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January 28, 1981

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

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SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest data			Percent change from		
	Period	Release date	Data	Preceding period	Three periods earlier	Year earlier
(At annual rate)						
Civilian labor force	Dec.	1-9-81	105.1	-2.5	.3	1.0
Unemployment rate (%) <u>1/</u>	Dec.	1-9-81	7.4	7.5	7.4	6.0
Insured unemployment rate (%) <u>1/</u>	Dec.	1-9-81	3.6	3.9	4.4	3.1
Nonfarm employment, payroll (mil.)	Dec.	1-9-81	91.1	2.7	3.3	.5
Manufacturing	Dec.	1-9-81	20.3	4.0	6.1	-3.0
Nonmanufacturing	Dec.	1-9-81	70.8	2.3	2.5	1.5
Private nonfarm:						
Average weekly hours (hr.) <u>1/</u>	Dec.	1-9-81	35.4	35.4	35.2	35.7
Hourly earnings (\$) <u>1/</u>	Dec.	1-9-81	6.95	6.91	6.77	6.39
Manufacturing:						
Average weekly hours (hr.) <u>1/</u>	Dec.	1-9-81	40.2	39.9	39.6	40.2
Unit labor cost (1967=100)	Nov.	12-31-80	200.4	.6	-2.0	11.3
Industrial production (1967=100)	Dec.	1-15-81	150.7	12.1	18.3	-1.2
Consumer goods	Dec.	1-15-81	148.4	2.4	11.4	-.1
Business equipment	Dec.	1-15-81	174.9	9.7	10.3	.5
Defense & space equipment	Dec.	1-15-81	101.3	13.2	16.0	4.8
Materials	Dec.	1-15-81	152.4	18.4	28.1	-2.7
Consumer prices all items (1967=100)	Dec.	1-23-81	259.0	12.6	12.3	12.3
All items, excluding food & energy	Dec.	1-23-81	244.5	12.9	13.7	12.1
Food	Dec.	1-23-81	269.4	12.6	11.9	10.0
Producer prices: (1967=100)						
Finished goods	Dec.	1-9-81	255.1	7.6	8.5	11.6
Intermediate materials, nonfood	Dec.	1-9-81	294.3	22.4	13.9	12.3
Crude foodstuffs & feedstuffs	Dec.	1-9-81	277.6	-39.7	-5.4	8.5
Personal income (\$ bil.) <u>2/</u>	Dec.	1-19-81	2,281.5	11.2	13.7	11.2
(Not at annual rates)						
Mfrs. new orders dur. goods (\$ bil.)	Dec.	1-27-81	82.6	1.9	4.6	6.9
Capital goods industries	Dec.	1-27-81	27.9	5.3	1.4	6.2
Nondefense	Dec.	1-27-81	21.8	-.2	4.6	-2.1
Defense	Dec.	1-27-81	5.9	31.9	-9.1	55.1
Inventories to sales ratio: <u>1/</u>						
Manufacturing and trade, total	Nov.	1-14-81	1.39	1.40	1.47	1.42
Manufacturing	Nov.	12-31-80	1.54	1.55	1.66	1.57
Trade	Nov.	1-14-81	1.25	1.26	1.29	1.29
Ratio: Mfrs.' durable goods inventories to unfilled orders <u>1/</u>	Nov.	12-31-80	.580	.581	.592	.568
Retail sales, total (\$ bil.)	Dec.	1-13-81	80.9	-1.3	1.0	4.8
GAF <u>3/</u>	Dec.	1-13-81	17.8	-.2	4.2	5.8
Auto sales, total (mil. units.) <u>2/</u>	Dec.	1-5-81	9.0	-.7	2.3	-15.1
Domestic models	Dec.	1-5-81	6.4	-1.5	-2.9	-19.7
Foreign models	Dec.	1-5-81	2.6	1.2	18.1	-1.2
Plant & Equipment expen. (\$ bil.) <u>4/</u>						
Total nonfarm business	1981	1-13-81	326.13	---	---	10.8
Manufacturing	1981	1-13-81	131.12	---	---	14.1
Nonmanufacturing	1981	1-13-81	195.00	---	---	8.7
Housing starts, private (thous.) <u>2/</u>	Dec.	1-19-81	1,548	-1.0	.5	.0
Leading indicators (1967=100)	Nov.	12-31-80	137.6	1.2	5.4	1.5

1/ Actual data used in lieu of percent changes for earlier periods.

2/ At annual rate.

3/ Excludes mail order houses.

4/ Planned-Commerce December 1980 Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

The economy ended 1980 on a note of strength. Real GNP is indicated to have grown at a 5 percent annual rate in the fourth quarter, and December was marked by sizable gains in employment and output. Nevertheless, there was evidence of a moderation in activity in some sectors, especially the auto industry. The pace of inflation continued unabated in the final months of the year, as cost pressures remained intense and energy prices reaccelerated.

Industrial Production and Employment

Industrial production increased by 1 percent in December--the fifth substantial monthly gain in a row. As a result, industrial output for the fourth quarter as a whole rose at about a 20 percent annual rate, retracing most of the loss sustained earlier in the year.

The December increase in production, however, was smaller than in previous months, in large part because of reduced automotive output as well as slower advances in output of materials and supplies. Automobiles were assembled at a 6.3 million unit annual rate in December--down 8 percent from November. Moreover, in the face of mounting inventories relative to sales, scheduled domestic auto production for January was cut markedly to a 5.1 million unit annual rate. Materials production in December increased at its slowest pace since last July, and growth in output of construction supplies was much reduced at year-end. However, substantive gains were registered in the defense, space, and business equipment industries.

Output gains continued to be translated into increased demand for labor, as both employment and work schedules rose at year-end. Nonfarm

INDUSTRIAL PRODUCTION
 (Percentage change from previous period;
 based on seasonally adjusted data)

	1980				
	Q3	Q4	Oct.	Nov.	Dec.
	--annual rate--		---monthly rate---		
Total	-6.8	20.7	1.9	1.6	1.0
Final products	-1.7	11.7	1.3	1.0	.5
Consumer goods	-.7	13.9	1.6	1.0	.2
Durable	-3.8	38.2	5.2	2.0	-1.3
Nondurable	.4	6.2	.3	.6	.9
Business equipment	-3.9	7.4	.8	.9	.9
Construction supplies	-1.8	32.3	2.3	1.9	.9
Materials	-15.3	33.5	2.8	2.5	1.6
Durable goods	-23.5	48.0	4.5	4.1	2.2
Nondurable goods	-9.6	37.0	2.4	.6	1.0
Energy materials	-1.4	-1.5	-.8	1.6	.9

CHANGES IN EMPLOYMENT¹
(Thousands of employees; based on seasonally adjusted data)

	1979	1980	1980				
			Q2	Q3	Q4	Nov.	Dec.
- - - Average monthly changes - - -							
<u>Nonfarm payroll employment</u> ²	176	37	-366	112	246	207	205
Strike adjusted	182	31	-390	135	219	189	192
Manufacturing	1	-53	-308	10	102	125	67
Durable	4	-43	-253	3	77	104	38
Nondurable	-3	-9	-55	7	25	21	29
Construction	20	-10	-50	8	31	26	29
Trade	40	15	-50	54	2	6	-21
Finance and services	74	70	36	84	70	51	87
Private nonfarm production workers	112	-8	-387	133	166	188	107
Manufacturing production workers	-11	-60	-306	14	88	115	57
<u>Total employment</u> ³	172	-42	-283	133	34	133	-57
Nonagricultural	174	-48	-248	78	36	112	-111

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments. Strike-adjusted data noted.
3. Survey of households.

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

	1979	1980	1980				
			Q2	Q3	Q4	Nov.	Dec.
Total, 16 years and older	5.8	7.2	7.3	7.5	7.5	7.5	7.4
Teenagers	16.1	17.8	17.9	18.4	18.3	18.6	17.8
20-24 years old	9.1	11.4	11.9	11.9	12.0	12.1	11.7
Men, 25 years and older	3.3	4.8	5.0	5.4	5.0	5.1	4.9
Women, 25 years and older	4.8	5.5	5.5	5.6	5.9	5.8	5.9
White	5.1	6.3	6.5	6.7	6.6	6.6	6.5
Black and other	11.3	13.3	13.2	13.9	14.1	14.0	14.0
Fulltime workers	5.3	6.9	7.0	7.3	7.3	7.4	7.3
White collar	3.3	3.7	3.7	3.7	3.9	3.9	4.0
Blue collar	6.9	10.1	10.5	11.1	10.7	10.7	10.5

PERSONAL INCOME

(Based on seasonally adjusted annual rate data)

	1979	1980	1980			
			Q3	Q4	Nov.	Dec.
- - Percentage changes at annual rates ¹ - -						
Total personal income	12.3	11.2	13.4	14.9	13.5	11.2
Wage and salary disbursements	10.8	9.1	6.6	17.9	16.1	11.1
Private	11.6	9.2	6.9	18.5	18.1	12.1
Nominal disposable personal income	11.7	11.1	13.3	13.3	12.1	10.0
Real disposable personal income	2.0	.9	4.1	3.2	4.8	n.a.
- - Changes in billions of dollars ² - -						
Total personal income	18.3	19.1	22.5	25.7	25.2	21.0
Wage and salary disbursements	10.3	10.0	7.1	18.8	18.4	12.9
Private	8.9	8.3	6.0	15.7	16.9	11.5
Manufacturing	2.0	2.4	1.2	6.3	7.4	5.2
Other income	8.9	9.9	16.1	7.9	7.6	8.8
Transfer payments	2.8	4.2	10.0	1.2	.3	1.2
Less: Personal contributions for social insurance	.9	.8	.7	1.1	1.0	.6
Memorandum:						
Personal saving rate ³	5.2	5.2	6.1	5.6	5.6	n.a.

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly periods are compounded rates of change; monthly changes are not compounded.

2. Changes are based on quarterly averages; monthly figures are the changes from preceding months.

3. Monthly saving rate equals the centered three-month moving average of personal saving as a percentage of the centered three-month moving average of disposable personal income.

business establishments reported an increase of more than 200,000 in payroll employment in December--the fifth consecutive month of large gains. Employment in the service-producing sector continued to expand despite a dip in retail trade employment, and construction firms continued to add to payrolls in December. Manufacturing employment growth slowed somewhat in December, but the average factory workweek lengthened by 0.3 hour, bringing the series back to its pre-recession level of 40.2 hours. Between July and year-end, manufacturing employment rebounded by one-half million--about the same as during the first five months of the 1975 recovery.

The unemployment rate was 7.4 percent in December--little changed from the level that has prevailed since May. Employment in December as measured by the household survey edged down from its level of the prior month; this compares with the considerable gain registered in the payroll survey. Although the two surveys provided consistent readings on the sharp contraction in employment during the first half of the year, the subsequent recovery in household employment has been significantly smaller than the rebound in payroll jobs. One possible reason that the payroll employment series has risen more rapidly is that it registers second jobs as employment gains, while the household survey counts a worker as employed only once. However, even after accounting for technical differences between the two measures, the current discrepancy is abnormally large.

Personal Income and Consumer Spending

Continued increases in payroll employment, longer work schedules, and wage increases raised personal income up at a 11-1/4 percent annual rate in December--somewhat less than gains in the previous three months.

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

	1980							
	Q1	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
Total sales	2.1	-3.6	5.1	2.6	1.7	.7	1.6	-1.3
(Real) ¹	-1.2	-5.8	2.9	n.a.	.3	.1	.6	n.a.
Total, less auto and nonconsumption items	2.6	.2	2.9	2.9	.5	1.4	1.0	.0
GAF ²	-.1	-1.6	3.5	3.7	-1.5	2.7	1.7	-.2
<u>Durable</u>	.8	-12.0	10.5	2.6	4.2	-1.1	3.8	-3.5
Auto	1.5	-16.6	16.1	.2	5.4	-2.5	3.6	-7.4
Furniture & appliances	1.0	-4.6	5.6	3.3	2.7	-1.7	4.1	1.4
<u>Nondurable</u>	2.8	.6	2.8	2.6	.5	1.5	.7	-.3
Apparel	1.4	1.0	2.9	.9	-2.8	1.8	-.4	.5
Food	2.3	1.8	3.6	2.3	1.5	-.5	1.6	.7
General merchandise ³	-1.2	-1.4	2.9	5.0	-2.5	4.7	1.6	-1.0
Gasoline	9.2	5.1	2.5	.3	.4	1.0	.4	-2.1

1. BCD series 59. Data are available approximately 3 weeks following the retail sales release.
2. General merchandise, apparel, and 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)

	1980							1981
	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.*
Total	10.6	7.7	8.8	9.0	9.0	9.1	9.0	n.a.
Foreign-made	2.8	2.1	2.3	2.5	2.3	2.5	2.6	n.a.
U.S.-made	7.9	5.5	6.5	6.6	6.7	6.5	6.4	6.8
Small	3.8	2.8	3.2	3.3	3.3	3.3	3.4	n.a.
Intermediate & standard	4.1	2.7	3.3	3.3	3.5	3.2	3.2	n.a.

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

*First 20 days.

For the quarter as a whole, however, total personal income growth accelerated to almost a 15 percent annual rate. Real disposable personal income also increased--at a 3 percent annual rate--in the fourth quarter of 1980. Although the recent gains in real income more than offset the losses earlier in the year, the 0.9 percent rise over the four quarters of 1980 still was less than half the advance over the preceding year.

Consumer spending advanced fairly briskly in the fourth quarter, but most of the strength occurred early in the period. Retail sales--which rose 2-1/2 percent for the quarter--fell 1.3 percent in December. The December decline was concentrated at automotive outlets (which include used car dealers and auto supply stores, as well as new car dealerships). Excluding automotive and nonconsumption items, nominal retail sales were unchanged from November. Many stores reported particularly strong sales for the last week of the Christmas season, but this surge apparently only helped to balance a weak performance experienced earlier in the month. For the entire month, spending at general merchandise stores declined, causing purchases in the entire GAF grouping to edge down after rising appreciably in the preceding two months.

Total auto sales remained at a 9.0 million unit annual rate in December 1980, about the same sluggish selling pace as in the preceding five months. Sales of domestic models slipped to a 6.4 million unit annual rate, notwithstanding credit rebate programs at Ford and Chrysler. At General Motors, where there were no special incentives, sales performance was noticeably weaker. Moreover, data for the first 20 days of January 1981 suggest little improvement in sales of domestic models.

In contrast to domestic units, sales of imported cars rose in December to a 2.6 million unit annual rate--the highest level since July and nearly a 29 percent share of the market. The relative strength in imported automobile sales probably resulted from normal lags experienced by American manufacturers in establishing a market share for their new small models, the continuing perception by consumers of superior quality for many foreign units, and price advantages favoring imports for many comparable models.

The general weakness in overall automobile sales in part reflects increased ownership costs resulting from both higher prices and interest rates. A year-over-year comparison of manufacturers' list prices for four popular models and average financing costs suggests that typical monthly payments may have been as much as 25 percent higher in November. More than 90 percent of this increase appears to be attributable to higher prices. While the direct effect of higher interest rates on the increased cost of automobile ownership apparently has been small, the publicity given to higher interest rates could well have had a depressing effect on the attitudes of potential buyers.

Indeed, survey readings of consumer confidence in December 1980 indicated a sharp reversal of the steady improvement that had been underway since May. Both the Conference Board and the University of Michigan indexes of consumer sentiment plunged in December, as households' outlook for both the near-term and future conditions deteriorated. In particular, consumers indicated that they expected their own financial situation to worsen, apparently as a result of their expectations of higher interest rates and inflation. Opinions about the housing market and

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

	1980						
	Annual	Q2	Q3	Q4	Oct.	Nov.	Dec. ¹
All units							
Permits	1.17	.90	1.39	1.31	1.33	1.36	1.23
Starts	1.29	1.05	1.41	1.56	1.56	1.56	1.55
Single-family units							
Permits	.70	.53	.85	.79	.82	.81	.73
Starts	.85	.67	.98	1.00	1.03	1.01	.95
Sales							
New homes	n.a.	.45	.62	n.a.	.55	.58	n.a.
Existing homes	n.a.	2.40	3.11	n.a.	3.30	3.02	n.a.
Multifamily units							
Permits	.47	.37	.54	.52	.51	.54	.50
Starts	.44	.38	.44	.56	.53	.55	.60
Mobile home shipments	n.a.	.18	.22	n.a.	.25	.24	n.a.

1. Preliminary estimates.

n.a.--not available.

