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CONFIDENTIAL (FR)

February 22, 1978

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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

	Latest Data			Per Cent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At annual rate)		
Civilian labor force	Jan.	2-3-78	99.1	2.3	4.2	3.5
Unemployment rate (%)1/	Jan.	2-3-78	6.3	6.4	6.8	6.4
Insured unemployment rate (%)1/	Jan.	2-3-78	3.5	3.7	3.8	4.2
Nonfarm employment, payroll (mil.)	Jan.	2-3-78	83.7	3.6	3.8	3.9
Manufacturing	Jan.	2-3-78	20.0	6.3	6.4	4.0
Nonmanufacturing	Jan.	2-3-78	63.7	2.8	2.9	3.8
Private nonfarm:						
Average weekly hours (hr.)1/	Jan.	2-3-78	35.7	36.2	36.2	35.8
Hourly earnings ($)1/	Jan.	2-3-78	5.47	5.42	5.38	5.07
Manufacturing:						
Average weekly hours (hr.)1/	Jan.	2-3-78	39.7	40.5	40.4	39.5
Unit labor cost (1967=100)	Dec.	1-31-78	158.4	3.0	8.5	6.7
Industrial production (1967=100)	Jan.	2-15-78	138.6	-8.6	-.9	4.8
Consumer goods	Jan.	2-15-78	143.6	-17.3	-3.6	2.6
Business equipment	Jan.	2-15-78	154.0	-6.2	3.7	8.2
Defense & space equipment	Jan.	2-15-78	80.1	-3.0	6.1	2.7
Materials	Jan.	2-15-78	137.5	-7.8	-4.0	4.9
Consumer prices (1967=100)	Dec.	1-20-78	185.9	4.5	4.6	6.7
Food	Dec.	1-20-78	196.5	2.4	3.7	8.0
Commodities except food	Dec.	1-20-78	168.3	5.7	5.1	4.9
Services	Dec.	1-20-78	200.1	5.4	4.9	7.9
Wholesale prices (1967=100)	Jan.	2-10-78	200.1	10.3	7.7	6.3
Industrial commodities	Jan.	2-10-78	201.7	9.0	5.8	6.9
Farm products & foods & feeds	Jan.	2-10-78	191.7	13.3	14.9	4.0
Personal income ($ bil.)2/	Jan.	2-17-78	1,626.4	3.2	10.7	11.8
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Dec.	2-1-78	66.0	6.5	11.8	15.8
Capital goods industries	Dec.	2-1-78	22.2	14.2	24.6	24.2
Nondefense	Dec.	2-1-78	17.3	9.1	7.0	25.3
Defense	Dec.	2-1-78	4.9	36.7	199.3	20.5
Inventories to sales ratio:1/						
Manufacturing and trade, total	Dec.	2-17-78	1.41	1.44	1.47	1.44
Manufacturing	Dec.	2-1-78	1.53	1.56	1.57	1.60
Trade	Dec.	2-17-78	1.30	1.33	1.37	1.30
Ratio: Mfrs.' durable goods inventories to unfilled orders1/	Dec.	2-1-78	.610	.623	.640	.632
Retail sales, total ($ bil.)	Jan.	2-15-78	60.1	-3.1	-1.2	7.8
GAF3/	Jan.	2-15-78	13.6	-4.2	.3	12.5
Auto sales, total (mil. units)2/	Jan.	2-7-78	10.0	-9.3	-8.3	-4.9
Domestic models	Jan.	2-7-78	8.0	-10.0	-11.9	-9.4
Foreign models	Jan.	2-7-78	2.0	-6.4	10.2	18.9
Plant & equipment expen. ($ bil.)4/						
All industries	1978	1-12-78	150.89	--	--	10.1
Manufacturing	1978	1-12-78	67.35	--	--	10.4
Nonmanufacturing	1978	1-12-78	83.54	--	--	9.9
Housing starts, private (thous.)2/	Jan.	2-16-78	1,549	-29.4	-27.6	11.2
Leading indicators (1967=100)	Dec.	1-31-78	135.3	.7	1.7	6.0

1/ Actual data used in lieu of per cent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned - Commerce December 1977 Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Retail sales, industrial production, and housing starts declined sharply last month, in part because of bad weather. At the same time, however, employment and earnings gains continued sizable, and consumer confidence remained at a high level. In addition, December data on equipment orders and inventory change suggest further growth in business investment spending.

Labor demand remained strong in January, but bad weather interrupted work schedules and total hours worked declined. Nonfarm payroll employment, adjusted for strike activity, rose 225,000 in January--an increase in line with monthly averages over the past half year. Factory hiring totaled 85,000 (strike adjusted) with increases widespread among producers of durable goods. In contrast, employment fell in contract construction--a sector particularly sensitive to unusually severe weather. In many industries, winter storms resulted in unscheduled absences from work and apparently damped output. Average weekly hours of production workers dropped sharply by 1/2 hour; in manufacturing the decline was 3/4 hour. Evidence of lost work time due to the weather also was available from the household survey. Almost a million perons who had jobs did not work at all because of adverse weather during the reference week, and more than 3.6 million workers who normally work full time reported working less than 35 hours. In both cases, the number affected was lower than during last January's severe weather, but was sizable by historical standards.

AVERAGE MONTHLY CHANGES IN EMPLOYMENT
(Thousands; based on seasonally adjusted data)

	Dec. 75 to Dec. 76	Dec. 76 to June 77	June 77 to Dec. 77	Nov. 77 to Dec. 77	Dec. 77 to Jan. 78
Nonfarm payroll employment 1/	195	298	213	187	253
(Strike adjusted)	191	305	246	296	224
Manufacturing	45	83	45	164	104
(Strike adjusted)	45	85	48	127	86
Durable	38	53	45	127	84
Nondurable	8	30	0	37	20
Construction	3	47	11	6	-7
Trade	54	57	55	80	94
Services and finance	68	70	86	63	64
State and local government	18	25	33	17	5
Total employment 2/	250	368	327	395	272
Nonagricultural*	250	356	328	429	241

1/ Survey of establishments.
2/ Survey of households.

PERSONS WHO LOST WORKTIME DUE TO BAD WEATHER
(Not seasonally adjusted; thousands)

	Not at work at all due to bad weather	At work less than 35 hours due to bad weather
January 1978	980	3,646
January 1977	1,248	4,232
January 1976	212	782
January 1975	260	720
January 1974	689	2,400

Total employment grew slightly more than the labor force, and the unemployment rate edged down to 6.3 per cent in January. The improvement in joblessness occurred wholly among adult women; unemployment rates for adult men and teenagers were little changed from December.

In other labor market developments, the coal strike by the United Mine Workers continued into late February. Intermittant negotiations have occurred, but since the ratification process requires about 10 days, the strike will extend at least into March. Total coal stocks at electric utilities on February 11 were estimated to average about 67 days supply, assuming normal weather conditions. However, regional shortages (from Illinois to Pennsylvania) have resulted in some power reductions that so far have caused only scattered cutbacks in production--mainly in steel. If power curtailments spread, other industries soon will be affected.

Union mines normally produce slightly more than one-half of the nation's coal. In January, however, coal production was two-thirds below pre-strike levels as many nonunion mines were not operating due to union picketing, sympathy strikes, and weather-related transportation delays.

Disruptions arising from severe weather contributed to widespread declines in industrial production in January. Although output

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1976 QIV	1977 QI	1977 QII	1977 QIII	1977 QIV	1977 Dec.	1978 Jan.
Total, 16 years and older	7.8	7.5	7.1	6.9	6.6	6.4	6.3
Men, 20 years and older	6.0	5.8	5.2	5.0	4.8	4.6	4.7
Women, 20 years and older	7.5	7.1	7.0	7.0	6.8	6.6	6.1
Teenagers	19.1	18.6	18.1	17.6	16.7	15.6	16.0
Household heads	5.2	4.8	4.4	4.4	4.2	3.9	3.8
Married men	4.3	3.9	3.6	3.4	3.4	3.2	2.9
Fulltime workers	7.4	6.9	6.6	6.5	6.2	5.9	5.8
White	7.1	6.7	6.3	6.1	5.8	5.5	5.5
Black and other	13.4	12.9	12.8	13.6	13.4	12.7	12.7

Note: The seasonal adjustment factors for these data have been updated to include the 1977 experience.

INDUSTRIAL PRODUCTION
(Per cent change from previous period; seasonally adjusted)

	At compound annual rates						
	1976 QIV	1977 QI	1977 QII	1977 QIII	1977 QIV	1977 Dec.	1978 Jan.
Total	2.2	6.3	10.5	4.3	2.4	.2	-.7
Products	5.0	8.2	8.0	6.3	2.8	.5	-.7
Consumer Goods	6.7	7.7	6.3	4.9	1.0	.2	-1.5
Durable	8.5	10.4	14.8	7.9	.0	.4	-4.3
Nondurable	5.9	6.6	2.9	3.5	1.4	.1	-.2
Business Equipment	5.6	12.5	15.3	7.5	5.9	.8	-.5
Intermediate Products	2.6	7.2	4.7	8.0	7.0	1.1	-.3
Construction Supplies	3.1	2.1	7.6	10.3	13.2	1.0	-.7
Materials	-1.8	3.5	14.5	1.4	1.9	-.4	-.7
Durable	-7.1	2.6	19.6	2.5	4.4	.7	-.7
Nondurable	1.4	7.4	14.3	-.5	1.4	-.3	-1.0
Energy	8.3	-.1	2.2	2.4	-3.6	-3.6	.1

declined in almost all product and industry categories, the most significant factor in the 0.7 per cent drop in over-all industrial production was the sharp decline in motor vehicle output. Auto assemblies were cut back to a 7.9 million unit annual rate in January from 8.9 million a month earlier. This was primarily the result of adjustments to reduce auto inventories following weaker-than-anticipated sales in November and December. In addition, weather-related parts shortages appear to have exacerbated the decline in auto assemblies. A sizable drop in large-truck production contributed to a 1/2 per cent decline in business equipment output.

Sales of domestic cars declined 10 per cent to an 8.0 million unit annual rate--the lowest monthly rate since the Ford strike in the fourth quarter of 1976. Sales of imports held up better than domestics, and imports captured their largest market share since the spring. The drop in January sales and the persistence of the slow pace in early February may have been in part due to bad weather. However, the trend in domestic auto sales has been downward since mid-1977, in part because sales in the first half of 1977 included some replacement purchases that had been deferred as the result of the 1974-75 recession and the auto strike of late 1976. In addition, consumer resistance to GM's new downsized intermediate cars and to higher prices for most models appears to be inhibiting sales.

Total retail sales were estimated to have fallen 3.1 per cent in January; excluding autos and mainly nonconsumption items, sales dropped 2.4 per cent from an upward-revised December level. Spending weakened at all major types of stores, with particularly large declines for apparel, general merchandise and furniture and appliance outlets. Although some slowing in consumer outlays is not unusual following estraordinarily large gains such as those registered during the fourth quarter, inclement weather apparently deepened the sales contraction last months.

Despite the recent slack in sales, consumers continued to be optimistic about the outlook for personal income and business conditions. Both the Conference Board index of consumer confidence and the Michigan index of consumer sentiment rose in January from December. The Conference Board index rose to its highest level since late 1972.

Growth of total earnings which has been generally supportive of consumer spending in recent months, remained relatively strong in January.

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

	QIII	QIV	Jan./QIV	1977 Nov.	1977 Dec.	1978 Jan.
Total sales	1.5	4.4	-2.2	1.3	.6	-3.1
(Real)[1/]	.7	3.4	n.a.	.8	.2	n.a.
Total, less auto and nonconsumption items	1.9	4.1	-1.1	2.5	.7	-2.4
GAF	3.4	6.3	-2.1	2.7	1.9	-4.2
Durable	.8	5.5	-5.9	-.8	.6	-6.0
Auto	-.5	6.3	-5.6	-1.1	1.7	-6.3
Furniture and appliances	2.1	3.6	-2.9	3.0	-.6	-3.5
Nondurable	1.9	3.8	-.4	2.4	.6	-1.5
Apparel	1.3	6.7	-7.1	6.0	-5.6	-5.3
Food	.4	2.7	.4	2.8	-.8	.0
General merchandise	4.7	7.2	.0	1.4	5.8	-4.1
Gasoline	.0	1.9	.2	.8	.8	-.6

1/ Deflated by the consumer price index for all commodities, seasonally adjusted.

AUTO SALES
(Seasonally adjusted, millions of dollars)

	1976 QIV	1977 QI	1977 QII	1977 QIII	1977 QIV	1977 Dec.	1978 Jan.
Total	10.0	11.1	11.7	10.9	10.8	11.0	10.0
Imports	1.7	1.8	2.4	2.0	2.0	2.1	2.0
Domestic	8.3	9.3	9.3	8.9	8.8	8.9	8.0
Large	5.2	6.1	5.9	5.5	5.4	5.6	4.9
Small	3.1	3.1	3.3	3.4	3.4	3.3	3.1

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Nonagricultural income rose at an 8 per cent annual rate last month and wage and salary growth actually picked up, reflecting employment gains and a large rise in pay rates that was partly due to the higher Federal minimum wage. By contrast, price support payments to wheat farmers were $5 billion lower in January than in December, dividend payments declined to more normal levels following a special large payment in December, and social security taxes increased. These factors held the rise in total personal income to only 3.2 per cent.

Total business inventories were lean at year-end. The book value of manufacturing and trade inventories was about unchanged in December, and stocks rose at only a $12.6 billion annual rate in the fourth quarter--the smallest quarterly gain since the last quarter of 1976. Stocks of durables were accumulated at a $8.1 billion rate in December, well below the average for the year; stocks of nondurables were reduced at an $8.2 billion annual rate. The ratio of business inventories to sales was historically quite low at year-end.

