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CONFIDENTIAL (FR)

January 3, 1980

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			Percent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year earlier
				(At annual rate)		
Civilian labor force	Nov.	12-7-79	103.7	2.4	2.5	2.0
Unemployment rate (%) 1/	Nov.	12-7-79	5.8	6.0	6.0	5.8
Insured unemployment rate (%) 1/	Nov.	12-7-79	2.9	3.0	3.1	3.0
Nonfarm employment, payroll (mil.)	Nov.	12-7-79	90.2	2.9	1.9	2.7
Manufacturing	Nov.	12-7-79	20.9	.1	-1.3	.6
Nonmanufacturing	Nov.	12-7-79	69.3	3.8	2.9	3.3
Private nonfarm:						
Average weekly hours (hr.) 1/	Nov.	12-7-79	35.6	35.6	35.6	35.8
Hourly earnings ($) 1/	Nov.	12-7-79	6.32	6.27	6.22	5.87
Manufacturing:						
Average weekly hours (hr.) 1/	Nov.	12-7-79	40.0	40.2	40.1	40.6
Unit labor cost (1967=100)	Nov.	12-31-79	179.9	12.1	7.9	8.0
Industrial production (1967=100)	Nov.	12-14-79	151.6	-6.3	.0	.7
Consumer goods	Nov.	12-14-79	148.7	-9.6	1.3	-1.7
Business equipment	Nov.	12-14-79	171.4	.7	-.2	3.9
Defense & space equipment	Nov.	12-14-79	94.6	-2.5	11.3	4.8
Materials	Nov.	12-14-79	155.6	-7.7	-1.0	.7
Consumer prices all items (1967=100)	Nov.	12-21-79	227.5	11.7	12.3	12.6
All items, excluding food & energy	Nov.	12-21-79	216.1	14.0	12.8	11.7
Food	Nov.	12-21-79	240.2	6.5	8.9	9.6
Producer prices: (1967=100)						
Finished goods	Nov.	12-6-79	226.2	15.6	15.2	12.8
Intermediate materials, nonfood	Nov.	12-6-79	258.5	10.8	17.4	15.7
Crude foodstuffs & feedstuffs	Nov.	12-6-79	256.1	23.9	15.9	11.5
Personal income ($ bil.) 2/	Nov.	12-18-79	1999.4	12.9	10.9	11.0
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Nov.	12-21-79	75.5	-1.2	1.9	-1.9
Capital goods industries	Nov.	12-21-79	24.6	3.5	3.6	-2.0
Nondefense	Nov.	12-21-79	20.9	.5	.7	.7
Defense	Nov.	12-21-79	3.7	24.0	23.2	-14.5
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Oct.	12-11-79	1.41	1.41	1.43	1.40
Manufacturing	Oct.	12-11-79	1.53	1.55	1.53	1.49
Trade	Oct.	12-11-79	1.29	1.28	1.33	1.31
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	Oct.	12-11-79	.566	.560	.557	.580
Retail sales, total ($ bil.)	Nov.	12-10-79	77.0	1.8	2.9	9.7
GAF 3/	Nov.	12-10-79	16.8	2.4	2.3	10.5
Auto sales, total (mil. units.) 2/	Nov.	12-5-79	9.5	.3	-13.9	-13.2
Domestic models	Nov.	12-5-79	6.9	-2.6	-21.7	-22.1
Foreign models	Nov.	12-5-79	2.6	9.1	16.8	24.6
Plant & Equipment expen. ($ bil.) 4/						
All industries	1979	12-6-79	176.37	—	—	14.7
	1979-Q4	12-6-79	184.32	2.8	—	12.4
	1980-Q1	12-6-79	189.32	2.7	—	14.1
	1980-Q2	12-6-79	195.76	3.4	—	12.8
Capital Appropriations, Mfg.	1979-Q3	11-27-79	22,520	7.1	—	39.2
Housing starts, private (thous.) 2/	Nov.	12-18-79	1,518	-13.8	-15.3	-23.0
Leading indicators (1967=100)	Nov.	12-31-79	136.6	-1.3	-2.2	-4.3

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned-Commerce November 1979 Survey.

Recent indicators of economic activity suggest, on balance, that the economy performed more strongly than expected in late 1979. In November increases in employment and personal income growth were robust, despite layoffs in the motor vehicle industry. In addition, gains in retail sales outstripped continued large price increases. Areas of weakness were apparent, however, the most notable being the auto industry and residential construction. Reduced domestic auto sales led to higher inventories in October and induced production cuts in November and early December. Moreover, recent tight financial conditions appear to have weakened housing activity in November, and investment spending has continued to moderate.

Employment and Production

Labor demand remained quite strong through mid-November with nonfarm payroll employment up 220,000 over the month. As in recent months, the bulk of the hiring was reported in the trade and service industries. Manufacturing employment was unchanged in November after falling almost 200,000 over the preceding three months. Factory layoffs have been concentrated in durable goods industries--particularly in motor vehicles and steel--while strike activity has reduced payrolls in machinery. In contrast, employment in most soft-goods industries has continued to edge up. Since the November labor market surveys were taken, automakers have announced further cutbacks, raising the number of indefinite layoffs from about 100,000 in mid-November to nearly 130,000 in the third week of December.

CHANGES IN EMPLOYMENT[1]
(Thousands of employees; based on seasonally adjusted data)

	1978	1979				
		Q1	Q2	Q3	Oct.	Nov.
	--Average monthly changes--					
Nonfarm payroll employment[2]	334	302	196	59	164	218
Strike adjusted	318	304	205	62	184	231
Manufacturing	69	64	-3	-38	-63	1
Durable	57	56	3	-8	-97	-26
Nondurable	12	8	-6	-30	34	27
Construction	39	48	16	3	22	38
Trade, finance and services	169	150	113	77	165	153
Private nonfarm production workers	256	230	111	11	141	154
Manufacturing production workers	50	44	-19	-46	-67	-13
Total employment[3]	275	329	-29	253	-220	353
Nonagricultural	268	344	-2	206	-108	216

1. Changes are from final month of preceding period to final month of period indicated.
2. Survey of establishments. Not strike adjusted, except where noted.
3. Survey of households.

SELECTED UNEMPLOYMENT RATES
(Percent; based on seasonally adjusted data)

	1973	1979				
		Q1	Q2	Q3	Oct.	Nov.
Total, 16 years and older	4.9	5.7	5.7	5.8	6.0	5.8
Teenagers	14.5	15.8	16.2	16.1	16.6	15.9
20-24 years old	7.8	8.7	8.8	9.2	9.5	8.8
Men, 25 years and older	2.5	3.2	3.2	3.4	3.4	3.5
Women, 25 years and older	4.0	4.9	4.9	4.8	4.9	4.7
White	4.3	5.0	4.9	5.1	5.2	5.2
Black and other	8.9	11.4	11.6	10.8	11.7	10.8
Fulltime workers	4.3	5.2	5.2	5.4	5.5	5.4
White collar	2.9	3.4	3.3	3.4	3.5	3.1
Blue collar	5.3	6.5	6.7	7.2	7.3	7.5

Total employment, as measured by the household survey, rose 350,000 in November, more than offsetting October's 220,000 decline. The increase in employment, along with a decrease in unemployment, was concentrated among adult women and teenagers. The decline in unemployment rates for these groups pushed the overall jobless rate down 0.2 percentage point to 5.8 percent.

Led by a decline in the output of autos, industrial production decreased 0.5 percent in November to a level close to that of December 1978. The fall off in output also reflected a significant cutback in the production of trucks and auto-related materials and parts. Industry sources have reported further reductions in auto output in December. In addition, output of home goods and construction supplies declined in November, while business equipment production remained at the reduced October level, in part reflecting the continued effect of strikes in that sector. In line with the drop in production, capacity utilization in manufacturing fell about 1/2 percentage point to 84.4 percent in November--nearly 3 percentage points below its recent March peak; the large cutback in the production of motor vehicles and parts accounted for a substantial part of this decline.

Personal Income and Consumer Spending

Total personal income rose at a $21-1/4 billion annual rate (13 percent annual rate) in November after an $18 billion increase in October. The pickup reflected a more rapid growth of private wage and salary disbursements--almost twice the October increase--as average weekly hours and employment in some industries increased. Payrolls declined in the motor vehicle industry, but the drop was more than offset by relatively large increases in services and trade.

INDUSTRIAL PRODUCTION
(Percentage change at annual rate[1]; based on seasonally adjusted data)

	77-Q4 to 78-Q2	78-Q2 to 78-Q4	78-Q4 to 79-Q2	79-Q2 to 79-Q3	Sept. to Oct.	Oct. to Nov.
Total	7.0	7.9	1.6	1.1	.0	-6.0
Final products	6.4	5.4	1.9	-.8	-1.2	-6.0
Consumer goods	3.7	2.7	-.4	-3.7	1.2	-9.6
Durable	6.0	1.5	-6.7	-11.5	7.2	-26.4
Nondurable	2.7	3.3	2.3	-.3	-1.2	-2.4
Business equipment	10.2	8.6	6.1	3.8	-14.4	1.2
Materials	8.4	11.1	1.3	2.9	1.2	-7.2
Durable	9.7	16.1	.5	2.6	-3.6	-15.6
Nondurable	9.9	6.3	3.7	5.4	9.6	.0
Energy materials	2.9	5.2	-1.2	.9	3.6	-1.2

1. Rates of change for periods longer than one month are compound rates.

SELECTED CAPACITY UTILIZATION RATES FOR U.S. INDUSTRY
(Percent, seasonally adjusted)

	1973-1974 High	1979 March[1]	1979 Oct.	1979 Nov.	Nov. 1979 less Mar. 1979[2]
Manufacturing	88.0	87.1	85.0	84.4	-2.7
Primary Processing	93.6	88.6	87.2	86.6	-2.0
Advanced Processing	85.4	86.2	83.8	83.1	-3.1
Electrical Machinery	88.2	90.5	90.6	90.6	.1
Instruments	86.7	89.5	86.3	86.4	-3.1
Materials	93.1	88.3	86.7	85.9	-2.4
Durable Goods Materials	92.5	87.5	84.7	83.5	-4.0
Basic Iron and Steel	105.2	89.4	83.6	82.9	-6.5
Nondurable Goods Materials	94.6	90.0	90.4	90.1	.1

1. Recent peak.
2. Percentage points.

PERSONAL INCOME
(Based on seasonally adjusted annual rate data)

	1977	1978	1979 Q1	Q2	Q3	Oct.	Nov.
	- - - Changes in billions of dollars[1] - - -						
Total personal income	$13.9	$17.8	$15.1	$11.0	$18.3	$18.1	$21.3
Nonagricultural income	12.6	17.1	15.3	11.4	19.8	18.7	20.7
Agricultural income	1.2	.7	-.2	-.4	-1.5	-.7	.6
Wage and salary disbursements	8.4	11.5	11.8	6.1	9.1	9.5	12.2
Private	7.0	10.1	10.8	4.9	8.3	5.6	11.1
Manufacturing	2.5	3.2	3.5	.5	1.3	2.4	1.5
Other income	6.0	7.1	5.6	5.2	9.7	9.2	9.6
Transfer payments	1.2	1.5	1.8	1.8	6.0	1.9	1.2
	- - Percentage change, at annual rates[2] - -						
Total personal income	11.5	12.9	11.4	8.9	11.9	11.1	12.9
Wage and salary disbursements	11.2	12.8	12.7	8.0	8.8	9.1	11.6
Memorandum:							
Real disposable personal income	5.4	4.2	2.1	-1.4	.2	-.8	n.a.
Per capita	4.5	3.4	1.2	-2.3	-.8	-1.6	n.a.

1. Changes over periods longer than one month are averages of montly changes.
2. Changes over periods of one quarter or more are from final quarter of preceding period to final quarter of period indicated. Changes for quarterly periods are compound rates of changes.

Although an estimate of the change in the personal consumption deflator is not yet available for November, it appears that real disposable personal income rose somewhat that month, but remained about 1 percent below its peak in December 1978. In per capita terms, real disposable income probably dropped 2 percent over the same period.

Consumer purchases rebounded in November (latest available data), following a decline in the previous month. The November gain in retail sales was widespread and nominal sales excluding autos and nonconsumption items increased 1.6 percent. Sales of apparel and general merchandise were particularly brisk, while a significant portion of the increased spending at food stores and gasoline service stations apparently was accounted for by higher prices. Nonetheless, in real terms, retail sales less auto and nonconsumption items are estimated to have risen somewhat in November.

Total unit auto sales were at a 9.5 million annual rate in November, about the same pace as in October. However, sales of domestic units fell further to a 6.9 million unit rate, following the end of rebates and price discounts that had stimulated demand in August and September. The introduction of new discount schemes appeared to boost sales of domestic-type models somewhat in the first 10 days of December, when sales rose to a 7.7 million unit annual rate. Sales of foreign cars rose to a 2.6 million unit annual rate in November, the highest rate since May, as recent stock shortages eased somewhat.

The University of Michigan Survey Research Center survey of consumer attitudes in November indicated that consumers continued to be pessimistic about the economy and their personal financial conditions.

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

	1979 Q2	1979 Q3	1979 Sept.	1979 Oct.	1979 Nov.
Total sales	.5	4.2	2.9	-1.7	1.8
(Real)[1]	-2.1	2.2	1.9	-2.3	.9
Total, less auto and nonconsumption items	2.4	4.1	2.4	.2	1.6
GAF[2]	2.4	5.3	.3	-.4	2.4
Durable	-2.7	5.1	4.0	-5.8	1.9
Auto	-7.1	3.9	5.5	-9.4	3.6
Furniture & appliances	2.3	8.1	-.7	-2.2	.1
Nondurable	2.3	3.7	2.3	.5	1.8
Apparel	.8	5.8	-2.8	-.5	3.6
Food	2.5	1.9	3.9	-.3	1.1
General merchandise[3]	3.1	4.0	1.9	.4	2.9
Gasoline	7.2	7.4	2.4	2.8	4.5

1. BCD series 59.
2. General merchandise, apparel, furniture and appliance stores.
3. General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

AUTO SALES
(Millions of units; seasonally adjusted annual rates)

	1979 Q1	Q2	Q3	Sept.	Oct.	Nov.
Total	11.6	10.7	10.8	10.7	9.4	9.5
Imports	2.4	2.7	2.3	2.2	2.4	2.6
Domestic	9.1	8.0	8.5	8.5	7.1	6.9
Small	3.8	3.9	3.6	3.6	3.2	3.1
Intermediate & standard	5.4	4.1	4.9	4.9	4.0	3.8

Note: Components may not add to totals due to rounding.

The Michigan index of sentiment--a composite of 5 questions--rose slightly from October but still was significantly below a year earlier and in the depressed range reported during the 1974-75 recession. Results of this survey suggest that motives to buy-in-advance-of-inflation, which have been important since early 1977, may be diminishing even though inflation expectations have been revised up. Concern about the high level of interest rates and housing prices has heightened consumer pessimism about housing market conditions. In November the Conference Board confidence index--also a composite of 5 questions but with wording of a more near-term orientation than the Michigan index--edged up after the October rebound. However, it remains relatively low by historical standards.

Residential Construction

Tighter financial conditions since October 6 appear to have damped housing activity. Total housing starts fell 14 percent in November to a 1.5 million unit annual rate, following an 8 percent decline in October. Moreover, permits issued for residential building dropped to a 1.3 million unit annual rate, the lowest monthly total since the summer of 1976. Declines in both measures were experienced throughout much of the nation, with the largest losses in the north central and west regions.

