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CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

December 13, 1972

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

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

	Latest Data-1972			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Nov.	12/8	87.0	-3.3	0.8	2.3
Unemployment rate	Nov.	12/8	5.2	5.5 1/	5.6 1/	6.0 1/
Insured unemployment rate	Oct.	11/15	3.4	3.4 1/	3.7 1/	4.4 1/
Nonfarm employment, payroll (mil.)	Nov.	12/8	73.8	3.4	4.3	3.7
Manufacturing	Nov.	12/8	19.3	4.9	7.7	4.1
Nonmanufacturing	Nov.	12/8	54.5	2.8	3.1	3.6
Private nonfarm:						
Average weekly hours (hours)	Nov.	12/8	37.1	37.3 1/	37.1 1/	37.1 1/
Hourly earnings ($)	Nov.	12/8	3.73	3.2	6.5	6.9
Output per manhour (1967=100) r	QIII	11/24	113.1	6.6	--	5.4
Compensation per manhour (1967=100) r	QIII	11/24	141.1	6.1	--	6.2
Unit labor cost (1967=100) r	QIII	11/24	124.8	-0.4	--	0.8
Manufacturing:						
Average weekly hours (hours)	Nov.	12/8	40.9	40.7 1/	40.6 1/	40.1 1/
Unit labor cost (1967=100)	Oct.	11/28	119.9	1.0	1.0	2.7
Industrial production (1967=100)	Nov.	12/15	118.5	13.3	12.2	10.3
Consumer goods	Nov.	12/15	126.9	14.4	12.3	7.5
Business equipment	Nov.	12/15	109.4	14.4	16.8	11.7
Defense & space equipment	Nov.	12/15	79.1	6.1	6.2	4.2
Materials	Nov.	12/15	120.9	7.0	11.9	13.5
Wholesale prices (1967=100)	Nov.	12/7	121.2	7.2	3.9	5.4
Industrial commodities	Nov.	12/7	119.3	5.4	2.2	3.7
Farm products & foods and feeds	Nov.	12/7	126.8	19.2	9.4	10.3
Consumer prices (1967=100)	Oct.	11/21	126.6	3.7	4.1	3.4
Food	Oct.	11/21	124.9	1.9	5.2	5.0
Commodities except food	Oct.	11/21	120.3	-1.0	2.7	2.4
Services 2/	Oct.	11/21	134.6	4.5	3.3	3.6
Personal income ($ bil.) 3/	Oct.	11/20	962.0	19.3	12.5	10.0
				(Not at Annual Rates)		
Plant & equipment expen. ($ bil.) 4/	1972	12/5	88.5	--	--	9.0
Mfrs. new orders dur. goods ($ bil.)	Oct.	12/1	37.0	0.5	7.6	22.2
Capital goods industries:	Oct.	12/1	11.5	-1.9	8.7	19.1
Nondefense	Oct.	12/1	9.8	3.4	8.2	25.3
Defense	Oct.	12/1	1.7	-24.4	11.8	-7.6
Inventories to sales ratio:						
Manufacturing and trade, total	Oct.	12/14	1.47	1.49 1/	1.51 1/	1.61 1/
Manufacturing	Oct.	12/1	1.64	1.65 1/	1.69 1/	1.82 1/
Trade	Oct.	12/14	1.31	1.34 1/	1.34 1/	1.40 1/
Ratio: durable goods inventories to unfilled orders	Oct.	12/14	.873	.877	.894	.953 1/
Retail sales, total ($ bil.)	Nov.	12/11	39.0	-0.2	2.7	9.7
GAF	Nov.	12/11	10.3	-0.7	3.8	10.4
Auto sales, total (mil. units) 3/	Nov.	12/6	11.71	3.7	7.6	8.5
Domestic models	Nov.	12/5	9.98	1.5	3.3	5.1
Foreign models	Nov.	12/6	1.73	18.5	41.8	34.1
Housing starts, private (thou.) 3/	Oct.	11/16	2,410	1.9	8.7	18.3
Leading indicators (1967=100)	Oct.	11/28	147.6	0.6	3.5	13.8

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ Commerce survey, taken November 1972.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Strong recent gains in employment, production and retail sales support earlier expectations of a large increase in overall activity this quarter. Real GNP is projected to rise at an annual rate of about 7-1/2 per cent, compared to the upward revised 6.3 per cent in the third quarter. Private spending in the current quarter now appears even stronger than it did four weeks ago, with consumer purchases especially ebullient. However, defense purchases are now expected to decline slightly further in the fourth quarter, based on the limited data available.