Indicators of business fixed investment spending were generally favorable at year-end. Contracts and orders for plant and equipment rose 13 per cent in December to a level one-third above a year earlier. A 9.1 per cent advance in new orders for nondefense capital goods contributed to the increase. In addition, construction contracts for commercial and industrial buildings also rose sharply in December. But for the fourth

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

	1976 QIV	1977 QI	1977 QII	1977 QIII	1977 QIV	Nov. 77 to Dec. 77[1/]	Dec. 77 to Jan. 78[1/]
Current dollars							
Total personal income	11.5	13.1	11.4	8.9	14.4	14.8	3.2
Nonagricultural income	11.4	12.0	11.9	10.2	12.5	8.7	7.9
Wage and salary disbursements	10.7	12.7	13.0	7.5	12.4	4.4	12.7
Private	10.9	14.9	15.1	7.7	12.2	4.5	14.7
Manufacturing	8.4	17.9	17.5	6.3	12.3	15.6	10.2
Government	9.5	4.9	5.0	7.1	13.1	4.1	4.6
Nonwage income	12.3	14.5	8.5	10.8	17.0	30.6	-5.2
Transfer payments	7.6	11.6	-1.0	11.7	8.0	5.6	8.4
Dividends	29.5	1.0	20.1	21.4	12.5	64.3	-39.8
Constant dollars[2/]							
Total personal income	6.8	4.3	2.4	3.4	9.7	10.3	n.a.
Nonagricultural income	6.8	3.3	2.9	4.7	7.9	4.1	n.a.
Wage and salary disbursements	6.0	4.0	3.9	2.2	7.8	0	n.a.
Memorandum:							
Real disposable per capita income	4.1	2.4	6.4	3.5	7.4		

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

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

	1976	1977					
	QIV	QI	QII	QIII	QIV	Nov.	Dec. (p)
Manufacturing and trade	11.4	34.2	32.1	26.4	12.6	26.6	-.1
Manufacturing	6.5	11.2	17.8	9.4	4.8	4.5	2.3
Durable	6.4	7.8	10.9	5.5	4.2	7.7	3.6
Nondurable	.0	3.3	6.8	3.9	.5	-3.3	-1.3
Trade, total	4.9	23.0	14.3	17.1	7.9	22.1	-2.4
Wholesale	3.5	12.0	2.6	4.7	5.1	10.1	4.2
Retail	1.5	11.1	11.8	12.4	2.8	12.0	-6.6
Auto	1.3	2.2	2.4	1.3	1.8	3.9	-.6

INVENTORY RATIOS

	1976	1977					
	QIV	QI	QII	QIII	QIV	Nov.	Dec. (p)
Inventory to sales:							
Manufacturing and trade	1.49	1.46	1.46	1.48	1.44	1.44	1.41
Manufacturing	1.66	1.58	1.58	1.59	1.55	1.56	1.53
Durable	2.04	1.94	1.94	1.93	1.88	1.90	1.83
Nondurable	1.25	1.20	1.20	1.21	1.19	1.19	1.18
Trade, total	1.34	1.34	1.34	1.37	1.33	1.33	1.30
Wholesale	1.24	1.24	1.21	1.24	1.21	1.21	1.17
Retail	1.42	1.43	1.45	1.48	1.43	1.44	1.42
Inventories to unfilled orders:							
Durable manufacturing	.632	.635	.631	.640	.610	.623	.610

quarter as a whole, such construction contracts were down 6 per cent from the advanced third quarter pace. By contrast, new orders for non-defense capital goods rose nearly 10 per cent from the third quarter.

Activity in the housing sector dropped early this year following a robust fourth quarter performance, with adverse weather effects apparently pervasive. Private housing starts fell 29 per cent in January to a seasonally adjusted annual rate of 1.55 million units. Declines were widespread by regions with somewhat larger reductions in regions hard-hit by blizzards. The decline in starts occurred for both single-family and multifamily dwellings. Single-family starts fell 27 per cent in January from their December high to a 1.14 million unit annual rate. Multifamily starts last month were off 35 per cent from the previous month--when the level of such starts had been one of the highest of the current housing recovery. Activity in the multifamily sector should be supported in coming months by recent Congressional approval of an additional $2 billion for GNMA purchase of multifamily mortgages at below-market interest rates; three-quarters of the funds will be used to finance properties under Section 8--HUD's principal rental assistance program.

Federal spending rose at a 14 per cent annual rate in the fourth quarter due largely to the October Federal pay raise, higher non-payroll defense spending, increased aid to farmers through the Commodity Credit Corporation, and a sharp rise in interest payments. The President's budget estimates, released in mid-January, project unified outlays of $462.2 billion in fiscal 1978, receipts of $400.4 billion, and a deficit of $61.8 billion.

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

	1977 QII	1977 QIII	1977 QIV	1977 Nov.	1977 Dec.	Dec. 76 to Dec. 77
Contracts and orders for plant & equip.1/						
Current dollars	12.2	1.7	-1.4	2.8	13.2	32.0
1972 dollars	10.7	-.4	-3.2	1.3	11.8	22.0
New orders received by manufacturers						
Total durable goods						
Current dollars	4.1	-1.6	9.9	-.8	6.5	15.8
1967 dollars2/	2.8	-3.5	7.5	-1.4	5.9	8.0
Nondefense capital goods						
Current dollars	4.1	.1	9.8	-3.8	9.1	25.3
1967 dollars2/	2.8	-1.5	7.6	-4.3	8.8	17.3
Construction contracts for commercial and industrial buildings3/						
Current dollars	1.9	31.9	-5.9	10.6	11.6	45.2
Square feet of floor space	4.6	9.5	-.8	12.0	2.0	31.4

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.

State and local government spending has remained sluggish in recent months. Employment growth was small in January. In addition, State and local spending on capital projects has remained comparatively flat despite the recent influx of Federal countercyclical aid. New construction activity in December was estimated to be only 4 per cent above the weather-depressed levels of a year ago and 12 per cent below the peak levels of last summer.

Most recent price and cost data suggest that the underlying rate of inflation remains in the neighborhood of 6-1/2 per cent. The Producer (Wholesale) Price Index for finished goods rose 0.6 per cent in January, about the same rate as in the previous three months. Prices for finished producer goods increased less than in December but consumer goods prices increased more rapidly, largely due to a faster price rise for the food component.

At earlier stages of processing, the more volatile wholesale prices in crude and intermediate markets have accelerated in recent months following modest price increases or actual price declines through much of 1977. Prices for nonfood intermediate materials rose 0.9 per cent in January, with higher prices for construction-related materials accounting for much of the January upturn. The rate of increase in this series had been moderate over most of last year. Prices for crude nonfood materials rose 1.4 per cent in January, the third consecutive large monthly increase following several months of moderate increases or outright declines. Prices for crude farm products--which exhibited wide

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

	1977						Per cent change from:	
	QI	QII	QIII	QIV 2/	Dec. 1/	Jan. 2/	Month ago	Year ago
Single & Multifamily								
Permits	1.52	1.63	1.70	1.85	1.81	1.53	-16	+15
Starts	1.75	1.94	2.04	2.14	2.19	1.55	-29	+11
Under construction 3/	1.22	1.30	1.36	1.45	1.49	n.a.	n.a.	n.a.
Completions	1.59	1.57	1.76	1.67	1.60	n.a.	n.a.	n.a.
Single-family								
Permits	1.06	1.08	1.13	1.23	1.21	1.02	-16	+10
Starts	1.29	1.44	1.47	1.55	1.57	1.14	-27	+13
Under construction 3/	.71	.77	.80	.85	.87	n.a.	n.a.	n.a.
Completions	1.19	1.20	1.35	1.25	1.28	n.a.	n.a.	n.a.
Multifamily								
Permits	.46	.56	.58	.62	.60	.51	-15	+27
Starts	.46	.50	.57	.60	.63	.41	-35	- 7
Under construction 3/	.51	.53	.56	.61	.62	n.a.	n.a.	n.a.
Completions	.39	.37	.41	.42	.35	n.a.	n.a.	n.a.
Mobile home shipments	.27	.26	.27	.32	.32	n.a.	n.a.	n.a.

1/ Revised
2/ Preliminary
3/ Seasonally adjusted, end of period.

swings in 1977--have risen in three of the past four months, and as of January had risen to the same level as a year ago. The current upswing in farm prices has been concentrated mainly in the livestock sector; weather disruptions, a cyclical downtrend in beef production, and a surprisingly low level of pork production have all contributed to recent increases in these prices.

Consumer prices rose 0.4 per cent in December, similar to the average rate since June. As during most of the second half of 1977, a moderation in the rise of food prices was a major factor damping inflation although lower energy prices also helped moderate the inflation rate in December. Service prices rose 0.5 per cent in December, more than in November but slower than the average for the year. However, new car prices posted another large rise due to the continued phase-in of price increases for 1978 models. During 1977 as a whole the Consumer Price Index rose 6.8 per cent--up from 4.8 per cent in 1976, a year in which food prices were nearly stable. Excluding both food and energy items, however, the increases were in the 6 to 6-1/2 per cent range in both years.

An important determinant of this underlying inflation rate is the movement of labor costs. Unit labor costs in the nonfarm business sector increased at a 5.7 per cent annual rate during the four quarters of 1977--about the same as during 1976. Total compensation per hour

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

	Relative Importance Dec. 1977	1977 QI	1977 QII	1977 QIII	1977 QIV	1977 Dec.	1978 Jan.
Finished goods	41.2	10.0	6.4	2.9	7.0	5.9	7.8
Consumer foods	10.3	17.9	4.3	-2.9	8.1	5.6	13.1
Consumer nonfoods	18.7	9.0	7.8	4.2	4.2	4.1	6.1
Producer goods	12.2	5.0	6.8	6.0	10.5	7.6	5.7
Intermediate materials 2/	45.5	8.9	5.5	7.3	3.8	5.2	11.0
Crude materials 3/	4.6	25.6	-8.1	-5.6	18.8	21.6	16.7
All Commodities	100.0	11.1	4.0	1.9	6.9	4.9	10.3
Farm and food products	21.0	19.3	-3.1	-15.0	14.7	3.8	13.3
Industrial commodities	79.0	8.8	6.4	7.0	4.7	5.4	9.0
Industrial commodities ex. fuels and power	67.7	6.7	4.5	7.0	5.5	5.8	10.2

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

2/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.

3/ Excludes crude foodstuffs and feedstuffs.

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

	Relative Importance Dec. 76	1977 QI	QII	QIII	QIV	Dec.
All items	100.0	10.0	8.1	4.2	4.6	4.5
Food	23.7	14.6	12.7	1.7	3.7	2.4
Commodities (nonfood)	38.8	7.4	4.2	2.7	5.2	5.7
Services	37.5	9.8	9.4	7.4	4.9	5.4
Memoranda:						
All items less food and energy 2/ 3/	68.9	8.3	7.1	4.6	5.3	6.7
Petroleum products 2/	4.5	7.1	7.0	3.2	7.4	2.9
Gas and electricity	2.9	10.7	12.1	13.2	-0.7	-8.2

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.

continued at an historically high rate of about 8-1/2 per cent. At the same time, the rise in output per hour during 1977 was not much above its longer run trend of 2-1/2 per cent.

The rapid rise in labor costs last year was led by the unionized sector. Wage adjustments, excluding nonwage benefits, in major collective bargaining settlements during 1977 averaged just under 8 per cent for the first contract year--about the same as the 1976 increase. First year wage and benefit settlements in contracts covering 5,000 or more workers averaged 9-1/2 per cent. Included among these large settlements were those in steel, communications, containers, and metal mining, which followed a pattern of annual increases (assuming 6 per cent inflation in cost-of-living adjustments) of about 10 per cent annually over the life of the contract.

The rate of wage change for all production and nonsupervisory workers increased sharply in the first month of 1978, as the Federal minimum wage was raised from $2.30 to $2.65 per hour. The average hourly earnings index rose at a 14 per cent annual rate in January. Increases were largest in low-wage sectors--trade and services--where the effect of the minimum wage adjustments was likely more widespread.

PRODUCTIVITY AND COSTS
(Per cent change from preceding quarter at a compound annual rate; based on seasonally adjusted data)

	1976		1977				1976:QIV to 1977:QIV
	QIII	QIV	QI	QII	QIII	QIV	
Output per hour							
Total private business	2.8	-.1	6.1	-1.0	5.4	1.4	2.9
Nonfarm business	2.6	-1.9	5.1	.8	3.8	1.2	2.7
Manufacturing	3.9	-1.6	.1	3.8	5.2	-.5	2.1
Durable	4.0	-3.6	-1.5	6.1	3.5	-1.9	1.5
Nondurable	3.7	1.3	2.5	.5	7.7	1.6	3.0
Compensation per hour							
Total private business	8.7	8.5	11.8	6.5	8.5	7.0	8.4
Nonfarm business	8.5	7.3	11.7	7.7	7.5	7.5	8.6
Manufacturing	6.2	6.9	12.8	8.1	6.9	8.0	8.9
Durable	4.9	4.8	13.2	9.6	5.7	8.3	9.2
Nondurable	7.8	10.7	11.8	5.3	7.9	7.0	8.0
Unit labor costs							
Total private business	5.8	8.6	5.4	7.6	2.9	5.6	5.3
Nonfarm business	5.7	9.4	6.3	6.8	3.5	6.1	5.7
Manufacturing	2.2	8.7	12.7	4.1	1.6	8.6	6.6
Durable	.8	8.7	15.0	3.3	2.1	10.4	7.6
Nondurable	3.9	9.2	9.0	4.7	.2	5.4	4.8

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MAJOR COLLECTIVE BARGAINING SETTLEMENTS
(Per cent)

	Average adjustment		
	1975	1976	1977
Wage-rate settlements (1,000 or more workers)			
First year adjustment	10.2	8.4	7.9
Average over life of contract 1/	7.8	6.4	5.8
Wage and benefit settlements (5,000 or more workers)			
First-year adjustment	11.4	8.5	9.5
Average over life of contract 1/	8.1	6.6	6.2
Effective wage-rate adjustment (1,000 or more workers)	8.7	8.1	7.8
Current settlement	2.8	3.2	2.9
Prior settlement	3.7	3.2	3.2
Escalator provision	2.2	1.6	1.6

1/ Excluding cost-of-living adjustments.

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

	1977					1978
	QI	QII	QIII	QIV	Dec.[2/]	Jan.[2/]
Private nonfarm	8.1	6.7	7.7	8.1	4.5	13.8
Construction	5.7	4.5	4.0	5.5	1.6	14.2
Manufacturing	7.9	7.8	9.2	7.8	4.1	11.6
Trade	9.0	6.9	6.5	7.8	8.5	16.1
Transportation and public utilities	6.0	7.3	8.0	10.8	12.5	-1.4
Services	10.3	5.7	8.4	8.4	1.4	22.5

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.