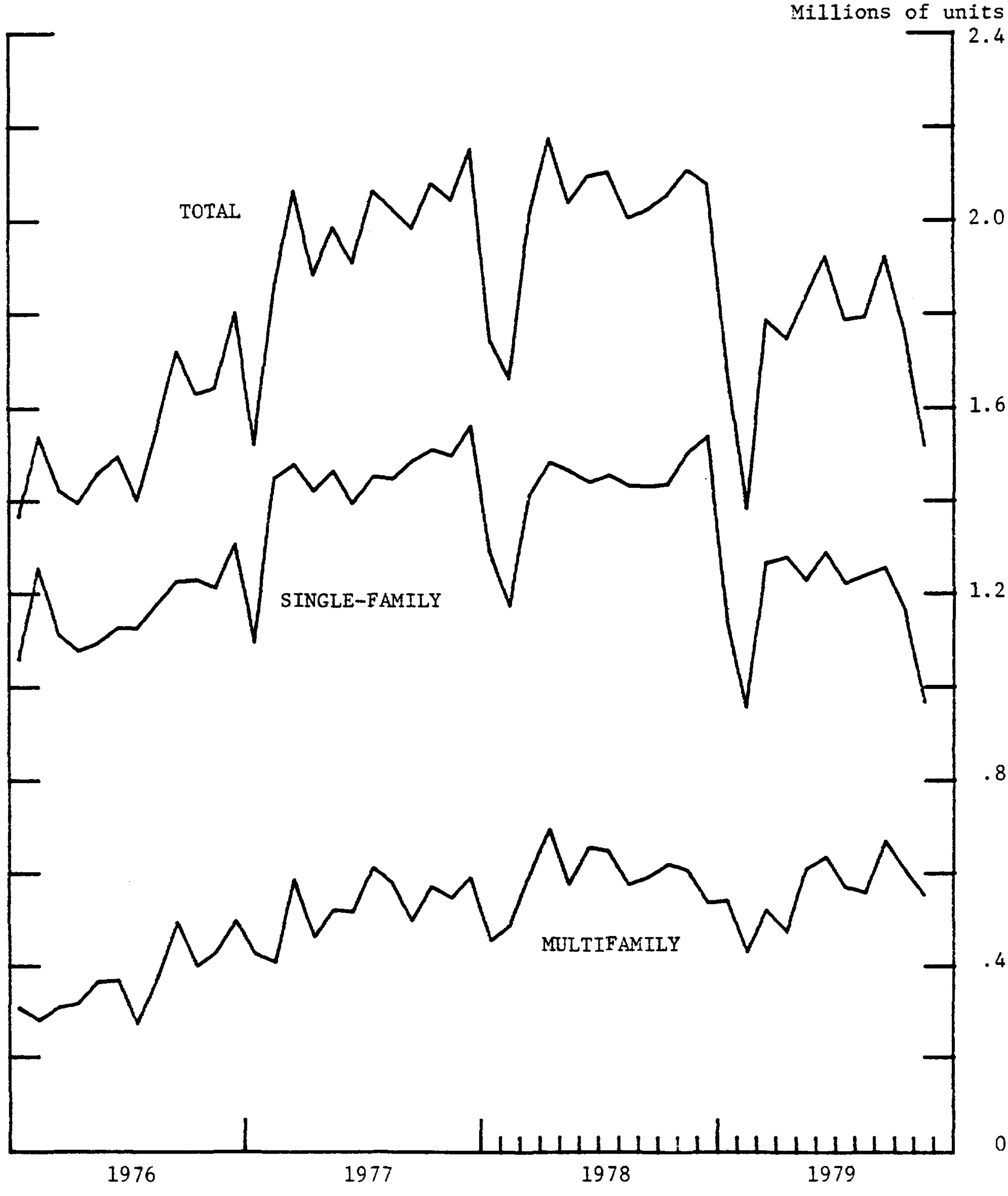
Residential construction activity has receded most noticeably in the single family sector, where starts fell 23 percent from September to November. Aside from the weather-depressed rate last February, the November level of 966,000 starts in this sector was the lowest monthly total since September 1975. Other incoming data also indicate some weakening of demand pressures in the single-family market. For example,

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

	1978		1979				
	Annual	QIV	QII	QIII	Sept. 1/	Oct. 1/	Nov. 2/
Total							
Permits	1.80	1.82	1.59	1.65	1.77	1.54	1.27
Starts	2.02	2.08	1.83	1.83	1.92	1.76	1.52
Single-family							
Permits	1.18	1.22	1.03	1.02	1.01	.93	.75
Starts	1.43	1.49	1.26	1.24	1.25	1.16	.97
Sales							
New homes	.82	.83	.71	.76	.74	.72	n.a.
Existing homes	3.90	4.27	3.73	3.88	4.01	3.99	3.55
Multifamily							
Permits	.62	.60	.56	.64	.76	.61	.52
Starts	.59	.59	.57	.60	.67	.60	.55
Mobile home shipments	.28	.29	.27	.28	.27	.29	n.a.

1/ Regular monthly revision.
2/ Preliminary estimates except permits which reflect first monthly revision.

NEW PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



industry sources report that total home sales declined in November, and home prices have declined recently--particularly prices of existing homes.

The multifamily market has shown less weakness than the single-family sector. Even though multifamily housing starts fell 8 percent in November, they still were more than 4 percent higher than the average pace of the first half of the year. The relative strength in this sector undoubtedly reflects the continued tightness of rental markets in many areas of the country.

Business Fixed Investment

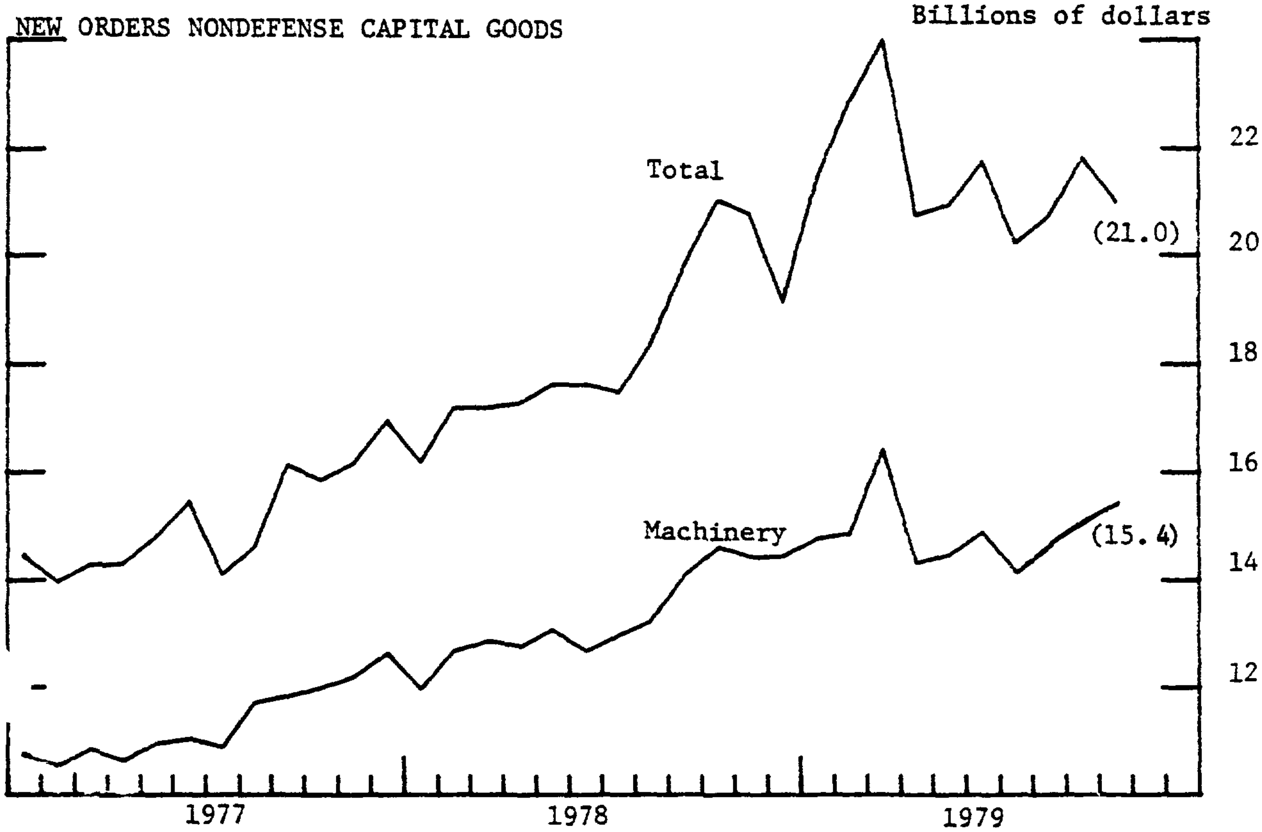
Indicators of business capital spending were mixed in October and November, but, on balance, they suggest a decline in real nonresidential fixed investment in the fourth quarter. Shipments of nondefense capital goods fell 2 percent in November--in part because of strikes in the construction machinery industry--after little change in the previous two months. Sales of heavy-weight trucks in October and November were below the third quarter pace, and business purchases of automobiles were probably down in line with the overall slump in auto sales. On the other hand, the value of nonresidential construction put-in-place rose 4-1/2 percent in October, partly due to the unusually mild weather experienced in much of the country, before easing off in November.

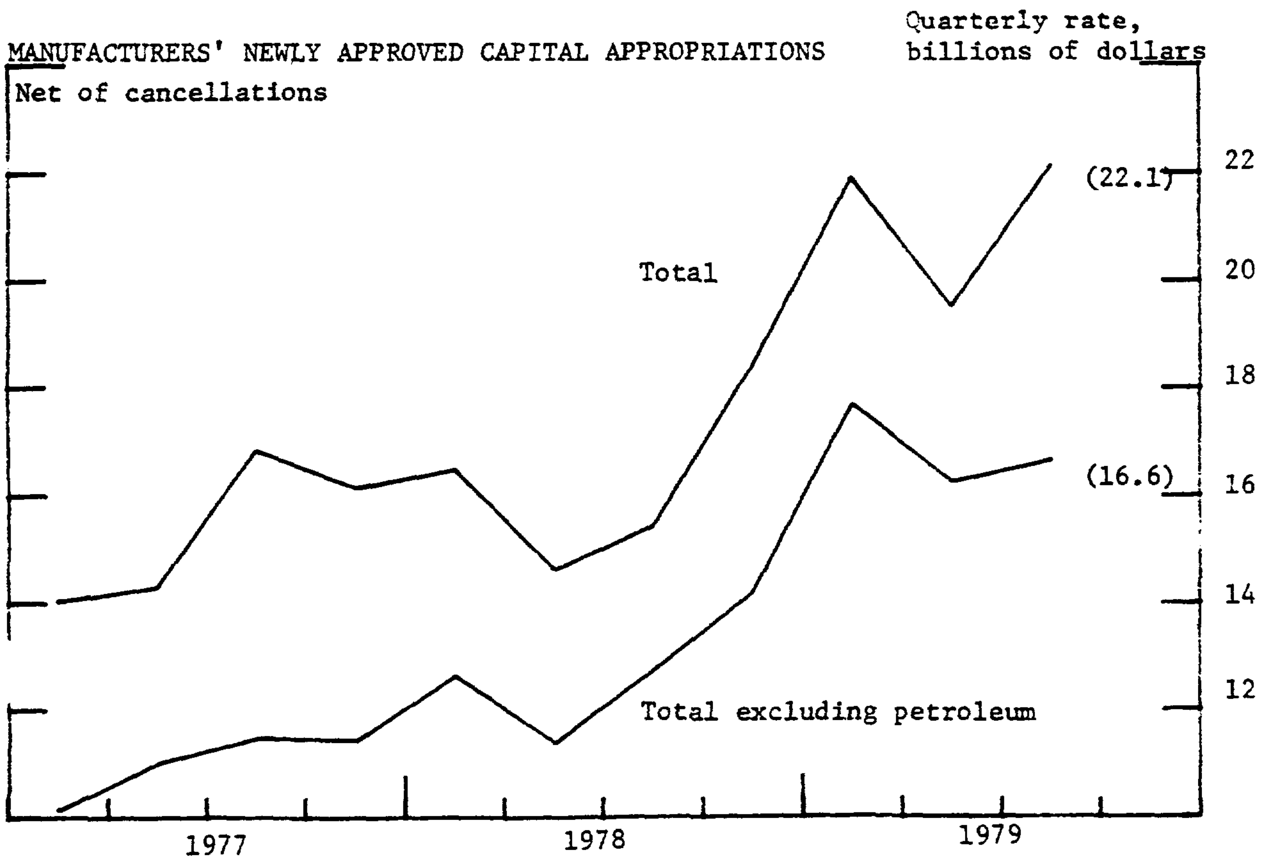
Capital spending commitments suggest a further slowing of outlay growth in the near term. New orders for nondefense capital goods in nominal terms rose 1.5 percent in November and were close to the level around which they have fluctuated since last spring. Contracts for nonresidential construction also have shown little overall growth since

BUSINESS INVESTMENT SPENDING
(Percentage change from preceding comparable period, based on seasonally adjusted data)

	1979						November 1978 to November 1979
	Q1	Q2	Q3	Sept.	Oct.	Nov.	
Nondefense capital goods shipments	5.2	-.6	5.4	.1	.0	-2.0	9.1
Nonresidential construction put-in-place	0.0	8.0	4.8	-0.6	4.5	-0.7	17.1
Building	0.6	10.9	n.a.	n.a.	n.a	n.a.	n.a.
Nonbuilding	-0.7	4.3	n.a.	n.a.	n.a.	n.a	n.a.

CAPITAL SPENDING COMMITMENTS
(Seasonally adjusted)





PLANT AND EQUIPMENT EXPENDITURES
(Percentage change from period indicated)

	Anticipated for 1979 from 1978:[1]					Anticipated for 1980-Q2 from 1979-Q4[2]
	Survey taken					Survey taken
	Dec. 1978	Feb. 1979	May 1979	Aug. 1979	Nov. 1979	Nov. 1979
All Business	11.2	11.3	12.7	13.2	14.7	12.8
Manufacturing	13.8	14.7	14.8	14.7	15.8	15.2
Durables	16.2	19.5	16.9	18.5	19.7	22.5
Nondurables	11.7	10.4	12.9	11.2	12.4	8.6
Nonmanufacturing	9.1	8.6	11.1	12.1	13.8	10.9

1. Results are adjusted for systematic bias. Without this adjustment, the 1979 increase would have been 11.6 percent in December, 13.5 percent in February, 14.1 percent in May, 15.2 percent in August, and 15.1 percent in November.
2. Annual rate of change.

NOVEMBER ANTICIPATED AND ACTUAL PLANT AND EQUIPMENT EXPENDITURES
(Percentage change at annual rates)

Percentage change over two quarters ending in:	Survey	Actual	Error
1970:Q2	10.2	6.2	4.0
1971:Q2	1.2	7.7	-6.5
1972:Q2	10.9	9.7	1.2
1973:Q2	12.4	13.1	-.7
1974:Q2	13.7	15.3	-1.6
1975:Q2	9.1	-6.4	15.5
1976:Q2	10.9	12.9	-2.0
1977:Q2	5.4	14.9	-9.5
1978:Q2	10.8	19.2	-8.4
1979:Q2	8.3	11.9	-3.6
1980:Q2	12.8		

early in 1979. In addition, a 13.5 percent increase in net capital appropriations by large manufacturers in the third quarter did little more than offset an 11 percent decline in the second quarter. Excluding the volatile petroleum industry, these appropriations were 6 percent below the record level reached in the first quarter.

In contrast to the commitments data, the most recent Commerce Department survey of plant and equipment expenditures--taken in late October and November--suggests a further rise in capital spending through the first half of 1980. According to the survey, businesses in November anticipated that expenditures would rise at a 14.7 percent annual rate in the fourth quarter of 1979 and at an annual rate of 12.8 percent during the first half of 1980; manufacturers of durable goods were planning the most substantial increases. However, these survey results should be interpreted with some caution since the track record over the years has been somewhat uneven. Moreover, the spending growth planned over the first half of the year, as indicated by this survey, appears to be higher than the increases implied by two private surveys, which reported anticipated expenditures for all of 1980.

Inventory Investment

The pace of inventory investment rebounded in October (the latest month for which total business inventory data are available) from an exceptionally low September rate. In large part this reflected a turnaround in the stocks of motor vehicles and parts. The book value of total manufacturing and trade inventories increased at a $50 billion annual rate, about the same as the average rate of accumulation during the first nine months of the year. Stocks of motor vehicles and parts,

BUSINESS INVENTORIES
(Billions of dollars; annual rate of change
in seasonally adjusted book values)

	1978	1979 Q1	Q2	Q3	Sept.	Oct.
Manufacturing and trade	41.5	49.1	56.3	45.5	4.5	49.9
Manufacturing	18.1	30.2	35.0	28.3	27.4	24.4
Durable	13.7	24.2	25.7	16.9	11.5	25.4
Nondurable	4.4	6.0	9.3	11.4	15.8	-1.0
Trade, total	23.5	18.9	21.3	17.2	-22.8	25.5
Wholesale	12.8	13.2	4.7	12.6	4.0	8.2
Retail	10.7	5.6	16.6	4.6	-18.8	17.3

INVENTORY TO SALES RATIOS

	1978	1979 Q1	Q2	Q3	Sept.	Oct.
Manufacturing and trade	1.42	1.41	1.44	1.42	1.41	1.41
Manufacturing	1.52	1.49	1.55	1.55	1.55	1.53
Durable	1.85	1.82	1.94	1.97	1.97	1.96
Nondurable	1.15	1.11	1.11	1.10	1.09	1.08
Trade, total	1.33	1.33	1.33	1.30	1.28	1.29
Wholesale	1.29	1.23	1.18	1.17	1.16	1.15
Retail	1.45	1.43	1.48	1.44	1.40	1.44

which fell at more than a $30 billion annual rate in September, rose at a $7 billion rate in October. Overall, however, the inventory to sales ratio for manufacturing and trade remained unchanged in October.