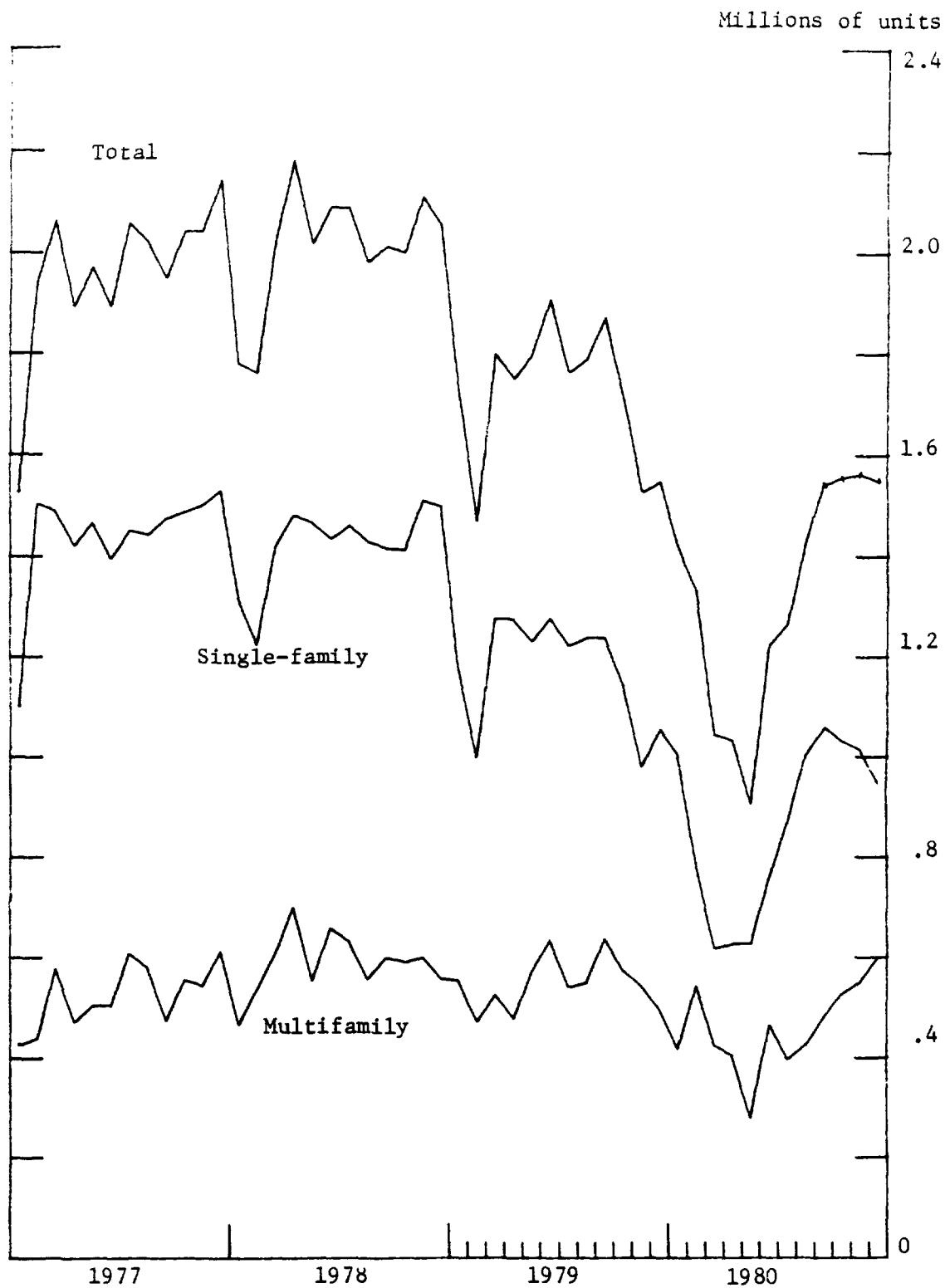
buying conditions for durable goods also were noticeably less favorable in December.

Residential Construction

Residential construction outlays advanced markedly in the final quarter of 1980, reflecting the particularly sharp rebound in housing starts during the summer and early fall. Despite worsening financial conditions, the strength in new housing activity continued in December as total private housing starts remained at about a 1-1/2 million unit annual rate for the fourth consecutive month. Single-family starts fell 6 percent in December, but this decline was offset by a 9 percent increase in the multifamily sector. Some signs of weakness emerged, however, as newly-issued permits for residential construction fell 9 percent in December.

Real estate activity has held up surprisingly well compared with the precipitous declines that occurred last spring, when mortgage interest rates first pierced 14 percent. The use of a variety of alternative financing techniques may help to explain the relatively robust pace of home sales through November. Although sales of existing homes declined 8-1/2 percent in that month, volume remained stronger than during the preceding summer, when the cost of credit on fixed-rate loans was more favorable. Moreover, new-home sales increased 6 percent in November, arresting a three-month slide. Prices of homes sold in November rose sharply, in part reflecting the continuing tendency for many creative home financing arrangements to result in higher sales prices than would otherwise be the case. The average sales price of new homes sold in November 1980 (\$83,000) was 12 percent above a year earlier--

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



the largest year-over-year increase since the same month in 1979. Likewise, the average sales price of existing homes sold rose to a level 16 percent above a year earlier.

Business Fixed Investment

Business fixed investment decreased at a 3 percent annual rate in real terms in the fourth quarter. Gains in energy-related investment and in spending for some machinery categories were more than offset by declines elsewhere. Purchases of heavy-weight trucks--which had dropped sharply in early autumn--remained depressed in December, and real spending on nonresidential construction fell back in November to a level 15 percent below its recent peak reached in January 1980.

While some leading indicators of capital spending have picked up recently, a sustained improvement in outlays does not seem imminent. Over the fourth quarter, new orders for nondefense capital goods increased 4 percent; however, these orders are still below their recent cyclical peak, and the backlog of unfilled orders has been on a downward trend since mid-1980. Moreover, the extended period of weakness in the real value of new contracts made between April and October for nonresidential construction projects probably will dominate spending during the coming months, despite a surge in new contracts in November.

Respondents to the Commerce Department's plant and equipment survey taken in November and December reported plans for a 10.8 percent increase in nominal outlays in 1981. This survey shows slightly less growth than suggested by the earlier McGraw-Hill report, possibly reflecting the sharp increase in interest rates between the two readings. After adjusting for respondents' price expectations, the Commerce

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

	1980					
	Q2	Q3	Q4	Oct.	Nov.	Dec.
Nondefense capital goods orders						
Current dollars	-9.2	.2	3.9	-1.2	6.0	-.2
Constant dollars	-9.6	.5	n.a.	-4.7	8.9	n.a.
Machinery						
Current dollars	-13.0	8.9	5.8	.4	.4	1.5
Constant dollars ¹	-13.4	9.3	n.a.	-3.8	3.9	n.a.
Addenda: Ratio of current dollar unfilled orders to shipments						
Total	6.57	6.37	6.16	6.10	6.09	6.24
Machinery	4.34	4.21	4.11	4.08	4.06	4.11
Contracts for nonresidential plant						
Current dollars	-31.7	55.0	n.a.	6.3	67.5	n.a.
Constant dollars	-37.9	60.3	n.a.	.7	73.7	n.a.

1. FRB staff estimate.

SURVEYS OF PLANT AND EQUIPMENT EXPENDITURES
(Percent change from prior year)

	1980 ¹	Planned for 1981	
		McGraw-Hill ²	Commerce Department
All Business	8.8	11.9	10.8
Manufacturing	16.4	14.6	14.1
Durables	14.1	4.7	13.3
Nondurables	19.0	23.8	14.9
Nonmanufacturing	4.4	9.4	8.7
Mining	18.6	13.0	18.8
Transportation	-3.0	5.4	8.2
Utilities	1.9	8.6	8.7
Trade and services	3.8	11.8 ³	6.8
Communications and other	10.1	8.5	9.5

1. The November Commerce Department survey is based on actual data for the first three quarters of the year and its anticipations for the fourth quarter.

2. Due to differences in industry coverage the McGraw-Hill and Commerce Department surveys are not strictly comparable.

3. Includes only the commercial category.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Annual rate)

	1978	1979	1980				
			Q1	Q2	Q3	Oct.	Nov.
<u>Book Value Basis</u>							
Total	43.2	46.4	49.1	30.8	30.1	23.7	19.3
Manufacturing	18.1	29.9	41.1	20.4	-.1	-8.8	14.6
Wholesale	12.8	9.1	7.2	7.7	17.9	14.0	7.2
Retail	12.3	7.3	.9	2.7	12.3	18.5	-2.5
<u>Constant Dollar Basis</u>							
Total	12.8	7.7	-3.4	.5	-1.9	-.9	-5.4
Manufacturing	5.3	7.2	5.4	-.5	-5.2	-7.7	.1
Wholesale	4.2	1.0	-1.3	1.6	1.9	1.7	0
Retail	3.2	-.5	-7.5	-.6	1.3	5.1	-5.4

Totals may not add due to rounding.

INVENTORIES RELATIVE TO SALES

	1978	1979	1980				
			Q1	Q2	Q3	Oct.	Nov.
<u>Book Value Basis</u>							
Total	1.42	1.42	1.42	1.52	1.47	1.40	1.39
Manufacturing	1.52	1.52	1.57	1.71	1.64	1.55	1.54
Wholesale	1.20	1.17	1.15	1.23	1.19	1.12	1.12
Retail	1.44	1.46	1.40	1.46	1.43	1.42	1.39
<u>Constant Dollar Basis</u>							
Total	1.56	1.60	1.60	1.71	1.67	1.62	1.63
Manufacturing	1.80	1.86	1.89	2.07	2.01	1.93	1.92
Wholesale	1.33	1.31	1.29	1.35	1.32	1.29	1.38
Retail	1.41	1.38	1.35	1.43	1.40	1.41	1.37

Department's survey implies that real business fixed investment will be about unchanged from 1980. The largest increases in spending plans were reported by manufacturers--particularly in the machinery, petroleum, and aircraft industries. Also, firms in the electric utility industry plan to add to spending in 1981 after cutting back in 1980.

Inventory Investment

Businesses continued to maintain relatively tight control over inventories during the fall. The total book value of manufacturing and trade stocks rose at about a \$20 billion annual rate in both October and November, down from the \$30 billion pace recorded in both the second and third quarters. The moderate November accumulation primarily reflects a small liquidation by retailers. In contrast, the book value of manufacturers' inventories increased at a \$14-1/2 billion annual rate--the largest increase since April. The factory inventory accumulation was largely concentrated in the durable goods sector. By stage of fabrication, most of the accumulation was in work in process. Production and sales figures suggest that additional accumulation probably occurred in December, at least at manufacturers.

The November gain in total manufacturing and trade inventories was accompanied by a 1 percent rise in shipments and sales. As a result, the stock-sales ratio for all manufacturing and trade edged down slightly to 1.39, continuing the decline that began last June.

The Government Sector

The federal budget deficit is estimated to have narrowed by \$4 billion in the final quarter of 1980 to an annual rate of around \$70 billion (NIA basis), as strong income growth and windfall profits tax

HOURLY EARNINGS INDEX¹
 (Percent change at annual rates;
 based on seasonally adjusted data)²

	1979	1980	1980				
			H1	Q3	Q4	Nov.	Dec.
Total private nonfarm	8.0	9.6	9.7	8.9	10.2	12.9	4.2
Manufacturing	8.7	11.0	11.2	11.9	9.7	10.2	6.8
Durable	8.7	11.8	12.1	12.3	10.7	11.1	7.4
Nondurable	8.7	9.7	9.8	11.3	7.9	8.6	5.8
Contract construction	6.8	7.3	6.9	7.3	8.0	6.1	8.9
Transportation and public utilities	9.0	9.3	8.4	6.8	13.7	10.2	5.8
Total trade	7.6	8.8	9.1	9.1	7.7	12.9	2.7
Services	7.6	9.3	9.3	6.7	11.9	18.4	.8

1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly and half-year periods are at compound rates; monthly changes are not compounded.

MAJOR COLLECTIVE BARGAINING SETTLEMENTS
 (Percent change at annual rates)

	Average adjustment					
	1976	1977	1978	1979	1980	
Wage-rate settlements (1,000 or more workers)						
First year adjustments		8.4	7.8	7.6	7.4	9.5
Average over life of contracts ¹		6.4	5.8	6.4	6.0	7.1
Wage and benefit settlements (5,000 or more workers)						
First year adjustments		8.5	9.6	8.3	9.0	10.4
Average over life of contracts ¹		6.6	6.2	6.3	6.6	7.0
Effective wage-rate changes (1,000 or more workers)						
Current settlements		8.1	8.0	8.2	9.1	9.3
Prior settlements		3.2	3.0	2.0	3.0	3.6
Escalator provisions		3.2	3.2	3.7	3.0	3.1
Escalator provisions		1.6	1.7	2.4	3.1	2.6

1. Excluding cost-of-living adjustments.

receipts boosted total revenues. In the fourth quarter the federal tax burden rose to 20.8 percent of GNP--its highest level since early 1969 during the Vietnam era. A further increase in the tax burden occurred on January 1, 1981, in the form of a scheduled hike in social security payroll taxes.

In the state and local sector, employment increased only marginally in December. Payroll growth during 1980 at this level of government was at its lowest rate in three decades. Preliminary data indicate that state employment actually decreased in 1980; this was the first such annual decline since record keeping began in 1955. State and local construction expenditures resumed their downtrend in November, after small increases in September and October. In real terms, state and local construction outlays decreased 5-1/2 percent in November to a level 8 percent below a year earlier.

Wages and Prices

Wage and price pressures remained substantial throughout 1980, despite the considerable slack in labor and product markets that developed during the year. Although the average hourly earnings index rose at only a 4.2 percent annual rate in December, this followed two months of exceptionally large increases. Over 1980 as a whole, wages rose 9-1/2 percent--1-1/2 percentage points more than in 1979. Major collective bargaining agreements exhibited a similar speedup. Much of the acceleration in the earnings index occurred in the manufacturing sector, where formal cost-of-living adjustments are prevalent. But larger wage increases in 1980 also were reported for all other major industry

RECENT CHANGES IN PRODUCER PRICES

(Percentage change at annual rates; based on seasonally adjusted data)¹

	Relative importance ²		1980				
	Dec. 1979	1979	1980	Q3	Q4	Nov.	Dec.
Finished goods	100.0	12.6	11.7	12.2	8.8	7.6	7.6
Consumer foods	24.3	7.6	6.5	36.9	2.8	6.3	-4.3
Consumer nonfood	47.4	18.0	14.3	4.4	9.2	8.5	10.3
Energy	10.3	62.7	27.2	-3.5	10.7	15.4	19.8
Exc. energy	37.0	9.6	10.7	7.1	8.6	6.9	6.9
Capital equipment	28.4	8.8	11.5	8.5	12.6	6.8	12.1
Intermediate materials ³	94.9	16.5	12.3	6.4	14.7	11.3	22.4
Exc. food and energy	81.4	13.0	10.2	5.5	13.0	9.9	17.9
Crude food materials	55.5	11.1	8.7	96.4	-5.3	6.7	-39.7
Crude nonfood	44.5	26.0	19.2	39.1	23.6	22.1	12.3
Exc. energy	16.0	13.1	10.6	78.9	26.7	26.7	0.0

1. Changes are from final month of preceding period to final month of period indicated.

2. Relative importance weights are on a stage of processing basis.

3. Excludes materials for food manufacturing and animal feeds.

RECENT CHANGES IN CONSUMER PRICES¹(Percentage change at annual rates; based on seasonally adjusted data)²

	Relative importance			1980			
	Dec. 1979	1979	1980	Q3	Q4	Nov.	Dec.
All items	100.0	13.3	12.4	7.0	12.8	11.8	12.6
Food	17.7	10.2	10.2	18.9	12.5	13.7	12.6
Energy ³	10.3	37.4	18.1	2.9	6.1	3.6	17.6
All items less food and energy ³	72.0	11.3	12.1	5.1	14.4	13.5	12.9
Homeownership	24.9	19.8	16.5	-5.6	24.5	20.4	20.4
All items less food, energy and homeownership ⁴	50.7	7.5	9.9	10.7	9.0	8.3	9.9
Used cars	2.8	2.2	18.3	40.1	71.9	61.1	39.1
Other commodities ⁴	21.3	6.6	8.1	9.3	3.2	3.1	3.7
Other services ⁴	26.6	8.8	10.3	9.2	8.7	7.9	9.8

1. Based on index for all urban consumers.

2. Changes are from final month of preceding period to final month of period indicated.

3. Energy items: gasoline and motor oil, fuel oil and coal, gas and electricity.

4. Reconstructed series; includes home maintenance and repairs (relative importance weight of 3.6), also a component of homeownership costs.

groupings. In particular, in the heavily unionized construction industry, where COLA coverage is relatively uncommon, negotiated wage increases accelerated sharply--from 8-3/4 percent in 1979 to 13-1/2 percent in 1980. In the less unionized trade and service sectors, hourly earnings accelerated about 1 to 1-1/2 percentage points during the year.

Aggregate price measures provided little sign of a lasting slowdown in inflation in the closing months of 1980. At year-end, a renewed upsurge in energy prices was beginning to work its way through the economy, and underlying cost pressures still were evident in the food sector. Moreover, rising mortgage costs continued to push up the CPI. As a result, consumer prices in the final two months of 1980 still were increasing at more than a 12 percent annual rate. Even excluding energy, food, and homeownership costs, inflation remained intense--at a 9 percent rate during November and December.

OPEC price increases--as well as higher domestic crude oil prices resulting from continuing decontrol--caused energy costs to reaccelerate at year-end. At the producer level, energy prices in December increased sharply for the second consecutive month; retail energy prices also began to reflect these new pressures in December. Moreover, recent announcements of additional price hikes for gasoline and fuel oil at the refinery level should show up in coming months. Large inventories of crude oil and distillates helped restrain price increases through most of 1980, but these stocks have declined in recent months, raising the likelihood of a further upward movement in energy prices.