III-T-1
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Latest data Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
		$ billions	Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	January	36.91	23.4	11.3	6.1
Nonborrowed reserves	January	36.43	26.6	21.2	4.9
Money supply					
M1	January	337.5	7.5	4.6	7.6
M2	January	812.1	8.3	6.3	8.8
M3	January	1383.3	8.0	7.7	10.8
Time and savings deposits (less CDs)	January	255.2	11.4	12.4	12.5
CDs	January	76.3	1.6	9.9	13.2
Thrift deposits (S&Ls + MSBs + Credit Unions)	January	571.2	7.6	9.8	13.6
Bank credit (end of month)	January	878.8	12.1	7.8	11.1

Indicator		Latest data Period	Latest data Per cent or index	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Market yields and stock prices						
Federal funds	wk. endg.	2/15/78	6.76	.18	.34	2.06
Treasury bill (90 day)	"	2/15/78	6.46	-.04	.36	1.84
Commercial paper (90-119 day)	"	2/15/78	6.76	-.04	.20	2.01
New utility issue Aaa	"	2/17/78	--	--	--	--
Municipal bonds (Bond Buyer)	1 day	2/16/78	5.61	-.13	.16	-.22
FNMA auction yield (FHA/VA)		2/ 6/78	9.27	.14	.41	.75
Dividend price ratio (common stocks)	wk endg.	2/15/78	5.42	.09	.47	1.45
NYSE index (12/31/65=50)	end of day	2/17/78	48.90	-.77	-3.50	-5.98

Indicator	Period	Net Change or Gross Offerings: Latest Data	Year ago	Year to Date 1978	Year to Date 1977
		$ billions			
Credit demands					
Business loans at commercial banks 1/	Jan.	2.2	1.1	2.2	1.1
Consumer instalment credit outstanding 1/	1/Dec.	2.7	2.4	30.7 3/	19.9 4/
Mortgage debt outstanding (major holders) 1/	Nov.	8.7	6.3	86.7 3/	57.1 4/
Corporate bonds (public offerings)	Jan.	1.2e	2.8	1.2e	2.8
Municipal long-term bonds (gross offerings)	Jan.	3.2e	3.6	3.2e	3.6
Federally sponsored agcy. (net borrowing)	Jan.	1.1	.4	1.1	.4
U.S. Treasury (net cash borrowing)	Feb.	4.6	9.1	10.7	12.3

1/ Seasonally adjusted.
2/ $ billions, not at annual rates.
e Estimated.
3/ 1977
4/ 1976

DOMESTIC FINANCIAL DEVELOPMENTS

The volume of funds raised in financial markets during January moderated somewhat from the fourth quarter's strong pace. Although borrowing by nonfinancial businesses at banks expanded at about last year's average rate, some of this gain was offset by a sharp decline in outstanding commercial paper. In the corporate bond market, the amount of public offerings by nonfinancial firms edged higher, but the overall volume of new issues declined due to an appreciably smaller amount of financial issues. In the household sector, mortgage borrowing apparently declined somewhat in January as conditions tightened, and consumer instalment borrowing probably expanded less rapidly given the reduced pace of auto sales. Public sector borrowing remained sizable but also moderated slightly, as a drop in advance refundings reduced tax-exempt bond offerings and Treasury credit demands were seasonally light.

M_1 growth was somewhat smaller in January than during December, despite a surge in demand deposits in the first week of the month. M_2 growth accelerated, however, as savings and time deposits advanced more rapidly in January than in the previous month. In contrast, deposit growth at thrift institutions continued to slow, so that January's increase in M_3 growth was smaller than for M_2.

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1977 1/		1978 2/				Change from:	
	High	Low	Jan. 6	Jan. FOMC 17	Feb. 14	Feb. 21	Jan. 6	Jan. FOMC
Short-term rates								
Federal funds 1/	6.65	4.47	6.69	6.78	6.76	6.80 3/	+.11	+.02
Treasury bills								
3-month	6.27	4.41	6.25	6.50	6.47	6.50	+.25	0
6-month	6.51	4.55	6.48	6.74	6.77	6.78	+.30	+.04
1-year	6.62	4.67	6.62	6.83	6.87	6.91	+.29	+.08
Commercial paper								
1-month	6.58	4.53	6.51	6.69	6.61	6.63	+.12	-.06
3-month	6.66	4.63	6.63	6.83	6.76	6.79	+.16	-.04
Large negotiable CDs 4/								
3-month	6.62	4.60	6.70	7.05	6.80	6.80	+.10	-.25
6-month	6.84	4.65	7.00	7.35	7.25	7.25	+.25	-.10
Bank prime rate	7.75	6.25	7.75	8.00	8.00	8.00	+.25	0
Intermediate- and long-term rates								
Corporate								
New AAA 5/	8.36	7.90	--	8.70	8.69	--	--	--
Recently offered 6/	8.48	7.95	8.48	8.65	8.64	8.67p	+.19	+.02
Municipal (Bond Buyer) 7/	5.93	5.45	5.64	5.75	5.59	5.61	-.03	-.14
U.S. Treasury (constant maturity)								
3-year	7.39	5.74	7.42	7.65	7.67	7.74	+.32	+.09
7-year	7.66	6.48	7.74	7.89	7.96	8.00	+.26	+.11
20-year	7.96	7.20	8.02	8.17	8.22	8.26	+.24	+.09

	Low 8/	High 8/	Jan. 6	FOMC Jan. 17	Feb. 14	Feb. 21	Jan. 6	Jan. FOMC
Stock prices								
Dow-Jones Industrial	807.74	985.74	793.49	779.02	765.16	749.31	-44.18	-29.71
N.Y.S.E. Composite	50.13	56.98	50.64	49.67	49.47	48.69	-1.95	-.98
AMEX	110.37	126.86	123.05	120.62	123.67	122.86	-.19	+2.24
Keefe Bank Stock 6/	530	633	558	558	559	569	+11	+11

1/ Daily average for statement week, except where noted.
2/ One-day quotes except as noted.
3/ Average for first 6 days of statement week ending February 22.
4/ Highest quoted new issues.
5/ 1978 figures are averages for preceding week.
6/ 1978 figures are one-day quotes for preceding Friday.
7/ 1978 figures are one-day quotes for preceding Thursday.
8/ Calendar week averages.

Federal funds have continued to trade narrowly around 6-3/4 per cent, and yields on both short- and long-term Treasury and corporate securities have changed little on balance over the intermeeting period. Municipal bond yields have declined, on the other hand, about 15 basis points, while mortgage yields have climbed 10 to 15 basis points.

Monetary Aggregates and Bank Credit

As in other recent first months of quarters, demand deposits grew rapidly in early January. This growth was not sustained, however, and M_1 expanded in January at a pace near December's 7-1/2 per cent annual rate. January's M_1 growth was far below the sharp advances that have occurred in other recent first months of quarters, although it was similar to the January 1977 experience.

Growth of savings and small denomination time deposits accelerated in January and M_2 expanded at an 8-1/4 per cent annual rate, substantially higher than December's 5-3/4 per cent growth rate. Most of the increase was concentrated in the early part of January, suggesting that existing seasonal adjustment factors may not be adequately capturing the effects of interest crediting.1/

1/ The sharp growth of savings and small denomination time deposits over the last several years, as well as the higher average rate paid on time deposits due to the lengthening of maturities, appears to have produced faster growth of interest payments than is accounted for by seasonal adjustment. Moreover, the effects of IRA and Keogh accounts on seasonal patterns for deposits have not yet been established.

MONETARY AGGREGATES
(Seasonally adjusted)[1/]

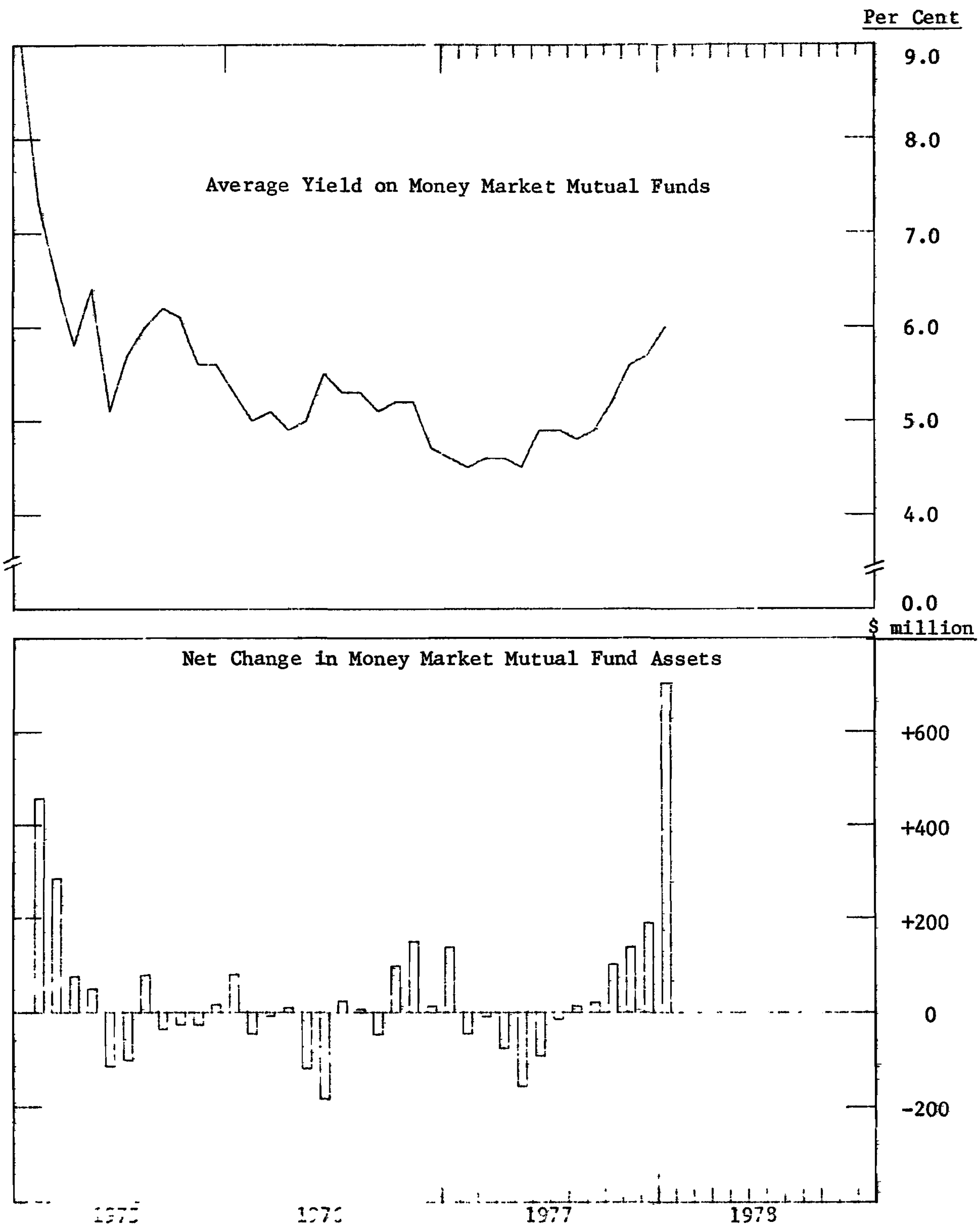
	1977 QIII	1977 QIV	1977 Dec.	1978 Jan. p	QIV'77 over QIV'76
	Net changes at annual rates, per cent				
Major monetary aggregates					
1. M_1 (currency plus demand deposits)	9.3	6.8	7.6	7.5	7.4
2. M_2 (M_1 plus time & savings deposits at CBs other than large CDs)	10.3	7.6	5.7	8.3	9.6
3. M_3 (M_2 plus all deposits at thrift institutions)	12.4	10.8	7.5	8.0	11.6
Bank time and savings deposits					
4. Total	10.0	12.9	12.2	11.2	11.4
5. Other than large negotiable CDs at weekly reporting banks	10.9	8.1	4.3	8.9	11.1
6. Savings deposits	6.6	4.4	0.0	6.0	10.5
7. Individuals[2/]	10.0	6.8	1.2	6.4	10.7
8. Other[3/]	-36.8	-24.3	-17.4	0.0	7.8
9. Time deposits	15.0	11.2	8.1	11.4	11.7
10. Small time[4/]	7.4	1.0	2.2	6.5	10.4
11. Large time[4/]	32.6	32.7	18.2	22.0	14.5
Deposits at nonbank thrift institutions[5/]					
12. Total	15.5	15.4	9.8	7.6	14.6
13. Savings & loan associations	16.8	16.1	10.6	7.7	15.9
14. Mutual savings banks	10.5	10.2	5.4	4.5	9.4
15. Credit unions	19.3	24.8	18.2	12.8	20.3
	Average monthly changes, $ billions				
Memoranda:					
16. Total US Govt deposits	0.2	0.2	4.7	-1.7	0.0[8/]
17. Total large time deposits[6/]	1.4	6.6	5.2	3.2	2.0[8/]
18. Nondeposit sources of funds[7/]	1.4	1.3	1.6	2.2	0.9[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/ Small time deposits are time deposits in denominations less than $100,000. Large time deposits are time deposits in denominations of $100,000 and above excluding negotiable CDs at weekly reporting banks.
5/ Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.
6/ All large time certificates, negotiable and nonnegotiable, at all commercial banks.
7/ Nondeposit borrowings of commercial banks from nonbank sources include Federal fund purchased and security RPs plus other liabilities for borrowed money, Euro-dollar borrowings and loans sold, less interbank loans.
8/ Average monthly change during the year.
p Preliminary.

Unlike the experience at commercial banks, the rate of growth of deposits at thrift institutions slowed for the fifth consecutive month. Combined S&L and MSB deposit growth slowed to about a 4-3/4 per cent annual rate in January (month-end basis), the lowest for any month since 1974. Passbook accounts remained the primary area of deposit weakness. During December (latest data available), S&L passbook balances declined at a 2-1/2 per cent annual rate, and New York State MSBs reported larger-than-seasonal passbook outflows. S&L time deposit growth also slowed in December, but thrift institutions rate ceilings on longer-term accounts still offered a slight advantage over comparable market yields, and overall growth rates of time deposits remained relatively high due to continued increases in 4- and 6-year accounts.

The increase in short-term market interest rates in early January has had a noticeable impact on both money market mutual funds and noncompetitive tenders at Treasury security auctions. Total assets of money market mutual funds climbed a record $681 million in January after advancing $431 million during the fourth quarter. January's gain pushed their total assets above the previous $3.9 billion peak in May 1975. Noncompetitive tenders at weekly Treasury bill auctions averaged almost $600 million between year-end and early February, about $80 million above the fourth quarter average.

MONEY MARKET MUTUAL FUNDS



Total loans and investments at commercial banks advanced at an annual rate of 12 per cent in January after showing essentially no growth during December. January's expansion was more in line with the 8-1/4 per cent rate in the fourth quarter, and suggests that the December slowdown probably did not signal significant moderation in demands for bank credit. Loan growth rebounded sharply as business and security loans accelerated, while real estate and consumer loans (which accounted for more than one-half of total loan growth in 1977) apparently continued near December's rapid pace. Banks financed a portion of their January growth by reducing their holdings of Treasury securities, extending the trend that began last July. Bank holdings of other securities (mainly tax-exempts) edged higher in January following a moderate decline in December, and are currently close to record levels.

Banks relied less on managed liabilities to finance asset expansion in January. Total large time deposits increased about $3.2 billion (including $1.4 billion in large denomination time deposits that are part of M_2) after advancing approximately $6.6 billion per month in the final quarter of 1977. Partly offsetting this slower expansion was an increase in funds from nondeposit sources. Banks raised $2.2 billion from nondeposit sources in January versus $1.3 billion per month in the previous quarter. Nonetheless, the overall moderation in the use of managed liabilities together with the pick-up in asset growth produced a decline in January in the ratio of managed liabilities to total assets at large banks; this ratio had risen steadily since early 1977.