Retail trade stocks rose at an annual rate of $17 billion in October, following a $19 billion rate decline in September. This turn-around, as already indicated, can be attributed in large part to the buildup at dealers of motor vehicles, following two months of rapid liquidation. However, dealers' unit stocks of domestic autos again edged down somewhat in November. Manufacturers added to inventories at a $25 billion annual rate in October, down somewhat from the average of the first three quarters, but still fairly high in comparison with annual averages for recent years. The October increase was entirely in durable goods, with most of the accumulation at producers of aircraft and machinery. By stage of fabrication, the book value of manufacturers' materials and supplies increased at a $14 billion annual rate in October, after remaining unchanged in September. The rise in these stocks over the six months ending in October had been at a moderate $9 billion annual rate.

Government Sector

Available Treasury data now indicate that the federal government's unified budget deficit in the fourth quarter of 1979 was $25 billion (not seasonally adjusted), up slightly from a year earlier. To date, outlay growth has exceeded earlier Administration expectations, with gains particularly noticeable in defense, interest payments on the public debt, and CCC loans to farmers. Congressional action on the military appropriations bill and Administration commitments for higher real defense expenditures both suggest that the recent sizable rise in arms spending is likely to continue in the year ahead. On the receipts side of the budget, federal tax collections also increased more than anticipated, mainly because of larger than expected gains in nominal income that further boosted receipts of withheld taxes.

Both the Senate and House have now passed bills imposing a "windfall" tax on the additional producers' revenues that result from the phased decontrol of oil prices. Over the 1980-1990 period, the tax proceeds of the conference committee version of the bill are tentatively estimated at $227 billion. The Senate bill earmarks a portion of these revenues to fund mass transit projects, low income heating assistance, and energy conservation and development programs.

Spending by state and local governments appears to have slowed recently, with construction outlays falling and employment remaining essentially unchanged. New construction put-in-place, typically a volatile series, decreased 5 percent in November, following a robust 8-1/2 percent increase in October. In real terms, expenditures continued to run around 8 percent below the peak level of October 1978. State and local government payrolls reportedly changed little in November, following a small decrease in the previous month. The sector's weak employment picture reflects, in part, reductions in federal appropriations for subsidized public service jobs for the 1980 fiscal year.

Prices

Aggregate price measures continued to rise during October and November at about the same rapid pace as in earlier months of 1979. Consumer prices advanced by 1 percent in both months, continuing the

RECENT CHANGES IN PRODUCER PRICES
(Percentage change at annual rates; based on seasonally adjusted data)[1]

	Relative Importance[2] Dec. 1978	Dec. 77 to Dec. 78	Dec. 78 to Nov. 79	1979 Sept.	Oct.	Nov.
Finished goods	100.0	9.2	12.7	17.1	12.5	15.6
Consumer foods	25.4	11.9	8.4	22.0	-1.1	31.6
Consumer nonfood	45.2	8.4	17.9	22.6	19.4	12.0
Energy	7.2	8.0	65.8	81.2	56.1	29.6
Exc. energy	38.1	8.5	9.0	8.5	9.1	7.1
Capital equipment	29.4	8.0	8.6	3.3	14.3	6.5
Intermediate materials[3]	94.6	8.3	16.3	18.4	22.4	10.8
Exc. food and energy	83.5	8.9	12.8	12.2	20.1	7.9
Crude food materials	58.6	18.3	12.3	17.5	5.8	23.9
Crude nonfood	41.4	15.6	25.7	35.1	33.7	24.1
Exc. energy 4/	11.2	21.3	20.8	3.2	52.5	47.3

1. Changes are from final month of preceding period to final month of period indicated. Changes for other than monthly and yearly periods are compounded.
2. Relative importance weights are on a stage of processing basis.
3. Excludes intermediate materials for manufacturing food and animal feed.
4. Also excludes agricultural nonfood materials.

RECENT CHANGES IN CONSUMER PRICES[1]
(Percentage change at annual rates; based on seasonally adjusted data)[2]

	Relative importance Dec. 1978	Dec. 77 to Dec. 78	Dec. 78 to Oct. 79	1979 Sept.	Oct.	Nov.
All items	100.0	9.0	13.1	13.0	11.8	11.7
Food	18.2	11.8	9.4	10.7	9.1	6.5
Energy[3]	8.5	8.0	38.5	32.4	12.6	1.2
All items less food and energy[3]	73.3	8.5	11.2	12.0	11.9	14.0
Commodities	35.9	7.6	8.7	7.7	7.7	11.4
Services	37.4	9.3	13.3	13.1	15.0	13.3
Memoranda:						
Gasoline	4.2	8.5	53.7	41.8	21.0	20.6
Homeownership	23.6	12.4	19.6	16.6	23.0	25.6

1. Based on index for all urban consumers.
2. Changes are from final month of preceding period to final month of period indicated. Changes for other than monthly and yearly periods are compounded.
3. Energy items (not seasonally adjusted): gasoline and motor oil, fuel oil and coal, gas and electricity.

steady 13 percent annual rate of increase observed so far in 1979. Producer prices for finished goods rose at an annual rate of nearly 16 percent in November, slightly more than the average increase over the three previous months. Prices of materials continued to rise rapidly at the crude level, for both foodstuffs and nonfood materials, but slowed at the intermediate level.

Increases in homeownership costs accounted for a substantial part of the CPI advances in October and November. This component, with a relative importance weight of nearly one-fourth of the overall index, rose at about a 27 percent annual rate over the two months, as the CPI measures of both home prices and mortgage interest rates continued to increase sharply. The rise in mortgage interest rates is due, in part, to the increases in the FHA/VA ceiling rates in September and October. Recent increases in commitment rates for conventional mortgage financing, which lead the closing rates used in the CPI by about 1 quarter, suggest no near-term slowing of increases in the mortgage rate component. In other shelter costs, rents accelerated sharply in October, probably reflecting a passthrough of fuel costs, but rose less rapidly in November.

Retail food price increases were somewhat smaller in November, after substantial advances in September and October. This moderation was partly due to a slower rise in meat prices, with beef prices registering a small decline following 2 months of large increases. Advances in prices of crude foodstuffs, a leading indicator of near-term retail food prices, have averaged about 1-1/4 percent per month over the last three months, with a 2 percent rise in November.

Energy price increases have slowed markedly in recent months, although they remain quite large. Renewed acceleration seems likely in the near term, however, as a number of oil companies recently have announced sizable gasoline price hikes. These price increases are in response to a further round of imported crude oil price hikes, some of which were made retroactive to November 1.

Price pressures have been less evident outside the food, energy and homeownership areas; nevertheless, prices of other consumer goods and services have generally advanced in 1979 at a pace slightly above that in 1978. These larger price increases reflect, for the most part, past changes in labor costs, which accelerated sharply in 1978, while energy and materials costs play a much smaller role. Price increases for capital equipment slowed in November, with smaller increases for many machinery groupings as well as a slight decline for trucks; but so far in 1979 they have increased at a pace slightly higher than during 1978. Price increases of intermediate materials also slowed considerably in Novemeer, but remained about 12 percent above their level a year ago.

Wages

The average hourly earnings index rose at a 9-1/2 percent annual rate in November. The index has risen at an annual rate of 8 percent since the preceding December, compared to an 8-1/2 percent increase during 1978. The nondurable manufacturing sector and the transportation industry, in which a new Teamsters' contract was negotiated last spring, have been the major sectors where an acceleration in wages has occurred since 1978. The moderation in wages in other sectors has been most marked in trade and in contract construction.

HOURLY EARNINGS INDEX[1]
(Percent change at compound annual rates;
based on seasonally adjusted data)[2]

	Dec. 77 to Dec. 78	Dec. 78 to Nov. 79	1979 Q1	Q2	Q3	Oct.	Nov.
Total private nonfarm	8.5	7.9	8.5	7.1	8.5	3.7	9.5
Manufacturing	8.6	8.6	8.5	9.7	8.1	7.0	9.1
Durable	8.8	8.4	8.6	10.0	7.9	4.8	9.5
Nondurable	8.2	9.1	8.4	9.1	8.5	11.1	8.4
Contract construction	7.7	6.5	7.7	7.6	6.6	-2.5	9.0
Transportation and public utilities	7.5	8.8	8.6	3.5	15.9	4.9	7.5
Total trade	9.6	7.6	10.3	5.8	7.2	1.8	12.0
Services	7.7	7.2	7.5	5.4	7.3	3.9	8.3

1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2. Changes for other than monthly and yearly periods are compounded.

SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Level	Net change from: Month ago	Three months ago	Year ago
	$ billions		Percent at annual rates		
Monetary and credit aggregates[1]					
Total reserves	November	42.7	4.5	12.4	2.6
Nonborrowed reserves	November	40.7	8.1	4.5	-0.3
Money supply					
M-1	November	378.9	1.0	4.9	5.1
M-2	November	943.4	6.1	9.1	8.0
M-3	November	1611.1	5.5	7.9	7.9
Time and savings deposits (less CDs)	November	564.5	9.6	11.9	10.0
CDs[2]	November	95.0	3.9	9.1	-0.4
Thrift deposits (S&Ls + MSBs + Credit Unions)	November	667.7	4.3	6.2	7.8
Bank credit	November	1133.0	0.5	9.6	12.0

Indicator		Latest data Period	Percent or index	Net change from: Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	12/26/79	13.49	1.03	1.58	3.24
Treasury bill (90 day)	"	12/26/79	12.01	.79	1.89	2.71
Commercial paper (90-119 day)	"	12/26/79	13.35	.44	1.60	2.83
New utility issue Aaa	"	12/28/79	—	—	—	—
Municipal bonds (Bond Buyer)	1 day	12/27/79	7.23	-.03	.67	.62
FNMA auction yield (FHA/VA)		12/26/79	12.55	-.02	1.30	1.95
Dividend price ratio (common stocks)	wk endg.	12/26/79	5.56	.01	.32	.17
NYSE index (12/31/65=50)	end of day	12/24/79	61.74	2.08	-.63	7.38

	Period	Net change or gross offerings: Latest data	Year ago	Year to date 1979	Year to date 1978
Credit demands					
Business loans at commercial banks[1]	November	-0.7	3.4	41.8	33.2
Consumer installment credit outstanding[1]	October	2.2	3.4	31.7	35.0
Mortgage debt outstanding (major holders)[1 3]	September	8.2	9.2	75.8	83.4
Corporate bonds (public offerings)	November	1.5e	1.6	24.0e	18.7
Municipal long-term bonds (gross offerings)	December	3.3e	3.7	43.0e	48.5
Federally sponsored agency (net borrowing)	November	2.5e	1.2	22.2e	20.5
United States Treasury (net cash borrowing)	November	5.5	5.2	26.1	50.0

1. Seasonally adjusted.
2. $ billions, not at annual rates
3. Includes comm'l banks, S&Ls, MSBs, life insurance companies, FNMA, and GNMA.
e. Estimated

Interest rates in securities markets declined further following the November FOMC meeting, extending the downtrend from peak levels that began in late October-early November. A portion of this decline has been erased since late November, however, in response to indications that economic activity was less weak than expected in the fourth quarter and to increasing concerns about the inflationary implications of OPEC actions.

Over the intermeeting period as a whole, short-term rates have registered net declines of about 20 to 60 basis points and major banks have lowered their prime rates 50 basis points to 15-1/4 percent. Treasury bond yields have also dropped about 20 to 60 basis points while yields on high grade corporate issues, municipal bonds, and home mortgages have changed only minimally. Short-term rates are now about 1/2 to 1-1/2 percentage points, and bond yields about 1/2 to 1 percentage point, above levels prevailing at the time of the October 6 meeting.

Because of the uncertainties that continue to influence attitudes in financial markets, demands for highly liquid investments have remained strong since the November FOMC meeting and yield spreads between securities of differing quality have generally widened a bit. In spite of the short-range uncertainty among market participants, there still appears to be a consensus that interest rates will be declining significantly in 1980. This outlook is reflected, for example, in the Treasury bill futures market where rates on 90-day bills for June 1980 delivery are almost 2 percentage points below spot market quotations.

SELECTED FINANCIAL MARKET QUOTATIONS
(percent)

	1974 High[2]	1978 Jan.4[1]	1979 Jan.3[1]	1979[2] FOMC Oct.5	FOMC Nov.20	Jan.2	Change from: Oct. FOMC	Nov. FOMC
Short-term rates								
Federal funds[3]	13.55	6.69	10.59	11.91	13.10	14.04	2.13	.94
Treasury bills								
1-month	9.88	5.81	8.93	10.40	11.75	10.86	.46	-.89
3-month	9.63	6.16	9.30	10.70	11.92	12.17	1.47	.25
6-month	9.75	6.45	9.49	10.63	12.02	11.97	1.34	-.05
1-year	9.54	6.55	9.68	10.28	11.42	11.00	.72	-.42
Commercial paper								
1-month	12.25	6.62	10.32	11.73	13.29	13.28	1.55	-.01
3-month	12.25	6.68	10.57	11.86	13.56	13.15	1.29	-.41
6-month	12.00	6.70	10.62	11.84	13.21	12.67	.83	-.54
Large negotiable CDs[4]								
1-month	12.58	6.62	10.37	12.09	13.66	13.29	1.20	-.37
3-month	12.64	6.76	10.93	12.50	13.95	13.33	.83	-.62
6-month	12.30	7.01	11.51	12.80	14.02	13.31	.51	-.71
Eurodollar deposit[3]								
1-month	13.78	6.89	11.14	12.45	14.33	14.27	1.82	-.06
3-month	14.01	7.25	11.81	12.79	15.16	14.65	1.86	-.51
Bank prime rate	12.00	7.75	11.75	13.50	15.75	15.25	1.75	-.50
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	8.84	7.38	9.61	10.01	11.40	10.77	.76	-.63
10-year	8.14	7.81	9.16	9.60	10.78	10.50	.90	-.28
20-year	n.a.	8.06	8.97	9.36	10.39	10.23	.87	-.16
Municipal (Bond Buyer)[5]	7.15	5.64	6.58	6.64	7.31	7.23	.59	-.08
Corporate Aaa								
New issue[6]	10.61	--	--	10.22	11.50	--	--	--
Recently offered[7]	10.52	8.48	9.51	10.25	11.41	11.40p	1.15	-.01
Primary conventional mortgages[7]	10.03	9.00	10.38	11.35	12.80	12.90	1.55	.10

	1974 Low[3]	1978 Jan.6[3]	1979 Jan.5[3]	FOMC Oct.5	FOMC Nov.20	Jan.2	Oct. FOMC	Nov. FOMC
Stock prices								
Dow-Jones Industrial	577.60	807.43	821.42	897.61	809.22	824.57	-73.04	15.35
NYSE Composite	32.89	51.34	54.74	63.39	59.09	60.69	-2.70	1.60
AMEX Composite	58.26	125.20	154.98	235.15	220.63	241.41	6.26	20.78
NASDAQ (OTC)	54.87	103.13	119.92	152.29	139.50	148.17	-4.12	8.67

1. Statement week averages except where noted.
2. One-day quotes except as noted.
3. Averages for statement week closest to date shown.
4. Secondary market.
5. One-day quotes for preceding Thursday.
6. Averages for preceding week.
7. One-day quotes for preceding Friday.
8. Calendar week averages.

Aggregate credit flows to the private sector generally appear to have weakened during the fourth quarter. In addition to the sharp rise in the cost of credit, this development reflects the effects of a significant tightening of lending standards and terms, as well as some dropoff in credit demands with the apparent slackening of economic growth. Business net borrowing at commercial banks and in the commercial paper market, after slowing in October, turned negative in November before apparently recovering moderately in early December. Offerings of longer-term securities by nonfinancial corporations remained light in November and December. Installment borrowing by households weakened noticeably in October and November, and mortgage lending fell sharply in November. Treasury borrowing on the other hand, was comparatively heavy in the fourth quarter, reflecting a large fourth-quarter deficit, and state and local financing remained sizable.