With the rapid rise in industrial production and nonfarm employment, margins of unused manpower and industrial resources are being reduced significantly. Industrial production increased more than 1 per cent in November. The September and October indexes have been revised up appreciably, moreover, so that the overall increase from August to November was at an annual rate of 12 per cent. Nonfarm employment has increased at an annual rate of over 3 million since August. In manufacturing, employment rose appreciably further in November and the workweek was nearly one hour longer than a year earlier. The unemployment rate, which had been on a plateau of about 5.5 per cent since June, dropped to 5.2 per cent in November.

Retail sales in November, according to the advance report, remained at the sharply advanced October level, and were about 3-1/2 per cent above the third quarter average. Sales of new domestic-type autos in November continued at the 10 million annual rate of recent months, while sales of imports increased. Consumer attitudes and intentions to buy continue in a strengthening trend, according to the latest Conference Board survey.

Business demands for inventories and fixed capital also continue strong. In October, manufacturers' new orders for durable goods rose further, with non-defense capital goods especially expansive. Inventory accumulation was substantial, but sales rose even faster and the stock-sales ratio dropped further to the lowest figure since June 1966. The Commerce plant and equipment survey, taken in November, reported a substantial shortfall from earlier expectations in third quarter outlays, but indicated a sharp further rise in business spending in the current quarter and over the first half of 1973.

The increase in wage rates was rather small,in November, according to preliminary data, following large increases in recent months. Wholesale prices rose sharply in November following a very small rise in October. Prices of both farm products and foods and of industrial commodities were up appreciably. The consumer price index in October rose at an annual rate of 3.8 per cent, close to the average of the past six months.

Outlook. For 1973, the staff has retained the basic monetary, fiscal, and price control assumptions incorporated in the recent Chart Show projection. As may be seen in the table, the current projections are changed only slightly from those of four weeks ago.

STAFF GNP PROJECTIONS

Date	Change in Nominal GNP $ billion		Per cent increase, annual rate: Real GNP		Per cent increase, annual rate: Private GNP fixed weight price index		Unemployment rate	
	11/17/72	Current	11/17/72	Current	11/17/72	Current	11/17/72	Current
1971 1/	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972	100.5	101.4	6.4	6.4	3.2	3.2	5.6	5.6
1973	114.4	117.0	6.4	6.5	3.4	3.4	5.1	4.9
1972-I 1/	31.0	31.0	6.5	6.5	4.5	4.5	5.8	5.8
-II 1/	30.3	30.3	9.4	9.4	2.5	2.5	5.7	5.7
-III 1/	22.8	24.6	5.9	6.3	2.7	2.9	5.6	5.6
-IV	30.6	30.5	7.5	7.6	3.1	2.9	5.4	5.3
1973-I	32.0	33.0	6.6	6.8	3.5	3.6	5.2	5.1
-II	28.4	29.0	5.7	5.9	3.7	3.7	5.1	5.0
-III	25.4	26.0	4.5	4.4	3.9	3.9	5.0	4.9
-IV	26.0	26.0	4.3	4.3	3.9	3.9	4.9	4.8

1/ Actual

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarterly figures at annual rates.)