Producer food prices declined at all stages of processing in December, following a relatively moderate increase over the previous three months. However, these developments have not yet been reflected in retail food prices, which increased at about a 13 percent annual rate in November and December. Moreover, the declines that have occurred in producer markets appear to be temporary. Although livestock prices declined at year end, high feeding costs are quite likely to push meat prices up during 1981. In addition, as of mid-January, prices of some fruits and vegetables were rising rapidly in the wake of severe winter weather in Florida. Following a similar freeze in early 1977, the CPI for fruits and vegetables surged 11 percent over a three-month period before stabilizing.

For 1980 as a whole, price increases were substantial. Consumer prices rose almost 12-1/2 percent during the year ending in December, and producer prices for finished goods rose 11-3/4 percent. Both measures had risen somewhat faster in 1979 when energy price increases were even larger. However, the prices of goods and services that are significantly influenced by labor costs accelerated in 1980. Consumer prices for goods excluding food, energy, and used cars rose more than 8 percent over 1980 versus 6.6 percent during 1979. Likewise, the price of services other than energy and homeownership costs accelerated to 10.3 percent over 1980 from 8.8 percent during the previous year. Producer finished goods prices of nonfood nonenergy items also accelerated last year, particularly for capital equipment.

SUPPLEMENTARY REPORT ON OPERATIONS IN FOREIGN CURRENCIES FOR
SYSTEM OPEN MARKET ACCOUNT AND TREASURY ACCOUNT AND FOREIGN
EXCHANGE MARKET CONDITIONS FOR THE PERIOD JANUARY 29 - 30, 1981

PREPARED BY THE FEDERAL RESERVE BANK OF NEW YORK

EXCHANGE MARKET CONDITIONS

During the two-day supplementary period pessimism deepened over the outlook for the European economies, especially Germany. At the same time the recent remarks by Volcker and members of the Reagan Administration about their plans to strengthen the U.S. economy continued to have a favorable impression in the markets. In this atmosphere, the dollar surged on heavy commercial and professional demand, especially out of Europe. U.S. corporate treasurers, having been more cautious in recent days, also began scrambling to cover their exposures. These various demands swept the dollar 2 1/2 to 2 5/8 percent higher against the continental currencies by Friday's close. Also, sterling and the Japanese yen, which had previously managed to hold up well against the surging dollar, began losing ground, falling 2 percent and 3/4 percent respectively on balance.

With trading frequently onesided, the Desk bought \$240.4 million equivalent of marks, including \$80 million equivalent through the Bundesbank in Frankfurt. These purchases were split evenly between the System and the Treasury and added to their respective balances. In addition, the Desk bought \$20 million equivalent of Swiss francs split evenly between the System and Treasury. Foreign central bank dollar sales came to \$522.5 million, including \$109.5 million by the Bundesbank.

Within the EMS the mark and the Belgian franc both dropped to their lower intervention limits against the French franc. Also the Italian lira fell below LIT 1000 for the first time, while remaining 3 1/2 to 4 percent below the French franc. The evident strains within the EMS, especially on Thursday generated rumors of a possible EMS decision this weekend to widen the joint float limits. As a result the EC central banks had to purchase \$423.1 million equivalent of marks and Belgian francs all against French francs to support those limits.

MAJOR EXCHANGE RATES IN NEW YORK AT CLOSE OF SUPPLEMENTARY PERIOD

Pound sterling	2.3630	French franc	4.9000
Canadian dollar	1.1948	Belgian franc	
		Commercial	34.09
German mark	2.1300	Financial	34.16
Swiss franc	1.9270	Italian lira	1004.50
Netherlands guilder	2.3080		
Japanese yen	206.10		

January 30, 1980

Scott E. Pardee
Manager of the
System Open Market Account
For Foreign Operations

Effects of the new benchmark revisions

The new benchmark revisions had only minor effects on GNP totals for the 1960's; the level in 1967 was revised up less than 1/2 percent. The magnitude of the revisions (in percentage terms) generally increased throughout the 1970's. Consequently, as shown in table 1, the level of current-dollar GNP in 1979 is \$45.1 billion (1.9 percent) higher than previously indicated. Substantial revisions to the level of GNP are confined to a few components of the product flows.

The largest change was in business fixed investment (BFI)--up \$24.8 billion (9.7 percent) in 1979 from the previous estimate. As a result of the revision, the share of nominal GNP devoted to BFI in 1979 now is 11.6 percent, rather than the 10.8 percent previously indicated. Nearly all of the upward revision in BFI was in the non-motor vehicle components of producers' durable equipment (table 2). Spending on items in this grouping--which is largely composed of machinery--is now estimated to have been \$24.0 billion (19.6 percent) higher in 1979 than earlier thought. This substantial increase is primarily the result of the above-mentioned change in the procedure used to calculate spending on producers' durable equipment.¹ Prior to the benchmark revision it appeared that equipment spending was becoming weighted towards outlays for motor vehicles at the expense of machinery investment. As a result of the revisions, however, the share of equipment spending devoted to motor vehicles during the 1975-79 expansion now is indicated to have averaged about 20 percent--roughly the same as during the 1971-73 expansion and down from the initial estimate of 24 percent (table 3).

The other major contribution to the upward revision in GNP was in the international sector, primarily reflecting the addition to GNP of reinvested earnings of incorporated foreign affiliates. Net exports of goods and services were revised up \$18.0 billion in 1979, with \$15.1 billion accounted for by the conceptual change.² There were smaller revisions in the other components of GNP, primarily as a result of the incorporation of new source data.

On the income side of the accounts, the largest revisions were to corporate profits (table 4), which were revised upward throughout the period. Virtually all of the revision was in profits before taxes and also was due in large part to the addition of reinvested foreign earnings to the NIPA. There also was a large upward revision in net interest, up \$13.7 billion in 1979; this primarily reflects new procedures for estimating the income earned by finance companies. As a result of the higher

1. It should be noted that data from the recent benchmark revision of the plant and equipment survey suggest that a substantial upward boost to the producers' durable equipment estimate also would have occurred under the old procedures.

2. Other revisions to the foreign sector included the incorporation of new source data, and new seasonal adjustment and deflation methods.

level of interest income as well as smaller revisions to other components, personal income was raised substantially in recent years (\$19.6 billion in 1979). With estimates of personal outlays little changed by the benchmarking, the saving rate was revised up about 1-1/4 percentage points for the period since mid-1979. Consequently, the recent low for the saving rate now is shown to be 4.7 percent in 1979-Q4 rather than the 3.5 percent figure previously indicated.

The level of the implicit GNP deflator (table 3) was revised down over the past several years, accumulating to a total of 1.7 percent in 1979. The revision in the deflator is due in large part to improved procedures for deflating net exports, new or revised source data for some personal consumption expenditure components, and the use of more appropriate and detailed deflators for state and local government purchases.

Cyclical Fluctuations

The benchmark revisions did not significantly affect the contour of postwar business cycles (table 5). Neither the timing nor duration of postwar cycles was changed. Moreover, a comparison of old and new estimates of the amplitude and severity/strength of recent cycles indicates only small differences. The average annual rate of decline in real GNP during the 1969-70 recession now is indicated to be 0.4 percentage point smaller, while estimates for the 1973-75 recession show a rate of contraction 0.8 percentage point less severe, at an annual rate. Average real GNP growth rates for the two expansions that occurred during the last decade were revised up less than 1/4 percentage point, at an annual rate.

Revisions to recent growth

An interesting aspect of the NIPA revisions is the altered view of real economic growth during the last four years. As shown in table 6, there was a fractional revision to real GNP growth over the four quarters of 1977 and larger upward revisions for 1978, 1979, and the first and third quarters of 1980. Real GNP growth rates for 1978 and 1979 (table 6, line 10) are about 3/4 percentage point higher; real GNP in 1980-Q1 is now indicated to have risen at a 3.1 percent annual rate compared with the previously published 1-1/4 percent rise.

For 1977, the growth of capital spending was revised up substantially, but this was offset by slower household spending for consumption and housing. In subsequent years a considerable portion of the faster growth appears to be related to larger increases in net exports. As indicated by the difference between the revised growth of GNP (line 1) and that of gross domestic product (line 9) the methodological change incorporating reinvested earnings of foreign affiliates not only raised the level but also the rates of increase of real GNP in 1978, 1979, and the first quarter of 1980. Net exports also were raised in the first and third quarters of 1980, primarily reflecting revised estimates of higher exports early in the year and lower oil imports in the summer months.

In addition, growth of state and local government purchases was raised sharply in 1979, apparently due to more complete data showing higher construction outlays. Recently sluggishness in such outlays has been a major source of weakness in overall activity, and despite the 1979 changes, the revisions to growth in state and local purchases for 1980 were only minor.

Implications for productivity

Despite the faster growth rate of real GNP in the last few years, the growth rate of nonfarm business output over the last half of the 1970's (table 7) was revised up only fractionally.¹ Consequently, estimates of productivity growth for this period are likely to be little changed. Measured between the 1973 and early 1980 business cycle peaks, productivity growth initially was indicated to be .5 percent (annual rate); based on the revised output figures, the growth rate of productivity over this period has been boosted to .7 percent. However some of the productivity improvement indicated for 1979 may be lost after the July benchmark revisions to the data on hours worked, which probably will show a faster growth of labor input in 1979 than currently published.

Table 1
GROSS NATIONAL PRODUCT
(Billions of Current Dollars)

	1977			1978			1979		
	Previous Estimate	New Estimate	Revision	Previous Estimate	New Estimate	Revision	Previous Estimate	New Estimate	Revision
1. Gross National Product	1,899.5	1,918.0	18.5	2,127.6	2,156.1	28.5	2,368.8	2,413.9	45.1
2. Personal Consumption Expenditures	1,210.0	1,205.5	-4.5	1,350.8	1,348.7	-2.1	1,509.8	1,510.9	1.1
3. Fixed Investment	281.3	301.3	20.0	329.2	353.2	24.0	369.0	398.3	29.3
4. Nonresidential	189.4	205.5	16.1	221.2	242.0	20.8	254.9	279.7	24.8
5. Residential	91.9	95.8	3.9	108.0	111.2	3.2	114.1	118.6	4.5
6. Change in Business Inventories	21.9	21.0	-.9	22.3	22.2	-.1	18.2	17.5	-.7
7. Net Exports	-9.9	-4.2	5.7	-10.3	-.6	9.7	-4.6	13.4	18.0
8. Government Purchases of Goods and Services	396.2	394.5	-1.7	435.6	432.6	-3.0	476.4	473.8	-2.6
9. Federal	144.4	143.9	-.5	152.6	153.4	.8	166.6	167.9	1.3
10. State and Local	251.8	250.6	-1.2	283.0	279.2	-3.8	309.8	305.9	-3.9
Addendum:									
11. Gross Domestic Product	1,881.7	1,894.5	12.8	2,107.0	2,126.2	19.2	2,343.5	2,370.1	26.6
12. Rest of World Product	17.8	23.5	5.7	20.6	29.9	9.3	25.3	43.8	18.5
13. Reinvested Earnings of Incorporated Foreign Affiliates	--	5.7	5.7	--	9.4	9.4	--	15.1	15.1

Table 2

NONRESIDENTIAL FIXED INVESTMENT
(Billions of Dollars)

	1979		
	Previous Estimate	New Estimate	Revision
Nonresidential Fixed Investment	254.9	279.7	24.8
Producers' Durable Equipment	162.2	183.4	21.2
Motor Vehicles	39.4	36.6	-2.8
Other	122.8	146.9	24.0
Nonresidential Structures	92.6	96.3	3.7

Table 3
MOTOR VEHICLES AS A SHARE OF PRODUCERS' DURABLE EQUIPMENT
(Percent)

	Revised	Unrevised
1970	17.2	18.3
1972	22.1	24.0
1975	17.2	19.7
1976	20.0	23.8
1977	21.8	26.1
1978	22.7	28.4
1979	19.9	24.3

Table 4
NATIONAL INCOME
(Billions of Dollars)

	1977			1978			1979		
	Previous Estimate	New Estimate	Revision	Previous Estimate	New Estimate	Revision	Previous Estimate	New Estimate	Revision
National Income	1,525.8	1,546.5	20.7	1,724.3	1,745.4	21.1	1,924.8	1,963.3	38.5
Compensation of Employees	1,156.9	1,152.3	-4.6	1,304.5	1,299.7	-4.8	1,459.2	1,460.9	1.7
Wages and Salaries	984.0	983.8	-.2	1,103.5	1,105.4	1.9	1,227.4	1,235.9	8.5
Supplements to Wages and Salaries	172.9	168.5	-4.4	201.0	194.3	-6.7	231.8	225.0	-6.8
Proprietors' Income with Inventory Valuation and Capital Consumption Adjustments	100.2	103.5	3.3	116.8	117.1	.3	130.8	131.6	.8
Rental Income of Persons with Capital Consumption Adjustment	24.8	25.1	.3	25.9	27.4	1.5	26.9	30.5	3.6
Corporate Profits with Inventory Valuation and Capital Consumption Adjustment	150.0	164.7	14.7	167.7	185.5	17.8	178.2	196.8	18.6
Net Interest	94.0	100.9	6.9	109.5	115.8	6.3	129.7	143.4	13.7

Table 5
POSTWAR CYCLICAL FLUCTUATIONS IN CONSTANT-DOLLAR GNP

	Timing and Duration			Amplitude and Severity		
	Peak Quarter	Trough Quarter	Number of Quarters of Decline	Percent Decline	Percent Decline Per Quarter At Annual Rate	Quarters in which Contractions were Interrupted
Contractions						
Previously Published	1948-Q4	1949-Q2	2	-1.4	-2.9	None
Revised	do.	do.	do.	-1.5	-3.0	do.
Previously Published	1953-Q2	1954-Q2	4	-3.3	-3.3	None
Revised	do.	do.	do.	-3.2	-3.2	do.
Previously Published	1957-Q3	1958-Q1	2	-3.3	-6.5	None
Revised	do.	do.	do.	do.	-6.6	do.
Previously Published	1960-Q1	1960-Q4	3	-1.2	-1.6	None
Revised	do.	do.	do.	do.	-1.5	do.
Previously Published	1969-Q3	1970-Q4	5	-1.1	-.9	1970-Q2, Q3
Revised	do.	do.	do.	-.7	-.5	do.
Previously Published	1973-Q4	1975-Q1	5	-5.7	-4.6	None
Revised	do.	do.	do.	-4.8	-3.8	1974-Q2
Previously Published	1980-Q1	1980-Q2(?)	1	-2.3	-9.9	---

Table 5 (cont.)
 POSTWAR CYCLICAL FLUCTUATIONS IN CONSTANT-DOLLAR GNP

	Timing and Duration			Amplitude and Severity		
	Trough Quarter	Peak Quarter	Number of Quarters of Increase	Percent Increase	Percent Increase Per Quarter At Annual Rate	Quarters in which Expansions were Interrupted
Expansion						
Previously Published	1949-Q2	1953-Q2	16	28.1	6.4	1949-Q4
Revised	do.	do.	do.	do.	do.	do.
Previously Published	1954-Q2	1957-Q3	13	13.2	3.9	1956-Q1
Revised	do.	do.	do.	do.	do.	do.
Previously Published	1958-Q1	1960-Q1	8	11.7	5.7	1959-Q2
Revised	do.	do.	do.	11.5	5.5	do.
Previously Published	1960-Q4	1969-Q3	35	48.0	4.7	None
Revised	do.	do.	do.	49.1	do.	do.
Previously Published	1970-Q4	1973-Q4	12	16.0	5.1	None
Revised	do.	do.	do.	16.8	5.3	do.
Previously Published	1975-Q1	1980-Q1	20	23.3	4.3	1979-Q2
Revised	do.	do.	do.	24.5	4.5	do.

Table 6
 REVISIONS TO GROWTH IN REAL GNP AND COMPONENTS
 (Revised minus previously published)

	1977	1978	1979	1980		
				Q1	Q2	Q3
--Net change, annual rate; billions of 1972 dollars--						
1. Real GNP	2.9	9.0	11.1	6.9	-2.5	5.5
2. Final sales	7.3	7.6	11.5	6.1	-2.4	3.1
3. PCE	-2.6	2.7	3.1	.7	1.6	.4
4. BFI	8.2	-.7	-.3	.2	-3.0	1.2
5. Res.	-1.1	.1	.4	.2	-.1	.1
6. Net exports	2.0	5.5	4.5	3.0	-1.7	2.0
7. Federal	.2	1.2	.3	1.3	.7	-1.0
8. State and local	.3	-1.0	3.6	.6	.1	.3
9. Gross domestic product	3.1	3.0	4.3	4.2	.4	5.3
-----percentage points-----						
Addendum:						
10. Real GNP	0.1	0.5	0.7	1.9	-0.3	1.5
11. Gross domestic product	0.1	-0.1	0.3	1.1	0.3	1.5

NOTE: Annual changes are from the fourth quarter of the previous year to the fourth quarter of the year indicated.