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

	1977 QI	1977 QII	1977 QIII	1977 QIV	1977 Nov.	1977 Dec.	1978 Jan.	Dec. '77 over Dec. '76
Total loans & investments 2/	10.6	12.6	8.6	8.3	11.8	-0.7	12.1	10.4
Investments	10.9	9.4	-2.9	-5.8	-2.3	-11.3	-2.9	2.9
Treasury securities	26.7	5.4	-19.4	-26.4	-34.3	-18.9	-12.8	-3.9
Other securities	0.5	12.1	8.4	7.4	17.5	-6.8	3.0	7.3
Total loans 2/	10.5	14.0	13.7	14.3	17.8	3.7	18.3	13.8
Business loans	11.4	12.6	10.2	16.0	14.8	6.4	12.8	13.1
Security loans	--	18.1	4.3	19.3	110.2	-35.6	91.8	10.7
Real estate loans	15.0	17.6 r/	16.6 r/	15.0	15.5	14.6	13.7	17.0
Consumer loans	11.8	16.5	18.4	16.2	15.7	19.6	n.a.	16.7
Memoranda:								
1. Commercial paper issued by nonfinancial firms 3/	15.2	38.0	5.3	15.8	-7.8	39.2	-68.4	19.7
2. Business loans at banks net of bank holdings of bankers acceptances	16.4	13.3	8.9	14.9	14.6	6.6	19.2	14.0
3. Sum of memo items 1 and 2	16.3	15.0	8.6	14.9	13.0	8.9	12.8	14.4
4. Memo item 3 plus business loans from finance companies	17.1	16.6	9.0	19.4	13.5	13.8	n.a.	16.4

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.

2/ Loans include outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.

3/ Measured from end-of-month.

n.a.--not available

r/--revised

Business Credit

Commercial bank loans to nonfinancial businesses (net of holdings of bankers' acceptances at large banks) grew at a 19-1/4 per cent annual rate in January, according to preliminary estimates, following the slowdown in December (memo item 2 in table). Strength in business lending was most evident at small banks where the almost 30 per cent annual loan growth rate in January exceeded the pace set early last year; business loan growth at large banks--at a 10 per cent annual rate excluding bankers' acceptances--was below the fourth quarter pace of 14 per cent.1/

While commercial paper rates remained well below the prime lending rate of commercial banks in January, the strong loan growth at banks coincided with a sizable runoff in nonfinancial commercial paper outstanding. Public utilities accounted for much of the January decline and December's increase. Commercial paper dealers indicate that public utility year-end cash flows were inadequate due in part to large payments associated with coal stockpiling and delays in bill payments by customers.

1/ Business loans including bank holdings of bankers' acceptances increased at a 12-3/4 per cent annual rate in January, down from the previous quarter's 16 per cent rate. For the past three years holdings of bankers' acceptances at a few large banks have distorted the underlying trend of total bank lending to businesses around year-end. These large banks have accumulated acceptances late in each year in order to maintain higher loan loss reserves to reduce income taxes, and these accumulations and subsequent runoffs have not been completely captured by the seasonal adjustment procedure.

Nonfinancial commercial paper grew at about a 16 per cent annual rate in the final quarter of 1977, slightly faster than the rate of growth of business loans at commercial banks (net of large bank holdings of bankers' acceptances). For the year as a whole, nonfinancial commercial paper expanded nearly 20 per cent, while bank loans to businesses grew about 14 per cent. Total nonbank-related commercial paper expanded even more rapidly, however, due to the heavy issuance of commercial paper by finance companies. Business and consumer lending by finance companies--many of which are subsidiaries of large industrial concerns--has grown rapidly in recent quarters, and these companies have relied heavily on commercial paper and bond issues to finance their lending activities. A large portion of the recent growth in business credit at finance companies is associated with the automobile industry, principally for the financing of dealer inventories (floor planning) and sales contracts on commercial vehicles. Finance company lending for business, industrial and farm equipment also grew rapidly last year, reflecting the gains in nonfinancial concerns' equipment expenditures. Combining the rapid growth of business credit at finance companies with nonfinancial firms' bank loans (net of holdings of bankers' acceptances at large banks), and commercial paper produced a growth of 16.4 per cent in 1977 (memo item 4 in Bank Credit table).

CHANGE IN COMMERCIAL PAPER OUTSTANDING
(Seasonally adjusted, billions of dollars)

	1977					1978	
	QI	Q2	Q3	Q4	Dec.	Jan.	Outstanding 1/31/78
Total commercial paper	1.9	5.9	0.8	3.6	2.4	0.1	65.2
Bank-related 1/	0.1	0.6	0.4	0.2	0.6	--	9.1
Nonbank-related	1.7	5.3	0.4	3.4	1.8	0.1	56.0
Financial	1.3	4.0	0.2	2.7	1.2	1.0	41.2
Dealer	--	0.9	0.4	0.1	0.2	0.2	7.0
Direct	1.3	3.1	-0.2	2.6	1.0	0.8	34.2
Nonfinancial	0.4	1.3	0.2	0.6	0.5	-1.0	14.9

1/ Seasonally adjusted data unavailable.
Note: Components may not add to total due to rounding.

CHANGE IN BUSINESS CREDIT AT FINANCE COMPANIES
(Seasonally adjusted, billions of dollars)

	1977						
	Q1	Q2	Q3	Q4	Nov.	Dec.	Outstanding 12/31/77 1/
Total business credit	2.2	2.8	2.8	2.8	0.5	0.7	54.9
Retail automotive (com'l.)	0.8	0.9	0.8	0.6	0.1	0.3	11.9
Wholesale automotive	1.0	0.7	0.9	0.9	-0.1	0.3	12.0
Retail paper on bus., ind., and farm equipment	0.1	0.4	0.9	0.7	0.4	-0.1	14.3
Loans on com'l. accts. rec.	--	0.2	--	0.1	--	0.2	4.0
Factored com'l. accts. rec.	0.1	0.1	-0.2	0.1	--	-0.1	2.2
All other	0.2	0.6	0.4	0.4	0.1	0.2	10.5

1/ Latest data available.
Note: Components may not add to total due to rounding.

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

	1977				1978		
	H1	QIII	QIV e/	Dec. e/	Jan. e/	Feb. f/	Mar. f/
	Gross offerings						
Corporate securities--total	4,148	3,767	4,310	4,100	3,200	2,700	3,500
Publicly offered bonds	2,018	2,122	1,963	1,600	1,200	1,300	1,700
By quality 1/							
Aaa and Aa	1,152	1,075	1,017	725	625	--	--
Less than Aa 2/	866	1,047	946	875	575	--	--
By type of borrower							
Utility	753	588	660	375	565	--	--
Industrial 3/	678	930	495	350	485	--	--
Financial	587	604	808	875	150	--	--
Privately placed bonds	1,215	1,019	1,236	1,800	800	800	1,000
Stocks	915	626	1,111	700	600	600	800
Foreign securities--total	629	744	488	534	434	--	--
Publicly offered 4/	443	520	342	300	325	75	300
Privately placed	186	224	146	234	109	--	--
State and local govt. securities--total	6,450	5,436	4,719	4,600	4,900	4,300	4,700
Long-term	4,157	3,719	3,500	3,400	3,200	2,800	3,200
Short-term	2,293	1,717	1,219	1,200	1,700	1,500	1,500
	Net offerings						
U.S. Treasury	1,383	3,800	7,167	3,630	1,500	11,400	7,900
Sponsored Federal agencies	701	448	554	525	1,764	1,827	2,009

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.

Although January's volume of publicly offered bonds by utilities and industrial corporations was somewhat above December's unusually small total, a sharply reduced supply of new bond issues by financial concerns lowered the total slate of offerings to only $1.2 billion in January. On a seasonally adjusted basis the decline in publicly offered bond issues was even more pronounced since seasonal forces typically cause these offerings to increase in January relative to December. Privately placed bond offerings are estimated to have declined about seasonally in January, and the volume of new equity issues remained relatively small with public utilities continuing to account for most of the offerings. Stock prices generally have moved lower since the last FOMC meeting.

Municipal and Treasury Securities Markets

State and local governments offered $3.2 billion of tax-exempt bonds in January, a little below the total in December. Seasonal influences usually cause tax-exempt bond offerings to be higher in January than in December, but advance refundings declined sharply from a record $1.3 billion in December to only $350 million in January. The lower level of such issues resulted in part from the Treasury's recent ruling prohibiting the advance refunding of most industrial development bonds.

Tax-exempt bond yields have declined about 15 basis points since the last FOMC meeting, retracing their rise in early January. This decline reflects the continued strong demand for tax-exempt securities by property/casualty insurance companies (which are reported to have earned record profits in 1977) and by individuals, both directly and through tax-exempt unit trusts and mutual funds.

The Treasury has continued to borrow heavily in the securities markets since the January FOMC meeting, raising $8.0 billion in new money. Coupon offerings have included $7.4 billion of 2-year notes (2 auctions) to refund $4.3 billion of maturing issues, $7.0 billion in notes and bonds to refund $5.0 billion of debt, and $2.5 billion of 4-year notes (all for new money). Thus far this year, the Treasury has raised a total of $10.3 billion in new money (on an offerings basis), of which $8.4 billion has been marketable issues, nearly all in the coupon area.

Sponsored credit agencies borrowed about $1.8 billion in January compared with $525 million in December (on an offerings basis). Although their borrowing is ordinarily seasonally low in January, the FHLB System raised $850 million, up from $480 million in December. In addition, it sold $2.6 billion in its mid-February financing to refund $1.2 billion of maturing issues.

Mortgage and Consumer Finance

The volume of mortgage lending apparently declined somewhat in January from the high fourth quarter level. Commercial bank real estate loans increased about $2 billion (seasonally adjusted), slightly below the strong pace of the two previous months. Issues of GNMA-guaranteed securities fell off moderately, while sales to FNMA of both Government-underwritten and conventional home mortgages expanded. At S&Ls, seasonally adjusted outstanding mortgage commitments rose to a record $35.2 billion at year-end, but it is likely that their net mortgage acquisitions decline somewhat further in January (net acquisitions dropped to $5.1 billion in December) reflecting reductions in spot lending.

With the further slowing in deposit growth in January, S&Ls continued to rely on FHLB advances and other nondeposit sources of funds to support their mortgage lending. Contrary to the typical seasonal pattern, outstanding FHLB advances climbed $250 million during January.1/ On a seasonally adjusted basis, this represented a $1.0 billion increase over the month and boosted outstanding advances to $19.9 billion, the highest level since early 1975. Advances relative to total S&L assets remain well within their historical range, however..

1/ Outstanding FHLB advances (not seasonally adjusted) rose an additional $77 million in the first half of February. Seasonal forces typically produce paydowns in advances in both January and February.

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.	8.93	+3	+70	18
Dec.	9.00	+7	--	22
1978--Jan. 6	9.00	0	--	22
13	9.03	+3	+33	19
20	8.98	-5	+30	17
27	9.05	+7	--	27
Feb. 3	9.13	+8	+48	26
10	9.15	+2	+46	29
17	9.15	0	--	n.a.

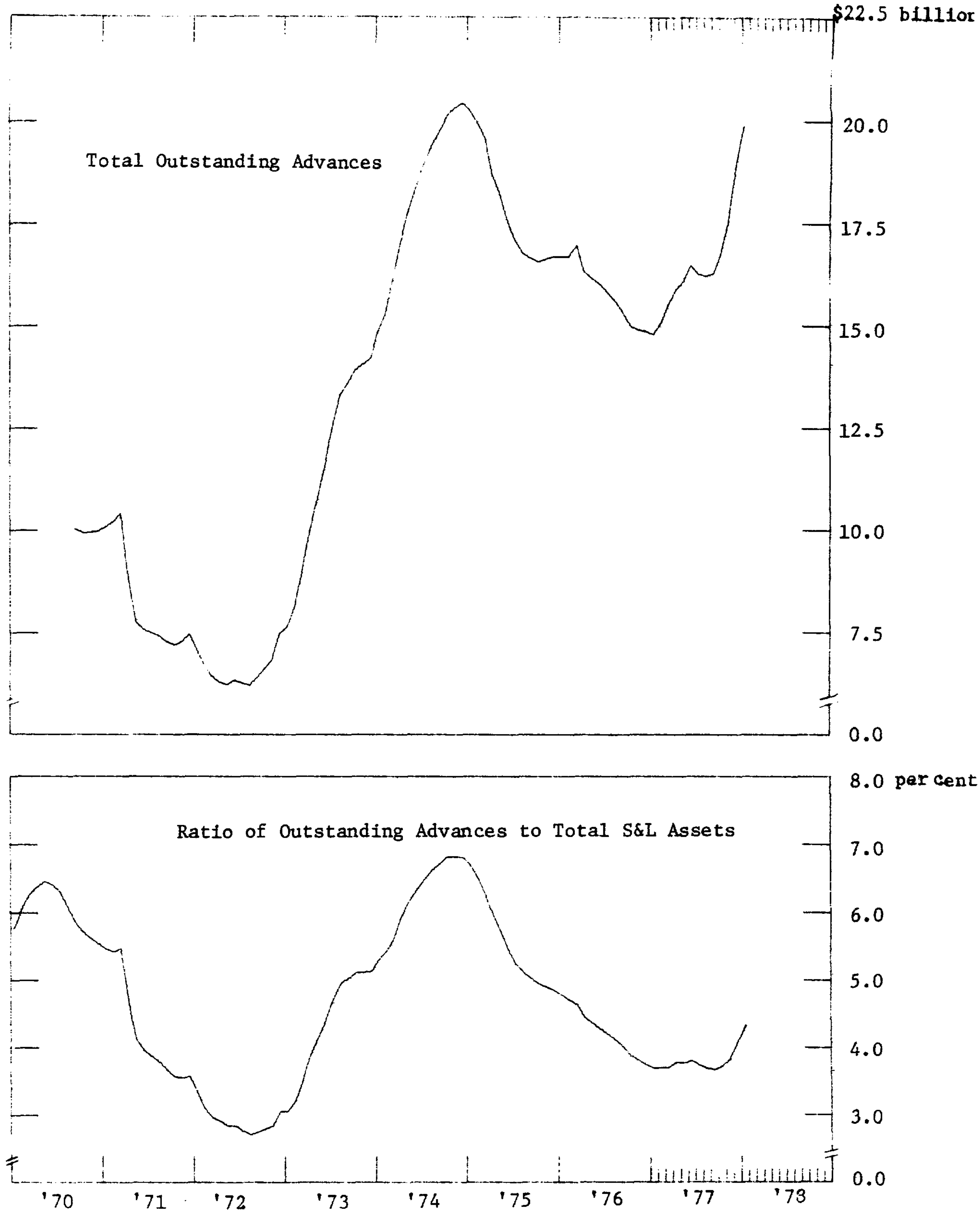
1/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.
2/ Per cent reporting supply of funds slightly or substantially below normal seasonal patterns.

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	9.21	855	570	8.98	8.43
Low	123	83	8.81	50	35	8.45	7.56
1978--Jan. 3							8.43
9	404	193	9.28	1011	605	9.13	8.54
16							8.60
23	546	257	9.37	769	366	9.21	8.59
30							8.62
Feb. 6	634	299	9.45	641	338	9.27	8.62
13							8.65
20							8.68

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.