	1972 Proj.	1973 Proj.	1972 III	1972 IV	1973 Projected I	1973 Projected II	1973 Projected III	1973 Projected IV
Gross National Product	1151.7	1268.8	1164.0	1194.5	1227.5	1256.5	1282.5	1308.5
Final purchases	1145.7	1255.5	1156.0	1184.0	1216.0	1243.7	1268.3	1294.0
Private	891.1	981.1	900.4	924.5	947.8	971.6	992.0	1012.8
Excluding net exports	894.9	982.3	903.8	926.6	949.6	973.3	993.3	1012.8
Personal consumption expenditures	721.2	792.9	728.6	746.8	765.8	786.0	802.2	817.6
Durable goods	116.0	130.6	118.6	120.5	125.0	130.4	132.9	134.2
Nondurable goods	299.6	329.3	302.0	311.1	318.4	325.7	333.1	339.9
Services	305.6	333.0	308.0	315.2	322.4	329.9	336.2	343.5
Gross private domestic investment	179.7	202.6	183.2	190.3	195.3	200.1	205.3	209.7
Residential construction	53.6	53.6	54.4	55.4	55.4	54.0	53.0	52.2
Business fixed investment	120.1	135.7	120.7	124.4	128.4	133.3	138.1	143.0
Change in business inventories	6.0	13.3	8.0	10.5	11.5	12.8	14.2	14.5
Nonfarm	5.7	13.3	7.9	10.5	11.5	12.8	14.2	14.5
Net exports of goods and services 1/	-3.8	-1.2	-3.4	-2.1	-1.8	-1.7	-1.3	0.0
Exports	73.3	84.1	74.4	78.2	80.5	83.0	85.1	87.7
Imports	77.2	85.3	77.8	80.3	82.3	84.7	86.4	87.7
Gov't. purchases of goods and services	254.6	274.5	255.6	259.5	268.2	272.1	276.3	281.2
Federal	106.0	107.0	105.4	104.8	108.0	107.0	106.4	106.4
Defense	76.3	76.5	75.1	74.6	77.2	77.2	75.9	75.6
Other	29.7	30.5	30.2	30.2	30.8	29.8	30.5	30.8
State & local	148.6	167.5	150.2	154.7	160.2	165.1	169.9	174.8
Gross national product in constant (1958) dollars	789.5	841.1	796.1	811.3	825.1	837.2	846.5	855.5
GNP implicit deflator (1958 = 100)	145.9	150.8	146.2	147.2	148.8	150.1	151.5	152.9
Personal income	935.0	1021.5	939.9	971.1	991.9	1010.7	1032.3	1050.9
Wage and salary disbursements	626.4	685.3	630.8	646.4	664.2	678.4	692.4	706.3
Disposable income	794.5	877.9	798.8	825.9	853.3	879.9	881.6	896.8
Personal saving	54.1	65.0	50.8	59.6	67.8	74.0	59.2	58.9
Saving rate (per cent)	6.8	7.4	6.4	7.2	7.9	8.4	6.7	6.6
Corporate profits before tax	93.8	107.4	95.8	99.5	101.0	106.0	109.5	113.0
Corp. cash flow, net of div. (domestic)	91.5	103.5	93.0	96.3	98.4	102.2	105.3	108.2
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	227.9	248.5	230.0	235.4	239.9	234.9	256.8	262.3
Expenditures	246.9	270.7	241.6	263.1	271.6	266.2	271.3	273.5
Surplus or deficit (-)	-19.0	-22.2	-11.6	-27.7	-31.7	-31.3	-14.5	-11.2
High employment surplus or deficit (-)	-1.0	-8.0	3.7	-13.7	-16.8	-16.2	-1.5	2.4
State and local government surplus or deficit (-), N.I.A. basis	12.8	12.0	9.4	20.1	18.3	10.9	10.3	8.7
Total labor force (millions)	89.0	90.7	89.2	89.6	90.1	90.5	90.9	91.3
Armed forces "	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Civilian labor force "	86.6	88.3	86.8	87.2	87.7	88.1	88.5	88.9
Unemployment rate (per cent)	5.6	4.9	5.6	5.3	5.1	5.0	4.9	4.8
Nonfarm payroll employment (millions)	72.7	75.0	72.9	73.7	74.3	74.8	75.2	75.6
Manufacturing	18.9	19.6	18.9	19.3	19.4	19.5	19.6	19.7
Industrial production (1967 = 100)	114.1	124.0	115.0	118.3	120.9	123.3	125.1	126.7
Capacity utilization, manufacturing (per cent)	77.6	81.5	78.1	79.7	80.6	81.4	81.8	82.0
Housing starts, private (millions, A.R.)	2.36	2.08	2.36	2.31	2.20	2.13	2.05	1.95
Sales new autos (millions, A.R.)	10.79	11.50	11.26	11.54	11.60	11.60	11.40	11.40
Domestic models	9.35	10.07	9.90	9.94	10.10	10.20	10.00	10.00
Foreign models	1.44	1.43	1.36	1.60	1.50	1.40	1.40	1.40