Table 7

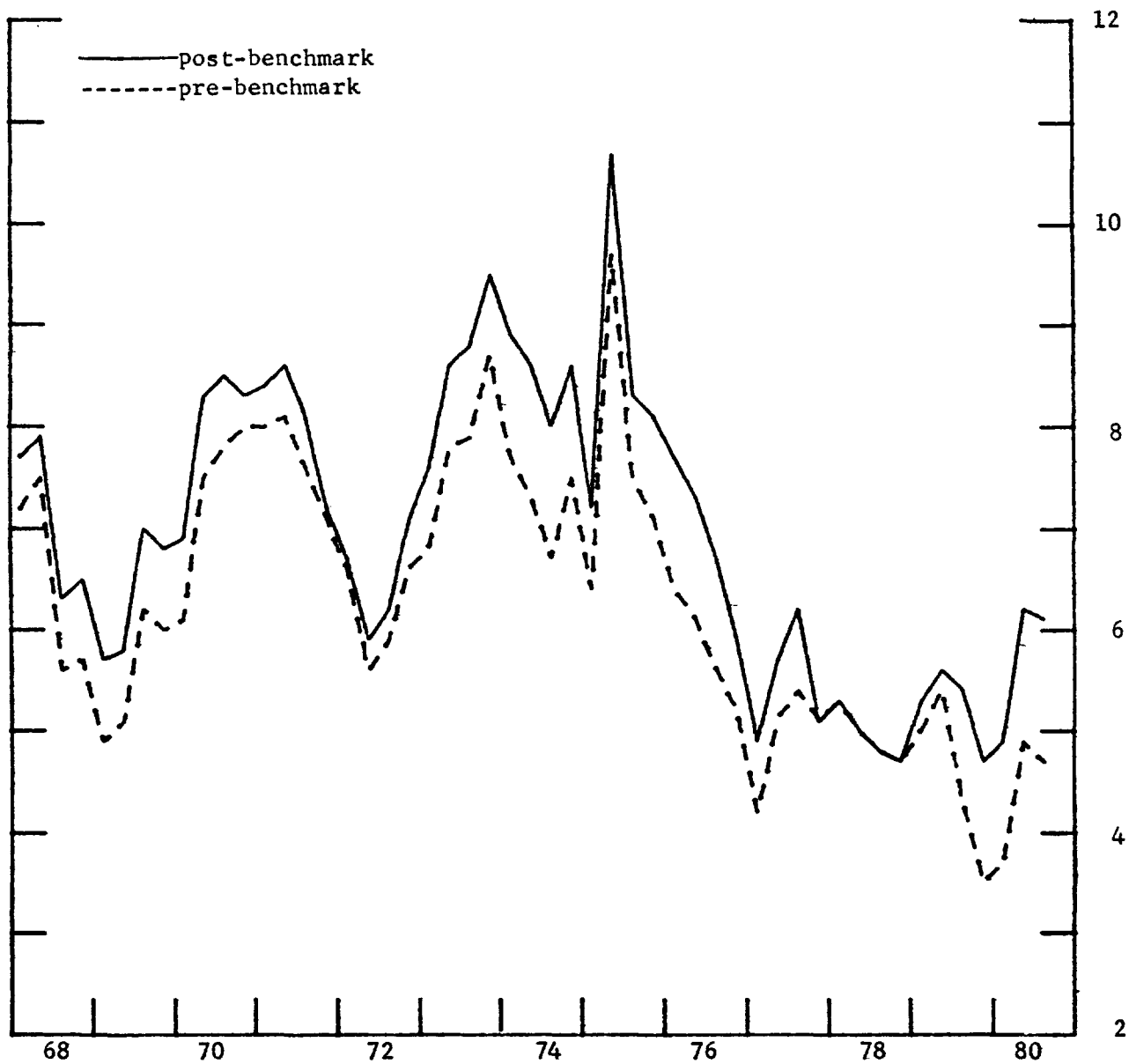
CHANGES IN NONFARM OUTPUT AND PRODUCTIVITY
(Percent change, annual rate)

	1974	1975	1976	1977	1978	1979	1973-Q4 to 1980-Q1
<u>Output</u>							
Revised	-4.6	2.4	4.8	7.6	4.9	1.2	2.6
Unrevised	-5.4	2.7	5.3	6.2	6.5	.1	2.4
Difference	.9	-.3	-.5	1.3	-1.5	1.1	.2
<u>Productivity</u>							
Estimated ¹	-2.6	4.0	2.4	2.4	-.4	-1.1 ²	.7 ²
Unrevised	-3.5	4.3	2.9	1.1	1.0	-2.0	.5

1. Estimates are based on the revisions to output, assuming no change in hours worked.
2. It is likely that the Bureau of Labor Statistics will revise up its estimate of 1979 hours worked in its July 1981 benchmark revision, thereby making the final 1979 productivity figure more negative than indicated here.

NOTE: Annual changes are from fourth quarter of preceding year to fourth quarter of year indicated.

PERSONAL SAVING RATE
(Percent)



Annual Average

1968	7.1	1974	8.5
1969	6.4	1975	8.6
1970	8.0	1976	6.9
1971	8.1	1977	5.6
1972	6.5	1978	5.2
1973	8.6	1979	5.2

III-T-1
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net Change from:		
	Period	Level	Month ago	Three months ago	Year ago
	\$ billions		Percent at annual rates		
Monetary and credit aggregates¹					
Total reserves	December	40.1	1.6	14.3	7.3
Nonborrowed reserves	December	38.4	13.4	10.8	7.0
Money supply					
M-1A	December	384.8	-11.1	1.5	4.1
M-1B	December	411.9	-9.0	3.8	6.5
M-2	December	1674.8	2.7	7.4	9.8
M-3	December	1961.0	9.1	11.8	10.4
CB Gross Time and savings deposits	December	737.6	18.3	18.0	11.2
Total Thrift deposits (S&Ls + MSBs + Credit Unions) Total	December	720.3	11.1	12.0	7.9
Bank credit	December	1236.9	12.7	14.4	8.9

		Latest data		Net Change from:		
		Period	Percent or index	Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	1/21/81	19.35	-.09	6.18	5.57
Treasury bill (90 day)	" "	1/21/81	15.44	.41	4.05	3.36
Commercial paper (90-119 day)	" "	1/21/81	17.17	-1.15	4.91	4.15
New utility issue Aaa	" "	1/23/81	14.29	--	.37	2.21
Municipal bonds (Bond Buyer) 1 day	1 day	1/22/81	9.68	-.88	.87	2.40
FNMA auction yield (FHA/VA)		1/19/81	14.84	-.08	.27	1.73
Dividend price ratio (common stocks)	wk. endg.	1/21/81	4.83	.05	.07	-.57
NYSE index (12/31/65=50)	end of day	1/19/81	77.10	.70	1.18	13.16

		Net Change or Gross Offerings			
		Period	Latest data	Year ago	Year to date 1980 1979
Credit demands					
Business loans at commercial banks ¹		December	5.0	2.1	32.8 43.5
Consumer instalment credit outstanding ¹		November	0.8	2.7	1.3 36.7
Mortgage debt outstanding (major holders) ^{1 2}		October	7.4	7.8	51.7 85.5
Corporate bonds (public offerings)		December	1.7e	1.5	41.4e 25.8
Municipal long-term bonds (gross offerings)		December	3.4	3.6	47.1 43.4
Federally sponsored agcy. (net borrowing)		December	3.4e	1.5	24.9e 23.9
U.S. Treasury (net cash borrowing)		December	13.6	11.2	79.2e 37.3

^{1/} Seasonally adjusted.

^{2/} Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA and GNMA.

e - Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

The narrow monetary aggregates weakened markedly in December but are estimated to have rebounded significantly in January, if adjustment is made for transfers to NOW accounts. Movements in M-1A and M-1B have been greatly distorted since year-end by an influx of funds to NOW accounts that has considerably exceeded earlier projections. Most of the NOW account growth evidently has represented shifts from demand deposits-- at least in the case of commercial banks. M-2, which increased only slightly in December, appears to be growing rapidly in January reflecting both the rapid expansion of its M-1B component and a sharp turnaround in money market mutual fund share growth.

The general decline in market interest rates that began just prior to the December FOMC meeting, partly in response to the slowing in the growth of the monetary aggregates, continued through the first week of January. Since then, with continued firmness in the federal funds market and indications of strength in economic activity, most short-term interest rates have increased about $3/4$ to $1-1/2$ percentage points. Treasury bill rates are currently $1-1/4$ to 2 percentage points below their December highs, and short-term private rates generally remain more than 3 percentage points lower. On balance, bond yields are $3/4$ to $1-1/4$ percentage points below their December peaks, while primary mortgage market rates are only slightly lower.

Total business borrowing has remained essentially unchanged in the past month or so, but its composition has shifted to include less reliance on bank credit and increased use of commercial paper and longer-term debt instruments. In the government sector, Treasury borrowing dropped in

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1980			1981		Change from:		
	Mid June* Low	Dec. High	FOMC Dec. 19	Jan. 6	Jan. 27	Dec. High	FOMC Dec. 19	Jan. 6
<u>Short-term rates</u>								
Federal funds ²	8.99	19.83	19.83	20.06	18.64P	-1.19	-1.19	-1.42
Treasury bills								
3-month	6.18	17.14	14.93	13.58	15.20	-1.94	.27	1.62
6-month	6.60	15.74	14.17	13.16	14.10	-1.64	-.07	.94
1-year	7.00	14.06	12.93	11.88	12.76	-1.30	-.17	.88
Commercial paper								
1-month	7.98	20.77	20.04	17.02	17.52	-3.25	-2.52	.50
3-month	7.78	19.88	19.06	15.31	16.63	-3.25	-2.43	1.32
6-month	7.59	18.58	16.90	14.25	15.01	-3.57	-1.89	.76
Large negotiable CDs ³								
1-month	7.96	21.29	20.33	17.24	17.89	-3.40	-2.44	.65
3-month	7.90	20.90	19.44	15.75	17.21	-3.69	-2.23	1.46
6-month	7.66	19.19	17.45	14.84	15.98	-3.21	-1.47	1.14
Eurodollar deposit ²								
1-month	8.88	22.54	22.54	18.75	19.64	-2.90	-2.90	.89
3-month	8.99	21.36	21.36	17.06	18.56	-2.80	-2.80	1.50
Bank prime rate	12.00	21.50	21.50	20.50	20.00	-1.50	-1.50	-.50
<u>Intermediate- and long-term rates</u>								
U.S. Treasury (constant maturity)								
3-year	8.56	14.41	13.66	12.31	13.14	-1.27	-.52	.83
10-year	9.47	13.57	12.64	12.11	12.73	-.84	.09	.62
30-year	9.49	13.17	12.22	11.67	12.31	-.86	.09	.64
Municipal (Bond Buyer)	7.44	10.56	10.56	9.76 ⁴	9.68 ⁴	-.88	-.88	-.08
Corporate Aaa								
New issue	10.53	14.51	—	— ⁵	14.29P	-.22	—	—
Recently offered	10.79	15.03	14.25	14.15 ⁶	14.32P	-.71	.07	.17
Primary conventional mortgages	12.35	14.95	14.95	14.95 ⁶	14.85 ⁶	-.10	-.10	-.10
	Mid-Oct. High	Mar.-Apr. Low	FOMC Dec. 19	Jan. 6	Jan. 27	Mar.-Apr. Low	FOMC Dec. 19	Jan. 6
<u>Stock Prices</u>								
Dow-Jones Industrial	972.44	759.13	937.20	1004.69	949.49	190.36	12.29	-55.20
NYSE Composite	77.24	55.30	76.86	79.14	75.19	19.89	-1.67	-3.95
AMEX Composite	363.33	215.69	347.58	353.59	343.41	127.72	-4.17	-10.18
NASDAQ (OTC)	199.43	124.09	197.91	204.07	197.18	73.09	-.73	-6.89

1. One-day quotes except as noted.

2. Averages for statement week closest to date shown.

3. Secondary market.

4. One-day quotes for preceding Thursday.

5. Averages for preceding week.

6. One-day quotes for preceding Friday.

* Most lows occurred on or around June 13.

January following a large increase in December. State and local government issuance of debt also declined in January as the volume of mortgage revenue bonds fell off sharply. Mortgage lending strengthened in the fourth quarter as a whole, but there were signs that the rise in interest rates was slowing residential mortgage activity as the quarter progressed. Consumer installment credit continued to expand, although at a slow pace.

Monetary Aggregates and Bank Credit

The extension of NOW accounts nationwide has had a pronounced impact on the growth of the narrow monetary aggregates in January. Interest-bearing transactions deposits outstanding are estimated to have grown from \$27 billion (month-average basis, not seasonally adjusted) in December to \$43 billion in January, with commercial banks accounting for about \$13 billion of the net increase and thrift institutions the remainder.¹ Reflecting this surge in other checkable deposits, M-1A is estimated to be contracting at a 28-3/4 percent annual rate in January, while M-1B is estimated to be expanding at a 19-1/2 percent rate.

The marked decline in M-1A suggests that a large share of the increase in other checkable deposits has represented shifting from demand deposits. Although the extent of such transfers is uncertain, a Reserve Bank survey indicated that, during the first two weeks of the year, almost 90 percent of the increase in interest-bearing transactions accounts at commercial banks were funds diverted from demand deposits, while the remainder came from savings accounts and other liquid assets. With a lower fraction of NOW inflows at thrift institutions believed to have come from

¹. Net inflows into other checkable deposits for January are estimated to have been \$9.6 billion in the first week, \$6.4 billion in the second week, and \$1.5 billion in the third week.

MONETARY AGGREGATES

(Based on seasonally adjusted data unless otherwise noted)¹

	1980						QIV '79	1981
	Q2	Q3	Q4	Oct.	Nov.	Dec.	to QIV '80	Jan. ^e
---- Percentage change at annual rates ----								
<u>Money stock measures</u>								
1. M-1A	-4.4	11.5	8.1	9.1	6.5	-11.1	5.0	-28.7
2. M-1B	-2.5	14.6	10.8	11.8	8.7	-9.0	7.3	19.5
3. M-2	5.6	16.0	9.2	8.8	10.5	2.7	9.9	10.5
4. M-3	5.8	13.0	11.8	10.8	15.3	9.1	10.0	14.4
<u>Selected components</u>								
5. Currency	7.4	11.3	9.2	12.6	7.3	6.2	9.3	4.1
6. Demand deposits	-9.1	11.5	7.7	7.6	6.2	-18.5	3.2	-42.9
7. Other checkable deposits, NSA ²	35.6	75.5	54.9	53.7	42.0	22.6	58.7	704.1
8. M-2 minus M-1B (9+10+11+14)	8.3	16.4	8.7	7.4	11.6	6.6	10.7	10.7
9. Overnight RPs and Eurodollars, NSA ³	-57.4	135.6	19.2	-18.2	3.7	-18.4	22.9	32.6
10. Money market mutual fund shares, NSA	82.7	75.7	-15.5	-12.3	-6.2	-18.7	90.3	72.8
11. Commercial banks	9.7	11.3	10.8	10.5	15.5	7.3	10.0	3.0
12. savings deposits	-21.7	27.5	1.7	10.0	-8.7	-40.0	-3.5	-51.7
13. small time deposits	33.1	0.7	17.1	11.3	31.6	39.6	21.3	37.5
14. Thrift institutions	3.6	9.5	9.6	9.4	10.3	8.2	5.7	2.3
15. savings deposits	-24.9	28.1	-0.4	2.7	-21.2	-30.5	-4.9	-29.0
16. small time deposits	18.1	1.1	14.5	12.8	25.8	26.6	11.5	16.5
17. Large time deposits	9.2	-11.6	26.2	15.9	47.0	54.8	10.2	40.8
18. at commercial banks, net ⁴	5.8	-16.3	21.9	8.9	45.4	53.4	4.7	43.6
19. at thrift institutions	28.9	14.6	47.7	50.8	57.9	58.1	47.0	27.7
0. Term RPs, NSA	-6.7	47.8	41.5	71.6	33.8	0.0	15.7	13.2

--Average monthly change in billions of dollars--

MEMORANDA:

21. Managed liabilities at commercial banks (22+23)	-6.3	-0.3	n.a.	6.2	n.a.	n.a.	n.a.	n.a.
22. Large time deposits, gross	0.1	0.4	6.2	2.8	7.7	8.2	1.8	8.6
23. Nondeposit funds	-6.4	-0.7	n.a.	3.4	n.a.	n.a.	n.a.	n.a.
24. Net due to related foreign institutions, NSA	-6.1	-1.9	-0.6	0.6	-2.0	-0.5	-2.0	n.a.
25. Other ⁵	-0.3	1.2	n.a.	2.8	n.a.	n.a.	n.a.	n.a.
26. U.S. government deposits at commercial banks ⁶	0.4	1.3	-1.7	1.4	-7.1	0.7	0.1	1.1

1. Quarterly growth rates are computed on a quarterly average basis.

2. Consists of ATS and NOW balances at all institutions, credit union share draft balances, and demand deposits at mutual savings banks.

3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers.

4. Net of large denomination time deposits held by money market mutual funds and thrift institutions.

5. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve), loans sold to affiliates, loan RPs, and other minor items.

6. Consists of Treasury demand deposits at commercial banks and Treasury note balances.

n.a.--not available. e--estimated.

