rate, international accounts basis), after dipping in September to $23.0 billion. Had there not been a dock strike, the staff estimates that the trade deficit would have been slightly below $30 billion in each of these months. Although the strike had similar impacts on export shipments and import arrivals, under present Customs procedures imports are recorded with a lag of up to 10 working days. (There is no lag between the loading and recording of exports.) Consequently, a substantial share of recorded October imports represents arrivals in late

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

	1976	1976		1977				
	Year	3Q	4Q	1Q	2Q	3Q[r]	Sept.[r]	Oct.
EXPORTS	114.7	118.4	118.8	117.8	122.0	123.4	132.5	113.6
Agric.	23.4	25.0	23.5	24.5	26.8	23.9	24.6	20.2
Nonagric.	91.3	93.5	95.3	93.4	95.2	99.5	107.9	93.4
IMPORTS	124.0	129.6	133.2	146.2	153.4	153.4	155.5	153.4
Petroleum	34.6	37.6	37.4	44.1	47.7	45.8	47.2	42.6
Nonpetrol.	89.4	92.0	95.9	102.1	105.7	107.5	108.4	110.8
BALANCE	-9.3	-11.2	-14.4	-28.4	-31.4	-29.9	-23.0	-39.8

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

September, when shipments were abnormally high in anticipation of the strike. The effects of the dock strike will continue to be reflected in merchandise trade statistics for November and December, which are expected to show smaller deficits than would have been recorded in the absence of the strike.

Because of the strike, nonagricultural exports in October showed the lowest monthly volumes of the year for most major commodity groups. Two exceptions were exports of automotive products, primarily those to Canada, which remained at about their January-to-September average volume, and exports of civilian aircraft, an erratic series, which jumped to a volume 70 per cent above its January-to-September average. The unit value of nonagricultural exports in October was unchanged from September.

The strike curtailed agricultural exports in October by roughly 10 per cent in volume. The unit value of agricultural exports fell almost 4 per cent in October; this continued a decline that began last May, but the October figure may have been affected by the change in commodity composition that resulted from the strike. Soybean exports were up strongly in volume, responding to a sharp and anticipated decline in price; the October unit value was roughly 25 per cent below the September level and 40 per cent below the June price.

Nonpetroleum imports in October recorded the lowest monthly volumes since first-quarter 1977 for all major commodity groups except automotive products and consumer goods. The recorded October strength in consumer-goods imports may reflect a large volume of (seasonally-adjusted) arrivals in late September, as retailers of Christmas merchandise were particularly concerned to build up inventories before the longshoremen's contract expired on September 30. Automotive imports were in large part unaffected by the strike. October automotive imports from countries other than Canada were almost 30 per cent higher in volume than their third-quarter rate, reflecting an effort to rebuild inventories from extremely low levels. The unit value of nonpetroleum imports in October remained unchanged from the September level.

Imports of petroleum products, although not affected by the dock strike, nevertheless fell sharply in October to 8.8 million barrels per day (mbd), compared with 9.4 mbd in September and an average of 9.5 mbd for the first nine months of the year. Current stocks of petroleum products are straining storage capacity, and the October decline may signal the beginning of the end of inventory building. The unit value of petroleum imports declined slightly in October.

Foreign official assets in the United States (excluding those held by OPEC) increased by $5.5 billion in October, following increases of $6.5 billion in the third quarter and $8.6 billion in the first half of 1977.

In October, private capital flows for which data are available showed a large net outflow of $4.6 billion. After adjustment for month-end reporting bias in bank-reported data, the net private capital outflow was about $2 billion. Banks reported an increase of $900 million in their liabilities to international and regional organizations in October, which largely reflects the World Bank's switch out of Treasury bills into bank CD's.

Foreign net purchases of U.S. corporate securities (excluding OPEC purchases) increased to $250 million in October. Private foreign net purchases of U.S. corporate stock in October were slightly above total foreign net purchases for the third quarter.

New foreign bond issues in the United States amounted to about $500 million in October. For the fourth quarter as a whole, net foreign bond issues will be roughly $1.5 billion, including only $300 million of Canadian issues. A sharp rise in medium-term U.S. bond-market interest rates during early December, which was followed by the cancellation of several domestic issues, may also have contributed to the cancellation of a five-year $40-million AAA-rated French utility note.

OPEC banking assets and security holdings in the United States increased by $400 million in October, a rate slightly below that of the third quarter. The October increase in OPEC net assets in the United States was accounted for by an unusual increase for Indonesia, which has been rebuilding reserve holdings that were depleted by the settlement of Pertamina debts. Through October, OPEC net assets in the United States rose by $5.6 billion, about the same as last year's rate of increase.

<u>Economic Activity in Foreign Industrial Countries</u>. Economic activity abroad has been weak in 1977, substantially below official expectations formulated earlier in the year. Table I illustrates the current weakness with data on GNP growth rates, rates of change in industrial production and in employment, and with unemployment rates. Both GNP and industrial production have decelerated from their 1976 rates of increase in most countries, especially since the first quarter of 1977. The combined GNP of the six major foreign industrial countries is expected to grow at a rate of only 2.8 per cent in 1977 compared with the 5.1 per cent growth rate recorded in 1976. Unemployment rates are high and are continuing to rise, while employment is expanding moderately, except in France and Germany. Capacity utilization is generally low, although it varies across particular industries, and inflation in most countries is no longer increasing.