The monetary aggregates grew at a reduced pace during the final quarter of 1979. M-1 advanced at about a 5-1/2 percent annual rate in December and 5 percent for the quarter as a whole. M-2 growth decelerated during the quarter, reflecting the moderation in M-1 and a slowing in the interest-bearing component of the broader aggregate.

Monetary Aggregates and Bank Credit

Despite the moderate pickup of M-1 growth in December, the fourth quarter gain was only about half the 9-3/4 percent advance in the third quarter. The slower pace of economic expansion and the attraction of unusually high nominal yields on interest-bearing assets damped growth of M-1 during the quarter. The impact on M-1 growth of movements into ATS and NOW accounts meanwhile was negligible.

MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth)[1]

	1979 Q1	1979 Q2	1979 Q3	1979 Q4[e]	1979 Nov.	1979 Dec.[e]	Dec. '78 to Dec. '79[e]	Q4 '78 to Q4 '79[e]
Major monetary aggregates								
1. M-1	-2.1	7.6	9.7	4.9	1.0	5.4	5.4	5.1
2. Currency	9.1	8.1	11.1	8.5	4.6	5.7	9.0	9.5
3. Demand deposits	-6.2	7.5	9.2	3.4	-0.4	5.3	4.0	3.5
4. M-2	1.8	8.6	12.0	8.9	6.1	6.1	8.3	8.0
5. M-3	4.7	7.9	10.5	7.8	5.5	6.4	8.0	8.0
Bank time and savings deposits								
6. Total	8.4	1.2	9.0	14.6	15.5	4.4	8.3	8.5
7. Other than large negotiable CDs at weekly reporting banks	4.5	9.3	13.6	11.7	9.6	6.8	10.3	10.1
8. Savings deposits	-9.6	-3.1	5.5	-13.4	-34.7	-10.2	-6.0	-5.1
9. Individuals [2]	-9.4	-2.9	6.3	-12.2	-32.4	-9.1	-5.4	-4.5
10. Other [3]	-13.0	-8.1	-2.7	-30.3	-52.2	-18.2	-13.3	-13.0
11. Time deposits	15.6	18.5	19.2	28.6	37.9	17.0	22.8	22.0
12. Small time [4]	16.5	36.3	26.9	30.3	45.5	30.7	33.0	30.4
13. Large time [4]	13.6	-12.1	4.5	24.6	21.3	-11.5	5.5	7.7
14. Time and savings deposits subject to rate ceilings (8+12)	2.2	15.1	15.9	8.4	6.4	11.5	11.6	10.8
Deposits at nonbank thrift institutions [5]								
15. Total	8.8	6.8	8.4	6.4	4.3	6.8	7.5	7.9
16. Savings and loan associations	11.3	7.8	9.2	8.9	8.0	9.0	9.4	9.6
17. Mutual savings banks	4.6	3.1	2.2	0.0	-2.5	-1.7	2.0	2.5
18. Credit unions	0.8	8.3	19.3	0.7	-6.3	8.5	7.2	7.4
MEMORANDA: Monthly changes in billions of $								
19. Total U.S. govt. deposits [6]	-2.0	1.5	0.7	-0.8	-4.5	2.4	-1.9	-0.2
20. Total large time deposits [7]	1.3	-6.3	2.5	3.6	5.9	-1.9	0.3	0.7
21. Nondeposit funds	5.3	5.0	5.2	n.a.	-5.1	n.a.	n.a.	n.a.
22. Other [8]	2.0	1.3	2.2	n.a.	-5.5	n.a.	n.a.	n.a.
23. Net due to related foreign institutions	3.3	3.7	3.0	n.a.	0.3	n.a.	n.a.	n.a.

e—estimated. n.a.—not available.
1. Quarterly growth rates are computed on a quarterly average basis.
2. Savings deposits held by individuals and nonprofit organizations.
3. Savings deposits of business, government, 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 are based on average of current and preceding end-of-month data.
6. Includes Treasury demand deposits at commercial banks and Federal Reserve Banks and Treasury note balances.
7. All large time certificates, negotiable and nonnegotiable, at all CBs.
8. Domestic nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money (including borrowings from the Federal Reserve), and loans sold, less interbank borrowings.

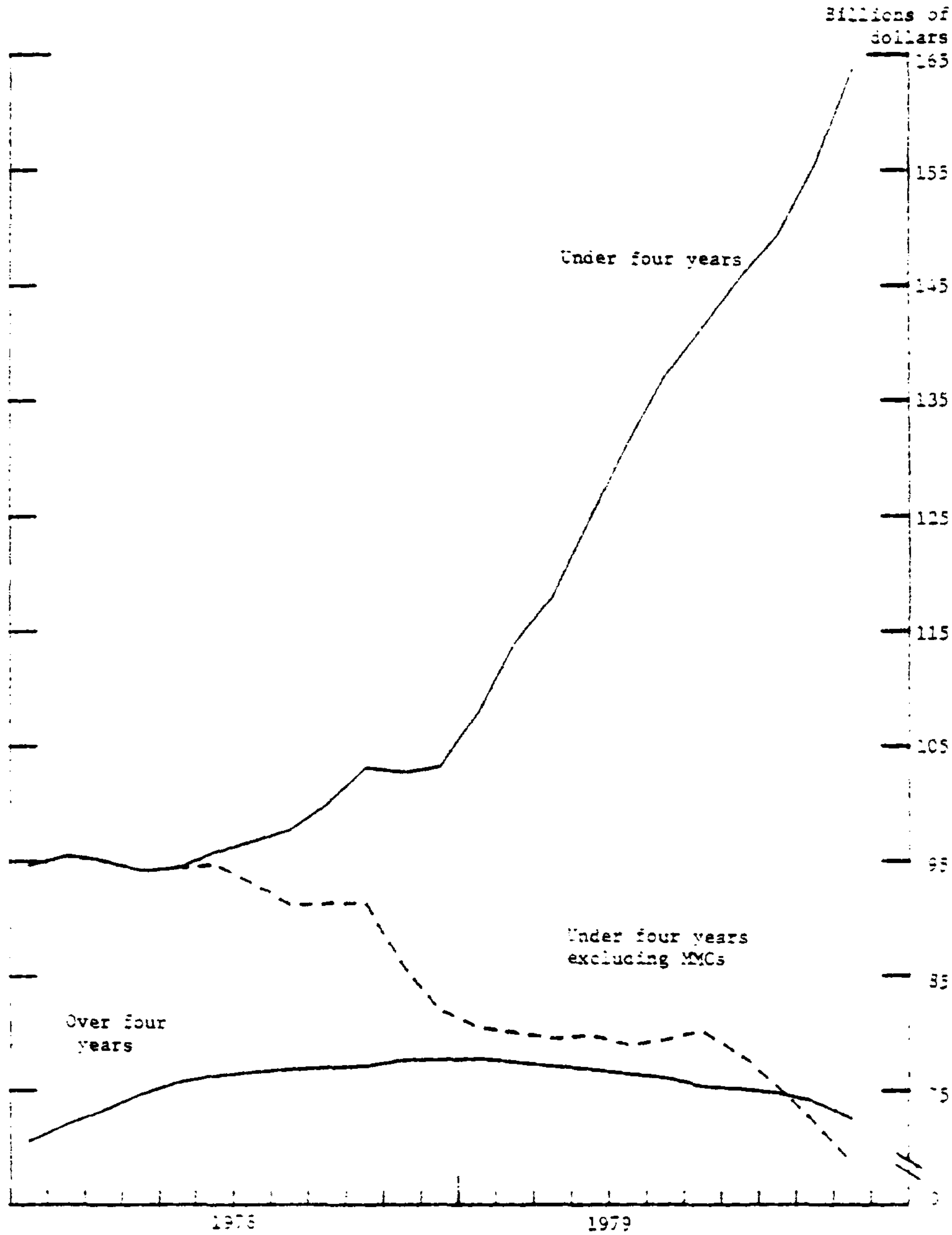
Time and savings deposit flows at commercial banks in November and December continued to exhibit the wide monthly swings typical of the past year. On balance, growth in the interest-bearing component of M-2 was less rapid in the fourth quarter than in the third. While the time deposit portion strengthened, there was a large contraction in savings deposits--an outflow that apparently crested in November at a record $6-1/4 billion.

Particularly strong growth for small time deposits at banks in the fourth quarter was fueled entirely by MMCs. In the year and a half since MMCs were introduced, they have more than accounted for the cumulative growth in small time deposits, and by October had reached 40 percent of the outstanding stock of these deposits (see chart on page III-6). Net issuance of MMCs abated somewhat following October's record $15 billion increase, although substantial sums reportedly remain in savings accounts with balances over $10,000 which could be readily converted into MMCs.[1]

MMC issuance at thrift institutions also remained brisk in November, though below the October pace, while large net withdrawals were made from passbook accounts. Fragmentary data suggest that this disparity may have moderated somewhat at S&Ls in December, as at banks. S&Ls continued to rely heavily on large time deposits in November, but reportedly cut back on their issuance in December. Overall, growth in thrift deposits--and

1. Beginning January 1, 1980, depositary institutions have been authorized to offer a new floating rate certificate with maturities of 2-1/2 years or more. The certificate has no required minimum denomination, and the maximum nominal rate is set for thrifts at 50 basis points below the market yield on a 2-1/2 year Treasury obligation (75 basis points for commercial banks). Also effective on this date, the rate ceiling on 90-day to 1-year deposits has been increased by 25 basis points.

Small-Denomination Time Deposits At Commercial Banks
by Original Term to Maturity



in M-3--slowed during November, then apparently picked up a little in December.[1]

At the same time that savers were acquiring additional MMCs and reducing their fixed-ceiling deposits in the fourth quarter, they were also expanding their holdings of nondeposit assets sharply further. Money market mutual funds, for instance, swelled by $3 to $4 billion a month during the final quarter, and in November noncompetitive tenders at 3- to 6-month Treasury bill auctions reached their highest monthly total of the year before slowing somewhat in December.

Managed liabilities at banks rose less than $1 billion in November, well below the nearly $6 billion increase in the previous month. As in October, the increase in managed liabilites was entirely in the form of large-denomination time deposits issued in domestic markets, which expanded $6 billion before contracting in December; nondeposit funds, principally repurchase agreements, declined in November (December data are unavailable). Some banks reportedly were attempting to keep managed liabilities from rising above base levels in order to avoid incurring marginal reserve requirements. A number of large member banks, particularly those with weak loan demand, have remained under this base, as have most U.S. agencies and branches of foreign banks, since late November. For all banks, managed liabilities subject to marginal reserve requirements averaged $5 billion in November--equal to about 2 percent of all managed liabilities--and declined in December, reflecting in part a runoff of large time deposits.

1. An appendix in the Greenbook supplement will discuss recent developments regarding S&L liability structures.

Total reserve growth rebounded to a 15-1/4 percent annual rate in December, raising the average growth rate over the September-to-December period to 13-3/4 percent. This rate exceeded the growth of required reserves over the same period by 2 percentage points, as excess reserves doubled over the three months, perhaps reflecting uncertainties related in part to the new operating procedures. Despite a December spurt in the growth of nonborrowed reserves, this reserve aggregate advanced slightly more slowly than total reserves from September to December, a development associated with an increase over the three months in member bank borrowing at the discount window.

Total bank credit remained about unchanged in November following a relatively small advance in October, as an increase in investments offset a slight decline in total loans, centered in business and security loans. Mortgage loan growth, which in large part reflected commitment decisions made before October 6, was only slightly below the pace of other recent months.

Business Sector Finance

Bank lending to businesses (net of bankers acceptances held) contracted in November, in contrast to double-digit increases earlier in the year. Small banks shared in the weakness that had first developed at large banks and at foreign-related institutions in the previous month. Slackening business demand for short- and intermediate-term credit was suggested also by the sharp November drop in commercial paper outstanding and by the abrupt slowing of growth in total bankers acceptances in October.[1] This weakness appears to have abated in December. In the first

1. The new treatment of bankers acceptances in the reported measures of short- and intermediate-term business credit is presented in Appendix A.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percent changes at annual rates, seasonally adjusted)

	1978 Q3	1978 Q4	1979 Q1p	1979 Q2p	1979 Q3e	1979 Oct.e	1979 Nov.e	12 months ending Nov.e
1. Total loans and investments at banks 2	13.3	12.7	13.3	11.9	15.8	6.4	0.5	12.0
2. Investments	6.4	-1.8	7.6	5.4	8.5	5.5	3.4	5.9
3. Treasury securities	1.2	-21.1	2.1	3.8	1.7	1.3	-11.3	-1.7
4. Other securities	9.4	9.5	10.5	6.2	12.1	7.7	10.8	10.1
5. Total loans 2	15.9	18.2	15.2	14.2	18.2	6.7	-0.3	14.2
6. Business loans	12.7	14.2	20.5	16.6	22.7	10.4	-3.3	17.1
7. Security loans	-16.7	-23.3	33.0	38.1	8.7	-148.1	-134.0	-8.0
8. Real estate loans	20.4	17.7	14.6	13.0	14.7	15.4	13.2	15.2
9. Consumer loans	17.9	15.9	16.3	12.4	7.5	7.3	7.3	11.8
10. Total short- and intermediate-term business credit (sum of lines 13,14 and 15)	11.5	19.4	20.8	20.1	27.4	10.0	n.a.	n.a.
11. Business loans net of bankers acceptances 1	12.6	14.4	20.4	16.6	21.7	13.7	-3.0	17.2
12. Commercial paper issued by nonfinancial firms 3	23.1	17.5	33.5	65.7	69.7	12.7	-33.6	47.1
13. Sum of lines 11 & 12	13.1	14.6	21.4	20.3	25.7	13.6	-5.8	19.4
14. Finance company loans to business 4	5.5	25.0	16.6	17.7	9.4	-5.2	n.a.	n.a.
15. Total bankers acceptances outstanding 4	10.0	50.2	24.8	23.3	74.9	8.4	n.a.	n.a.

e—estimated. p—preliminary. n.a.—not available.
1. Average of Wednesdays for domestic chartered banks and average of current and preceding ends of months for foreign-related institutions.
2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.
3. Average of Wednesdays.
4. Based on average of current and preceding ends of months.

three weeks of the month, outstanding business loans at large banks were about unchanged, and commercial paper issuance picked up significantly.[1]

The slowdown in business lending at banks in November reflected curtailed availability of credit, as well as reduced demand, according to the Senior Loan Officer Opinion Survey of Bank Lending Practices taken in mid-month. Two-fifths of the respondent banks--about double the number in August--expressed a reduced willingness to extend business loans, and a large number reported tighter standards of creditworthiness and more stringent compensating balance requirements. Consistent with these tighter policies, the Survey of Terms of Bank Lending for November indicated that fewer loans were being made without prior commitment and that a higher proportion carried floating rates.[2] Moreover, there was a substantial decline in the proportion of short-term loan extensions made below prime at large banks.

Gross public offerings of corporate bonds in November and December fell substantially below the average monthly levels of the second and third quarters, a decline that occurred in the face of deteriorating balance sheet conditions. Most measures of corporate financial position indicated weakness on a par with 1974 experience. Corporate bond underwriters have generally attributed the recent low volume of industrial debt financings to a widespread reluctance to issue longer-term debt at

1. December loan volume included a $1.1 billion loan to Shell Oil Company by a syndicate of 25 U.S. banks to finance the purchase of Belridge Oil.
2. Unused loan commitments to business firms rose sharply for the second consecutive month in November, likely reflecting concerns of C&I customers regarding the future availability of bank credit.