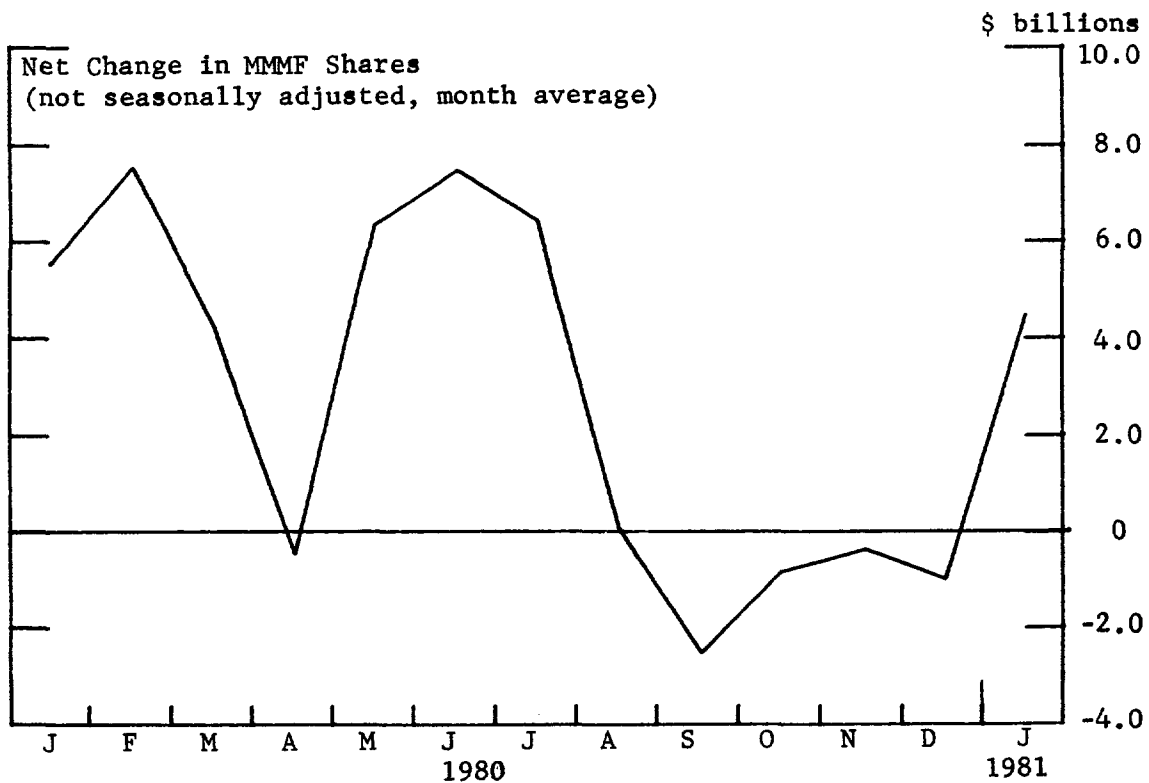
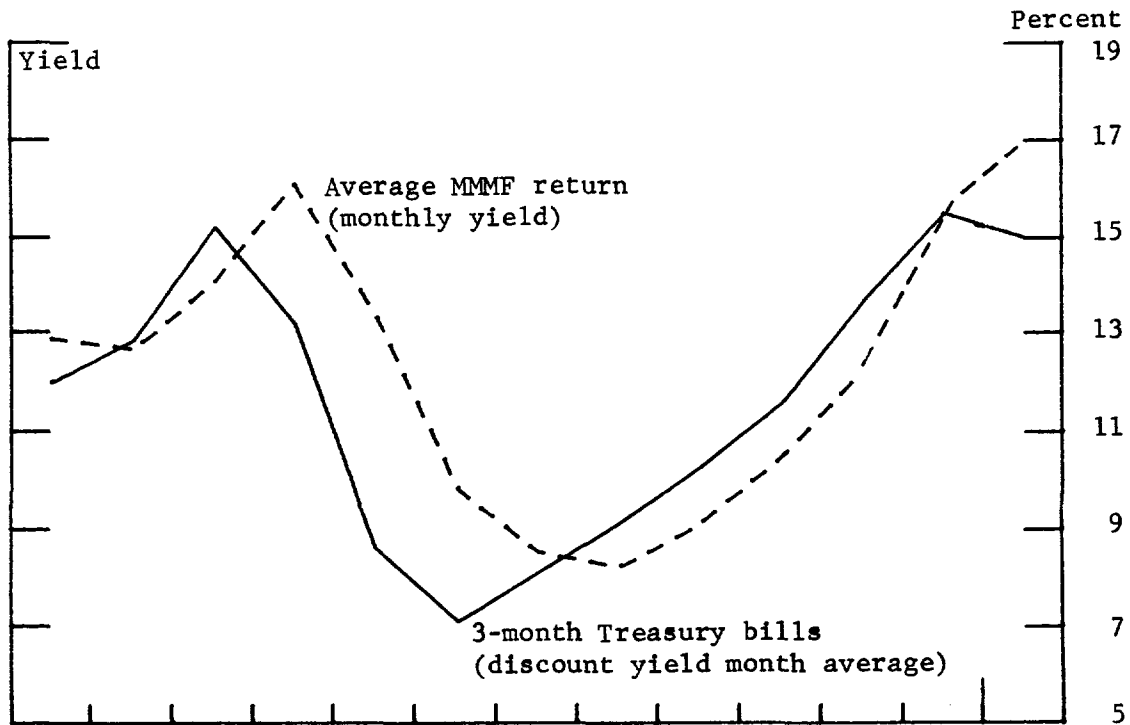
demand deposits, this proportion at all institutions combined is estimated to be around 80 percent. Adjustment for the effects of the nationwide extension of NOWs raises M-1A growth to about 10 percent in January compared with a measured decline of more than 11 percent in December, and reduces the growth in M-1B to 10-1/2 percent after the December contraction of 9 percent.

M-2 growth has picked up in January to an estimated 10-1/2 percent annual rate, after slowing sharply in December when the outflow of demand deposits was accompanied by less rapid growth in the nontransactions component. The acceleration in M-2 in January has been due largely to the rebound in M-1B but in part also to the renewed growth of money market mutual fund (MMMF) shares. In January MMMF shares are projected to have increased by \$4.6 billion (month-average basis, not seasonally adjusted), after declining almost \$5 billion from August to December (see chart on page III-6).¹ The weakness in money funds in the final months of 1980 occurred as the net return on these investment outlets lagged considerably the rise in yields on other short-term instruments. However, when market rates fell in December and early January, the yields on MMMFs continued to rise and by late December finally surpassed rates for other short-term instruments.

The resurgence of MMMF growth in January has been accompanied by a slower expansion of the savings and small time component of M-2. The

¹ Inflows to MMMFs averaged \$2.4 billion per week during the first three weeks of 1981. Money funds have shown considerable strength in the opening months of other years, but the extent of the seasonal influence is not yet quantifiable. In December flows to MMMFs also may have been reduced by the record \$1.3 billion (not seasonally adjusted) increase in short-term unit investment funds during that month. As of January 20, these short-term trusts had increased only another \$350 million.

MONEY MARKET MUTUAL FUND YIELDS AND SHARE GROWTH¹



1. Figures for January are estimates.

runoff in savings deposits is estimated to have stepped up in January, but the incremental outflow is less than the estimated volume of shifts from savings to other checkable deposits. Small time deposits have continued to grow rapidly in January, but slower than in December. Data for a sample of S&Ls indicate that the six-month money market certificate (MMC) continued to be the major source of growth in small time deposits in early January, as the cap on the 2-1/2 year small savers certificate (SSC) has kept the yield on that instrument below comparable market rates.

The expansion of large-denomination time deposits at commercial banks and thrift institutions is expected to slow in January from the very brisk pace of December, but to remain substantial. Boosted by the rapid acceleration in the M-2 component, however, M-3 growth in January is estimated to have picked up to 14-1/2 percent. A continuing higher level of short-term Eurodollar yields relative to domestic rates in January likely induced a modest portion of the funds raised in January through large CD issuance to be transferred by U.S. banks to foreign branches or foreign head offices, as was the case in December.

In December, commercial bank credit expanded at about a 12-3/4 percent annual rate, down from a 16-1/2 percent rate in November, as growth in both loans and investments slowed. The deceleration in business loan growth accounted for most of the weakening in loan expansion; real estate lending strengthened some in December, and fragmentary data suggest that consumer loans increased in December for the first time since last February. Data from large banks for the first two weeks of January suggest continued slowing in bank credit reflecting further weakness in business loans and security loans.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)¹

	1980						QIV '79	Dec. '79
	Q2	Q3	Q4 ^e	Oct. ^e	Nov. ^e	Dec. ^e	to QIV '80 ^e	to Dec. '80 ^e
----- Commercial Bank Credit -----								
1. Total loans and investments at banks ²	-4.4	13.5	14.4	13.3	16.6	12.7	7.9	8.9
2. Investments	11.0	21.6	11.8	13.7	13.6	7.8	12.9	13.5
3. Treasury securities	10.6	39.6	11.3	14.6	15.6	3.3	15.2	16.8
4. Other securities	11.2	12.9	12.1	13.3	12.6	10.2	11.6	11.9
5. Total loans ²	-9.6	10.7	15.3	13.2	17.7	14.4	6.3	7.4
6. Business loans	-9.6	14.4	22.3	23.0	24.1	18.7	9.9	11.2
7. Security loans	-23.8	-10.1	64.9	39.0	75.5	71.0	-11.5	-2.2
8. Real estate loans	1.0	5.6	11.4	11.4	10.3	12.1	7.8	7.6
9. Consumer loans	-16.7r	-7.8r	n.a.	-1.4r	-2.1r	n.a.	n.a.	n.a.
-- Short- and Intermediate-Term Business Credit --								
10. Total short- and intermediate- term business credit (sum of lines 13,14 and 15)	0.6	8.0r	n.a.	17.2r	19.0r	n.a.	n.a.	n.a.
11. Business loans net of bankers acceptances ¹	-11.1	13.5	25.9	26.6	26.8	22.7	10.0	11.8
12. Commercial paper issued by nonfinancial firms ³	62.6r	-19.3r	-3.0r	-33.5r	6.3r	18.7r	33.0r	29.0r
13. Sum of lines 11 & 12	-2.9r	9.3r	22.5r	19.6r	24.5r	22.3r	12.0r	13.5r
14. Finance company loans to business ⁴	-4.0	-7.5	n.a.	7.0	22.8	n.a.	n.a.	n.a.
15. Total bankers acceptances outstanding ⁴	32.3	20.2	n.a.	14.9	19.0	n.a.	n.a.	n.a.

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.

e--estimated. n.a.--not available. r--revised.

Business Finance

The reduction in business borrowing at banks in December coincided with increased issuance of commercial paper and some pickup in offerings of longer-term debt securities. Business loans at commercial banks net of bankers acceptances expanded at a 22-3/4 percent annual rate in December, down from 26-3/4 percent in November. The slower growth in business loans at commercial banks was partly offset by the \$600 million increase in nonfinancial commercial paper in December. Data for early January indicate that nonfinancial commercial paper issuance strengthened further and that bank loan expansion slowed as the spread of the prime over commercial paper rates remained wider than in much of December.

Gross issuance of publicly offered bonds rose to about \$2.2 billion in December, and, with the decline in interest rates from their December peaks, has increased further to \$3.3 billion in January. Most of the increase in December was attributable to an enlarged volume of bond offerings by financial corporations and public utilities. In January, however, industrial corporations have accounted for a large proportion of the estimated pickup in bond issuance, and many of these issuers reportedly plan to reduce short-term indebtedness with the proceeds.

Private placements of corporate bonds likely have continued at the reduced pace of the last several quarters. Although the liquidity pressures that life insurance companies experienced in early 1980 appear not to have reemerged, the companies have remained cautious about making new commitments. In addition, faced with uncertainty about future interest rate fluctuations and the availability of funds, many life insurers reportedly are planning to allocate a larger portion of their investment

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

	1980				1981
	Q3	Q4 ^P	Nov. ^P	Dec. ^P	Jan. ^e
	----- Seasonally adjusted -----				
Corporate securities--total	6,571	4,395	3,925	4,375	6,100
Publicly offered bonds	3,944	2,050	1,300	2,175	3,300
Privately placed bonds	709	720	800	700	700
Stocks	1,918	1,625	1,825	1,500	2,100
	----- Not seasonally adjusted -----				
Publicly offered bonds--total	3,873	1,925	1,300	1,700	3,000
By quality ¹					
Aaa and Aa ²	1,710	750	700	850	--
Less than Aa ²	2,163	1,175	600	850	--
By type of borrower					
Utility ³	1,444	945	575	775	--
Industrial	1,781	489	395	300	--
Financial	648	491	330	625	--
Memo: convertible bonds	503	428	380	226	--
Stocks--total	1,569	1,951	1,500	1,900	1,600
By type of issuer					
Utility	649	587	450	600	--
Industrial	720	1,073	900	1,150	--
Financial	200	291	150	150	--

p--preliminary. e--estimated.

1. Bonds categorized according to Moody's bond ratings.
2. Includes issues not rated by Moody's.
3. Includes equipment trust certificates.

portfolios to short-term liquid assets and easily marketable longer-term securities.

Stock prices have varied widely over the intermeeting period, but have declined in recent weeks. Most of the major stock indexes show a small drop in prices since the last FOMC meeting. New offerings of common and preferred stock totaled about \$1.5 billion in December, somewhat below the record monthly average for 1980. In January, new equity offerings have rebounded to about \$2.1 billion.

Government Finance

In January, marketable borrowing by the Treasury is estimated at about \$8 billion (not seasonally adjusted), including \$3.7 billion in bills at the regular auctions¹ and \$4.2 billion in coupon issues,² after a sizable \$14-1/2 billion in December. For the first quarter of 1981, the Treasury is expected to borrow about \$26 billion to finance a deficit that could be as large as \$34 billion. This would be about the same as in the fourth quarter of last year, when the deficit of \$35.6 billion was financed by \$28 billion of borrowings and an \$8.7 billion reduction in the Treasury's cash balances. The federal debt ceiling will have to be raised from the current \$935 billion level soon after February 15, if it is not to inhibit Treasury financing.

In recent months, foreign central banks have been important purchasers of Treasury debt. Foreign official institutions added \$7 billion to their holdings of Treasury securities at the New York Fed in the

1. The Treasury also raised \$2.5 billion in cash management bills in January that matured on January 22.

2. Of the coupon issues, \$2.7 billion were 7-year notes and \$1.5 billion were 20-year bonds. The 20-year bond is expected to replace the 15-year bond cycle that the Treasury has followed since the third quarter of 1977.

FEDERAL GOVERNMENT AND SPONSORED AGENCY FINANCING¹
 (Billions of dollars)

	Q3	Q4 ^e	Q1 ^f	Nov.	Dec. ^e	Jan. ^e
<u>Treasury financing</u>						
Combined surplus/deficit(-)	-20.3	-35.6	-33.8	-10.7	-7.7	-6.7
Net marketable borrowings/ repayments(-)	27.5	28.9	27.6	9.5	14.5	7.9
bills	14.6	15.8	13.6	5.9	7.4	3.7
coupons	12.9	13.1	14.0	3.6	7.1	4.2
Nonmarketable borrowings/ repayments(-)	-.6	-1.3	-1.4	-.3	-.9	-.4
Other means of finance ²	.3	-.7	3.3	-4.0	-.8	-1.2
Change in cash balance	+6.9	-8.7	-4.3	-5.5	+5.1	-.4
<u>Federally sponsored credit agencies net cash borrow- ings³</u>						
	2.1	9.1	3.5	.5	3.4	1.5

1. Numbers reported on a not seasonally adjusted, payments basis.

2. Includes checks issued less checks paid, accrued items and other transactions.

3. Includes debt of Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and the Federal Farm Credit Bank System.

f--forecast. e--estimated.

fourth quarter (almost entirely bills) and another \$2 billion, with about half of this in bills, since the start of 1981.¹ At Treasury bill auctions, interest of small investors also has remained fairly strong with noncompetitive awards averaging about \$1.5 billion per auction over the past month and a half. This amount is, however, somewhat less than the average at auctions in October and November.

Federally sponsored agency borrowing is expected to decline sharply in January to \$1.5 billion (not seasonally adjusted) as the two major housing credit agencies have reduced their demand for funds. Federal Home Loan Banks have borrowed \$300 million in January after tapping the market for \$1.9 billion in December. FNMA borrowings are expected to total only \$350 million in January, compared with \$1.5 billion in December. Although seasonal factors accounted for much of the decline in borrowing by these housing agencies, the fall also could reflect the reduction in the lending activity by the agencies in response to some easing in interest rates from December to January. At FNMA, the dropoff in offerings at the most recent biweekly auction of standby commitments also may have been related to the agency having increased commitment fees and reduced the period over which commitment rates will be guaranteed.²

The gross volume of bonds issued by state and local governments in January is estimated at about \$2.8 billion, down from almost \$4 billion in the previous month. The smaller volume in the first month of this year has been due to the sharp drop in housing revenue bonds. With the

1. The increase in January occurred despite a liquidation of \$1.3 billion of Iranian holdings of Treasury securities.

2. FNMA has taken these steps to reduce its exposure to interest rate risk and to shore up its poor earnings prospects.

approach of the January 1, 1981, date for implementation of the new restrictive federal legislation governing mortgage revenue bonds, offerings of these securities jumped to \$2.1 billion (not seasonally adjusted) in December. In January mortgage revenue bonds have totaled only about \$70 million, owing in part to the uncertainty of issuers regarding procedures under the new rules.

STATE AND LOCAL GOVERNMENT GROSS SECURITY OFFERINGS
(Monthly totals or monthly averages, billions of dollars)

	1980				1981
	Q3	Q4	Nov.	Dec. ^p	Jan. ^e
-----Seasonally adjusted-----					
Total	7.14	5.85	5.20	5.85	4.85
Long-term	4.74	3.63	2.85	3.90	2.75
Short-term	2.40	2.22	2.35	1.95	2.10
-----Not seasonally adjusted-----					
Total	6.62	5.20	4.90	4.70	4.30
Long-term	4.32	3.60	3.00	3.40	2.70
Housing revenue bonds	0.67	1.01	0.76	2.06	0.07
Short-term	2.30	1.60	1.90	1.30	1.60

^p--preliminary. ^e--estimate.