NOTE: Projection of related items such as employment and industrial production index are based on projection of deflated GNP. Federal budget high employment surplus or deficit (N.I.A. basis) are staff estimates and projections by method suggested by Okun and Teeters.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972 Proj.	1973 Proj.	1972 III	1972 IV	1973 Projection I	1973 Projection II	1973 Projection III	1973 Projection IV
	---Billions of Dollars---							
Gross National Product	101.4	117.1	24.6	30.5	33.0	29.0	26.0	26.0
Inventory change	2.4	7.3	3.0	2.5	1.0	1.3	1.4	0.3
Final purchases	99.0	109.8	21.6	28.0	32.0	27.7	24.6	25.7
Private	77.1	90.0	20.1	24.1	23.3	23.8	20.4	20.8
Excluding net exports	81.6	87.4	18.3	22.8	23.0	23.7	20.0	19.5
Net exports	-4.5	2.6	1.8	1.3	0.3	0.1	0.4	1.3
Government	21.9	19.8	1.5	3.9	8.7	3.9	4.2	4.9
GNP in constant (1958) dollars	47.8	51.6	12.2	15.2	13.8	12.1	9.3	9.0
Final purchases	45.7	46.0	9.8	13.1	12.7	11.9	8.1	8.4
Private	40.2	43.2	11.1	12.3	11.0	11.5	7.7	7.7
	---Per Cent Per Year---							
Gross National Product	9.7	10.2	8.9 1/	10.5	11.1	9.5	8.3	8.1
Final purchases	9.5	9.6	7.6	9.7	10.8	9.1	7.9	8.1
Private	9.5	10.1	9.1	10.7	10.1	10.0	8.4	8.4
Personal consumption expenditures	8.5	9.9	8.5	10.0	10.2	10.6	8.2	7.7
Durable goods	12.1	12.6	16.5	6.4	14.9	17.3	7.7	3.9
Nondurable goods	7.7	9.9	6.5	12.1	9.4	9.2	9.1	8.2
Services	7.9	9.0	7.4	9.4	9.1	9.3	7.6	8.7
Gross private domestic investment	18.2	12.8	14.0	15.5	10.5	9.8	10.4	8.6
Residential construction	25.8	0.0	12.1	7.4	0.0	-10.1	-7.4	-6.0
Business fixed investment	13.5	13.0	5.0	12.3	12.9	15.3	14.4	14.2
Gov't. purchases of goods & services	9.4	7.8	2.4	6.1	13.4	5.8	6.2	7.1
Federal	8.4	0.9	-10.0	-2.3	12.2	-3.7	-2.2	0.0
Defense	6.8	0.3	-17.8	-2.7	13.9	0.0	-6.7	-1.6
Other	13.0	2.5	8.1	0.0	7.9	-13.0	9.4	3.9
State & local	10.1	12.7	11.5	12.0	14.2	12.2	11.6	11.5
GNP in constant (1958) dollars	6.4	6.5	6.3 1/	7.6	6.8	5.9	4.4	4.3
Final purchases	6.2	5.9	5.0	6.7	6.3	5.8	3.9	4.0
Private	6.7	6.7	7.0	7.6	6.7	6.9	4.5	4.5
GNP implicit deflator	3.0	3.4	2.4 1/	2.8	4.2 2/	3.5	3.8	3.8
Private GNP fixed weight index 3/	3.2	3.4	2.9 1/	2.9	3.6	3.7	3.9	3.9
Personal income	8.5	9.2	7.5	13.3	8.6	7.6	8.5	7.0
Wage and salary disbursements	9.3	9.4	6.4	9.9	11.0	8.6	8.3	8.0
Disposable income	6.7	10.5	8.2	13.6	13.3	12.5	0.8	6.9
Corporate profits before tax	12.6	14.5	24.9	15.4	6.0	19.8	13.2	12.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.2	9.0	9.4	9.4	7.6	-8.3	37.3	8.6
Expenditures	11.8	9.6	-5.5	35.6	12.9	-8.0	7.7	3.2
Nonfarm payroll employment	2.8	3.2	2.5	4.4	3.3	2.7	2.1	2.1
Manufacturing	2.2	3.2	1.4	8.5	2.1	2.1	2.1	2.0
Industrial production	6.8	8.7	6.0	11.5	8.9	7.9	5.9	4.8
Housing starts, private	15.1	-11.9	16.4	-7.5	-19.4	-13.6	-15.1	-17.6
Sales new autos	6.5	6.6	37.1	9.8	2.3	0.0	-1.7	0.0
Domestic models	7.8	7.8	44.4	1.6	6.5	4.0	-7.8	0.0
Foreign models	-1.0	-0.8	-9.5	69.5	-23.8	-26.7	0.0	0.0