GROSS OFFERINGS OF CORPORATE AND FOREIGN SECURITIES
(Monthly totals or monthly averages, in millions of dollars)

	1979					1980	
	H1	Q3[p]	Q4[p]	Nov.[p]	Dec.[p]	Jan.[f]	Feb.[f]
	Seasonally adjusted						
Corporate securities--total	4,335	4,275	3,450	3,200	3,175	3,525	3,100
Publicly offered bonds	2,125	2,350	1,800	1,400	1,650	1,750	1,600
Privately placed bonds	1,555	900	1,000	1,000	1,000	1,000	900
Stocks	655	1,025	650	800	525	775	600
	Not seasonally adjusted						
Publicly offered bonds--total	2,280	2,075	1,850	1,450	1,400	1,900	1,500
By quality[1]							
Aaa and Aa	1,225	1,250	950	650	650	--	--
Less than Aa[2]	1,055	825	900	800	750	--	--
By type of borrower							
Utility	700	575	1,080	1,325	670	--	--
Industrial[3]	635	850	575	125	300	--	--
Financial	945	650	195	0	430	--	--
Foreign securities--total[4]	408	517	435	375	0	300	300

1. Bonds categorized according to Moody's bond ratings.
2. Includes issues not rated by Moody's.
3. Includes equipment trust certificates.
4. Includes both publicly offered and privately placed issues.
p. Preliminary.
f. Forecast.

near-record interest rates.[1] A relatively light volume of financial issues in the fourth quarter partly reflected a slowdown in offerings of mortgage-backed bonds by S&Ls.

Private placements of corporate bonds appear to have remained well below the $1.6 billion pace recorded in the first half of 1979. Because corporate bond commitments are currently low at life insurance companies (the principal investor in private placements), takedowns are unlikely to recover substantially in coming months. Life insurance industry representatives cite a comparatively large volume of mortgage commitments outstanding and the expectation of a somewhat slower growth in cash flow as reasons for the reduced pace of corporate bond acquisitions. In addition, policy-loan extensions have climbed dramatically since October 6, thereby reducing total investable funds. The proportion of funds diverted to policy loans, however, has probably been below the near-record share recorded in the third quarter of 1974.

Although fluctuating rather widely, corporate bond yields have changed little on balance since the November FOMC meeting. Rate spreads between quality categories of corporate bonds have widened somewhat in recent weeks, however. These spreads are generally about twice as large as they were prior to October 6, though well below levels reached in mid-October.

Most major stock price indexes have risen about 3 to 10 percent from their levels at the time of the November FOMC meeting. A somewhat

1. Exclusion of IBM's $1.0 billion note and bond financing, which was publicly offered by underwriters on October 4, would reduce the fourth quarter average of industrial debt issues to the smallest volume since 1973.

reduced slate of new equity offerings in December was again dominated by public utility issues.

Government Debt Markets

With the federal budget moving substantially further into deficit in the fourth quarter and with a large deficit also projected for the first quarter, the Treasury raised an estimated $18 billion in new cash during the October-December period. Given the large need for new money at a time when a sizable volume of coupon issues was maturing, the Treasury for the first time since 1976 began to make significant net additions to the weekly bill auction. New funds raised in this manner totaled $3.7 billion for the quarter. The Treasury also issued about $7.3 billion of cash management bills dated to mature in the spring, substantially above the volume of such bills issued in other recent fourth quarters.

Borrowing by the federally sponsored credit agencies totaled a relatively strong $2.3 billion in November, after seasonal adjustment, and is estimated at about $3.0 billion in December. Borrowing by the Federal Home Loan Banks to rebuild liquidity, by FNMA to finance mortgage acquisitions, and by the Farm Credit Banks to meet intensified credit demands all contributed to the continued strong growth in federal agency indebtedness. For the full fourth quarter, borrowing by the sponsored credit agencies amounted to about $8.3 billion--the largest quarterly volume ever recorded--and this brought total agency borrowing for the year to a record $23.9 billion.

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

	1979					1980	
	H1	Q3	Q4[e]	Nov.[e]	Dec.[e]	Jan.[f]	Feb.[f]
			Seasonally adjusted				
State and local government securities, gross offerings							
Total	5,057	5,486	5,700	6,200	5,668	5,100	4,800
Long-term	3,337	3,586	4,300	4,250	4,018	3,000	2,700
Short-term	1,720	1,900	1,400	1,950	1,650	2,100	2,100
U.S. government securities, net offerings							
U.S. Treasury[1]	3,278	1,688	3,892	8,105	3,237	3,705	10,927
Sponsored agencies	2,219	734	2,767	2,315	3,035	1,935	2,942
			Not seasonally adjusted				
State and local government securities, gross offerings							
Total	5,409	5,266	5,200	6,000	4,600	4,600	4,600
Long-term	3,527	3,381	4,000	4,200	3,300	3,000	2,800
Short-term	1,882	1,885	1,200	1,800	1,300	1,600	1,800
U.S. government securities, net offerings							
U.S. Treasury[1]	1,966	2,168	5,989	10,060	5,425	2,800	14,400
Sponsored agencies	2,090	1,308	2,468	1,894	2,058	1,550	2,025

1. Marketable issues only.
e = estimate.
f = forecast.

A large volume of new state and local government bond issues has been absorbed in recent weeks. Yields on tax-exempts nonetheless have edged downward on balance, with dealers reporting continued strong demand for tax-exempt securities from banks and casualty insurance companies. The decline in municipal bond rates has kept the ratio of tax-exempt to taxable yields close to its historic low recorded in October of 1979.

Offerings of tax-exempt bonds averaged $4.1 billion per month, seasonally adjusted, in November and December, somewhat less than in October but well above the $3.4 billion monthly average of the first three quarters. About one-half of the increase in bond offerings for new capital in the fourth quarter was attributable to a rise in housing revenue bonds. These issues averaged about $1.0 billion per month, divided nearly equally between single- and multi-family housing issues. The single-family issues are still coming to market under rules established last April for bond offerings that were under way at that time, when restrictive legislation was first proposed. Since then, about $4.1 billion of these bonds have been sold. A more recent legislative proposal would liberalize the transition rules sufficiently to permit an additional $10 billion of single-family mortgage revenue bonds to be sold, according to estimates released by the House Ways and Means Committee. For 1979 as a whole, states and localities raised $10 billion through housing revenue bonds, $7 billion of which was used for single-family housing.

Dealers reported that a portion of the increased volume of new capital issues other than housing revenue bonds represented offerings that had been delayed earlier in the year, when interest rates had been expected to decline.

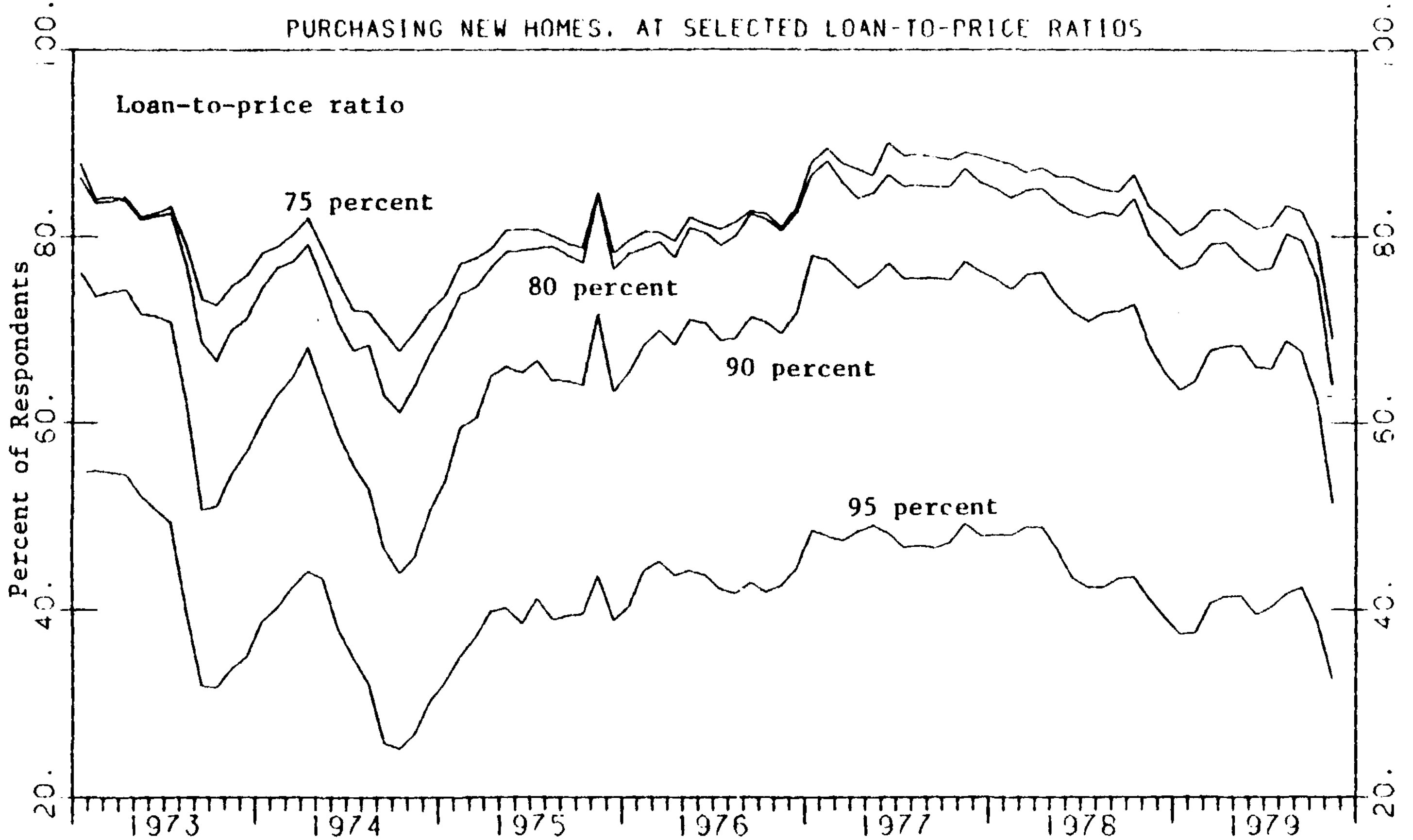
Mortgage Markets

Commitment policies at mortgage lenders have tightened markedly since October. The proportion of major lenders offering commitments for conventional home mortgages was down sharply in early November for all loan-to-value ratio classes (see chart on page III-17). Special FHLBB surveys of large S&Ls suggest that, although some associations liberalized their commitment policies in late November and early December following an earlier pronounced tightening or complete closedown, S&L commitment policy generally remained much more stringent than in September and early October.[1] Data for all operating S&Ls indicate that mortgage commitments outstanding (including loans in process) declined by 10 percent during November to $29.3 billion, and that new commitment volume fell by more than 40 percent. New commitments dropped sharply in each of the 12 FHLBank districts.

In a late-November Federal Reserve survey of commercial banks usually active in the home mortgage market, about two-thirds of respondents reported that they had tightened their mortgage lending policies after October 6, primarily by increasing effective interest rates charged (where permitted by existing ceilings). A mid-December survey of economic and financial developments by the research directors of the Federal Reserve Banks suggested that mortgage lending had fallen sharply,

1. These surveys were conducted as part of a study (coordinated by the Council of Economic Advisers) of changes in mortgage commitment policies at major lenders subsequent to October 6.

PERCENT OF RESPONDENTS OFFERING MORTGAGE COMMITMENTS FOR
PURCHASING NEW HOMES, AT SELECTED LOAN-TO-PRICE RATIOS



Source: Federal Home Loan Bank Board survey of S&Ls, commercial banks, savings banks, and mortgage companies offering 25-year home loans.

INTEREST RATES AND SUPPLY OF MORTGAGE FUNDS
AT SELECTED S&Ls

Period	Conventional home mortgages: Average rate on new commitments for 80% loans (percent)	Basis point change from month or week earlier	Spread[1] (basis points)	Percent of S&Ls[2] with mortgage funds in short supply
1979--High	12.90	—	+174	88
Low	10.38	—	+64	54
1979—Aug.	11.09	0	+160	77
Sept.	11.30	+21	+143	83
Oct.	11.64	+34	+79	83
Nov. 2	12.80	+80	+138	85
9	12.85	+5	+140	88
16	12.80	-5	+139	86
23	12.80	0	+142	88
30	12.90	+10	+173	82
Dec. 7	12.90	0	+174	84
14	12.90	0	+153	87
21	12.90	0	+155	85
28	12.90	0	+150	85

1. Average mortgage rate minus average yield on recently offered Aaa utility bonds.
2. Percent reporting supply of funds slightly or substantially below normal seasonal patterns.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

Period	FNMA auctions of forward purchase commitments: Conventional: Amount ($ millions) Offered	Conventional: Amount ($ millions) Accepted	Conventional: Yield to FNMA[1]	Government-underwritten: Amount ($ millions) Offered	Government-underwritten: Amount ($ millions) Accepted	Government-underwritten: Yield to FNMA[1]	Yields on GNMA-guaranteed mortgage-backed securities for immediate delivery[2]
1979—High	454	172	13.97	1,035	448	13.29	11.77
Low	19	18	10.92	37	19	10.42	9.51
1979—Nov. 5							11.73
13	274	137	13.97	358	169	12.93	11.51
19							11.69
26	92	53	13.35	201	96	12.57	11.36
Dec. 3							11.29
10	207	73	12.98	305	119	12.42	11.18
17							11.49
26	206	80	12.99	344	131	12.55	11.39
31							11.39

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.

as potential borrowers were deterred by higher interest rates and by more stringent nonrate terms.

Special surveys of mutual savings banks and mortgage companies also revealed substantial tightening of lending policies. The mortgage companies reported that the supply of funds for FHA/VA lending continued to be adequate, primarily because the GNMA-guaranteed mortgage-backed securities provide access to the general capital markets. However, they also reported that the demand for FHA/VA funds had weakened considerably owing to high yields required by investors and substantial discounts on loans bearing the current 11-1/2 percent ceiling rate. The availability of funds for conventional loans at mortgage companies apparently has been sharply reduced as permanent investors have cut back the volume of purchase commitments issued to mortgage bankers.

Average interest rates at S&Ls on new conventional mortgage commitments have remained at the exceptionally high levels reached in early November, while secondary market yields have dropped below their early-November highs. In view of high market yields on competing investments, constraints posed by state usury ceilings on conventional home mortgage lending have remained intense. During December, 16 states had fixed ceilings below national average mortgage yields, and in several other states floating rate ceilings tied to Treasury yields were below going mortgage yields. However, on December 28 the President signed into law a bill that temporarily exempts from state usury limits conventional first mortgages made by most types of lenders for the purchase of residential property. Unless revoked by state action, the exemption will apply until March 31, 1980, and covers new mortgage commitments made, as well as loans closed, during the suspension period.

Consumer Credit

Despite considerable variability since mid-year, growth in consumer installment credit outstanding has tapered off substantially, on balance. Expansion averaged around an 8 percent annual rate in October and November, the slowest pace since 1975. The slowdown was most pronounced for auto credit. New loan extensions by credit unions fell in both months, reflecting limitations on lending because of liquidity problems. The amount of installment loans outstanding at credit unions contracted in October for the first time in over seven years and apparently was down further in November.

During the fourth quarter, sharply increasing costs of funds gave impetus to less accommodative consumer loan policies—especially in states where finance rates were subject to restrictive rate ceilings.[1] Commercial banks rationed supplies of consumer credit to a greater extent than before, judging from results of the latest Survey of Senior Bank Loan Officer Opinion. Forty-one percent of the mid-November sample responded that they were moderately less willing or much less willing to make installment loans to individuals than they had been three months earlier. Reports in late December from the research directors of several Federal Reserve Banks confirm an upgrading of consumer lending standards.

Sharply higher consumer finance rates also reveal a movement towards less accommodative policies. Finance rates on selected types of closed-

1. The structure of state regulations affecting consumer installment rates is discussed in Appendix B.

CONSUMER INSTALLMENT CREDIT[1]

	1977	1978	1979 Q2	1979 Q3	1979 Oct.	1979 Nov.p
Total						
Change in outstandings						
Billions of dollars	35.3	44.8	39.9	37.3	26.2	22.2
Percent	18.2	19.4	14.1	12.8	8.7	7.3
Bank share (percent)	52.9	53.1	47.8	32.7	35.3	15.3
Extensions						
Billions of dollars	254.1	298.4	324.2	332.3	332.3	320.9
Bank share (percent)	46.4	47.8	47.9	45.9	45.9	43.9
Liquidations						
Billions of dollars	218.8	253.5	284.3	294.9	306.1	298.6
Ratio to disposable income	16.8	17.4	17.8	18.0	18.4	17.8
Automobile Credit						
Change in outstandings						
Billions of dollars	15.2	19.6	13.2	12.1	5.8	3.9
Percent	22.5	23.6	12.3	11.0	5.2	3.5
Extensions						
Billions of dollars	75.6	89.0	93.7	94.2	92.1	88.5

1. Quarterly and monthly dollar figures and related percent changes are seasonally adjusted annual rates.
p - preliminary.