The surge in issuance of mortgage revenue bonds in December apparently put additional upward pressure on tax-exempt security yields. The Bond Buyer index of rates on general obligation bonds rose to a record 10.56 percent by mid-December, about 110 basis points above the previous all-time high reached in April 1980.¹ As a result of these record rates, the ratio of tax-exempt to taxable yields rose to 74 percent in December.

1. The Bond Buyer revenue bond index also reached a record 11.41 percent in December.

Currently the Bond Buyer index of yields on general obligation bonds stands at 9.68 percent and the tax-exempt/taxable yield ratio is about 67 percent.

Mortgage Markets

Mortgage lending increased somewhat in the fourth quarter, despite a rise in interest rates on conventional home loans. The national average contract rate on new commitments for fixed-rate level payment conventional loans at S&Ls peaked at 14.95 percent in December, and is currently 10 basis points lower. In part, the pickup in mortgage lending in the face of rising rates reflected the usual lag in takedowns of commitments made earlier. Also, field reports continue to indicate that home buyers have been able to obtain some mortgage financing at yields below those prevailing on standard unsubsidized long-term contracts. Mortgage loans financed by tax-exempt mortgage bonds issued earlier by municipalities reportedly have been available in some localities at contract rates between 10 and 13 percent, while renegotiable-rate mortgages (RRMs), which have been marketed aggressively in many areas, have carried initial rates averaging 1/2 to 3/4 percentage point below yields on fixed-rate loans. In addition, home sellers apparently continue to be an important source of lower-cost financing in the market for existing houses.

The measured increase in net mortgage lending in the fourth quarter primarily reflected loan growth at depository institutions. Commercial banks increased their mortgage loans at a \$29 billion seasonally adjusted annual rate in the last three months of 1980, up considerably from the \$16 billion pace set in the third quarter. Savings and loan associations

NET CHANGE IN MORTGAGE DEBT OUTSTANDING
(Seasonally adjusted annual rates, in billions of dollars)

Mortgage debt	1979			1980 ^e			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>By type of debt</u>							
Total	164	161	150	144	73	123	142
Residential	117	115	114	104	44	92	102
Other ¹	47	46	36	40	29	31	40
<u>By type of holder</u>							
Commercial banks	30	34	32	27	6	16	29
Savings and loans	51	44	34	25	*	40	45
Mutual savings banks	4	4	2	2	*	-1	1
Life insurance companies	11	14	15	16	12	11	10
FNMA and GNMA	7	3	10	12	8	1	5
GNMA mortgage pools	19	24	27	18	17	19	15
FHLMC and FHLMC pools	4	5	3	3	3	5	3
Other ²	38	33	27	41	27	32	34

1. Includes commercial and other nonresidential as well as farm properties.

2. Includes mortgage companies, real estate investment trusts, state and local credit agencies, state and local retirement funds, noninsured pension funds, credit unions, Farmers Home Administration and Farmers Home pools, Federal Land Banks, Federal Housing Administration, Veterans Administration, and individuals.

e--Partially estimated.

*--Between \$0.5 billion and \$-0.5 billion.

again were the single largest source of mortgage financing in the fourth quarter. Acquisitions of mortgages by federally related agencies also picked up but remained rather modest.

Despite the strength in net mortgage extensions in the fourth quarter, there were indications that the rise in mortgage interest rates over the quarter damped residential mortgage activity as the quarter progressed. New mortgage commitments at S&Ls generally declined after September, and net mortgage acquisitions by these institutions peaked in October. At the end of the quarter, outstanding mortgage loan commitments at S&Ls were about 3 percent below their level three months earlier.

The desire of an increasing number of S&Ls to emphasize RRM's, rather than fixed-rate long-term mortgages, reflects an attempt to make returns on their asset portfolios more responsive to interest rate movements. This also may have been a factor in the decision of S&Ls to build up their liquid asset holdings. The move toward more interest-sensitive assets has been motivated by the increasing proportion of thrift deposits with market determined interest rates and relatively short maturities--especially MMCs and large CDs (see chart on page III-19). However, the shift in assets has not been large enough to offset the impact of high interest rates on thrift earnings. In the second half of 1980, it is estimated that the ratio of net income to average assets for FSLIC-insured S&Ls fell to a record low 7 basis points (annualized), while the same ratio for MSBs was -28 basis points--also an all-time low. If interest rates remain at current levels, profitability of S&Ls and MSBs could decline as much as another 50 basis points in the first six months of 1981. This would be an unprecedented loss position for

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

Period	Conventional home mortgages			Percent of S&Ls ² with mortgage funds in short supply
	Average rate on new commitments for 80% loans (percent)	Basis point change from month or week earlier	Spread ¹ (basis points)	
1980--High	16.35	--	+385	93
Low	12.18	--	-20	54
1980--Sept.	13.20	64	+17	65
Oct.	13.79	59	-27	68
Nov.	14.21	42	+19	63
Dec.	14.82	61	+62	65
Dec. 5	14.53	+15	+30	61
12	14.83	+40	-20	63
19	14.95	+12	+70	67
26	14.95	0	+75	68
1981--Jan. 2	14.95	0	+80	61
9	14.80	-15	+70	65
16	14.85	+5	+68	62
23	14.85	0	+53	63

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.

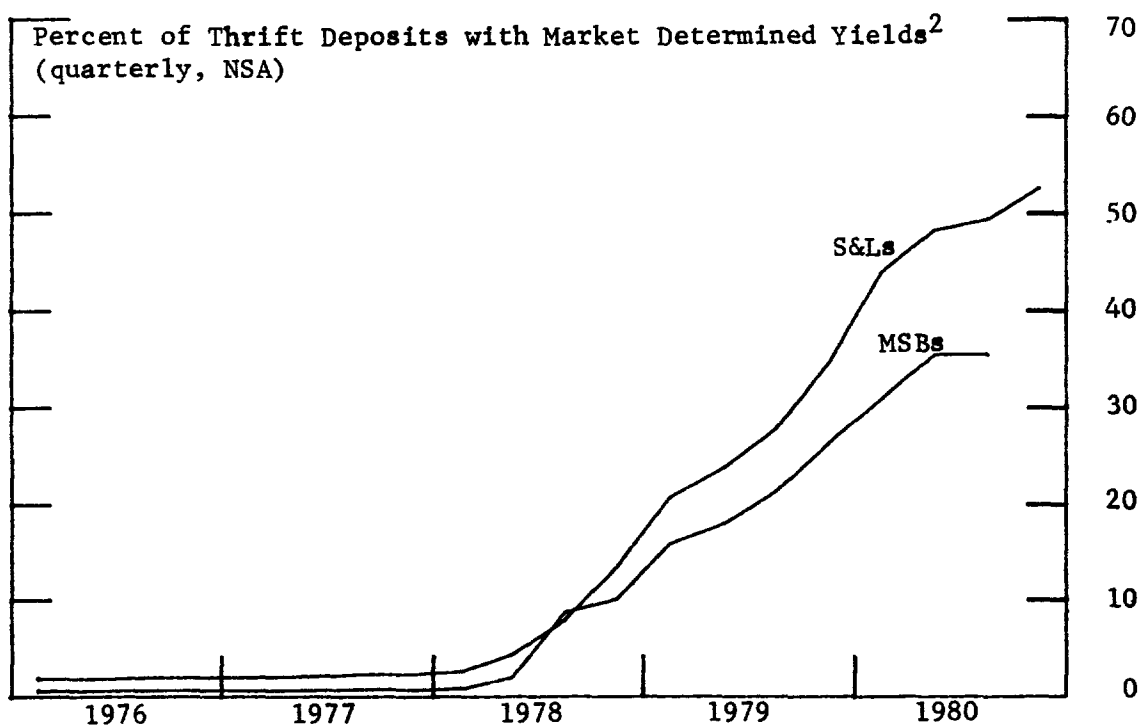
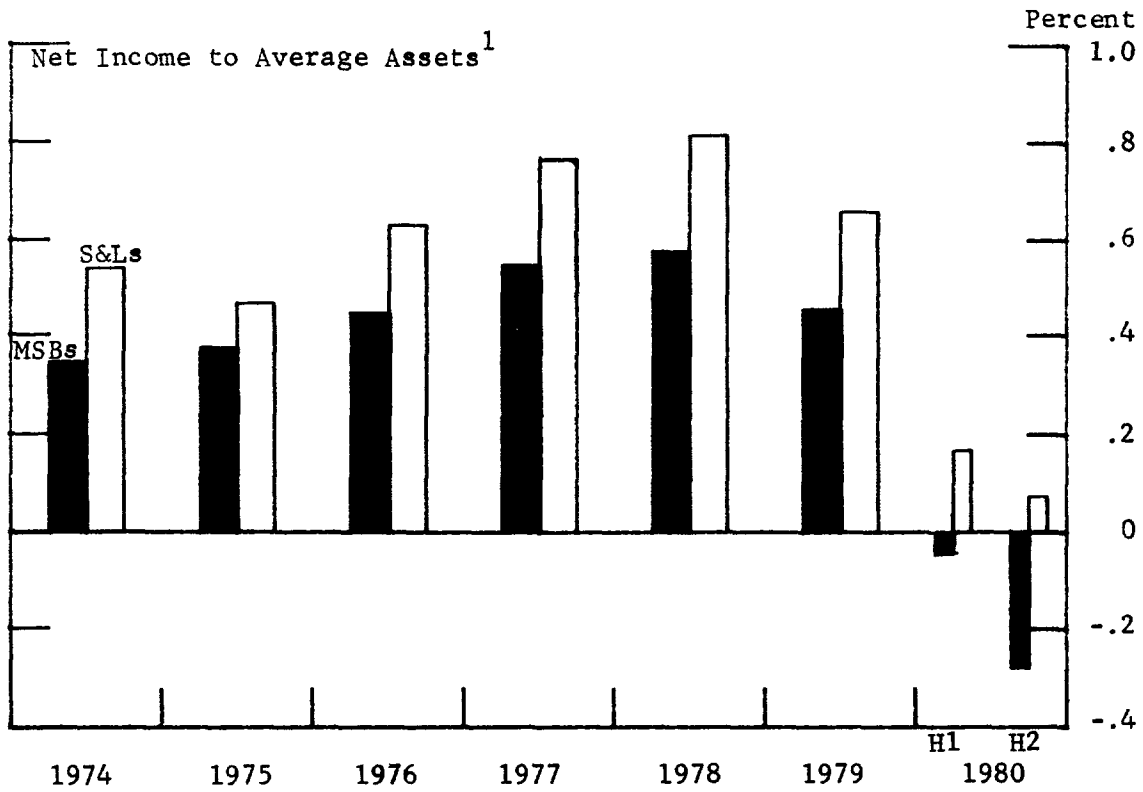
SECONDARY HOME MORTGAGE MARKET ACTIVITY

Period	FNMA auctions of forward purchase commitments ¹				Yields on GNMA- guaranteed mortgage-backed securities for immediate ² delivery		
	Conventional		Government-underwritten				
	Amount (\$ millions) Offered	Yield to FNMA Accepted	Amount (\$ millions) Offered	Yield to FNMA Accepted			
1980--High	426	133	17.51	644	324	15.93	14.01
Low	29	20	12.76	97	52	12.28	11.03
1980--Dec. 8	56	34	15.65	97	52	14.50	13.79
15							14.01
22	29	20	15.43	145	59	14.92	13.24
29							13.31
1981--Jan. 5	12	11	15.04	147	58	14.89	13.18
12							13.50
19	20	19	14.85	64	35	14.84	13.62
26							13.71

1. Until January 5, 1981, FNMA auctioned 4-month optional-delivery purchase commitments on which the yield was fixed for 4 months. Effective January 19, 1981, successful bidders receive 4-month commitments on which the yield is fixed for only 2 months; if a commitment is not used within 2 months, its yield is reset to the average yield determined in the then-most-recent auction. Auction yields are gross, before deduction of 38 basis points for mortgage servicing.

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

EARNINGS AND COMPOSITION OF DEPOSITS FOR FSLIC-INSURED
S&Ls AND ALL OPERATING MSBs



1. Ratios for 1980 are annualized. Ratios for the second half of 1980 are estimates.
2. Sum of MMCs, SSCs, and large CDs as a percent of total deposits.

CONSUMER INSTALLMENT CREDIT¹

	1978	1979	1980			
			Q2	Q3	Oct.	Nov.
<u>Total</u>						
Change in outstandings						
Billions of dollars	43.1	38.4	-25.6	1.4	8.4	10.1
Percent	18.7	14.0	-8.2	0.5	2.8	3.3
<u>Extensions</u>						
Billions of dollars	297.7	324.8	270.7	309.0	328.4	311.9
Bank share (percent)	47.9	47.6	44.2	42.6	43.8	44.0
<u>Liquidations</u>						
Billions of dollars	254.6	286.4	296.2	307.6	320.0	301.8
Ratio to disposable income (percent)	17.4	17.5	16.6	16.7	17.5	16.4
<u>Automobile credit</u>						
Change in outstandings						
Billions of dollars	18.7	14.7	-10.8	-1.1	2.4	2.9
Percent	22.6	14.5	-9.1	-1.0	2.1	2.5
<u>Extensions</u>						
Billions of dollars	88.0	93.9	68.0	83.9	90.5	85.4
<u>Revolving credit</u>						
Change in outstandings						
Billions of dollars	9.0	8.6	-2.8	3.2	3.3	3.2
Percent	22.9	19.9	-5.2	5.9	6.0	5.8
<u>Extensions</u>						
Billions of dollars	105.1	120.2	123.9	130.1	133.5	131.4

1. Quarterly and monthly dollar figures and related percent changes are at seasonally adjusted annual rates.

Note: Historical figures have been revised since previous Greenbook.

this industry and it has raised concern among thrift officials regarding insolvencies and reduced public confidence.

Consumer Credit

Consumer installment credit outstanding continued to expand at about a modest 3 percent rate in November, with net automobile loan extensions increasing at a somewhat faster pace than in October and revolving credit growth remaining essentially unchanged. Preliminary estimates for commercial banks in December indicate that consumer borrowing may have picked up moderately in that month, despite evidence that some creditors further boosted consumer interest rates or otherwise tightened lending terms.

The increase in consumer debt payment problems that surfaced early in 1980 may have abated during the fourth quarter. The number of personal bankruptcies filed dropped sharply in November after soaring in the first 10 months. Furthermore, some commercial banks surveyed informally in mid-January mentioned that delinquencies had slackened somewhat.

Reflecting the growth pattern of overall consumer credit, credit unions experienced a net expansion of member loans in October and November--the first increases in about a year. Credit union lending, however, remains quite depressed relative to brisk deposit inflows, and as a result these thrift institutions have continued to build up their already substantial holdings of liquid assets. The National Credit Union Administration (NCUA) was concerned that a rise in market interest rates during the fourth quarter would adversely affect the ability of credit unions to extend credit profitably and would put further pressure on the earnings of these

institutions. Consequently, the NCUA in early December temporarily increased the ceiling rate on loans for federal credit unions from 15 percent to 21 percent.

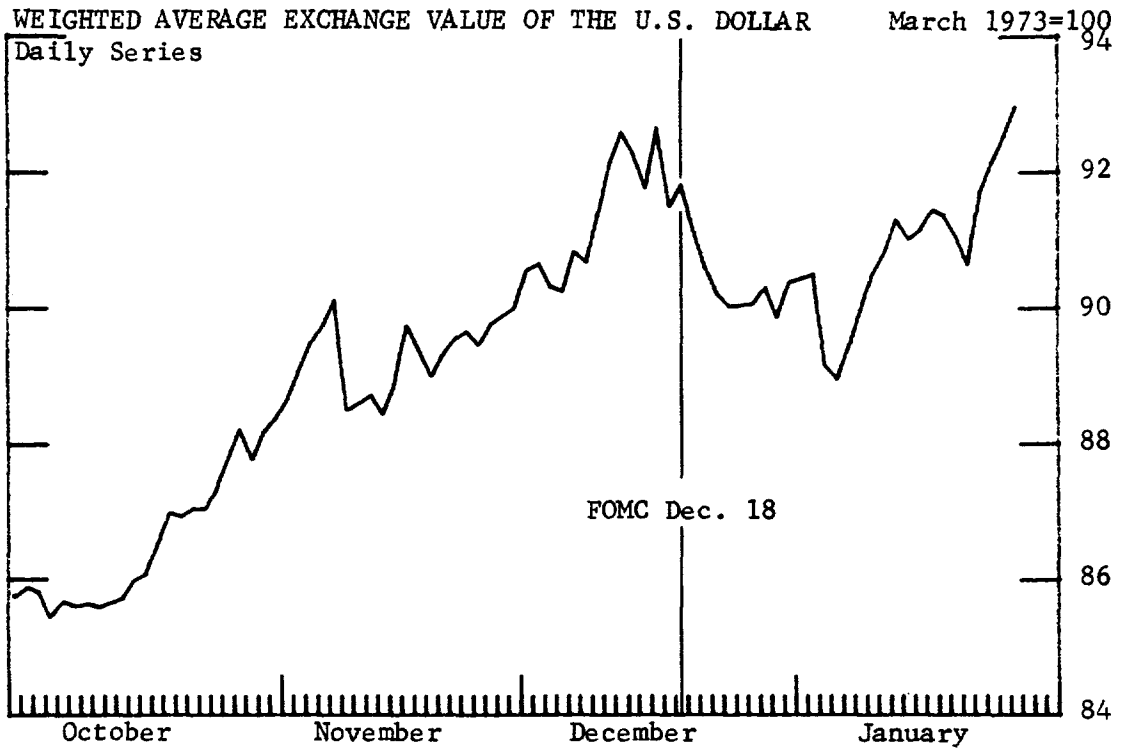
INTERNATIONAL DEVELOPMENTS

Foreign Exchange Markets

Since the previous Greenbook the dollar has fluctuated over a 4 percent range and, as illustrated by the chart on the next page, its weighted-average value has risen by 0.3 percent. Movements against individual currencies have been somewhat divergent, with the dollar appreciating by 2-1/2 percent against the German mark and by slightly smaller amounts against other continental European currencies. Against the pound sterling and the Japanese yen, the dollar has depreciated by 4 percent, and against the Canadian dollar the decline was 3/4 percent. Gold prices rose briefly above the \$600 per ounce level in late December, but dropped back to around \$560 through mid-January, most recently falling to about the \$520 level.