Private consumption and investment spending has generally been sluggish as shown in Table II. Public spending has contributed significantly to demand in Japan, but has contributed little in Germany. Authorities in France, Italy, and the United Kingdom have felt compelled to restrain domestic demand in an effort to reduce external imbalance and inflation. Fiscal policy in Canada has been cautious in light of the high rate of inflation and the current-account deficit.

The major industrial countries still face the need for economic adjustment in 1978. The low rates of economic growth, coupled with excess capacity, have led the OECD Secretariat to suggest that policy be directed toward stimulating domestic demand, particularly in those countries with strong current-account positions, i.e., Germany and Japan.

The pace of economic activity in Germany has been slow since the first quarter of 1977. GNP is expected to grow at a rate of less than 3 per cent in 1977 while industrial production is expected to expand only moderately. Unemployment is high and is expected to rise. The number of persons employed continued to fall in the first half of this year. Real private consumption grew at less than 1 per cent in the first quarter and declined in the second. Investment was also weak in the second quarter. Weak demand, excess capacity, and an investment tax credit policy, which was instituted in 1975 and which provided incentives to advance the timing of investment to 1976 and the first quarter of 1977, are factors responsible for the recent low level of investment. External demand, although lower than expected, was the strongest component of domestic demand in the first half of the year. A cautious fiscal policy has contributed little to domestic demand, although policy shifted somewhat in favor of expansion in the second half of the year.

Japan recorded a reasonably strong rate of growth during the first half of this year, but the rate of growth fell in the third quarter. Growth throughout the year has been fueled by government spending and external demand, not by private domestic demand. The current unemployment rate of around 2.0 per cent is high by historical standards and has become a serious economic and social issue. Fiscal policy has involved significant increases in public works expenditures and small cuts in personal income tax rates. In contrast to government demand, private domestic demand has been relatively weak. Low profits, high inventories, excess capacity, and uncertainty regrading the yen have been contributing factors in the lackluster investment performance. Fiscal policy is expected to remain expansive into 1978, but export growth may be weakened both by the recent yen appreciation and by other measures expected to be taken in response to the growing international pressure on Japan to reduce its large current-account surplus.

Economic activity in France has been stagnant since the first quarter of this year, with GNP expected to grow at a rate slightly over 2 per cent. From quarter to quarter this year, industrial production has been flat. Unemployment is rising, and the number of employed has been declining throughout 1977. Policies have been generally cautious in light of concern over inflation and the current-account deficit. Fiscal policy has been eased by selective measures adopted since March, but its effect has probably been diluted by fiscal drag. The continuing higher than expected rate of consumer price inflation appears to have eroded consumer confidence so that the strengthening of consumer demand during the summer months, indicated in surveys, has not been sustained. Producer expectations regarding activity have also become more pessimistic, probably retarding investment. Exports have grown moderately, contributing to a narrowing of the current-account deficit from the high levels in the second half of 1976.

Italy has experienced a reduction in the rate of economic growth as indicated by the sharp fall in second-quarter industrial production. In the period June-August, output was 7.8 per cent below its level in the previous three months. Unemployment appears to be rising, although the new series for unemployment makes comparisons difficult. Employment is expanding moderately. Policy has been directed at controlling inflation and improving external balance, with fiscal policy, comprised in large part of indirect tax increases, apparently limiting the growth of consumption expenditures. A restrictive monetary policy, relying primarily on bank credit ceilings, has probably restrained investment. Exports have been relatively strong. Domestic disagreements over the need for further austerity versus reflation leave the direction of future policy and activity uncertain.

The dramatic turnaround in the United Kingdom's external situation has not been reflected to date in output growth or in significantly reduced unemployment. The United Kingdom's sluggish activity is largely due to the sharp drop in real personal disposable income, attributable in part to the government's incomes policy. This policy has been aimed at holding down the rate of growth of nominal wages in order to control inflation. Preliminary data for the third quarter indicate an upturn in consumer spending, which is expected to continue in response to cuts in personal taxation, growth in real wages, and lower saving rates (stimulated by reduced inflation). Investment has been weak, and its future is uncertain -- relatively low interest rates and the apparent ready availability of bank credit are encouraging investment, but excess capacity and the seemingly low level of real profits are discouraging it. Recent fiscal policy actions have been expansionary -- personal income tax allowances and public expenditures have been increased -- and sterling's depreciation last year has contributed to strong export demand this year.

GNP growth in Canada this year has picked up considerably from the negative rates of growth in the second half of 1976. Industrial production increased in the first half of the year, but declined in the third quarter. Despite a moderate increase in employment, the unemployment rate is at a record high (8.4 per cent in November). Policy is cautious, being restrained by high inflation rates and large current-account deficits. In a modest effort to stimulate demand and reduce unemployment, Canadian authorities recently announced a mini-budget consisting of job-creation programs and personal income tax cuts. Consumption was weak in the first half of 1977, but it strengthened in the third quarter. Wage and price controls (currently being phased out), the Quebec Separatist movement, and the depreciating Canadian dollar have contributed to business uncertainty and timid investment. External demand has been strong; export growth is expected to continue as markets respond to the relatively large depreciation of the Canadian dollar (12 per cent vis-à- vis the U.S. dollar since November, 1976).