FINANCE RATES ON CONSUMER
INSTALLMENT CREDIT AT COMMERCIAL BANKS
(Annual percentage rate, not seasonally adjusted)

Type of loan	1979 August	1979 November	Change in basis points
New automobile (36 mo.)	11.88	12.85	+97
Mobile home (84 mo.)	12.65	13.51	+86
Other consumer goods			
24-month	13.76	14.39	+63
12-month	14.02	14.56	+54

Note: Figures are for "most common" rates on direct loans made during the first week of the month.

end consumer installment credit at a sample of commercial banks increased by record amounts between August and November of 1979. The average finance rate on new-car loan contracts at finance companies rose sharply, too, nearly equalling the previous largest 3-month rise. The sizable rate hikes from August to November suggest that finance rates may be approaching their statutory limits in an increasing number of states.

APPENDIX A*

TREATMENT OF BANKERS ACCEPTANCES IN THE MEASURE OF SHORT AND INTERMEDIATE TERM BUSINESS CREDIT

A bankers acceptance--which is a negotiable time draft maturing in less than nine months, guaranteed by a bank, and drawn to finance the shipment or storage of goods--is a financial instrument with characteristics akin to both a business loan and a short-term security. On the one hand, bankers acceptance financing generally is treated like a straight loan in a bank's negotiation of a line of credit with a business borrower. And, if an acceptance, when created, is then bought and held in the portfolio of a bank, it represents funds extended by the bank to a C & I customer. On the other hand, there is an active secondary market in bankers acceptances, and in most instances banks can treat these acceptances like any other short-term security.

Acceptance financing of trade has grown rapidly in recent years, a development not adequately captured by the previous measure of short- and intermediate-term business credit. The previous measure included only those acceptances held in commercial bank portfolios (and therefore reported as business loans). This procedure had two major shortcomings. First, it failed to reflect the rapid growth in recent years of total acceptances outstanding, since most of the acceptances created were held by nonbanks (see chart on page A-3). Second, movements in the old measure sometimes were influenced by factors other than business credit market conditions, as banks altered their holdings of bankers acceptances to reduce taxes.[1/]

The new measure of short- and intermediate-term business credit includes business loans at domestically chartered commercial banks and at U.S. branches and agencies of foreign banks <u>less</u> bankers acceptances held at large commercial banks and foreign related institutions[2] <u>plus</u>

---

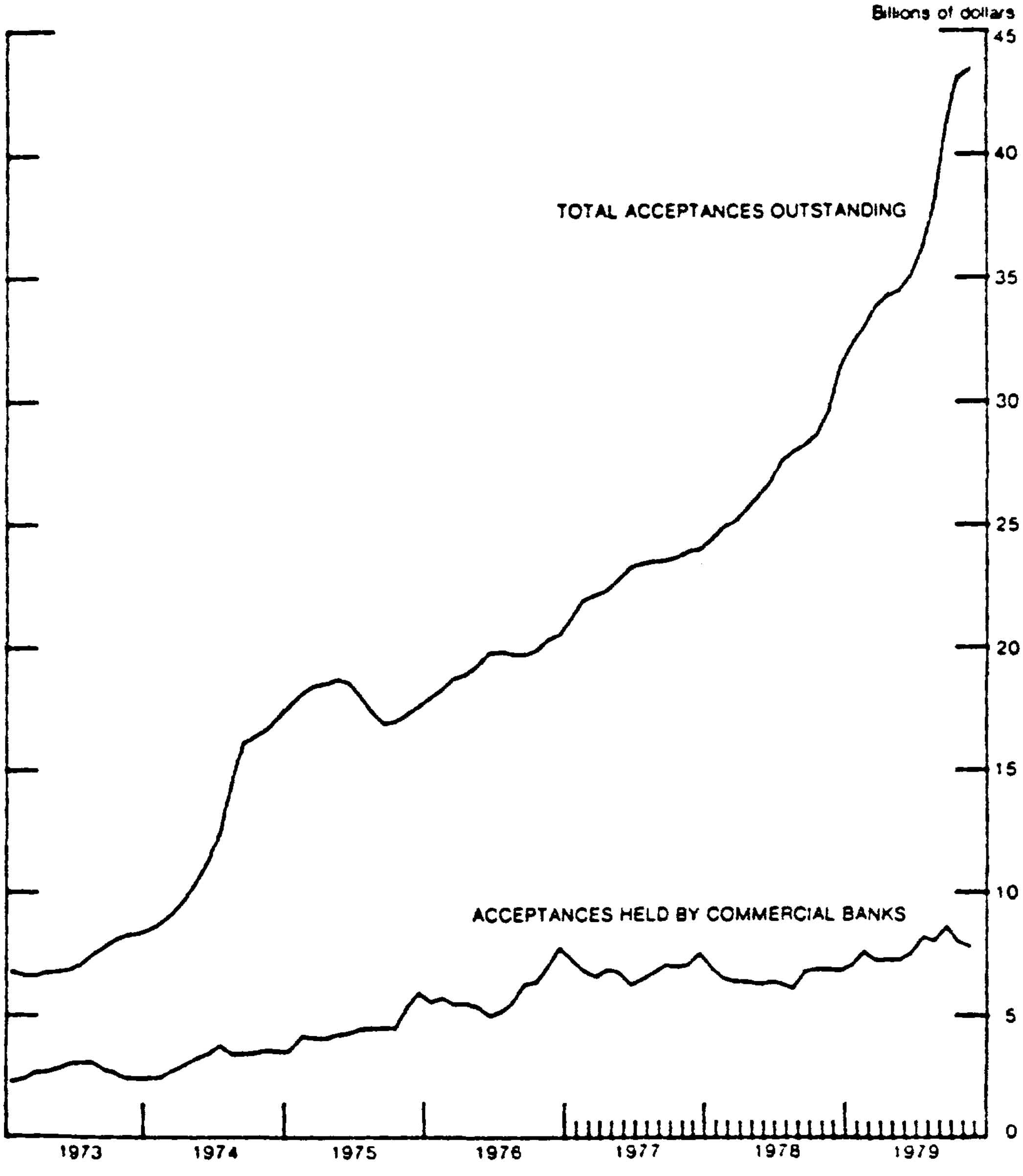
1. In 1975-77, some banks boosted their holdings of acceptances at yearend in order to enlarge C & I loan totals and thus to increase loan loss provisions to reduce income taxes. Acceptances held then ran off sharply at the beginning of each subsequent year. In the past two years, there has been less of an incentive to manipulate their acceptance portfolios because loan growth has been sufficient to build up the loan loss provision and because changes in the tax laws have made the artificial buildup less profitable.
2. No data are available for acceptances held at small banks. However, the amount held at these banks is estimated to be relatively insignificant.
* Prepared by Perry D. Quick, Senior Economist, Banking Section, Division of Research and Statistics.

commercial paper of nonfinancial businesses plus business loans at finance companies plus total bankers acceptances outstanding (columns (1), (7), (8) and (9) of table). The series for acceptances outstanding is from the New York Federal Reserve Bank survey of over 300 commercial banks and foreign-related institutions whose acceptances are traded regularly in the New York market.

In the first ten months of 1979, short- and intermediate-term business credit grew at a 23 percent annual rate (column 10). The rate of expansion of this measure has been falling since August, and is expected to be negative in November.

Bankers Acceptances

Monthly Averages, Seasonally Adjusted



Last observation is October 1979

SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
Seasonally adjusted monthly averages[1]

	Business Loans at Commercial Banks									
	Total Excluding Bankers Acceptances[2,3] (1)	Large Banks Excluding Acceptances[2,3] (2)	Foreign-Related Institutions Excluding Acceptances (3)	Small Banks (4)	Total Acceptances Held[4] (5)	Total Including Acceptances[2,3] (6)	Commercial Paper of Non-financial Business (7)	Business Loans at Finance Companies (8)	Total Bankers Acceptances Outstanding (9)	Total Short- and Intermediate-Term Business Credit (10)
					Level in Billions of Dollars					
1978—December	241.7	128.4	25.0	88.3	6.8	248.5	19.1	62.8	32.3	355.9
1979—February	251.9	132.8	26.4	92.7	7.6	259.5	19.8	64.5	33.8	370.0
March	255.1	134.1	27.2	93.8	7.2	262.3	20.7	65.4	34.3	375.5
April	258.7	137.7	27.9	93.1	7.3	266.0	22.0	66.3	34.5	381.5
May	262.1	140.2	28.5	93.4	7.3	269.4	23.5	67.2	35.1	387.9
June	265.7	142.1	29.6	94.0	7.5	273.2	24.1	68.3	36.3	394.4
July	270.2	144.7	30.9	94.6	8.1	278.3	25.8	69.7	38.1	403.8
August	274.6	147.2	32.2	95.2	8.0	282.6	27.2	70.8	41.2	413.8
September	280.1	150.1	33.6	96.4	8.6	288.7	28.3	69.9	43.1	421.4
October	283.3	151.1	34.2	98.0	8.0	291.2	28.6	69.6	43.4	424.9
November e	282.6	149.6	34.4	98.6	7.8	290.4	27.8	n.a.	n.a.	n.a.
					Annual Percentage Rate of Change					
1973—Year	22.2	23.1	45.1	16.9	4.3	21.8	15.4	19.3	25.0	21.5
1974—Year	18.9	20.6	41.7	11.2	45.8	19.3	57.8	15.2	108.2	23.5
1975—Year	-5.1	4.8	6.2	4.4	68.6	-3.8	-22.5	5.9	1.7	-4.0
1976—Year	0.3	7.9	-3.9	8.8	32.2	1.3	21.8	13.2	17.8	4.4
1977—Year	11.1	15.9	13.4	16.1	-3.8	10.5	14.9	22.9	15.1	13.6
1978—Year	17.8	19.5	47.9	14.2	-9.3	16.3	24.0	14.8	32.4	18.3
1979—First Qtr	20.4	14.5	35.2	24.9	29.9	20.5	33.5	16.6	24.8	20.8
Second Qtr	16.6	23.9	35.3	0.9	16.7	16.6	65.7	17.7	23.3	20.1
Third Qtr	21.7	22.5	54.1	10.2	58.7	22.7	69.7	9.4	74.9	27.[illegible]
1978—October	19.2	12.3	10.8	25.5	35.8	17.5	39.3	14.2	41.[illegible]	19.[illegible]
November	17.9	7.5	64.0	20.8	-17.4	16.8	0.0	32.1	68.7	23.[illegible]
December	7.6	-0.9	65.8	5.5	0.0	7.8	12.7	27.4	34.4	14.
1979—January	26.7	14.8	33.6	42.1	35.3	26.9	6.3	17.2	26.0	23.
February	18.4	16.5	32.7	17.1	102.9	20.7	37.5	15.1	29.1	19.
March	15.2	11.7	36.4	14.2	-63.2	12.9	54.5	16.7	17.8	17.
April	16.9	32.2	30.9	-9.0	16.7	16.9	75.4	16.5	7.0	19.
May	15.8	21.8	25.8	3.9	0.0	15.3	31.8	16.3	20.9	20.
June	16.5	16.3	46.3	7.7	32.9	16.9	30.6	19.6	41.0	20.
July	20.3	22.0	52.7	7.7	96.0	22.4	84.6	24.6	59.5	28.
August	19.5	20.7	50.5	7.6	-14.3	18.5	65.1	18.9	97.6	29.
September	24.0	23.6	52.2	15.1	90.0	25.9	48.5	-15.3	55.3	22.
October	13.7	8.0	21.4	19.9	-83.7	10.4	12.7	-5.2	8.4	1[illegible]
November e	-3.0	-11.9	7.0	7.3	-30.0	-3.3	-33.6	n.a.	n.a.	n.a.

n.a.—not available. e—estimated.

1/ Business loan and acceptances data in columns 1-6 are monthly averages and reflect prorated averages of Wednesday da for domestic chartered banks and averages of current and previous month-end data for foreign-related institutions. Commercial paper reflects prorated averages of Wednesday data. Business loans at finance companies and bankers acc tances outstanding in columns 8 and 9 reflect averages of current and preceding month-end data.

2/ Adjusted for loans sold to banks' affiliates.

3/ Effective December 31, 1978, business loans were increased by $600 million as the result of a $700 million upward reclassification in loans offset in part by a $100 million decline due to balance sheet reclassifications. Effecti January 3, 1979, as the result of reclassifications, business loans were increased by $400.

4/ Excludes acceptances held at small banks, for which no data are available. Includes a small amount of commercial p holdings.

5/ Sum of columns 1, 7, 8, and 9.

APPENDIX B*

RATE CEILINGS ON CONSUMER INSTALLMENT LOANS

Recent record increases in finance rates on closed-end consumer installment loans at commercial banks, and similar large increases at finance companies, appear to confirm trade reports that rising costs of funds have exerted strong upward pressure on rates. Other reactions to cost pressures, especially in states where statutory ceilings have hindered rate adjustments, have included greater reliance on tightening lending standards and nonrate terms. Such curtailment of credit availability may partly explain the weakening of consumer credit growth since midyear, which became more pronounced in October and November.

Rate ceilings on consumer loans typically are set by special statutes enacted by states as exceptions to a general state usury law. These consumer credit rate ceilings usually remain fixed from year to year unless changed by legislative amendment. However, federal law permits national banks to charge a rate one percentage point above the Federal Reserve discount rate, regardless of state limitations.[1]

The rate ceilings enacted by state legislatures have created a complex structure of rate limits on consumer credit. Within a given state, rate ceilings typically vary not only for different types of consumer credit, but also for particular sources and for various amounts of credit. Rate ceilings also differ considerably among states. These variations are illustrated in the table on page B-2 for specific types of loans in five selected states.

Separate statutes ordinarily govern maximum rates on installment sales financing and on cash loans. Laws limiting rates on the closed-end credit sale of goods often distinguish between motor vehicles and other goods. All but four states have special rate ceilings for credit card balances, and maximum rates on overdraft credit are sometimes separately established.

Rate ceilings on cash loans nearly always differ for commercial banks as compared with "small loan" finance companies. This distinction recognizes the higher risk and servicing costs associated with small loans to a generally more risky clientele. In the case of credit unions, all federally-chartered and most state-chartered institutions face a flat 12 percent rate ceiling on consumer loans.

1. P.L. 96-161, effective in late December, relaxed state usury ceilings for certain business and agricultural loans through June 1980 and suspended them for most home mortgage loans through March 1980, unless reestablished by state action. Consumer credit rate ceilings were not affected.

*Prepared by James T. Fergus, Economist, Mortgage and Consumer Finance Section, Division of Research and Statistics.

MAXIMUM PERMITTED FINANCE RATES (APR)
FOR SPECIFIED CONSUMER LOANS IN SELECTED STATES

State	New-car $4,000 36-mo.	Consumer durable $700 24-mo.	Personal cash loan: Commercial bank $4,000 36-mo.	Personal cash loan: Finance company $1,000 24-mo.	Bank credit card $200 balance[1]
California	21.20	18.16	none[2]	17.68	18.00
New York	13.38	17.17	13.38	21.75	18.00
Ohio	15.44[3]	21.08[3]	18.79	26.15	24.00
Pennsylvania	13.38[4]	14.68	13.38	22.67	15.00
Virginia	24.00	24.00	13.97	26.42	18.00

1. Since there typically is no finance charge on bank credit card accounts during the initial billing period, the effective rate ordinarily is somewhat below the rate limit permitted on balances on which interest is paid.
2. No maximum rate specified for commercial banks, which are constitutionally exempted from usury law that might otherwise apply.
3. Includes "acquisition fee," and other fees where applicable.
4. Maximum rate for commercial bank direct loans, as governed by the bank installment lending statute. Pennsylvania law also allows state-chartered banks to lend at rates permitted national banks by the National Banking Act.

NUMBER OF STATES WITH INDICATED STATUTORY RATE CEILINGS ON
NEW AUTO LOANS AT COMMERCIAL BANKS[1]

Rate ceiling (annual percentage rate)	Number of states[2]
10 to 13	16
Over 13 to 15	17
Over 15 to 18	13
Over 18 to 24	5

1. $4,000, 36-month direct loan. Rates for other lenders would be the same in most states.
2. Including the District of Columbia.