Interest-rate developments have remained a prominent factor in exchange-rate movements during the past six weeks, but other influences also have played a role, especially since the turn of the year. Most notably, testimony by Chairman Volcker reaffirming the need for tight monetary policies, concerns about the Polish situation, and expectations of a resolution of the Iranian hostage situation each were reported at times to have contributed to strengthening of the dollar. Following the release of the U.S. hostages on January 20 there have been few signs of currency diversification by the Iranians -- a source of market anxiety earlier -- and during the past week the dollar has moved up further.

Among the European currencies, the German mark has drawn renewed concern because of Germany's continuing current-account deficit and



signs of somewhat higher inflation. On January 23 the Bundesbank announced a decrease in German banks' minimum reserve requirements and an increase in discount quotas (both effective February 1), but these measures were not intended to ease monetary conditions. Rather, the expiration of a large repurchase facility at about the same time will more than offset the liquidity provided by these changes, and German interbank rates have remained almost unchanged. Nonetheless, the mark has come under renewed selling pressure, dropping to around DM 2.08 against the dollar early this week and falling to its lower limit against the French franc in the EMS arrangement.

. At
times during the period, especially in early January, the Japanese yen came into strong demand,

At present the yen is trading quietly around the ¥ 202 level.

Since the last Greenbook the Desk has purchased a net of \$1.0 billion of foreign currencies, mostly since mid-January. This figure reflects net acquisitions of about \$1.05 billion equivalent of German marks and sales (for System account) of \$50 million equivalent of Japanese yen early in the month.

. Mark acquisitions since the last Greenbook have been shared with the Treasury. As a result, the System's open position in foreign currencies -- largely comprised of mark balances -- rose to \$2.5 billion equivalent as of yesterday afternoon.

Borrowing in international capital markets. Gross medium- and long-term borrowing in international capital markets picked up considerably in the fourth quarter of 1980, mostly in the form of an increase in new Eurocurrency bank credits. However, for the year as a whole gross borrowing was down \$5-1/2 billion (5 percent). Eurocredits declined 8 percent in 1980 and foreign bond issues were down 20 percent, but Euro-bond issues were 27 percent higher. Industrial countries as a group borrowed more in 1980 than in 1979, but large reductions occurred in borrowing by the non-OPEC developing countries and the Communist countries, and OPEC borrowing decreased slightly.

After netting out repayments and refinancings, total borrowing in 1980 came to about \$58 billion, down about \$8 billion (12 percent) from the 1979 level. (See table.) In 1980 the amount of advance refinancings of Eurocredits by borrowers, to obtain better terms, was less than one-half as large as in the previous year because of the halt in the general decline in spreads. But scheduled Eurocredit repayments increased last year, as did also repayments of bonds and issues of Eurobonds by Eurobanks, as a result of which total repayments and refinancings increased slightly.

The general level of spreads on medium-term Eurocredits has continued to show little change, although the average spread on loans to non-OPEC developing countries has risen slightly further reflecting continued rising spreads on loans to Brazil. Late in 1980 spreads on Eurocredits to Brazilian public-sector borrowers reached 2 percent, more than double the level those borrowers were paying in late 1979. In the FR staff's sample, which covers about two-thirds of all credits, the weighted average spread for all borrowers moved up slightly to .74 percent in the third

BORROWING IN INTERNATIONAL CAPITAL MARKETS
(Billions of dollars)

	1977	1978	1979		1980	
	year	year	year	Q-4	year	Q-4
I. <u>Gross Borrowing, by Type</u>	75.8	104.5	123.8	30.6	118.3	37.9
Medium-term Eurocredits ¹	41.8	70.2	82.8	22.1	76.5	26.5
Eurobonds	17.8	14.1	18.7	3.1	23.8	6.2
Foreign bonds	16.2	20.2	22.3	5.4	17.9	5.2
II. <u>By Country Group</u>						
<u>Industrial</u>	41.1	53.9	59.1	16.1	71.3	25.6
Eurocredits	17.2	29.0	27.2	10.7	38.7	15.6
Bonds	23.9	25.0	31.9	5.4	32.6	10.0
<u>OPEC</u>	8.2	12.0	13.0	2.8	11.8	2.4
Eurocredits	7.5	10.4	12.6	2.4	11.3	2.3
Bonds	.7	1.5	.4	.4	.5	.1
<u>Non-OPEC developing</u>	16.2	29.6	38.1	9.1	25.1	8.3
Eurocredits	13.5	26.9	35.4	8.7	23.2	7.7
Bonds	2.7	4.2	3.1	.4	1.9	.6
<u>Communist</u>	3.6	3.8	7.4	.8	2.9	.9
Eurocredits	3.4	3.8	7.3	.7	2.8	.9
Bonds	.2	0	.1	.1	.1	0
<u>International org.'s</u>	6.6	5.2	6.2	1.7	7.0	1.7
Eurocredits	.2	.2	.3	--	.4	2/
Bonds	6.4	5.1	5.9	1.7	6.6	1.7
III. <u>Repayments and Refinancings</u>	20.3	43.5	58.4	n.a. ³	60.7	n.a. ³
Eurocredits:						
Advance refinancings	)	8.8	13.8	n.a.	6.1	n.a.
Scheduled repayments	) 15.0	24.0	30.0	n.a.	35.0	n.a.
Bond repayments	5.3	8.0	10.0	n.a.	13.5	n.a.
Duplications (Eurobond issues by Eurobanks)	n.a.	2.7	4.6	n.a.	6.1	n.a.
IV. <u>Net Borrowing (I-III)</u>	55.5	61.0	65.4	n.a.	57.6	n.a.

1. Based on announcements.

2. Less than 0.1 billion.

3. Not available on a quarterly basis.

Source: Morgan Guaranty Trust Co.

quarter of 1980 from .70 percent in the previous two quarters and .68 percent in the fourth quarter of 1979. The average maturity of Eurocredits in the third quarter rose somewhat but still remained well below late-1979 levels; on a weighted average basis the sample maturity for all borrowers was 7.9 years in the third quarter of 1980 compared with 9.6 years in the final quarter of 1979.

The volume of new medium-term Eurocurrency bank credits rebounded sharply in the fourth quarter of 1980, in part for seasonal reasons, and exceeded the year-earlier amount by 25 percent after having fallen well short of comparable 1979 levels during the first nine months of the year. Underlying demand for credit appears to have strengthened in the fourth quarter; in addition, comparison with the fourth quarter of 1979 is affected by the fact that market conditions in November-December 1979 were depressed in the aftermath of the U.S. freeze of official Iranian assets, the Federal Reserve's adoption of its new operating procedure, and restrictions on international lending by Japanese banks.

The decline in publicized new medium-term Eurocredits in 1980 as a whole stemmed partly from the reduction in advance refinancings last year. However, it also reflected a shift in the pattern of borrowing demand away from publicized medium-term credits toward short-term credits and unpublicized medium-term credits, e.g., by single-bank lenders. Such a shift is evidenced by comparison of the publicized medium-term Eurocredits with BIS data on total international bank lending. While publicized medium-term Eurocredits extended in the first nine months of 1980 were down 20 percent from a year earlier on a gross basis and probably more on a net basis, the rise in total outstanding international banking claims of banks in the BIS

reporting area over the same period (\$137 billion) was only 8 percent less than a year earlier.

Issues of foreign bonds in 1980 in all the principal markets for them -- Germany, Switzerland, Japan, and the United States -- were at lower levels than in 1979. The contrast with the increased volume of issues in the Eurobond market, where over two-thirds of the issues were dollar-denominated, in part reflected investors' more optimistic expectations about the exchange rate of the dollar relative to the mark, Swiss franc, and yen. In addition, a high fraction of Eurobond issues consisted of floating rate notes -- close to 20 percent -- helping to sustain issues in that market in a year when long-term interest rates twice climbed to very high levels.

Gross borrowings through medium-term Eurocredits, Eurobonds and foreign bonds by the industrial countries was up 20 percent in 1980. The largest increases were by Italy, Australia, and Sweden, while sizable increases were recorded as well by borrowers in Spain, Denmark, Finland, the United Kingdom, and the United States. Borrowing by the non-OPEC developing countries fell 34 percent last year, large declines being shown by, inter alia, Brazil (from \$7.2 billion to \$4.4 billion), Mexico, the Philippines, Korea, and Taiwan. The large decline in borrowings by the Communist countries mainly reflected a severe cut in borrowing by China.

U.S. International Transactions

For the first two months of the fourth quarter of 1980 the U.S. trade deficit averaged \$19 billion at an annual rate, up somewhat from the third-quarter rate, but significantly less than the rate for the first half of 1980. Trade data for December will be released January 28; they will be summarized in the Greenbook Supplement.

U.S. Merchandise Trade*

	1979 Year	1980 ^{e/}				
		Jan.-June	Q3	Oct-Nov	Oct. ^{e/}	Nov. ^{e/}
<u>Value (Bil. \$, SAAR)</u>						
<u>Exports</u>	182.1	218.8	225.2	226.0	228.4	223.6
Agric.	35.4	40.2	43.8	41.5	40.1	42.9
Nonagric.	146.6	178.6	181.3	184.6	188.4	180.8
<u>Imports</u>	211.5	255.6	236.5	244.7	240.9	248.6
Oil	60.0	85.2	69.1	74.9	74.8	75.0
Nonoil	151.5	170.4	167.4	169.8	166.0	173.6
<u>Trade Balance</u>	-29.5	-36.8	-11.3	-18.7	-12.4	-25.0
<u>Volume (Bil. 72\$, SAAR)</u>						
Exports - Agric.	16.1	17.9	18.8	16.6	16.3	16.8
Nonagric.	68.5	74.5	72.6	71.7	74.1	69.2
Imports - Oil	8.5	7.7	5.8	6.2	6.2	6.1
Nonoil	68.0	69.2	65.6	65.7	64.3	67.0

*/ International accounts basis.

^{e/} Monthly data are subject to substantial revisions.

The value of imports in October-November increased about 3.5 percent from the third-quarter average; more than half the increase was due to price changes. The volume of oil imports rose about 7 percent above the low third-quarter rate, as U.S. economic activity picked up. Nevertheless, oil-import volume during the second half of the year was about 20 percent less than in the first half; this reflects a drawdown in private inventories as well as a continuation of the fall in the ratio of U.S. oil consumption to GNP. Average oil import prices in October-November rose by a little less than 2 percent from the third-quarter average. Since the last Greenbook the oil exporting countries have announced price increases averaging 10 percent; these higher prices should be reflected in the trade data by the end of the first quarter. Spot prices for petroleum have stabilized as a result of the partial recovery of exports by Iran and Iraq; they are currently at about the same level as official contract prices (other than Saudi).

Oil Imports 1980

	<u>Q-1</u>	<u>Q-2</u>	<u>Q-3</u>	<u>Oct.-Nov.</u>	<u>Nov.</u>
Volume (mb/d, SA)	8.4	7.4	6.0	6.4	6.4
Price (\$/BBL)	28.06	30.58	31.38	31.95	32.18
Value (Bil. \$, SAAR)	86.4	84.0	69.1	74.9	75.0

Nonoil imports increased slightly in value in October-November. Nonmonetary gold imports declined, but there were increases in a wide range of other commodities, generally reflecting the upturn in U.S. economic activity. The largest increases were in food (sugar), industrial supplies (building materials, copper, and chemicals), capital goods, and automotive imports from Canada. Foreign car imports from

countries other than Canada have averaged a steady \$18-20 billion annual rate since the beginning of the year, except for one very strong month (September).

The value of exports in October-November was marginally above the third-quarter rate, with the increases entirely attributable to rising prices. Exports of machinery and industrial supplies (two-thirds of total nonagricultural exports) edged downward in recent months. Automotive exports, particularly to Canada, increased in October-November. Agricultural exports, which hit a low in October, moved up again in November. Based on current indicators, agricultural exports for the fourth quarter as a whole are expected to be almost equal to the third-quarter rate.

In international financial transactions there was a small recorded net private capital inflow between the end of October and the end of November. An outflow of about \$1 billion through banking offices was roughly offset by an increase in holdings of equities of U.S. corporations by residents of Canada and Western Europe. (See table on U.S. International Transactions.) For the second month in a row all other transactions plus the statistical discrepancy (line 7) was negative; data on service transactions and certain private capital flows are not yet available, but the sharp swing in line 7 suggests that the extraordinarily large unrecorded inflows in the previous four quarters may have ended in the fourth quarter of 1980.

Partial data through mid-January indicates continuation of the moderate outflow through banking offices. Daily average data shown on the table below, indicate that U.S. banking offices (line C) have

advanced about \$1 billion to their own foreign offices since November. In addition, foreign offices of U.S. -based banks reduced their loans to U.S. nonbank residents by \$300 million between November and mid-January. The reduction in branch loans to U.S. nonbank residents probably resulted from borrowers exercising their option to borrow at prime rather than a LIBOR-based rate when the spread of money market rates over prime increased. Also, money market institutional investors increased

Banking Positions Vis-à-vis Own Foreign Offices
(Billions of dollars, daily averages, net due to foreign offices = (+))

	March	June	Sept.	Nov.	Dec.	Jan. <u>1</u> / ¹
(A) U.S. -based banks' net positions with own foreign offices	6.8	-7.0	-16.8	-14.1	-14.7	-17.0
(B) Foreign-based banks' net positions with own foreign offices	26.1	22.0	n.a.	20.3	20.3	22.1
(C) U.S. banking offices' net positions with own foreign offices (A + B)	32.9	15.2	n.a.	6.2	5.6	5.1

¹/ Through January 14.

NOTE: Through October, rows A and B were adjusted for weekend reserve-avoidance activity (as described in the March 1980 Greenbook). No adjustments were necessary for November or December because such activity effectively ceased near the beginning of November. Data on foreign-based banks' positions are not available for the interval between the removal of the managed liability program in early July and the implementation of the Monetary Control Act in late October.

SOURCE: Required-reserve reports.

their holdings of Eurodollars slightly in December; a decrease in the holdings of open-ended money market mutual funds was more than offset by an increase in the holdings of close-ended unit investment trusts.

In November, as in much of 1980, the net increase in foreign official reserve holdings in the United States was not the result of intervention in foreign exchange markets to support the dollar. The OPEC countries added \$1 billion to the \$11 billion they had accumulated in the first ten months of 1980. Partial data for December indicate a small additional increase (\$0.3 billion). The G-10 countries and Switzerland increased their holdings by \$5.5 billion in November, and partial data indicate an additional inflow of \$0.2 billion in December.

U.S. reserve assets increased \$1.7 billion in November and \$1.3 billion in December, largely as a result of purchases of German marks. As a result of these purchases the United States ended the year with sufficient balances to more than cover its outstanding foreign currency obligations (i.e. Carter bonds).

Two international financial transactions occurred in December that resulted in increases in measures of domestic bank credit. First, Canada borrowed \$300 million under a standby credit facility with U.S. and other non-Canadian banks. Previous drawings on this facility have been reflected in part in U.S. bank credit. Second, the Ford Motor Company borrowed \$725 million from U.S. banking offices and reportedly used most of the proceeds to repay loans from its British and Germany subsidiaries.