FEDERAL HOME LOAN BANK ADVANCES
(Seasonally adjusted)



S&Ls apparently have become more conservative in granting longer-term mortgage commitments, particularly to purchase loans. Average rates on new commitments for 80 per cent, 30-year conventional home mortgages have backed up 15 basis points since year-end, and field reports and trade sources have indicated some tightening of nonrate terms.

In the secondary mortgage market, yields on GNMA-guaranteed securities have risen about 25 basis points since early January after increasing a similar amount in December. Average yields on accepted bids in the bi-weekly FNMA auctions of commitments to purchase home mortgages have increased at least 25 basis points since late December, and the heavy volume of bids at recent auctions reflects in part mortgage bankers' concerns about further increases in mortgage yields and about possible limitations on FNMA borrowing authority.

Consumer instalment credit growth slowed to a 15.6 per cent annual rate in December, reducing the fourth quarter growth rate to about 16 per cent. Extensions expanded at an 18 per cent annual rate in the final quarter, due to robust credit card and personal loan growth combined with strength in auto credit extensions. Demands for auto credit were boosted by higher auto prices and the sustained increase in the average loan amount relative to the value of the vehicles. While consumer credit expansion has been rapid in recent quarters, lender repayment experience generally has remained favorable. Non-business bankruptcy filings have continued to move irregularly lower, while

CONSUMER INSTALMENT CREDIT

	1975	1976	1977	1977 1/ QIII	QIV	Nov.	Dec.
Total							
Change in outstandings							
Billions of dollars	7.3	19.9	30.8	29.9	32.8	34.2	32.8
Per cent	4.7	12.3	16.9	15.1	16.0	16.3	15.6
Bank share (per cent)	39.6	54.0	50.7	51.2	52.5	48.5	58.9
Extensions							
Billions of dollars	163.9	192.4	226.0	228.0	238.3	236.1	241.3
Bank share (per cent)	47.2	48.9	49.1	49.1	49.9	49.2	50.9
Liquidations							
Billions of dollars	156.6	172.4	195.2	198.1	205.5	201.9	208.5
Ratio to disposable income	14.4	14.6	14.9	15.0	15.1	14.8	15.1
Automobile Credit							
Change in outstandings							
Billions of dollars	3.2	10.2	13.3	12.9	13.8	14.9	16.4
Per cent	6.1	18.3	20.2	17.8	18.2	19.1	21.0
Extensions							
Billions of dollars	51.5	62.8	73.1	72.9	76.6	76.0	80.9
New car loans over 36 months as per cent of total new car loans at:							
Commercial banks 2/	14.0	25.4	40.7	42.8	44.8	44.8	n.a.
Finance companies	23.5	33.9	47.5p	51.1	52.3p	52.7	n.a.
New car finance rate (APR)							
Commercial banks (36 mo. loans)	11.36	11.08	10.89	10.85	10.87	10.86	10.91
Finance companies	13.11	13.17	13.14p	13.12	13.16p	13.17	n.a.

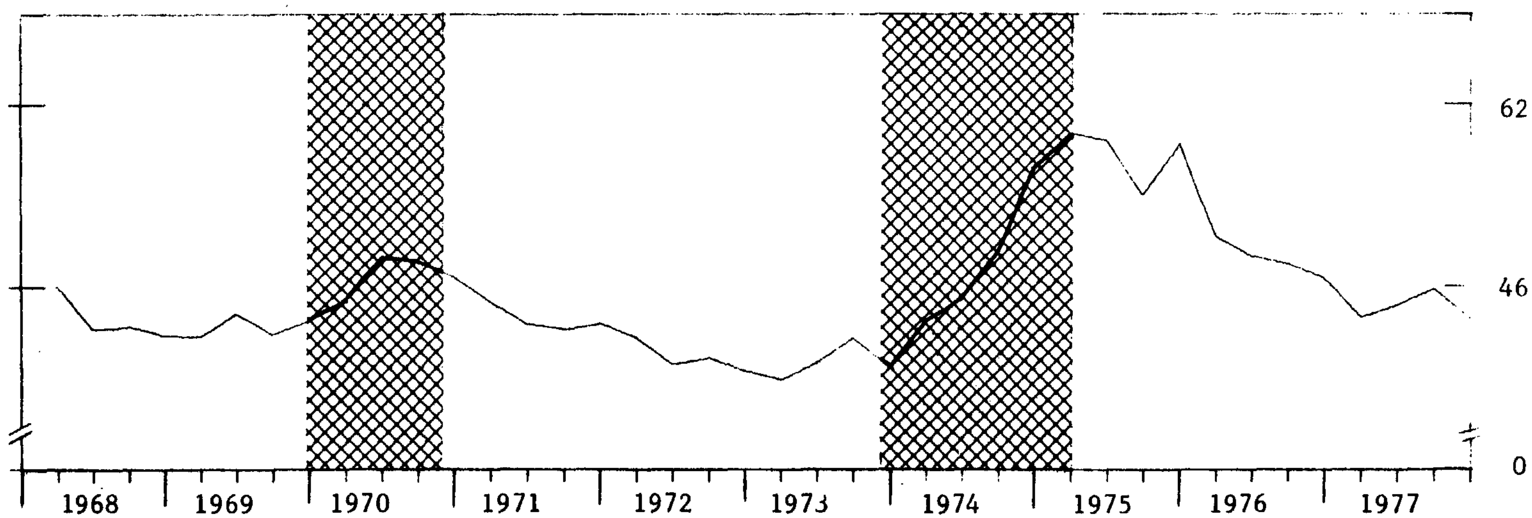
1/ Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.
2/ Series was begun in May 1974, with data reported for the mid-month of each quarter.

n.a.--not available.

p = Preliminary.

finance company auto repossessions and refinancings of auto contracts remain moderate. Delinquency rates for both bank instalment loans and finance company auto loans also are unchanged or only slightly higher. Meanwhile, new auto credit downpayments have declined and maturities have lengthened further.

PERSONAL BANKRUPTCIES
(Thousands of cases, quarterly)



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

IV - T - 1

		1976	1977				
		YEAR	YEAR	Q3	Q4	Nov.	Dec.
1.	Merchandise exports	114,694	120,402	30,867	29,489	9,268	10,878
2.	Merchandise imports	124,014	151,803	38,429	38,365	12,137	13,341
3.	Trade Balance	-9,320	-31,401	-7,562	-8,876	-2,869	-2,463
4.	Bank-reported private capital flows	-10,302	-1,856	2,708	-4,731	-430	-552
5.	Claims on foreigners (increase -)	-21,270	-8,556	159	-7,838	195	-4,921
6.	Long-term	-2,362	-742	-466	8	379	-303
7.	Short-term	-18,908	-7,814	625	-7,846	-184	-4,618
8.	(of which on commercial banks in offshore centers 2/)	(12,863)	(-4,994)	(1,898)	(-5,331)	(-342)	(-3,435)
9.	Liabilities to foreigners (increase +)	10,968	6,700	2,549	3,107	-625	4,369
10.	Long-term	208	376	210	19	-55	35
11.	Short-term	10,760	6,324	2,339	3,088	-570	4,334
12.	to commercial banks abroad	8,030	5,182	3,684	2,121	-611	4,375
13.	(of which to commercial banks in offshore centers 3/)	(4,115)	(4,677)	(3,096)	(1,625)	(129)	(3,824)
14.	to other private foreigners	2,719	1,698	182	454	144	257
15.	to int'l and regional organizations	11	-556	-1,527	513	-103	-298
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,783	568	1,248	-293	461	166
17.	Other private securities transactions (net)	-7,480	-2,466	-1,676	71	-4	-84
18.	Foreign net purchases (+) of U.S. corp. securities	1,250	2,932	514	803	282	187
19.	(of which stocks)	(853)	(1,383)	(138)	(579)	(251)	(194)
20	U.S. net purchases (-) of foreign securities	-8,730	-5,398	-2,190	-732	-286	-271
	(new foreign issues of bonds and notes)	(-10,122)	(-7,054)	(-2,344)	(-1,366)	(-318)	(-539)
2 .	Change in foreign official res. assets in the U.S.	13,091	35,217	7,889	14,975	6,200	2,817
23.	OPEC countries (increase +)	6,820	5,953	1,412	739	1,074	-722
24.	(of which U.S. corporate stocks)	(1,828)	(1,345)	(363)	(311)	(131)	(92)
25.	Other countries (increase +)	6,271	29,264	6,477	14,236	5,126	3,539
26.	Change in U.S. reserve assets (increase -)	-2,530	-232	151	-2	-86	40
27.	Other transactions and statistical discrepancy (net payments (-)	13,758	170	-2,758	-1,144	-3,272	76
28.	Other current account items	8,355		3,224			
29.	Military transactions, net 4/	-34		477			
30.	Receipt of income on U.S. assets abroad	21,369		6,430			
31.	Payment of income on foreign assets in U.S.	-11,561		-3,215			
32.	Other services, net	2,743		767			
33.	Remittances and pensions	-1,878		-567			
34.	U.S. Gov't grants 4/	-2,284		-668			
35.	Other capital account items	-4,761		-878			
36.	U.S. Gov't capital, net claims 4/ (increase -)	261		-873			
37.	U.S. direct investment abroad (increase -)	-4,596		-1,100			
38.	Foreign direct investment in U.S. (increase +)	2,176		511			
39.	Nonbank-reported capital, net claims (increase -)	-2,602		584			
40.	Statistical discrepancy	10,164		-5,104			
MEMO:							
41.	Current account balance 4/	-965	n.a.	-4,285	n.a.	n.a.	n.a.
42.	Official settlements balance	-10,561	-34,985	-8,040	-14,973	-6,114	-2,857
43.	O/S bal. excluding OPEC	-3,741	-29,032	-6,628	-14,234	-5,040	-3,579

NOTES:
1/ Only trade and services, U.S. Govt. grants and U.S. Govt. capital are seasonally adjusted.
2/ hore centers are United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda).
3 sents mainly liabilities of U.S. Banks to their foreign branches in offshore centers which are the United dom, 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.

Foreign exchange markets. Over the six weeks since the last green book, the decline of the dollar on foreign exchange markets which began last fall has resumed. Selling pressure on the dollar was not uniform throughout the period. In the four weeks from mid-January to mid-February, exchange markets were generally quiet and exchange rates relatively stable. However, after mid-February heavy selling pressure on the dollar re-emerged. In the six week period since the last green book, the dollar has declined by 1-1/5 per cent on a weighted-average basis, bringing its total depreciation since the end of September to about 7 per cent. The weighted-average dollar is currently about 1/2 per cent above its low on January 4, just before the Treasury announcement of its swap line with the Bundesbank.

The main factor in the dollar's most recent decline on exchange markets remains concern over the continuing large U.S. current-account deficit, compounded by uncertainty over U.S. economic policy, particularly in regard to energy and dollar exchange rates.

The dollar's recent depreciation has not been uniform against all currencies, but rather has been mainly against the currencies of Japan, Germany and Switzerland, countries with large current-account surpluses and low inflation rates.

Trading in the currencies of France, Canada and Italy has been dominated by political developments recently. The French franc depreciated by nearly 4 per cent against the dollar in the first week of February, when speculative sales of the French currency were triggered by opinion polls showing the parties of the left in a leading position approaching next month's French elections.

. Political uncertainty generated by the Quebec situation continued to depress the Canadian currency, and the Canadian dollar declined by over 1 per cent against the U.S. dollar over the past six weeks,

. The Italian lira, which had come under selling pressure in January because of the fall of the minority Christian Democrat government, recovered later in the period when it appeared that former Premier Andreotti would be able to form a new government.

The British pound has shown little net change against the dollar since the last green book, rising early in the period then easing back in reaction to an unexpected deficit in the U.K. current account in January and an increase in the money supply growth rate in the U.K.

The recent rise of the German mark created renewed pressure within the European joint float, and on February 10 Norway announced an 8 per cent devaluation of its currency relative to the other snake currencies. Finland, not a member of the snake, followed the Norwegian move with an 8 per cent devaluation of the Finnish markka against a basket of currencies.

. The System sold $360 million equivalent of marks and $70 million equivalent of Swiss francs in the New York market over the past six weeks. This intervention raised outstanding System swap drawings on the Bundesbank to just over $1,500 million. The U.S. Treasury also sold $360 million equivalent of marks during the period, using the New York Federal Reserve Bank as an agent. Total Treasury swap drawings on the Bundesbank have increased to $670 million equivalent.

The gold price rose by nearly $10 over the past six weeks, to above $180.

Borrowing in international capital markets. Total gross borrowing in international capital markets in the fourth quarter of 1977 was at the same level as in the third quarter, according to World Bank compilations. For the year 1977 the provisional World Bank total for borrowing in the Euro-credit, Euro-bond, and foreign bond markets amounts to $62.5 billion, nearly unchanged from the 1976 total; Euro-bond issues increased considerably last year, while Euro-credits rose little and foreign bond issues declined. These figures do not reflect the very strong upsurge in the closing months of 1977 in the amount of Euro-credits under negotiation and not completed by year-end; the amount of Euro-credits "in the pipeline" at the end of 1977 appears to have been about $11 billion, far more than normal.

Completed medium-term Euro-credits in the fourth quarter of 1977 exceeded the third-quarter level by about $700 million. Loan spreads narrowed further to about 5/8 to 3/4 per cent over LIBOR for prime borrowers. Major credits completed in the fourth quarter included loans to the Mexican Government ($1.2 billion), Iran ($800 million for several borrowers), the International Investment Bank in Moscow ($600 million), Spain ($500 million for various borrowers) and the Government of New Zealand ($500 million). For 1977 as a whole, completed Euro-credits estimated at $28.5 billion provisionally were little changed from the 1976 total. Developed nations arranged more loans than in 1976 as step-ups in French and Swedish borrowings (concentrated in the first half) exceeded decreases in amounts negotiated by the United Kingdom and Spain. Oil-exporting countries

Borrowing in International Capital Markets
(in billions of dollars)

	1975	1976		1977		
	Year	Year	2nd H	Year	Q-3	Q-4
I. Medium-term Euro-credits: 1/ total	20.6	27.8	15.7	28.5	6.5	7.2
Developed countries	6.6	10.3	6.5	11.2	1.7	2.5
Denmark	.3	.8	.4	.9	-	.2
France	.5	.6	.1	1.7	.2	-
Spain	1.0	1.8	1.6	1.5	.4	.5
Sweden	.3	.4	.2	1.3	.1	.1
United Kingdom	.6	2.1	1.1	1.7	-	-
Other	3.9	4.6	3.1	4.2	1.0	1.7
Oil-exporting countries	3.1	3.4	1.6	4.7	1.6	.9
Algeria	.5	.6	.2	.4	.3	.1
Indonesia	1.6	.5	.2	.1	.1	-
Iran	.2	.9	.2	1.1	-	.8
Venezuela	.2	1.1	1.0	1.6	.4	-
United Arab Emirates	*/	.2	*/	.8	.4	*/
Other	.6	.1	*/	.7	.4	*/
Other developing countries	7.8	10.7	6.3	10.1	2.7	2.8
Argentina	*/	.9	.9	.3	*/	-
Brazil	2.1	3.3	2.2	2.0	.9	.5
Mexico	2.2	2.0	1.2	2.6	.8	1.2
Philippines	.2	.9	.2	.5	.1	.1
Other	3.3	3.6	1.8	4.7	.9	1.0
Centrally-planned economics	2.7	2.5	1.2	2.2	.4	.9
Int'l. org's. and others	.4	.9	.1	.2	.1	.1
II. Euro-bonds: total	10.5	15.1	6.6	19.0	4.7	4.0
Canada	1.1	3.0	1.0	1.9	.4	.3
Other developed countries	7.4	8.0	4.1	11.2	3.0	2.1
Developing countries	.3	1.0	.6	2.3	.6	.6
Int'l. org's. & other	1.7	3.1	.9	3.6	.7	1.0
III. Foreign bonds: total	12.3	19.1	9.1	15.0	4.0	4.0
By borrower: Canada	3.4	6.4	2.9	3.3	1.0	.7
IBRD	2.4	3.2	1.6	3.3	1.3	.6
Other	6.5	9.5	4.6	8.4	1.7	2.7
By market: U.S. 2/	6.8	11.0	5.1	7.4	2.1	1.6
Switzerland	3.5	5.3	2.6	4.6	1.1	1.4
Other	2.0	2.8	1.4	3.0	.8	1.0
IV. Total Borrowing	43.3	62.0	31.4	62.5	15.2	15.2

1/ Completed publieized credits of over one-year maturity.
2/ Figures may differ from statistics of U.S. international transactions because latter are on a drawdowns basis.
*/ Less than $50 million.