Rate limits by loan size may be either uniform or graduated. Under a graduated rate ceiling one rate limit applies to the portion of a loan below a certain dollar amount. Then a second, lower ceiling rate is set on additional sums loaned in excess of that amount. Rate ceilings with three or more levels are fairly common. Under a graduated rate ceiling, of course, the gross return on funds loaned will fall if the typical loan amount increases beyond the point at which a lower rate maximum takes effect. If larger loans do not yield sufficient offsetting reductions in average costs, lenders may choose to curtail the amount of consumer credit they will extend and shift resources to alternative uses.

Statutory rate limitations that currently apply to new-auto loans suggest that ceilings in a substantial number of states may have become seriously binding as market-determined rates have risen. In the case of bank direct new-auto loans of $4,000, for 36 months, rate limits are now at or below 15 percent in 33 states, as shown in the lower table on page B-2.[1] In 16 of these 33 states, the prevailing rate maximum is 13 percent or less--probably below the marginal cost of lending at many providers of auto credit.

1. Ceilings are generally expressed as "add on" or "discount" rates, which convert to effective annual percentage rates that vary with maturity. In a few states, auto loan rate ceilings vary with loan size. Ceilings for this type of loan are the same for other lenders as for banks in most, but not all, states.

Foreign exchange markets

Over the last two months of 1979 and the first week of the new year, the dollar's average exchange value declined by 4-1/4 percent. As shown in Chart 1, this decline entirely reversed the dollar's sharp rise in October. On January 3, 1980, the weighted-average dollar was 1-1/3 percent below its value at the end of 1978, and slightly below its low point at the beginning of October 1979.

A major factor influencing exchange rate fluctuations over the final quarter of last year was the relative movement of U.S. and foreign short-term interest rates. During October, U.S. interest rates rose sharply, both absolutely and relative to interest rates abroad. Over November and December, however, U.S. short-term interest rates declined on balance while foreign rates continued to rise; since the beginning of November discount rates were increased in all foreign G-10 countries except France. By the end of the year, the U.S. three-month CD rate was only 1-1/2 percentage points above the weighted-average foreign three-month interest rate, down sharply from a nearly 4 percentage point differential at the beginning of November and below the level prevailing when new Federal Reserve monetary measures were announced on October 6.

The onset of the Iranian crisis in early November also contributed to selling pressure on the dollar, especially the U.S. freeze of Iranian official assets on November 14 which led to speculation that other oil exporting countries might become reluctant to hold dollar-denominated assets. In December, the meeting of OPEC oil

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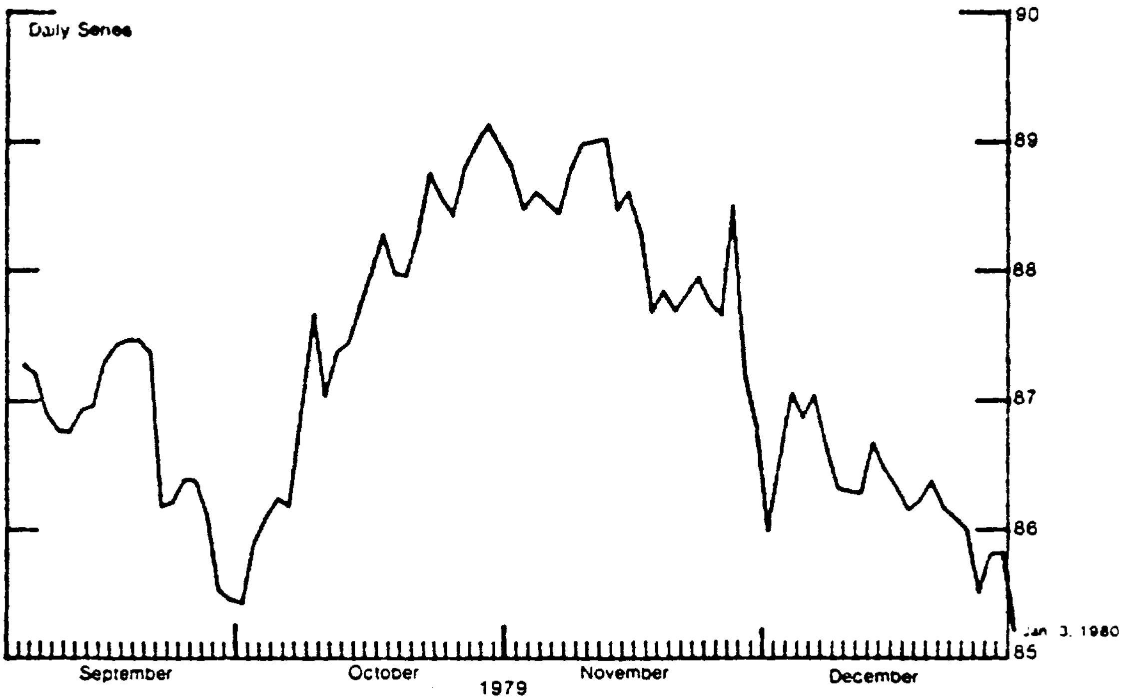
WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR



ministers focused market attention on the sharp escalation of oil prices. Uncertainty over the impact of these increases, as well as the continuing Iranian crisis and the situation in Afghanistan, led to unsettled conditions on exchange markets with sharp and volatile fluctuations in rates. This heightened uncertainty was also reflected in the very sharp rise in the gold price. Gold prices rose by nearly $250 an ounce in December and early January, moving above the $600 per ounce level.

. Japan's heavy dependence on imported oil and the prospect of higher oil prices combined to generate downward pressure om the yen relative to all other major foreign currencies. Conversely, Britain's oil self-sufficiency was a major factor in the relative strength of the pound late in the year.

On November 30 the Danish krone was devalued by 5 percent relative to all other EMS currencies. Following this realignment, the Belgian franc moved to the bottom of the EMS currency band and the Belgian National Bank sold dollars and French francs to support the Belgian currency.

U.S. intervention since the November green book provided net intervention support for the dollar equivalent to $1/3 billion, with sales of German marks at times of downward pressure on the dollar exceeding mark purchases --

. U.S. foreign currency sales to support the dollar were financed equally by the System and the Treasury while nearly all foreign currency acquisitions were used to repay System swap drawings. As a result, outstanding System swap debt was reduced slightly to about \$3-1/4 billion equivalent.

U.S. International Transactions

The trade balance continued to improve in October and November; the deficit for the two months averaged $26 billion at an annual rate. Agricultural exports climbed again, reaching an average annual rate of $41.3 billion in October and November, with most of the increase going to the Soviet Union. Transportation bottlenecks have not limited agricultural exports as much as expected. Nonagricultural exports were also above the third quarter level; the average for October and November was up almost 9 per cent. The advance was widely based, with exports of industrial supplies (e.g., nonmonetary gold and chemicals) particularly strong.

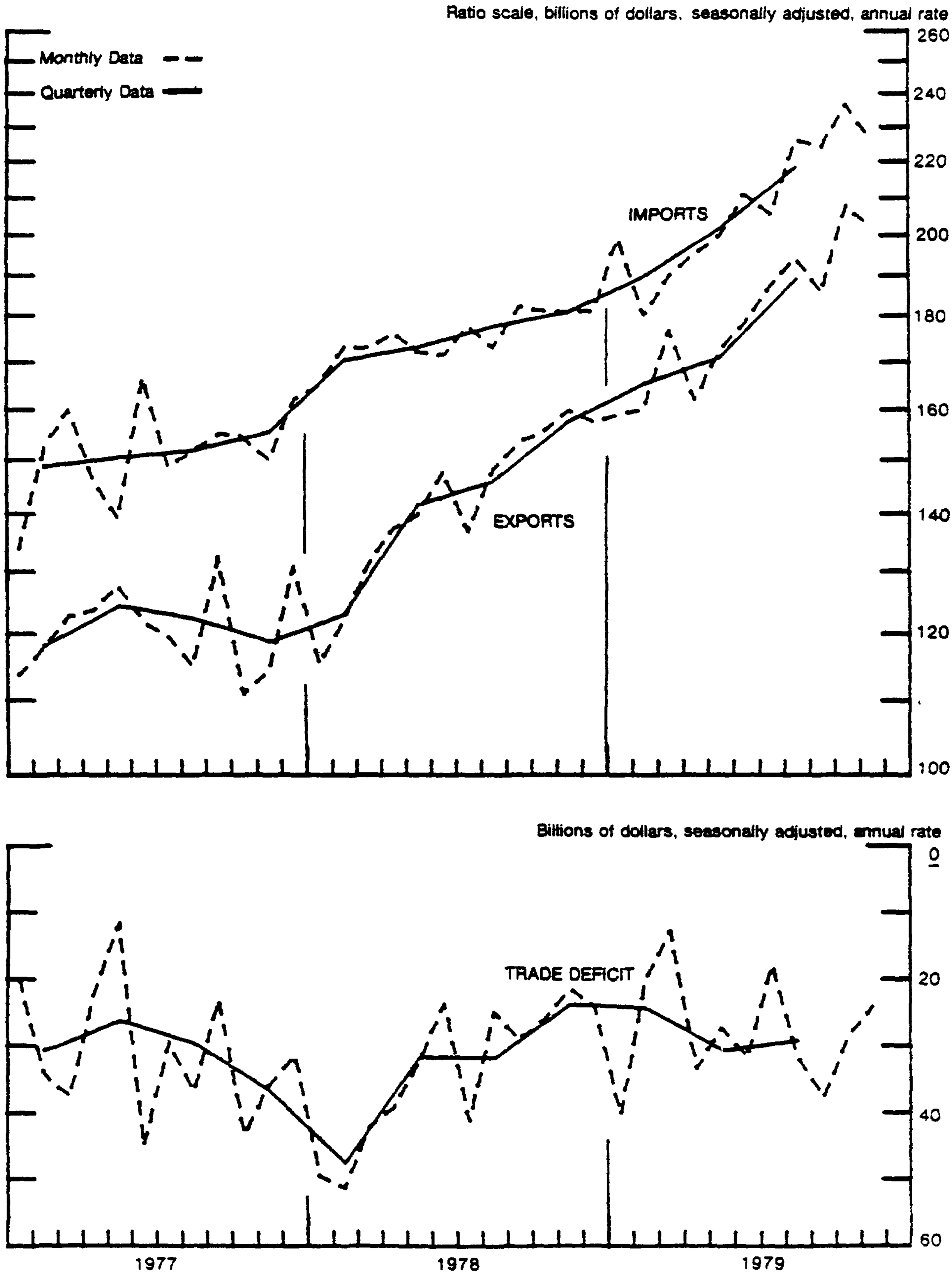
U.S. Merchandise Trade, International Accounts Basis
(billions of dollars, seasonally adjusted annual rates)

	1978r	1978r	1979					
	Year	4Q	1Q	2Q	3Qr	Oct. & Nov.	Oct.r*/	Nov.*/
EXPORTS	142.1	157.6	165.4	171.2	189.3	205.0	207.8	202.1
Agric.	29.9	31.2	30.6	30.9	38.4	41.3	41.0	41.6
Nonagric.	112.1	126.5	134.8	140.2	150.9	163.6	166.8	160.5
IMPORTS	175.8	181.5	189.9	202.0	219.5	231.3	236.4	226.1
Petroleum	42.3	43.4	46.6	51.6	66.5	71.8	77.2	65.9
Nonpetroleum	133.5	138.2	143.3	150.4	152.0	159.5	158.2	160.3
BALANCE	-33.8	-23.9	-24.5	-30.9	-29.1	-26.3	-28.6	-24.0

NOTE: Details may not add to totals because of rounding.
r/ Revised
*/ The Monthly International Accounts figures are only rough estimates and are subject to considerable revision.

U.S. Merchandise Trade

International-Accounts Basis



Nonpetroleum imports averaged $160 billion (annual rate) in October and November, up 5 per cent from the third quarter. Petroleum imports fell in value to $66 billion in November, after reaching almost $78 billion in October (annual rates). Volume dropped sharply in November, as stocks peaked at very high levels early in the month and then leveled off. Petroleum unit values continued to climb, reaching $23.08 in November, up from an average of $20.97 for the third quarter. Only part of this increase was due to higher official contract prices; part was due to increases in the percentage purchased at spot market prices. It is estimated that more than 15 per cent of U.S. imports were purchased at prices of $35 to $40 in November.

The U.S. current account for the third quarter of 1979 showed a surplus of $3 billion (annual rate). Net investment income increased sharply from $30 billion in the second quarter to $35 billion in the third (annual rates). This increase was mainly attributable to the growth in earnings on U.S. direct investments abroad, both in petroleum and in other industries.

Turning to capital flows, foreign official reserve assets in the United States fell by $2.5 billion in October. Holdings of the OPEC countries increased by $2.3 billion but holdings of the G-10 countries and Switzerland fell by $3.5 billion. Japan accounted for a large part of this decrease. Partial data for November and December indicate that foreign official holdings at the FRBNY declined by $5 billion.

. OPEC holdings at the FRBNY were virtually unchanged in the last two months of the year.

Private capital flows reported by banking offices in the United States showed a net inflow of $3.9 billion in October. The net inflow was more than accounted for by a reduction in banks' loans to unaffiliated banking offices abroad. Partial data for November indicates that U.S. agencies and branches of foreign banks continued to shift loans to non-affiliated foreign banks to the books of their offshore offices. By shifting such loans to foreign banking offices, agencies and branches have been able to reduce their Eurodollar managed liabilities, which are subject to the October 6 marginal reserve requirement, by about $3 billion relative to their base levels.

In October the interest rate differential favoring Eurodollar over domestic CDs widened and added to the existing incentive for U.S. non-bank residents to place funds offshore. U.S. non-banks' dollar-denominated deposits in foreign branches of member banks increased $2.5 billion in October. This reversed the September decline and brought the volume of these holdings to a new high. Eurodollar CD holdings of open-ended money-market mutual funds and short-term unit-investment trusts continued their recent rapid growth. During October and November, the volume of those holdings increased from $5.4 billion to $7.8 billion.

RESTRICTED

U.S. International Transactions
(in millions of dollars; receipts, or increase in liabilities, +)

		1977 Year	1978 Year	1978 Q4	1979 Q1	1979 Q2	1979 Q3	1979 Aug.	1979 Sept.	1979 Oct.
1.	Trade balance 2/	-30,873	-34,187	-6,369	-6,115	-7,716	-7,282	-2,649	-3,144	-2,383
2.	Merchandise exports	120,816	141,884	39,315	41,348	42,792	47,337	16,194	15,500	17,318
3.	Merchandise imports	-151,689	176,071	-45,684	-47,463	-50,508	-54,619	-18,843	-18,644	-19,701
4.	Change in net foreign positions of banking offices in U.S. (excl. liab.to foreign official inst.)	-3,909	-14,924	-13,697	14,681	4,798	648	9,770	-7,770	3,974
	Through interbank transactions with									
5.	a) Own offices in foreign countries	-2,718	4,940	-3,221	15,327	6,753	8,145	14,821	-7,047	954
6.	b) Unaffiliated banking offices in foreign countries	-2,204	-4,520	-6,423	818	-1,266	-2,246	-4,920	385	4,187
	Through nonbank transactions									
7.	a) Claims on nonbanks in foreign countries (increase,-)	-424	-16,431	-4,829	-1,006	-2,017	-5,410	-2,143	-1,396	-1,391
8.	b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	1,436	1,089	776	-458	1,327	159	11	288	124
9.	Private securities transactions,net (excl. U.S. Treas. Oblig.)	-3,068	-688	-116	-537	-77	-1,970	-563	-941	-122
10.	Foreign net purchases of U.S. corp. bonds	1,112	1,117	506	*	278	6	-47	105	161
11.	Foreign net purchases of U.S. corp. stocks	1,326	1,686	297	424	274	142	127	17	-10
12.	U.S. net purchases (-) of foreign securities	-5,506	-3,491	-919	-961	-629	-2,118	-643	-1,063	-273
13.	Foreign net purchases of U.S. Treasury obligations 2/	534	2,251	1,546	2,564	-239	1,579	138	55	35
14.	Change in foreign official reserve assets in U.S. (increase +)	35,448	31,471	16,853	-8,257	-10,293	5,373	989	825	-2,473
	By Area									
15.	G-10 countries and Switzerland	29,414	29,955	15,574	-7,101	-11,613	4,821	239	1,021	-3,529
16.	OPEC	5,743	-1,074	1,073	-1,645	248	1,453	1,383	-818	2,263
17.	All other countries	291	2,590	206	489	1,072	-901	-633	622	-1,207
	By Type									
18.	U.S. Treasury securities	30,266	23,869	13,309	-7,965	-12,799	5,036	987	796	-2,430
19.	Other 3/	5,182	7,602	3,544	-292	2,506	337	2	29	-43
20.	Change in U.S. reserve assets (increase -)	-237	662	200	-3,008 4/	446	2,712	0	1,489	540
21.	All other transactions and statistical discrepancy	2,105	15,416	1,583	672	13,081	-1,060	-7,686	9,486	529
MEMO:	Current Account (bil. $. seasonally adj., annual rates)	-14.1	-13.5	.3	1.7	-4.2	3.0	n.a.	n.a.	n.a.