JANUARY 7, 1981

RESTRICTED

U.S. International Transactions
In millions of dollars, Outflow = (-)

	1978 YEAR	1979			1980				
		YEAR	QIV	QI	QII	QIII	SEP.	OCT.	NOV.
1. CHANGE IN NET FOREIGN POSITIONS OF BANKING									
<u>OFFICES IN U.S. (EXCL. LIAB. TO FOREIGN OFF. INST.)</u>	-15509	14753	-5055	9070	-23111	-12022	-8724	3921	-977
THROUGH INTERBANK TRANSACTIONS WITH									
A. OWN OFFICES IN FOREIGN COUNTRIES	4598	20645	-9229	7061	-18225	-2723	-7334	3303	1798
B. UNAFFILIATED BANKING OFFICES IN FOR. COUNTRIES	-4735	3810	6467	2879	-2236	-4424	271	1242	-2225
THROUGH NONBANK TRANSACTIONS									
A. CLAIMS ON NONBANKS IN FOREIGN COUNTRIES (INC., -)	-16447	-11954	-3606	-351	-3587	-4307	-1871	-877	-1462
B. LIABILITIES TO PRIVATE NONBANKS IN FOREIGN COUNTRIES (INC. CUSTODY LIAB.)	1076	2253	1313	-519	936	-568	210	253	912
2. PRIVATE SECURITIES TRANSACTIONS, NET - EXCL. U.S. TREAS	-1038	-3351	-926	1580	-765	-565	-845	-63	1359
A. FOREIGN NET PURCHASES OF U.S. CORP. BONDS	931	256	-1	349	213	203	-34	67	161
B. FOREIGN NET PURCHASES OF U.S. CORP. STOCKS	1689	1037	193	1997	346	37	-168	430	972
C. U.S. NET PURCHASES (-) OF FOREIGN SECURITIES	-3658	-4644	-1118	-766	-1325	-805	-643	-561	226
3. FOREIGN NET PURCHASES OF U.S. TREASURY OBLIGATIONS 1/	2277	3702	-198	3278	-1225	-254	430	245	147
4. CHANGE IN FOREIGN OFFICIAL RESERVE ASSETS IN U.S.	31492	-13138	-525	-7399	7042	7709	2225	456	5824
(INCREASE+)									
BY ARFA									
A. G-10 COUNTRIES AND SWITZERLAND	29982	-21151	-7232	-10689	1271	1380	-1087	193	5458
B. OPEC	-1170	6509	5970	3260	4202	3921	2134	-60	996
C. ALL OTHER COUNTRIES	2680	1504	737	30	1569	2408	1178	323	-631
BY TYPE									
D. U.S. TREASURY SECURITIES 2/	23851	-21636	-5769	-5356	4318	3769	149	1695	5013
E. OTHER 3/	7641	8498	5244	-2043	2724	3940	2076	-1239	811
5. CHANGE IN U.S. RESERVE ASSETS (INCREASE-) 4/	662	-306	-399	-2535	-452	-1051	-303	-973	-1706
6. TRADE BALANCE 5/	-33759	-29469	-9225	-10850	-7505	-2828	-1183	-1036	-2082
7. ALL OTHER TRANSACTIONS AND STATISTICAL DISCREPANCY	15875	27809	16328	6856	26016	9011	8400	-2550	-2565
MEMO:									
BIL. \$ SEASONALLY ADJ. ANNUAL RATES									
MERCHANDISE TRADE BALANCE	-33.8	-29.5	-36.9	-43.4	-30.0	-11.3	-14.2	-12.4	-25.0
CURRENT ACCOUNT BALANCE	-14.3	-0.8	-7.2	-10.4	-9.7	19.6	n.a.	n.a.	n.a.

IV - 15

1/ INCLUDES U.S. TREASURY NOTES PUBLICLY ISSUED TO PRIVATE FOREIGN RESIDENTS.

2/ INCLUDES NON-MARKETABLE AND MARKETABLE SECURITIES.

3/ INCLUDES DEPOSITS IN BANKS, COMMERCIAL PAPER, ACCEPTANCES, & BORROWING UNDER REPURCHASE AGREEMENTS.

4/ INCLUDES NEWLY ALLOCATED SDR'S OF \$1,140 MILLION IN JANUARY 1979, AND \$1150 IN JANUARY 1980

5/ INTERNATIONAL ACCOUNTS BASIS, SEASONALLY ADJUSTED.

Foreign Economic Developments. Economic activity in most major foreign industrial countries remains weak. In Germany, preliminary estimates indicate that real GNP growth in the fourth quarter of last year was negative. Industrial production for the three-month period ending in November 1980 declined in both France and in the United Kingdom and was nearly flat in Japan; in both Canada and Italy, industrial production rose. The increase in economic activity in Italy was possibly due to the end of strikes in several sectors.

Inflation moderated further in most industrial countries during the fourth quarter, but both consumer prices and wholesale prices accelerated somewhat, in Germany and in Italy.

During the fourth quarter the trade balances of both Japan and the United Kingdom continued the sharp swings toward surplus, that began in the second quarter of last year. Recent data for most of the other major foreign countries, especially Canada, suggest that there were some improvements in their trade balances during the quarter.

There were no significant policy changes abroad, except in Sweden where monetary policy was tightened.

In Japan, recent data on real economic activity and demand present a mixed picture. Although real GNP rose sharply in the third quarter (6.1 percent real growth, s.a.a.r.), industrial activity has remained weak in recent months. The industrial production index fell in November by almost 1.5 percent to a level only .3 percent above its third-quarter average.

In December, the wholesale price index fell by 0.2 percent -- the third decline in the past four months -- and was more than a percentage

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period, seasonally adjusted)

		1977	1978	1979	1979				1980			1980			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Canada:	GNP	2.4	3.4	2.6	0.8	-0.2	1.1	0.5	-0.6	-1.1	0.4	*	*	*	*
	IP	4.0	5.3	2.1	-1.7	-0.1	1.8	-0.5	-0.6	-2.5	-0.1	1.2	1.8	0.4	1.0
France:	GDP	2.9	3.7	3.4	0.2	0.4	2.2	0.5	0.4	-0.9	0.5	*	*	*	*
	IP	2.0	1.9	4.7	0.5	1.3	3.8	-2.2	0.5	-2.2	0.0	3.1	-5.2	2.3	-2.3
Germany:	GNP	2.8	3.6	4.5	0.7	2.2	0.8	0.5	2.1	-1.9	0.0	*	*	*	*
	IP	2.6	2.3	5.2	-0.3	3.4	1.6	0.3	1.6	-2.4	-2.2	-1.6	-0.8	1.7	0.0
Italy:	GDP	1.9	2.6	5.0	1.2	-0.6	1.2	3.9	2.0	-0.9	-2.5	*	*	*	*
	IP	1.1	1.9	6.5	1.1	-2.6	1.4	8.5	4.0	-3.0	-7.4	-13.6	12.8	1.5	4.0
Japan:	GNP	5.4	6.0	5.9	1.5	1.7	1.7	1.1	1.8	0.8	1.5	*	*	*	*
	IP	4.2	6.2	8.3	2.0	2.2	2.0	2.6	4.1	0.2	-2.3	-4.5	3.9	0.8	-1.5
United Kingdom:	GDP	1.9	3.1	1.6	-0.9	3.3	-2.1	1.1	-0.5	-1.6	-1.6	*	*	*	*
	IP	3.7	3.6	2.7	0.4	4.0	-1.9	0.0	-2.3	-3.1	-3.6	-2.4	-1.3	-0.1	0.0
United States:	GNP	5.5	4.8	3.2	1.0	-0.4	1.0	0.2	0.8	-2.6	0.6	*	*	*	*
	IP	5.9	5.8	4.4	1.3	-0.3	0.2	-0.1	0.0	-5.2	-1.7	1.0	1.6	1.9	1.6

* GNP data are not published on monthly basis.

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from preceding period)

	MEMO:											
	1979		1980				1980					Latest 3 Months from Year Ago
	Q3	Q4	Q1	Q2	Q3	Q4	Aug.	Sept.	Oct.	Nov.	Dec.	
Canada: CPI	2.0	2.3	2.2	2.8	2.8	2.8	0.9	0.9	0.9	1.2	0.6	11.1
WPI	2.7	3.6	4.9	1.4	2.5	n.a.	1.1	1.2	1.4	0.8	n.a.	12.7
France: CPI	3.2	2.8	3.8	3.1	3.2	2.8	1.0	0.9	1.1	0.7	0.9	13.6
WPI	2.8	1.9	3.1	0.8	0.6	n.a.	0.1	1.1	2.5	0.5	n.a.	7.7
Germany: CPI	1.2	0.9	1.9	1.8	0.7	0.8	0.1	0.0	0.2	0.6	0.6	5.3
WPI	1.7	1.1	3.9	1.7	-0.2	0.7	-1.0	-0.9	0.3	1.4	1.4	6.2
Italy: CPI	3.5	5.6	6.5	3.9	4.3	5.3	1.2	2.0	1.7	2.1	1.3	21.5
WPI	4.3	5.6	6.6	3.6	2.3	n.a.	0.9	1.2	0.7	2.2	n.a.	17.5
Japan: CPI	0.9	1.9	2.0	3.0	1.1	1.1	-0.2	1.5	0.4	0.1	-0.7	7.3
WPI	4.9	4.3	6.4	4.8	0.7	-0.7	0.7	-0.3	-0.7	0.1	-0.2	11.5
United Kingdom: CPI	6.7	2.8	4.7	5.8	2.1	1.9	0.2	0.6	0.6	0.8	0.5	15.3
WPI	5.0	3.0	5.3	4.0	2.3	1.2	0.4	0.5	0.4	0.3	0.2	13.3
United States: CPI(SA)	3.2	3.2	4.0	3.3	1.7	2.9	0.7	1.0	1.0	1.0	1.1	12.5
WPI(SA)	3.0	3.6	4.1	2.5	3.2	1.8	1.4	-0.2	0.8	0.6	0.6	12.0

TRADE AND CURRENT-ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES^a
(Billions of U.S. dollars; seasonally adjusted)

	1979	1980	1979				1980				1980		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.
Canada: Trade	3.4	n.a.	0.6	0.6	0.9	1.3	1.5	1.1	1.8	n.a.	0.7	1.3	n.a.
Current Account	-4.2	n.a.	-1.2	-1.3	-0.9	-0.8	-0.7	-0.9	-0.1	n.a.	*	*	*
France: Trade ^b	-2.4	-14.2	0.3	-0.4	-1.4	-1.3	-3.5	-3.6	-3.9	-3.2	-1.1	-1.2	-0.9
Current Account ^b	1.1	- 7.0 p	0.5	0.4	0.6	-0.4	-2.4	-1.2	-2.1	-1.2e	*	*	*
Germany: Trade	12.2	n.a.	4.3	4.0	2.3	1.6	1.7	1.3	1.2	n.a.	0.4	0.3	n.a.
Current Account (NSA)	-5.6	n.a.	1.6	-1.6	-4.7	-0.8	-3.2	-3.7	-6.9	n.a.	-0.7	-0.6	n.a.
Italy: Trade	-5.3	n.a.	-0.1	-0.4	-1.5	-3.3	-4.1	-4.2	-9.3	n.a.	-2.8	-1.5	n.a.
Current Account (NSA)	5.1	n.a.	1.3	2.3	3.0	-1.5	-2.5	-1.9	n.a.	n.a.	*	*	*
Japan: Trade	1.8	2.1 p	2.5	1.9	-1.0	-1.6	-1.9	-0.9	1.6	2.8	0.8	0.7	1.2
Current Account	-8.8	-10.8 p	0.1	-0.7	-3.9	-4.2	-5.1	-4.1	-1.6	0.4	-0.1	-0.4	0.0
United Kingdom: Trade	-7.1	2.6	-3.2	-1.1	-1.1	-1.7	-1.4	-0.6	1.8	2.8	1.1	1.1	0.6
Current Account	-3.5	5.5	-1.9	-0.5	0.1	-1.3	-0.4	-0.1	2.6	3.5	1.4	1.3	0.8
United States: Trade	-29.5	n.a.	-5.1	-8.1	-7.1	-9.2	-10.8	-7.5	-2.8	n.a.	-1.0	-2.1	n.a.
Current Account	-0.8	n.a.	1.4	-1.5	1.1	-1.8	-2.6	-2.4	4.9	n.a.	*	*	*

a The current account includes goods, services, and private and official transfers.

b French annual data are not seasonally adjusted.

* Comparable monthly current account data are not published.

p Provisional.

point below its August level. The CPI also fell in December, by about 0.7 percent. Appreciation of the yen and slower growth in the dollar price of imported products -- particularly petroleum -- have been important factors in the recent reduction in prices.

In the external sector, the current account improved by almost \$500 million dollars in December to approximate balance. As a result, the total deficit for 1980 came to \$10.8 billion, about \$2 billion larger than in 1979. The improved position in December, which continued the trend seen throughout the second half of 1980, resulted mainly from an \$800 million increase in exports.

Monetary conditions in Japan have continued to show signs of easing. For the second consecutive month, M-2 growth in November moved upward, to about an 8 1/2 percent rate on a year-over-year basis, and most short-term interest rates declined in both November and December. The Bank of Japan also announced a slight increase in credit-expansion ceilings in the first quarter for large city banks, but forecast M-2 growth of 7 percent in the first quarter on a year-over-year basis.

In December the Cabinet approved the proposed budget for FY 1981, which starts in April. General-account expenditure in the new budget proposal is almost 10 percent above that of the FY 1980 budget, while expenditure in the fiscal loan and expenditure program is to be increased by about 7 percent.

Economic activity in Germany remains weak. According to preliminary data for 1980, real GNP grew by 1.8 percent, which implies negative growth in the fourth quarter. Industrial production, which declined during the first three quarters of last year, remained at the low third-

quarter level in October and November. While weakness in production is evident throughout the economy, it is most pronounced in the chemical and automobile industries, which are heavily dependent on export sales. The seasonally-adjusted number of unemployed passed the one-million mark in December, pushing the rate of unemployment to 4.5 percent.

Inflation, after having slowed through most of last year, accelerated again in November and December to monthly rates of 0.6 percent in the CPI. Wholesale prices jumped sharply in November and December. Import prices, which had been relatively stable since early in 1980 began to rise again in September and rose by 2.6 percent in November.

The German current account recorded a deficit of \$0.8 billion in November. This brings the deficit for the first eleven months of 1980 to \$15.3 billion, compared with a deficit of \$5.5 billion for the same period in 1979.

In the United Kingdom, there are some indications that the recession may be nearing bottom: employment vacancies increased in December for the first time in 18 months and increased again in January; after a prolonged decline, industrial production has been essentially flat since September; and the degree of pessimism reflected in various business surveys has stopped increasing. The unemployment rate, however, rose to 9.3 percent (s.a.) in January. Unemployment now stands at 2.2 million -- an increase of two-thirds since January 1979.

CPI inflation declined slightly during the final quarter of last year compared with the preceding quarter. The current account, reflecting the decline in U.K. domestic economic activity, recorded a \$5 1/2 billion surplus in 1980 -- a swing of some \$9 billion over the 1979 outcome.

In the French economy real activity during the final quarter of last year continued to weaken; but inflation was noticeably improved. For the three months ending November, industrial production was 3.5 percent below the previous three months and 4.5 percent below the same period of 1979. In the fourth quarter of 1980, consumer prices rose 11.5 percent (a.r.), down from a rate of 13.4 percent in the previous quarter.

The trade deficit for 1980 was over \$14 billion compared with only \$3 billion in the preceding year, while the current account swung from surplus of \$1 billion to a deficit of \$7 billion. The trade deterioration was due to high oil prices -- oil import payments increased nearly \$12 billion in 1980.

The present Bank of France intervention rate of 10 3/4 percent, which was also the low for 1980, has been unchanged since early November. However, the M_2 growth target for 1981 of 10 percent is 1 percentage point below last year's target, and credit growth norms are to be tighter in 1981 than in 1980.

Recent data on economic activity in Italy give conflicting indications. Industrial production in November rose by about 4 percent (not annual rate) after having been weak since spring. The rebound was concentrated in certain sectors, in particular motor vehicles, which had been affected by previous strike activity. Business surveys continue to indicate low demand and production levels and a generally weak outlook.

Consumer price inflation moderated somewhat in December, the index rising 1.3 percent after having risen on average by about 2 percent during each of the previous three months. However, the WPI, which had shown signs of moderating, jumped 2.2 percent in November, indicating the persistence

of inflationary pressures.

The trade deficit narrowed significantly in November to \$1.5 billion after having averaged \$3 billion a month in the previous four months. The trade deficit for the first eleven months of 1980 was \$22 billion, compared with \$5.3 billion for the full year in 1979.

In Canada, industrial production for the three-month period ending in November rose 1 percent, compared with virtually no increase in the previous three months. The quarter-over-quarter average rate of consumer price inflation remained constant at 2.8 percent through the last three quarters of 1980.

The Canadian trade surplus (s.a.) in November was \$1.3 billion, compared with \$700 million in October. The trade surplus for the year is estimated to have been more than twice the surplus for 1979.

In Sweden, the 1980 fourth quarter-over-fourth quarter rate of consumer price inflation was 14.7 percent, compared with 9.5 percent in the previous year. Most of this acceleration was due to higher oil and housing prices and also to a jump in value-added taxes of 1.9 percentage points to 22.5 percent in September. Meanwhile, third-quarter data suggest that the current-account deficit for 1980 will be over \$5 billion, nearly double the deficit in 1979.

On January 20, the Swedish central bank raised the discount rate from 10 percent to 12 percent and raised the penalty rate on discounting, for banks that frequently use the discount facility, from 13 percent to 17 percent. On January 13, the Government of Sweden announced the budget for FY 1981/82 that shows a net borrowing requirement of \$15 billion -- about 11 percent of expected GDP, compared with an estimated borrowing

requirement of 10 percent of GDP in 1980.

In Belgium, the Parliament has imposed a wage freeze from January 1 through February 15. The freeze, which will prevent wage and salary adjustments in anticipation of later policy steps, is intended to provide the Parliament with some time in which to consider the restrictive fiscal policy measures proposed by the Cabinet in November. The Netherlands National Bank has announced new ceilings on Bank credit expansion for 1981. Banks may increase short-term and long-term lending not covered by long-term borrowing by 6 percent in 1981, compared with 7-8 percent allowed last year.