Economic growth in some of the smaller industrial countries (Belgium, Denmark, the Netherlands, Norway, Sweden, Switzerland) has fallen considerably from the rates of recent years. Unemployment is high by historical standards, except in Norway. These difficulties are largely due to economic conditions in these countries' major trading partners which have led to weak external demand. Furthermore, the Scandinavian countries have been compelled to resort to varying degrees of restraint in monetary and fiscal policies in response to continuing large current-account deficits. Belgium and the Netherlands have instituted more expansionary fiscal policies, although Belgium has indicated that it will pursue whatever monetary policy is needed to maintain the Belgian franc rate within the present snake intervention limits. The Swiss government has proposed some mildly stimulatory fiscal measures.

Table I

Activity in Major Foreign Industrial Countries
(S.A.; GNP, Industrial Production, Employment, percentage change from the previous period)

	1976	1977 QI	1977 QII	1977 QIII	1977[e]
Canada					
GNP	4.9	1.9	-0.3	1.3	2.2
Industrial Production	5.0	2.1	0.3	-0.3	3.4
Employment	2.2	0.8	0.6	0.8	
Unemployment rate	7.2	7.8	8.1	8.2	
France					
GDP	5.2	n.a.	n.a.	n.a.	2.3
Industrial Production	10.1	2.4	-2.1	-1.1	2.6
Employment (NSA)1/	-0.4	-0.2	-0.2	-0.6	
Unemployment rate	4.5	4.7	5.3	5.7	
Germany					
GNP	5.7	0.9	-0.2	n.a.	2.7
Industrial Production	7.8	1.4	-1.1	0.3	3.1
Employment	-0.5	0.0	-0.3	n.a.	
Unemployment rate	4.6	4.4	4.6	4.6	
Italy					
GDP	5.6	1.5	-2.3	n.a.	1.7
Industrial Production	11.8	2.2	-7.2	-3.2	0.5
Employment (NSA)	0.7	4.0	1.4	1.1	
Unemployment rate2/	3.7 //	6.5	6.9	7.9	
Japan					
GNP	6.3	2.5	1.7	0.5	5.4
Industrial Production	13.7	0.6	0.9	-1.1	4.4
Employment	0.9	0.3	0.7	n.a.	
Unemployment rate	2.0	1.9	2.1	2.1	
United Kingdom					
GDP	2.1	-1.3	0.5	n.a.	0.2
Industrial Production	0.6	0.3	-1.3	0.2	0.7
Employment1/, 3/	-2.6	0.7	0.5	n.a.	
Unemployment rate3/	5.3	5.5	5.5	5.9	
GNP Weighted Average of above six					
GNP/GDP	5.1	n.a.	n.a.	n.a.	2.8
Industrial Production	8.2	n.a.	n.a.	n.a.	2.8

1/ Manufacturing Industry.
2/ New series in 1977 invalidates historical comparison of unemployment rates.
3/ Great Britain only.
e = staff estimates.
National sources.

Table II

Real GNP/GDP and Components in Major Foreign Countries 1/
(Percentage change from previous period, S.A.)

	1976	1977 QI	1977 QII	1977 QIII
Canada - GNP	4.9	1.6	-0.3	1.3
Private Consumption	6.1	-0.1	-0.7	2.0
Public Consumption	0.9	5.0	1.1	-2.2
Fixed Investment	0.8	1.1	-0.1	-1.6
Foreign Balance	0.0	-1.2	0.0	n.a.
France - GDP 2/	5.2	n.a.	n.a.	n.a.
Germany - GNP	5.7	0.9	-0.2	n.a.
Private Consumption	3.6	0.8	-0.2	n.a.
Public Consumption	2.5	0.3	0.3	n.a.
Fixed Investment	5.1	0.7	-0.7	n.a.
Foreign Balance	0.1	0.0	0.8	n.a.
Italy - GDP 2/	5.6	1.5	-2.3	n.a.
Japan - GNP	6.3	2.1	1.7	0.5
Private Consumption	4.4	0.8	1.0	0.3
Public Consumption	4.3	0.5	0.8	1.4
Fixed Investment	4.5	2.5	2.1	0.7
Foreign Balance	1.7	1.1	0.1	0.4
United Kingdom - GDP 3/	2.1	-1.3	0.5	n.a.
Private Consumption	0.4	-1.5	-1.1	n.a.
Public Consumption	3.2	-1.4	1.6	n.a.
Fixed Investment	-3.4	-5.6	0.0	n.a.
Foreign Balance	1.1	-1.0	1.6	n.a.

1/ The quarter-to-quarter (year-to-year) change in the foreign balance is expressed as a per cent of GNP/GDP in previous period.
2/ Component details not available.
3/ "Average" estimate by Central Statistical Office.
National Sources.