Foreign Economic Developments. Economic growth in foreign industrial countries on balance continued to be strong in the third quarter. Significant gains in real GNP were recorded in Japan, Canada, Italy, and France. In Canada, and, to a lesser extent in France, private domestic demand expanded vigorously; increases in exports and inventories boosted activity in Japan, while a cessation of strike activity accounted for the Italian gains. On the other hand, strike activity in the United Kingdom accounted for much of the 2 percent fall of real GDP during the third quarter. In Germany, the third quarter saw a slowing in the rate of expansion after a 2 percent increase in real GNP during the second quarter.

Inflation proceeded at a high and, in several cases, rising rate in most of the major foreign countries. Oil price increases, various special factors, and, for Japan, currency depreciation were important contributors to the inflationary process.

Since the previous green book, discount rates have been increased in the United Kingdom, Italy, Canada, Sweden, Norway, the Netherlands and Belgium. In several of these countries, the increases were quite large; the U.K. and Italian rates each rose by 300 basis points, while the Norwegian rate increased by 200 basis points. Continuing high inflation rates generally were cited as reasons for these increases; exchange-rate considerations and efforts to achieve monetary targets were more proximate factors in several countries.

Monetary targets recently announced for Germany, the United Kingdom, Canada, and Switzerland indicate a desire to retard money supply growth. The target range for German central bank money is a growth rate between 5 and 8 percent from 1979-Q4 to 1980-Q4, compared with the 6 to 9 percent target range for 1979 and the 7.5 percent growth actually achieved in the year ending in October. The target range for sterling M3 growth, currently 7 to 11 percent for the ten months from mid-June, was extended through next October, but with the base remaining at the mid-June level. Thus the rapid growth in sterling M3 -- nearly 14 percent (s.a.a.r.) from mid-June to mid-October -- will not be built into the target over the next twelve months. The target range for Canadian M1 growth is between 5 and 9 percent from the second quarter of 1979, compared with the target range of between 6 and 10 percent from June 1978 and actual growth of 7 percent from June 1978 to November 1979. Finally, the Swiss National Bank has announced a target of 4 percent growth in the monetary base for 1980.

The most notable development regarding current-account balances continues to be the shift towards deficit among foreign G-10 countries. The combined current-account balances of Germany, Japan, and the United Kingdom reached a deficit of about $18 billion in the first 11 months of 1979 compared with a surplus of $26 billion in the corresponding period of 1978.

Individual Country Notes. Despite persistent strong inflation and virtual consensus among forecasters of an imminent slowdown in the Japanese economy, most recent figures for industrial production and GNP suggest that the economy is continuing to expand strongly. Third quarter GNP was about 7-1/4 percent (a.r.) above the preceding quarter, making it quite likely that real growth in 1979 will reach at least 6 percent. The largest gains in real growth in the third

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

					1978		1979			1979					
		1976	1977	1978	Q3	Q4	Q1	Q2	Q3	Jun	Jul	Aug	Sept	Oct	Nov
Canada:	GNP	5.4	2.4	3.4	1.1	0.7	1.6	-0.7	1.3	*	*	*	*	*	*
	IP	5.1	4.0	5.3	1.8	2.6	1.4	-1.2	2.3	-1.1	2.4	-0.2	2.4	-1.1	n.a.
France:	GDP	4.9	3.0	3.5	0.0	1.9	-0.2	0.5	1.8	*	*	*	*	*	*
	IP	9.5	2.0	1.9	-0.3	1.8	0.0	0.5	4.1	-0.8	3.8	0.0	-0.7	-2.2	n.a.
Germany:	GNP	5.5	2.6	3.5	1.0	0.8	0.4	2.0	1.1	*	*	*	*	*	*
	IP	7.2	2.6	2.3	2.9	0.8	-0.3	3.4	1.9	0.8	3.2	-3.9	0.8	0.0	n.a.
Italy:	GDP	5.9	2.0	2.6	0.6	2.9	1.1	-0.7	1.0	*	*	*	*	*	*
	IP	12.4	1.1	1.9	1.0	6.1	1.1	-2.6	1.1	-4.5	3.2	-0.1	6.4	3.6	n.a.
Japan:	GNP	6.4	5.4	6.0	0.8	1.6	1.5	1.7	1.8	*	*	*	*	*	*
	IP	11.1	4.2	6.2	1.3	2.2	1.8	2.4	2.0	0.2	1.1	0.9	-1.5	2.6	1.0
United Kingdom:	GDP	3.1	2.0	2.6	1.1	-0.1	-1.5	2.1	n.a.	*	*	*	*	*	*
	IP	1.9	3.8	3.8	0.8	-1.1	-0.7	5.5	-2.3	2.0	-1.0	-4.0	-0.9	2.1	n.a.
United States:	GNP	5.9	5.3	4.4	0.9	1.4	0.3	-0.6	0.9	*	*	*	*	*	*
	IP	10.7	5.9	5.8	1.9	1.9	1.0	-0.1	0.1	0.3	-0.1	-0.7	0.5	0.0	-0.5

* GNP data are not published on monthly basis.

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

	1976	1977	1978	1978 Q3	1978 Q4	1979 Q1	1979 Q2	1979 Q3	1979 Q4	Latest 3 Months from: Previous 3 Months (at Ann. Rate)	Latest 3 Months from: Year Ago	Latest Month
Canada: CPI	7.5	8.0	8.9	2.5	1.6	2.3	2.6	2.0	n.a.	9.1	9.4	Nov
WPI	5.1	7.9	9.2	2.1	3.3	4.9	3.1	2.7	n.a.	13.0	14.6	Oct
France: CPI	9.6	9.5	9.2	2.7	2.1	2.2	2.8	3.2	n.a.	12.6	11.3	Nov
WPI	7.4	5.6	4.3	1.9	2.9	4.4	3.8	2.8	n.a.	9.9	13.9	Nov
Germany: CPI	4.6	3.9	2.6	0.0	0.1	2.1	1.6	1.2	0.8	3.3	5.7	Dec
WPI	5.8	1.8	-0.3	-0.6	0.1	3.4	3.3	1.7	n.a.	3.8	9.8	Nov
Italy: CPI	16.8	18.4	12.1	2.4	3.0	3.8	3.7	3.5	n.a.	25.2	17.0	Nov
WPI	22.9	17.4	8.4	1.8	2.2	4.4	4.6	4.3	n.a.	24.2	19.1	Nov
Japan: CPI	9.7	8.3	4.3	0.8	0.2	-0.2	2.2	0.9	2.0	8.1	4.9	Dec
WPI	5.0	1.9	-2.5	-1.7	-0.6	1.9	4.1	4.9	n.a.	18.8	14.4	Nov
United Kingdom: CPI	16.6	15.8	8.3	1.7	1.7	3.1	3.7	6.7	n.a.	16.8	17.0	Nov
WPI	17.3	19.8	9.1	1.9	1.7	2.7	4.0	5.0	n.a.	14.4	15.0	Nov
United States: CPI	5.7	6.5	7.6	2.4	2.0	2.5	3.4	3.3	n.a.	12.6	12.3	Nov
WPI	4.6	6.1	7.8	1.5	2.3	3.6	3.6	3.0	n.a.	15.1	14.1	Nov

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

	1977	1978	1978 Q2	1978 Q3	1978 Q4	1979 Q1	1979 Q2	1979 Q3	1979 Sept	1979 Oct	1979 Nov
Canada: Trade	2.7	3.1	0.6	0.6	0.7	0.6	0.6	0.8	0.6	0.3	n.a.
Current Account	-4.1	-4.6	-1.1	-1.2	-1.5	-1.2	-1.3	-1.0	*	*	*
France: Trade[b/]	-2.4	0.6	0.2	0.2	0.0	0.3	-0.4	-1.4	-0.4	-0.7	-0.3
Current Account[b/]	-3.3	3.8	1.4	0.9	1.3	0.6	0.7	0.1	*	*	*
Germany: Trade	16.5	20.6	4.9	5.4	5.6	4.3	3.8	2.4	0.8	0.4	n.a.
Current Account[c/]	4.3	8.9	1.8	0.2	4.8	1.4	-1.1	-4.2	-1.4	-0.4	-0.5
Italy: Trade	-2.8	-0.2	0.3	-0.8	0.5	-0.4	-0.7	-1.2	-0.3	0.0	n.a.
Current Account[c/]	2.5	6.4	1.7	2.5	1.7	1.1	n.a.	n.a.	*	*	*
Japan: Trade	17.4	25.0	6.8	7.0	3.9	2.7	1.9	-0.9	-0.5	-0.4	-0.7
Current Account	10.9	16.5	4.8	4.5	1.7	0.3	-0.7	-3.8	-1.4	-1.2	-1.7
United Kingdom: Trade	-3.0	-2.2	-0.3	-0.7	-0.1	-3.2	-1.5	-0.9	-0.3	-0.7	-0.1
Current Account[d/]	0.6	2.0	0.7	0.6	1.2	-2.4	-1.3	-0.5	-0.3	-0.6	0.0
United States: Trade	-30.9	-33.8	-7.9	-7.9	-6.0	-6.1	-7.7	-7.3	-3.1	-2.4	-2.0
Current Account	-14.1	-13.5	-3.5	-3.2	0.1	0.4	-1.1	0.8	*	*	*

a/ The current account includes goods, services, and private and official transfers.
b/ French annual data is not seasonally adjusted.
c/ Not seasonally adjusted.
d/ Monthly data do not add to quarterly totals because of rounding.
* Comparable monthly current account data are not published.

quarter were in net exports and private inventory accumulation. The fact that private consumption was quite weak by comparison, however, may foreshadow considerably weaker domestic demand in 1980. The government sector is also not expected to be a stimulus to growth next year given that in the recently proposed budget outline for FY 1980 real government expenditure will expand very slowly, if at all.

Inflation in wholesale prices continues to plague the economy. Wholesale prices increased by another 1-1/2 percent in November -- the eighth consecutive month of greater than 1 percent month-to-month increases. About half of recent increases in the WPI are attributable to depreciation of the yen. The CPI, which has lower weights for raw materials and fuel, increased at a much slower rate.

Japan recently has been recording its largest monthly trade- and current-account deficits of the decade. With a $1.7 billion deficit in the current account (and a $700 million trade deficit) in November, the Japanese current-account deficit for all of 1979 is likely to exceed $8 billion -- a remarkable turnabout from last year's $16-1/2 billion surplus. The recent decline in Japan's nominal trade position, due largely to rapid increases in the prices of oil and other imported commodities, is obscuring a strong increase of export volume. While export volume had been flat through 1978 and early 1979, in the three months ending in October it has advanced at over a 14 percent annual rate.

Real GNP in Canada rose 5.2 percent (s.a.a.r.) in the third quarter, after declining by 2.8 percent in the second. A 5.3 percent increase in real personal expenditures weighed heavily in the strong performance of GNP. However, the strength of consumption, which accounts for 60 percent of GNP, was in part due to the spending of income tax refunds received in the second quarter. Although personal income was up by 8-1/2 percent, increases in personal income taxes led to virtually no change in disposable income in the third quarter. Real business fixed investment continued to be the strongest sector of the economy in 1979. Investment in plant and equipment increased by over 20 percent and non-residential construction increased by over 25 percent (s.a.a.r.). A sharp increase in before-tax profits was an important factor in these additions to capacity.

After submitting its first budget since the May 22 elections, the government of Canadian Prime Minister Clark lost a vote of confidence and resigned on December 14. Proposed increases of energy and excise taxes played a role in the defeat of the Clark government. A general election will be held on February 18.

The Italian economy rebounded strongly in September and October after the mid-year weakness caused by widespread strike activity. Industrial production in October was about 10 percent higher than the July-August level (not annual rate). GDP data for the third quarter capture only part of the rebound, showing a 1 percent increase over the previous quarter. Business survey data point to a continued moderate strengthening of activity for the near-term.

Consumer price data for November indicate that inflation decelerated somewhat after the dramatic upsurge in September and October when prices rose a total of 5 percent. The sharp acceleration was led by one-time increases in energy-product prices (which are administratively set) and taxes, and also by the quarterly rent adjustment in October.

The trade balance also appears partly to have reflected the effects of the mid-year strikes. The customs deficit (s.a., imports c.i.f.) fell from about $2 billion in May-July, which was the period of strikes, to $300 million in August-October.

The French economy has strengthened in the third quarter after a weak performance in the first half of the year. Industrial production rose dramatically during the third quarter, while real GDP increased by about 7 percent (s.a.a.r.). However, the sharp fall of industrial production in October may portend weaker fourth quarter activity.

Inflation, as measured by the rate of change of the consumer price index, accelerated during the first eleven months of last year; in November the CPI was 11-1/2 percent above its year-earlier level. Throughout the first eleven months of last year, wholesale prices rose somewhat more rapidly than consumer prices, and in November they were about 14 percent above their level of November 1978.

Growth of real GNP in Germany has slowed in the third quarter and there are some signs that the slowdown continued in the fourth quarter. Industrial production in the three months to October was 0.8 percent below its level during the preceeding three-month period. Housing orders have continued to decline, retail sales have been falling for several months, the two-year automobile boom ended in mid-year, and orders for investment goods are rising only slowly. However, employment (s.a.) has been rising during the year and the unemployment rate, at 3.6 percent, is currently at its lowest level since 1974.

In December the consumer price index was 5.7 percent over its year-earlier level. The monthly rate, after having dropped to 0.1 percent in August and September, accelerated again to 0.4 percent in November and December. Wholesale prices in November were 9.6 percent above their year-ago level. Differences in the weights accorded to fuels and raw materials account for the different rates of increase of these two indexes.

Germany's current account (n.s.a.) has swung from a $7.3 billion surplus for the first eleven months of 1978 to a $4.7 billion deficit in the corresponding period of last year; $6.8 billion of this $12.0 billion swing is accounted for by the reduction in the trade surplus. The major factor in this swing has been worsened terms of trade rather than adjustment in trade volume.

In the United Kingdom real GDP in the third quarter of 1979 fell at an annual rate of about 8-1/4 percent, according to early estimates of the output-based measure of GDP. This decline primarily resulted from widespread strikes in the manufacturing sector. Recent data -- the October rise in industrial production, substantial increases in the volume (s.a.) of retail sales in October and November, and increased vehicle production (s.a.) in these two months -- suggest that real GDP probably rebounded in the final quarter of 1979.

Wholesale and retail prices have been rising since last summer at roughly 1 percent per month. Increases in wage settlements will contribute to continued high inflation rates: U.K. average earnings in October were nearly 16-3/4 percent higher than a year ago, sharply higher than the 14-1/2 percent year-on-year increase in September. The large rise in the index in October was mainly due to the engineering industry wage settlement of roughly 20 percent.

There has been a sharp turnaround in the U.K. current account from a $2 billion surplus in 1978 to a nearly $5 billion deficit through November of 1979. Contributing to this turnaround has been an increase in the trade deficit (due in part to exports lost because of strikes) despite a growing contribution from North Sea oil. In addition, the surplus on the service account, which in 1977 and 1978 more than offset the trade deficit, has declined from $4.25 billion in 1978 to $1.4 billion in the first three quarters of 1979. Part of this decline has been caused by an increase in interest, profits and dividends due overseas for foreign participation in North Sea oil.

Preliminary data indicate that the strong expansion of economic activity that characterized the first half of 1979 in Belgium and the Netherlands has continued into the fourth quarter, although perhaps at a slightly slower pace in the second half of the year. Unemployment has remained approximately unchanged in the Netherlands from January through September and has fallen slightly in Belgium during the same period. In the Netherlands, the rate of inflation as measured by the consumer price index increased slightly in recent months, and in November was about 4-1/2 percent above its year-earlier level; in Belgium it has risen from an annual rate of 3.8 percent in the first quarter to an annual rate of 5 percent during the fourth quarter. Because of the continued inflation and the exchange-rate constraint associated with participation in the EMS, both Belgium and the Netherlands pursued tight monetary policy through the end of 1979.