Source: World Bank

also took more from the Euro-credit market last year. Iran, the United Arab Emirates, and Venezuela borrowed more last year than in 1976 despite continued large surpluses in the first two countries and a considerable (although diminishing) surplus in the latter, while Indonesia borrowed much less as its payments position improved.

The non-oil developing countries completed a somewhat smaller volume of Euro-credits in 1977, mainly because of reduced borrowing by Argentina, Brazil and the Philippines, although Mexico borrowed more in this market (despite a reduced current account deficit and lower total long-term net capital inflows) as did other non-oil LDCs as a group. As in 1976, borrowing by the LDC's in 1977 contributed to a rise in those countries' reserves. New credits negotiated by the centrally-planned economies also declined last year as Eastern European countries generally reduced their trade deficits with the West.

The credits still under negotiation early in 1978 will mainly swell the near-term completion figures for the developed and oil-exporting countries. These include credits to Hydro-Quebec ($1.25 billion), Venezuela ($1.2 billion), Nigeria ($1 billion), Indonesia ($575 million to refinance earlier borrowings at lower spreads), and large amounts for France, Italy, Spain, Brazil and Korea. The Hydro-Quebec loan accentuates the shift of Quebec borrowing from the U.S. bond market to the Euro-credit market.

New Euro-bond issues dropped 15 per cent in the fourth quarter of 1977 as the decline in the exchange rate of the dollar sapped investor interest in dollar bonds. Volume declined further in January 1978. However, D-mark issues picked up in the fourth quarter and more so in January, when they probably accounted for one-half of total issues compared with one-fourth in 1977 as a whole. For the year 1977 Euro-bond issues increased 25 per cent over 1976, while their average maturity widened from 7.9 years in the fourth quarter of 1976 to 8.8 years in the fourth quarter in 1977. Canadian issues decreased by one-third last year but remained the largest by nationality of borrower.

Foreign bond issues were unchanged in volume in the fourth quarter. They show a decline of over 20 per cent for 1977, mostly concentrated in Canadian issues

U.S. International Transactions. In the fourth quarter, the U.S. merchandise trade balance, net of the estimated effects of the recent Atlantic and Gulf Coast longshoremen's strike, showed a deficit which was only slightly larger than the deficits recorded in each of

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

		Year 1976	Year 1977	1977 Q-3	1977 Q-4	1977 Nov.	1977 Dec.
1.	Trade balance 1/	-9.3	-31.4	-7.6	-8.9	-2.9	-2.5
2.	(annual rate)	--	--	(-30.2)	(-35.5)	(-34.4)	(-29.6)
3.	(", net of dock strike)	--	--	(-31.6)e	(-33.0)e	n.a.	n.a.
4.	Private capital trans. adj. 2/	-15.0	-3.3	-.3	-2.5	*	-.5
5.	Private capital as rept. net	-15.0	-3.3	2.2	-5.0	*	-.5
6.	Reporting bias 3/	--	--	-2.5	2.5	--	--
7.	OPEC net investments in U.S.	6.8	6.0	1.4	.7	1.1	-.7
8.	Other foreign official assets	6.3	29.3	6.5	14.2	5.1	3.5
9.	U.S. reserve assets	-2.5	-.2	.2	*	-.1	*
	All other 4/						
10.	Not seasonally adjusted	13.7	.1	1.3	-4.1	-3.1	.1
11.	Seasonally component 5/	--	--	-1.5	.6	-.1	.1
	Memorandum:						
12.	GNP net exports 6/	7.7	-9.0e	-1.7	-3.1e	n.a.	n.a.
13.	Current account balance	-1.4	-19.1e	-4.3	-5.9e	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 page 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.

the first three quarters of 1977. However, U.S. international transactions reported by banks and securities dealers showed a marked acceleration of dollar purchases by foreign central banks; these were largely designed to limit the appreciation of their currencies and in some cases to provide year-end liquidity to commercial banks. Interacting with these official actions, there was a sizable shift to a net outflow in other recorded private capital transactions and in the balancing item. (lines 4 and 10 above).

Foreign official assets in the United States (excluding OPEC holdings) increased by $3.5 billion in December. This brought the total net inflow in the fourth quarter to $14.2 billion, an amount just under half the $29.3 billion increase for the year as a whole. Of the December total, a $2.2 billion increase in Swiss official holdings in the United States reflected in part the accommodation by the Swiss National Bank, through dollar swaps, of end-of-year liquidity requirements of Swiss commercial banks. Both the Swiss and German central banks intervened in order to limit further appreciations of their currencies. Purchases by the Bundesbank totaled $1.5 billion. Because continuing strength of the German mark and Swiss franc exerted pressures against other European currencies, the official dollar reserves of other European countries declined by $1.4 billion in December, with the snake participants and Sweden accounting for $800 million of the decline.

In January, G-10 central bank dollar purchases and U.S. initiated swap drawings resulted in a further $3.6 billion increase in foreign official holdings of Treasury securities. Also in January, Germany and the United Kingdom reduced the average maturity of their Treasury holdings, which among other things was consistent with an expectation of a near term further rise in dollar interest rates.

OPEC banking assets and security holdings in the United States decreased by over $700 million in December reducing the fourth quarter rise to just over $700 million. In 1977, OPEC countries increased their official U.S. holdings by $6 billion, a rate about $1 billion less than that of 1976. This reduction reflected a decline in the rate of investment to $6.5 billion, from $7.9 billion in 1976, by the low-absorbing OPEC countries (Saudi Arabia, Kuwait and the UAE). Other OPEC countries reduced their U.S. assets by $700 million compared to a reduction of $1.1 billion in 1976.

Bank-reported private capital transactions resulted in a net outflow of $0.6 billion in December, bringing the total net outflow for the fourth quarter, adjusted for reporting-bias, to $2.3 billion. The net outflow for the year was $1.9 billion, considerably below the $10 billion net outflow in 1976.

U.S. Bank-reported Private Capital Flows 1/
(billions of dollars; increases in assets, -)

	1976 Year	1977 Year	1977 Q1-Q3	1977 Q4	1977 Dec.
Change in net foreign positions of U.S. banking offices, net	-10.3	-1.9	0.4	-2.3	-0.6
Net change through interbank transactions (including own foreign affiliates)	-8.1	-0.2	1.6	-1.8	1.3
Loans to non-bank foreigners	-3.3	-0.8	*	-0.8	-1.1
Acceptances and collections 2/	0.1	-2.3	-1.7	-0.7	-0.8
Liabilities to private nonbank foreigners	1.3	1.5	0.4	1.0	*

1/ Adjusted for reporting bias. Part of line 4 in the table on page IV- 8.
2/ Includes minor foreign currency claims.
*/ Less than $50 million.
Details may not add to totals because of rounding.

In December, U.S. banks increased their lending to nonbank foreigners by $1.5 billion, partially offsetting the $2.6 billion inflow from foreign commercial banks (mainly their own foreign branches). This switch to direct lending from head offices, rather than via foreign branches, was motivated by tax benefits to be gained by end-of-year placement of loans on head office books. In particular, U.S. banks through aggressive pricing sought to generate additional acceptance financing. In addition, the anticipation of a further appreciation of the yen against the dollar led to an increase in the demand for dollar financing -- particularly by Japanese and Korean trading firms. As a result of these factors, U.S. banks increased the amount of acceptance claims on foreigners by $700 million in December.

U.S. offices of foreign banks, which did not face the same tax considerations as U.S. banks, reported a net outflow of $1.7 billion in December. Some of these dollar borrowings may have been switched into local currencies, thereby adding to the supply of dollars that was absorbed by official activity.

<u>Foreign private net purchases of U.S. Treasury securities</u> of $600 million in 1977 were $2.2 billion less than the 1976 rate. This reduction largely reflected the World Bank's investment initiative to place a portion of its dollar holdings with the foreign offices of U.S. banks rather than limit its dollar investments to direct U.S. holdings.

<u>Foreign net purchases of U.S. corporate securities</u>. In 1977 foreign investors purchased $2.9 billion in U.S. corporate securities, as compared to $1.2 billion in 1976. Foreign investors purchased $1.2 billion more in U.S. corporate bonds (including agency securities) in 1977 than in 1976 and $530 million more in U.S. stocks.

<u>New foreign bond issues in U.S. markets</u> of slightly above $7 billion in 1977 were $3 billion below the rate recorded for 1976, largely reflecting a reduction of Canadian issues in the United States. The calendar for the first two months of 1978 shows about $800 million of new foreign bonds (including $600 million of Canadian issues), a rate about equal to that of 1977's relatively depressed first quarter.

The U.S. merchandise trade deficit in the fourth quarter was $35.5 billion at an annual rate, international accounts basis. The staff estimates that in the fourth quarter, the longshoremen's strike, which halted containerized shipping through Atlantic and Gulf Coast ports between October 1 and November 29, reduced exports more than it reduced recorded imports, with a net negative effect of about $2-1/2 billion at an annual rate. On an adjusted basis, the underlying fourth quarter trade deficit was slightly larger than the deficits of the first three quarters. For the year 1977, the deficit was $31.4 billion compared with a deficit of $9.3 billion in 1976.

U.S. Merchandise Trade 1/
(billions of dollars, seasonally adjusted annual rates)

	Year		1977					
	1976	1977	1Q	2Q	3Q	4Q	Nov.	Dec.
EXPORTS	114.7	120.4	117.8	122.4	123.5	118.0	111.2	130.5
Agric.	23.4	24.3	24.4	26.7	24.0	22.2	21.0	25.1
Nonagric.	91.3	96.1	93.4	95.6	99.4	95.8	90.2	105.4
IMPORTS	124.0	151.8	146.4	153.6	153.7	153.5	145.6	160.1
Petroleum	34.6	44.8	44.1	47.7	45.8	41.5	45.0	36.4
Nonpetrol.	89.4	107.0	102.4	105.9	107.9	112.0	100.6	123.6
BALANCE	-9.3	-31.4	-28.6	-31.2	-30.2	-35.5	-34.4	-29.6

1/ International accounts basis.
NOTE: Details may not add to totals because of rounding.

Nonagricultural exports . Excluding the effects of the longshoremen's strike, fourth quarter nonagricultural exports are estimated to have increased slightly from the third quarter level to a little over $99 billion at an annual rate, but all of the increase was in prices; the volume was estimated to have declined slightly. The drop in volume was largely concentrated to non-agricultural industrial supplies (particularly chemicals and paper). Coal exports, largely metalurgical coal, were slightly below second and third quarter levels; the strike which began December 6 only began to affect exports late in the month.

Agricultural exports also were reduced by the dock strike in the fourth quarter. Net of the effect of the strike, it is estimated that agricultural exports were about the same value in the fourth quarter as in the third (about $23-1/2 billion at an annual rate). An overall 3 per cent decline in prices in the fourth quarter (primarily soybeans and cotton) was offset by an increase in volume (also primarily soybeans and cotton).

Nonoil imports increased sharply in the fourth quarter despite the damping effects of the dock strike. Declines in industrial supplies (chemicals, metals and textile supplies) were more than offset by increases in other commodities (particularly sugar, trucks from Canada, and new cars from Japan and Germany.) The volume of sugar imported in December doubled as importers accelerated shipments to avoid increases in duty rates that became effective January 1. The value of foreign car imports increased by about 13 per cent in the fourth quarter; about 5 per cent of that increase was in price. Foreign car dealers began to rebuild their inventories from the very low levels of late fall, and sales were strong.

Petroleum was imported at a rate of 8.5 million barrels per day (mbd) in the fourth quarter as stocks began to be run down. The price of imported oil averaged $13.41 per barrel in the fourth quarter, up about 10 cents from the third quarter.

<u>Foreign economic developments and prospects</u>. Real GNP in the six major foreign countries in 1977 is estimated to have been only 3-1/2 per cent higher on average than in 1976, while real GNP in the smaller foreign industrial countries is thought to have grown even more slowly. As growth lagged, unemployment abroad continued to rise last year. What little strength there was came primarily in the first quarter, with both GNP and industrial production generally flat or declining in the second and third quarters. However, slow output growth probably resumed during the fourth quarter. In Japan, industrial production rose 2 per cent in 1977Q4 after having remained unchanged on balance in the two previous quarters. Industrial production also rose in Germany, with a 1 per cent increase in the fourth quarter. New orders in Germany have also been rising and the unemployment rate has declined slightly.

Significant reductions in inflation rates abroad were experienced in 1977 -- reflecting not only weak pressure of demand but also a substantial easing in commodity prices after the runup in the early part of last year. Wholesale price rises, which are quite sensitive to commodity prices, decelerated especially sharply during the year, but rates of increase of consumer prices also declined in many countries as the year progressed.

The pattern of weaker demand abroad than in the United States affected the distribution of current-account balances. The large increase in the U.S. deficit in 1977 was accompanied by the elimination of the Italian and British deficits and a reduction in the French deficit -- outcomes which had been major policy objectives in those three countries -- and in a sharp increase in the Japanese surplus. The German and Swiss surpluses persisted, as did sizable deficits in Spain, Portugal, Turkey, most of the Scandinavian countries, and some non-oil developing countries.

The staff expects the growth of activity abroad to pick up moderately this year. Real GNP in the six major countries is forecast to rise about 4 per cent (about 4-1/2 per cent from 1977Q4 to 1978Q4). The staff forecast is based on two considerations. First, the decline in inflation rates -- if it persists -- may lead to lower personal saving rates (by restoring confidence) and may therefore boost private consumption; consumption will also be influenced by expected gains in personal disposable incomes. Second, although governments are still acting cautiously, policy is being directed increasingly toward boosting aggregate demand and employment, given the persistence of high unemployment and the easing of the inflation constraint. Actions to stimulate the economy recently have been announced in Japan, following modest expansionary actions in several countries last fall. Moreover, some easing of policy is likely in Britain and France in the next several months and, perhaps, in Germany somewhat later. High inflation and external payments problems still constrain policy in many countries, however, as do political weakness and uncertainties.

Real GNP and Industrial Production in Major Industrial Countries
(percentage change from previous period; seasonally adjusted)

		1975	1976	1977	1977 Q1	Q2	Q3	Q4	1977 Oct.	Nov.	Dec.
Canada:	GNP	1.1	4.9	n.a.	1.9	-0.3	1.3	n.a.		*	
	IP	-4.8	5.0	3.4	2.1	0.3	-0.1	0.7	0.4	0.5	0.2
France:	GDP	-1.0	5.2	n.a.	2.1	-1.3	0.2	n.a.		*	
	IP	-9.2	10.1	1.7	2.4	-2.1	-1.3	-0.3	-2.4	4.1	-3.1
Germany:	GNP	-2.5	5.7	2.5	0.9	-0.2	-0.1	n.a.		*	
	IP	-5.6	7.8	3.0	1.4	-1.1	0.3	1.1	-0.9	0.9	1.7
Italy:	GDP	-3.7	5.7	n.a.	1.8	-2.6	-0.6	n.a.		*	
	IP	-9.2	11.8	n.a.	2.2	-7.2	-3.7	n.a.	-3.5	1.5	n.a.
Japan:	GNP	2.4	6.2	n.a.	2.1	1.7	0.5	n.a.		*	
	IP	-11.1	13.7	4.5	0.6	0.9	-1.0	2.1	-0.3	2.1	0.9
United Kingdom:	GDP	-1.6	2.1	n.a.	-0.9	0.1	-0.1	n.a.		*	
	IP	-4.9	0.5	1.5	0.3	-1.4	0.7	-1.0	-1.5	0.1	0.8
United States:	GNP	-1.3	6.0	5.0	1.8	1.5	1.3	1.0		*	
	IP	-8.9	10.1	5.6	1.5	2.5	1.1	0.6	0.3	0.3	0.2

e Official estimate.
* GNP data are not published on monthly basis.

Consumer and Wholesale Prices in Major Industrial Countries
(percentage change, from previous period or as indicated)

		1975	1976	1977	1977 Q1	1977 Q2	1977 Q3	1977 Q4	Latest 3 Mos. from: Prev. 3 Mos. (at Ann. Rate)	Latest 3 Mos. from: Year Ago	Latest Month
Canada:	CPI	10.8	7.5	8.0	2.1	2.4	2.2	2.2	8.4	9.2	Jan.
	WPI	6.5	4.3	n.a.	5.0	2.9	0.7	n.a.	7.2	9.7	Nov.
France:	CPI	11.7	9.6	9.5	1.6	3.1	2.4	2.0	8.0	9.3	Dec.
	WPI	-5.7	7.4	n.a.	1.3	1.1	-0.9	n.a.	0.4	1.7	Nov.
Germany:	CPI	5.9	4.6	3.9	1.9	1.4	0.2	0.2	2.4	3.5	Jan.
	WPI	6.9	5.4	0.2	0.4	0.4	-1.3	-0.9	-0.4	-1.2	Jan.
Italy:	CPI	16.9	16.8	18.4	4.7	3.8	2.5	3.3	12.0	14.2	Jan.
	WPI	8.5	22.9	17.4	4.3	2.4	1.5	2.0	8.0	10.6	Dec.
Japan:	CPI	12.1	9.7	8.3	2.6	2.5	0.3	0.8	-0.4	5.2	Jan.
	WPI	3.0	5.5	2.0	0.4	0.1	-0.5	-0.7	-4.4	-1.2	Jan.
United Kingdom:	CPI	24.2	16.6	15.8	5.0	4.5	1.6	1.5	6.0	11.7	Jan.
	WPI	24.1	16.4	19.2	6.0	4.5	3.3	1.6	6.8	14.7	Jan.
United States:	CPI	9.1	5.7	6.5	1.8	2.1	1.5	1.1	4.4	6.6	Dec.
	WPI	9.2	4.6	6.1	2.2	2.5	0.2	1.1	6.0	6.2	Jan.

Trade and Current-Account Balances of Major Industrial Countries a/
(billions of U.S. dollars; seasonally adjusted)

		1975	1976	1977	1977 Q1	1977 Q2	1977 Q3	1977 Q4	Nov. '77	Dec. '77	Jan. '78
Canada:	Trade	-0.6	1.2	2.7	0.8	0.3	0.6	1.0	0.2	0.4	n.a.
	Current Account	-4.7	-4.2	n.a.	-0.8	-1.4	-1.1	n.a.		*	
France:	Trade	1.5	-4.2	-2.3	-1.0	-0.6	-0.5	-0.2	-0.5	0.3	-0.5
	Current Account	0.0	-5.8	n.a.	-1.3	-0.6	-0.4	n.a.		*	
Germany:	Trade	15.3	13.5	16.6	3.7	4.2	3.7	b/	1.4	n.a.	n.a.
	Current Account	3.9	3.4	3.6	0.6	1.5	-0.5	b/		*	
Italy:	Trade	-3.5	-6.5	n.a.	-1.4	-0.8	0.1	n.a.	0.1	n.a.	n.a.
	Current Account c/	-0.6	-2.9	n.a.	-0.9	0.2	2.4	n.a.		*	
Japan:	Trade	5.0	9.9	17.5	4.2	4.4	4.2	4.6	1.7	1.5	n.a.
	Current Account	-0.7	3.7	11.1	2.3	2.8	2.7	3.1	1.2	1.0	n.a.
United Kingdom:	Trade	-7.1	-6.3	-2.9	-1.6	-1.2	-0.1	0.1	0.1	-0.1	-0.6
	Current Account	-3.7	-2.2	0.2	-0.9	-0.5	0.7	0.9	0.4	0.1	-0.3
United States:	Trade	9.0	-9.3	-31.4	-7.2	-7.8	-7.6	-8.9	-2.9	-2.5	n.a.
	Current Account	11.5	-1.4	n.a.	-4.2	-4.6	-4.3	n.a.		*	

a/ The current account includes goods, services, and private and official transfers.
b/ Seasonally-adjusted data for the fourth quarter are not yet available.
c/ Not seasonally adjusted.
* Monthly current-account data are not published.

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Notes on individual countries. In January, following bilateral negotiations between the United States and Japan, the Japanese government announced a target of 7 per cent real GNP growth for FY1978 and an increase in total FY1978 budget expenditures of about 17 per cent over total FY1977 expenditures; tax cuts may be forthcoming as well. The Japanese also made additional quota concessions (on imports of beef and citrus fruit) beyond those announced in December, and made a general commitment to reduce their current-account surplus. The government relaxed some restrictions on international payments at the end of January, and is undertaking a complete review of Japan's entire system of foreign exchange restrictions.

Staff forecasts suggest that Japan's 7 per cent growth target will not be achieved. However, there is some evidence that the inventory adjustment that depressed output last year may be coming to an end. If so, and if recent strength in new private machinery orders persists, growth could well be faster than the 5-1/2 per cent rate now expected.

Some signs of a strengthening in German domestic economic conditions have been evident in recent months, including a pickup in private consumption, government consumption, and machinery investment during the second half of 1977; a considerable increase in the volume of orders received by German industry (especially for investment goods); and drops in seasonally-adjusted unemployment in both December and January.

The German government's annual economic report for 1978 announced goals of 3-1/2 per cent real GNP growth in 1978, a slight decline in the unemployment rate and in the rate of consumer price increase, and a drop in the current-account surplus. If policy measures announced in 1977 prove insufficient to reach these goals, further policy actions might be undertaken this summer.

On January 26, the British government announced that it will be repaying the first credit tranche of its IMF loan ahead of schedule. This development is indicative of the sharp turnaround that has taken place in the UK economic situation during the past several months. Sterling is now quite strong, the current account has moved basically into surplus (although there was a large deficit in January), and inflation has been decelerating noticeably. Although activity in 1977 was quite sluggish, most forecasters expect moderate growth this year, to be led by private consumption. National accounts and retail sales data confirm that private consumption was strong at the end of 1977 and in January.

In the uncertain pre-electoral period in France, well-defined trends in the French economy are difficult to discern. Recent strengthening of retail sales and reductions in inventory levels in a number of sectors suggest that a moderate expansion of production is likely at least through the first quarter of this year, despite a fall in industrial production in December. The rate of increase in consumer prices decelerated sharply in November and December -- the clearest indication so far that the Barre stabilization program is beginning to achieve results in this area. Various price increases scheduled for the early months of 1978, however, are likely to reverse, at least partially, this recent slowing. Despite a deceleration in the rate of wage increases in 1977, cost pressures remain strong since productivity growth has apparently been inhibited by an increase in labor hoarding. A revival of import demand in line with expanding activity is likely to reverse in coming months the recent improvement in the current account, though the current-account deficit is likely to be lower in 1978 than in 1977.

The present stagnation in economic activity in Italy appears likely to persist in the near term. Business expectations of a pickup in orders and production are weak. The political situation introduces major uncertainties into the economic outlook as the Communists are pressing for an increased role in a new government. The outgoing government was aiming for an enlarged-public-sector deficit of 24 trillion lire (almost 12 per cent of GDP) which would require some combination of increased taxes and spending cuts; the deficit in 1977 was 20-21 trillion lire. Given the political pressure to reflate and opposition to effective measures to curtail the public sector deficit, the deficit may be much larger than 24 trillion lire and could be a source of inflationary pressure this year.

In Canada, strong growth of merchandise exports and strong consumer expenditures are expected to contribute to a 4 per cent increase in real GNP during 1978. Positive indications concerning the growth in

GNP during the fourth quarter of 1977 are already becoming evident. Industrial production rose during the fourth quarter. The trade surplus rose sharply in 1977Q4 in nominal terms and, given likely price movements, even more sharply in real terms. Further, consumer surveys suggest a significant increase in consumer spending. However, investment is still stagnant (except in the energy sector).

Belgium and the Netherlands both turned in economic performances in 1977 that were considerably weaker than their policymakers earlier had hoped. Belgium plans some mild fiscal stimulus and, given its recent price and exchange-rate performance, seems to be in a position to increase its market share smong its trading partners. In the Netherlands, the new van Agt government plans a mildly expansionary fiscal package, but also is depending on foreign demand to sustain domestic production. The Netherlands appears to be in a much weaker position than Belgium to retain its market share; moreover, the van Agt government is widely viewed as being less able to hold back wage increases than was the previous cabinet.

Measures designed to control demand and other measures focused on supply have recently been announced in Scandinavian countries. Sweden's fiscal 1978 budget contains a proposed deficit of roughly 8 per cent of GNP, and is aimed at encouraging technical innovation and resource shifts to improve international price competitiveness. In December, Norway abandoned its longstanding policy of maintaining artificially low interest rates (based on their views of social equity), letting rates rise in response to market forces. This action was taken in response to strong consumer spending and a larger than anticipated current-account deficit.

In conjunction with the devaluation of the krone in mid-February, the Norwegian central bank raised its discount rate from 6 to 7 per cent and a price freeze was announced.

In December, the Commission of the European Communities announced two measures in response to unfavorable employment trends in particular industries. A system of minimum reference prices for steel imports (similar to that in the United States) will be in effect for the first quarter of 1978, during which time the EC hopes to work out bilateral agreements with the major supplier countries. Anti-dumping duties were imposed on six iron and steel products from seven supplier countries after imports at below minimum prices were demonstrated to have occurred.

The EC Commission also approved a series of bilateral agreements with major textile suppliers which will limit the increase in textile imports to 6 per cent per year.

APPENDIX A*

THE FEDERAL BUDGET FOR FISCAL YEAR 1979

Overview

The Carter Administration's budget for fiscal year 1979 projects unified outlays at $500.2 billion, a $38 billion increase over fiscal year 1978. Reflecting the effects of a proposed $24.3 billion tax cut, unified receipts are scheduled to increase by $40 billion in fiscal year 1979 to $439.6 billion. The resulting unified budget deficit for fiscal 1979 is expected to be $60.6 billion, just below the $61.8 billion deficit projected for the current fiscal year. These and other measures of the Federal budget appear in Table 1.

The major new initiative on the revenue side of the President's budget is a $30.6 billion cut in Federal income, excise, and payroll taxes, to be offset in part by tax reforms and energy tax proposals that would increase revenues by $6.3 billion. The net reduction in taxes from these proposals, however, would not be sufficient to offset the growth in revenues resulting from the recently-enacted social security legislation and the growth in income under a progressive income tax (see Table 2).

The outlay side of the Administration's proposed budget shows much less in the way of new initiatives than does the revenue side. The scheduled rise in outlays of only $38 billion or 8.2 per cent represents a marked change from the current fiscal year, when outlays are projected to rise by more than $60 billion. Over $30 billion of the FY'79 expansion results from mandated increases in open-ended programs such as Medicare, Medicaid, and Social security benefits. New initiatives in Federal spending total only $7.8 billion, or barely 1.6 per cent above the current services level--that is, the level needed to maintain existing programs at current levels of utilization. The bulk of these initiatives are concentrated in the areas of defense, energy, and employment programs.

The combined Federal deficit for fiscal year 1979, which takes into account $12.5 billion of expenditures for off-budget Federal agencies, is projected to be virtually unchanged from fiscal year 1978 at $73.1 billion. Federal borrowing during fiscal 1979, however, is

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* Prepared by Darrel Cohen and Joshua Greene, Economists, Government Finance Section, Division of Research and Statistics.

expected to be about $7 billion higher than in fiscal year 1978, because all of the deficit is expected to be financed by debt issuance. This would be a change from fiscal 1978, when the deficit will be financed in part by a draw down of the Treasury's cash balance.

The Administration's proposed budget for 1979 would appear, on balance, to have a stimulative effect on economic output. The "full employment" budget (which estimates outlays and receipts at an aggregate unemployment rate of 4.9 per cent) is projected to move slightly further into deficit, after having moved sharply into deficit during fiscal year 1978. The quarterly pattern of the full employment budget, however, indicates that most of the added stimulus will occur in the beginning of fiscal 1979, with the deficit decreasing rather sharply in subsequent quarters as a result of higher social security taxes, an increase in marginal tax rates, and rising income (see Table 3). By the last quarter of fiscal year 1979, the Board staff estimates that the full employment deficit will be reduced $23.2 billion from its first-quarter level.

A further implication of the President's proposed tax changes will be to accelerate the present rise in the share of Federal revenues provided by payroll taxes, in particular Social Security taxes. In fiscal year 1979, these taxes are expected to raise almost 32.2 per cent of all Federal government revenues, as compared with 30.5 per cent in fiscal 1977, and only 21.3 per cent in fiscal 1969. Passage of the President's tax program would accentuate this trend by cutting income taxes while leaving intact the recently passed Social Security tax increase.

Receipts

The Administration has proposed a net reduction in Federal income, payroll, and excise taxes in calendar year 1979 of $24.5 billion. These tax cuts include almost a $17 billion net reduction in personal income taxes, nearly a $6 billion net business tax cut, and around $2 billion in telephone excise and unemployment insurance tax reductions. More specifically, the tax cut package includes the following recommendations, with a summary of their direct budget costs given in Table 4.

For households the Administration proposes to reduce income tax rates from the present range of 14 to 70 per cent to a range of 12 to 68 per cent, effective October 1, 1978. The purpose of this reduction is to maintain consumer purchasing power by (i) offsetting increases in the employee portion of social security taxes of $8.1 billion, 1/ and (ii) individual tax increases of $16.5 billion that

1/ This is the impact burden of social security tax increases on employees relative to a 1977 base.

would occur due to the continued effects of rising nominal incomes and the progressive rate structure of the individual income tax.

For business, the schedule of rates on the first $50,000 of corporate income would be reduced. The maximum rate will also be reduced, from the current 48 per cent to 45 per cent effective October 1, 1978, and then further reduced to 44 per cent effective January 1, 1980. Also, the investment tax credit would be made permanent at 10 per cent and would apply to industrial and utility structures as well as to machinery and equipment. The credit could be used to offset up to 90 per cent of a firm's tax liabilities instead of the current 50 per cent. The changes in the investment tax credit would be made retroactive to January 1, 1978.

The purpose of these business tax cuts is to encourage increases in capital formation and employment in the private sector. However, scheduled increases in employer social insurance taxes of $10.3 billion 2/ in 1979 may make achievement of the Administration's goal much harder. If the Administration's plans are enacted, the resulting increase in investment in plant and equipment should aid in restraining inflationary pressures by enhancing productivity and reducing potential capacity shortages. To provide further relief from inflationary pressures, the Administration has proposed reductions in telephone excise and employer unemployment insurance taxes.

The Administration's tax package also includes a number of reform items designed to make the tax system simpler and more equitable. First, a $240 tax credit will be substituted for both the current $750 exemption and the $35 general credit. Second, current deductions allowed for State and local personal property, gas and sales taxes will be eliminated, while deductions for medical expenses and casualty losses would be sharply curtailed. The package would also restrict the use of tax shelters by eliminating the 25 per cent alternative tax on the first $50,000 of capital gains, tightening the minimum tax on tax preference items, and limiting the use of accelerated depreciation on real estate investment.

2/ This $10.3 billion employer share plus the $8.1 billion employee share mentioned above sum to $18.4 billion. This equals the total of unemployment insurance and social security tax increases found on Table 2.

Tax reform on the corporate side would include the phasing out of tax benefits associated with Domestic International Sales Corporations and the phasing out of the deferral of taxes--until income is repatriated--on the income of U.S.-controlled foreign corporations. In addition, deductions for business meals and entertainment expenses would be greatly reduced. Also, credit unions would be taxed on the same basis as savings and loan associations, and the special bad debt allowance would be repealed for commercial banks and would be reduced for thrift institutions. Also, tax receipts from Federal Reserve System earnings would be reduced, since it is assumed that the System would begin making interest payments on member bank deposits.

The combination of these tax proposals and normal income growth is expected to increase Federal receipts from $400.4 billion in fiscal year 1978 to $439.6 billion in fiscal year 1979. This represents a 9.8 per cent increase in revenues, in contrast to the 12.8 per cent rise expected during fiscal year 1978.

Outlays

Federal spending as a percentage of GNP is expected to decline to 22.0 per cent in fiscal 1979 from 22.6 per cent during fiscal year 1978. This percentage, however, is still relatively high compared with years prior to the 1974-75 recession, as Table 5 indicates.

The rise in Federal outlays during fiscal year 1979 results largely from increased expenditures in seven spending categories; income security, defense, education and employment, health, energy, interest on the national debt, and allowances. Five spending categories are slated for relatively small increases, while four areas are expected to record lower outlays in fiscal 1979 than in fiscal 1978.

The largest increase in Federal outlays during fiscal year 1979, $12.4 billion, is scheduled to occur in expenditures for income security, and most of this increase will come from the automatic adjustment of Social Security payments and other individual benefits for inflation. Social Security payments, estimated at $93.0 billion in fiscal 1978, are expected to increase another $10.1 billion in fiscal 1979. This increase, however, represents a slight decline from current services funding, because it takes into account a proposed reduction in the payment of retroactive OASDI benefits. Expenditures for most other income security programs will be held to current services levels, while outlays for unemployment insurance should decrease because of anticipated reductions in the unemployment rate.

The major new initiative in the income security category consists of approximately $1.6 billion in special payments resulting from the distribution of funds collected by the wellhead tax on crude oil to households with no Federal income tax liabilities. 1/ If these payments were to be included in the energy function of the budget instead of the income security function, the net amounts (above current service levels) of new Federal spending for income security in fiscal 1979 would be only $700 million to $800 million.

The defense category is expected to record the second-largest increase in outlays during fiscal year 1979. Such outlays are projected to rise $10.1 billion to a total of $117.8 billion. This increase represents a real spending gain of 3 per cent, and approximately $1.0 billion of the increase will result from new spending initiatives above current service levels. Much of the added funds will be used to finance research, development, and the strengthening of U.S. ground forces for NATO.

Health is the third outlay category slated for a major funding increase(of about $5.4 billion). More than 90 per cent of this increase can be traced to outlays for Medicare and Medicaid. Despite the huge increase in expenditures for these two programs, actual outlays are expected to run about $725 million below current services levels, as a result of the President's proposal to contain medical cost increases.

Outlays for education and training are expected to rise $3.0 billion in FY '79 on top of the $6.5 billion increase recorded in fiscal year 1978. About $1 billion of this increase represents an addition to current services spending, with much of the increase going towards youth employment programs.

Outlays in the energy category are projected to increase $1.8 billion in fiscal year 1979, following a $3.7 billion increase for fiscal 1978. About $1 billion of the increase in outlays will go towards expanding the nation's strategic petroleum reserve.

Interest on the national debt is expected to rise by $5.1 billion in fiscal year 1979, largely because of an increase in total Federal debt. This outlay figure is based on the assumption that 90-day bill rates will remain at their year-end levels.

Expenditures of $2.8 billion for allowances and contingencies represent the final spending category to receive a major increase in fiscal 1979. Approximately $1.1 billion of this represents cost-of living increases for Federal employees. The remainder is earmarked for over-runs in existing programs and funding for new proposals not anticipated in the formal budget.

The four categories targeted for smaller outlay totals in fiscal 1979 are agriculture, general purpose fiscal assistance, commerce and housing credit, and community and regional development. Agriculture is expected to register the greatest decrease, approximately $3.7 billion, reflecting a decline in price support and commodity credit payments. The planned decreases are based on assumptions about domestic food production and foreign demand for U.S. agriculture exports that might prove optimistic. The Congressional Budget Office, which takes a less sanguine view of things, predicts outlays for agriculture to run about $1.5 billion above the President's estimate for fiscal year 1979.

Over-all, the outlay side of the Federal Budget indicates that the Administration has avoided costly new programs such as national health insurance and held the line on spending for current programs. The general picture, therefore, appears to be one of considerable restraint in Federal spending, despite the apparent increase in Federal outlays projected for fiscal year 1979.

Table 1

Selected Measures of the Federal Budget
for Recent Fiscal Years
($ billions)

	1976 1/	1977 1/	1978 2/	1979 2/
Unified Budget				
Receipts	299.2	356.9	400.4	439.6
Outlays	356.6	401.9	462.2	500.2
Deficit (-)	-66.4	-45.9	-61.8	-60.6
Off-Budget Outlays	7.2	8.7	11.5	12.5
Combined Federal Deficit (-)	-73.6	-54.6	-73.3	-73.1
NIA Budget 3/				
Receipts	314.1	364.0	410.8	451.4
Expenditures	372.3	411.8	463.6	504.0
Deficit (-)	-58.2	-47.8	-52.8	-52.6
Full-employment Budget 4/				
Receipts	350.7	400.9	439.9	402.4
Expenditures	366.4	405.9	456.9	501.4
Surplus/Deficit (-)	-15.7	-5.0	-17.0	-18.9
Memo:				
Per cent Increase in 1/				
Unified Budget Receipts	6.5	19.3	12.2	9.8
Unified Budget Outlays	9.4	12.7	15.0	8.2
NIA Budget Receipts	10.8	15.9	12.9	9.9
NIA Budget Outlays	13.3	10.6	12.6	8.7

1/ Calculations ignore the transition quarter.
2/ Estimated.
3/ Federal budget measured by the National Income Accounts basis.
4/ Unified Budget receipts and outlays estimated for the economy at an unemployment rate of 4.9 per cent.

Table 2

Net Fiscal Impact of Scheduled Tax Increases and Administration Tax Proposals 1/
(calendar years; billions of dollars; NIA basis)

	1978	1979
Total Tax Increases	13.2	30.4
Social Security 2/	3.5	11.7
Unemployment Insurance	2.0	2.1
Revenue Drag 3/	8.0	16.5
Total Tax Reductions (-)	-7.3	-27.3
Proposed Changes		
Individual 4/	-4.0	-19.6
Business	-3.3	-5.7
Unemployment and Excise	--	-2.0
Net Changes in Federal Revenues	+6.1	+3.0

1/ Entries are differences in tax levels above those that would prevail under 1977 tax rates.

2/ Social Security rate increases of 0.4 per cent in 1978 and 0.5 per cent in 1979. The Social Security tax increases do not include the automatic base increases required to maintian constant effective Social Security tax rates.

3/ Reflects the impact of tax progressivity and income growth in Federal revenues.

4/ The amount of tax reduction for individuals shown here differs from the amount estimated by the Treasury on a liability basis. The principal reason for this is that the tax reduction provisions of the proposal would take effect on October 1, 1978, while the reform provisions would not take effect until January 1, 1979. Since withholding schedules would be adjusted in October 1978 to reflect the amount of net tax reductions, refunds would be required in 1979 to compensate for overwithholding in 1978.

Table 3
The Full-Employment Budget
for Fiscal Years 1977-1979
($ Billions, NIA basis)

	Fiscal Years			Quarters 1/ Fiscal Year 1978				Fiscal Year 1979			
	1977 2/	1978	1979	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Receipts	400.9	439.9	482.4	420.3	432.0	443.7	463.5	459.5 3/	474.3	487.5	508.4
Expenditures	405.9	456.9	501.4	442.2	450.6	459.7	475.1	490.2	496.4	503.1	515.9
Surplus (+) or Deficit (-)	-5.0	-17.0	-18.9	-21.9	-18.6	-16.0	-11.6	-30.7 3/	-22.0	-15.6	-7.5

1/ Annual levels.

2/ Figures exclude the transition quarter.

3/ The change from the previous quarter results from implementation of the President's proposed tax package.

Table 4
Effect of President's Tax Proposals on Tax Liabilities*
(calendar year; billions of dollars)

	1978	1979
Individual	-6.1	-16.7
Personal Tax Rate Cut and $240 Credit	-6.1	-23.5
Limit Itemized Deductions	--	5.8
Restrict Tax Shelters	--	1.0
Corporate	-2.3	-5.7
Corporate Tax Rate Cut	-1.3	-6.0
Liberalization of Investment Credit	-1.2	-2.3
Curtail Business Tax Preferences	.2	1.1
Business Entertainment Expenses	--	1.5
Tax Reductions and Reform: Total	-8.4	-22.4
Repeal Telephone Excise Tax	-.4	-1.2
Unemployment Payroll Rate Reduction	--	-.9
Grand Total President's Tax Package	-8.8	-24.5

* Excludes energy proposals.

Table 5

Comparative Changes in Federal Outlays, Fiscal Years 1969-1979

Fiscal Year	Unified Budget Outlays ($ billions)	Change in Outlays from Previous Fiscal Year ($ bil.)	Per Cent	Unified Budget Outlays as a Per Cent of GNP
1969	184.5	5.7	3.2	20.4
1970	196.6	12.1	6.6	20.5
1971	211.4	14.8	7.5	20.7
1972	232.0	20.6	9.7	20.9
1973	247.1	15.1	6.5	20.0
1974	269.6	22.5	9.1	19.8
1975	326.1	56.5	21.0	22.4
1976	365.6	39.5	12.1	22.5
1977	401.9	36.3	9.0	21.9
1978 1/	462.2	60.3	15.0	22.6
1979 1/	500.2	38.0	8.2	22.0

1/ Estimated.

Table 6

Budget Outlays by Function,
Fiscal Years 1977-1979
($ billions)

Functional Category	1977	1978 1/	1979 1/	Change from Fiscal 1978 ($ bil.)	Change from Fiscal 1978 Per Cent
Total	401.9	462.2	500.2	38.0	8.2
		Categories Increasing, 1978-1979			
Income Security	137.0	147.6	160.0 2/	12.4 2/	8.4
(Social Security)	(83.9)	(93.0)	(103.2)	(10.2)	(11.0)
National Defense	97.5	107.6	117.8	10.2	9.5
Health	38.8	44.3	49.7	5.4	12.2
(Medicare and Medicaid)	(31.4)	(36.5)	(41.5)	(5.0)	(13.7)
Net Interest	38.1	43.8	49.0	5.2	11.9
Education and Employment	21.0	27.5	30.4	2.9	10.5
Energy	4.2	7.8	9.6 3/	1.8 3/	23.1
Transportation	14.6	16.3	17.4	1.1	6.7
International Affairs	4.8	6.7	7.7	0.9	14.9
5 Other Categories 4/	39.7	43.9	45.1	1.2	2.7
Total	395.5	445.5	486.7	41.1	9.2

1/ Estimated.
2/ Includes $1.6 billion in proposed energy tax refunds to persons with no Federal income tax liability.
3/ Excludes $1.6 billion in proposed energy tax refunds to persons with no Federal income tax liability.
4/ Includes general science, space, and technology; natural resources; veterans benefits; justice; general government outlays; and allowances.

Table 6 continued

Functional Category	1977	1978[1/]	1979[1/]	Change from Fiscal 1978 ($ bil.)	Per Cent
		Categories Decreasing, 1978-1979			
Agriculture	5.5	9.1	5.4	-3.7	-40.7
Community and regional development	6.3	9.7	8.7	-1.0	-10.3
Commerce and housing credit	*	3.5	3.0	-0.5	-14.3
General purpose fiscal assistance	9.5	9.9	9.6	-0.3	-3.0
Total	21.3	32.2	26.7	-5.5	-17.1
Undistributed off-setting receipts	-15.1	-15.6	-16.0	-0.4	2.6
		Miscellaneous Category			
Allowances[2/]	--	--	2.8	--	--

1/ Estimated.
2/ Includes $1.1 billion for Federal pay increases and $1.7 billion for spending above expectations in programs with relatively uncontrollable outlays.
* Less than -$500 million.