1/ At compound rates.

2/ Excluding Federal pay increase, 3.4 per cent annual rate.

3/ Using expenditures in 1967 as weights.

Industrial production. Industrial production rose 1.1 per cent further in November and at 118.5 per cent (1967=100) was 10.3 per cent above a year earlier. Gains in output over the month were widespread among final products and materials. Furthermore, the indexes for September and October each have been revised upwards by 0.4 per cent and the new levels bring the rise since August to a 12 per cent annual rate.

Among consumer goods, auto assemblies increased 6 per cent in November to an annual rate of 9.6 million units. Auto production schedules for December and the first quarter of 1973 indicate little change from the advanced November rate. Output of some home goods and nondurable consumer goods also increased in November.

Production of business equipment increased substantially to a level only 0.8 per cent below the 1969 prerecession peak. Output of defense and space equipment remained at the level prevailing since July. Among materials, output of construction products, some durable goods materials, and the textile, paper, and chemical group advanced further. Output of steel, however, expanded less than seasonally. (Confidential until release on Friday, December 15.)

Capacity Utilization. The preliminary estimate of manufacturing capacity utilization for November is 79.6 per cent. The rate of increase in utilization has been appreciable in recent months, --with a rise of 2 percentage points in the four months since July, 1972.

Retail sales. Sales in November were virtually unchanged from the sharply advanced (revised) level attained in October, according to the advance report. The GAAF group, which had done particularly well in September, was off by 0.7 per cent. Apparel sales declined 1.5 per cent but changes in other components of the GAAF group were small. Sales of the food group rose 0.4 per cent and sales of the automotive group remained at the high October level.

In comparison with the third quarter average, the gain in total sales in November was unusually large, 3.5 per cent. As is frequently the case when there is a strong sales rise, outlays for durables, with an increase of 4.0 per cent, were up more than nondurables which gained 3.3 per cent.

RETAIL SALES
(Per cent change from previous period)

	Quarters			Months		
	QII	QIII	Nov.	Sept.	Oct.	Nov.
Total sales	3.3	2.6	3.5	- .6	3.6	- .2
Durables	4.2	3.9	4.0	-1.8	4.2	.1
Autos	6.4	4.6	4.1	-2.8	4.5	.1
Furn. & appliance	- .5	2.0	3.0	-2.6	4.7	- .2
Nondurables	2.9	1.9	3.3	.0	3.3	- .3
Food	3.6	1.7	3.3	- .4	2.8	.4
General merchandise	2.7	2.6	3.5	.7	3.6	- .6
GAAF	2.4	1.9	3.9	.2	4.3	- .7
Total, less auto and nonconsumer items	2.9	1.9	3.3	.0	3.1	- .2

<u>Unit sales of consumer durables</u>. November sales of new domestic-type autos were at a seasonally adjusted annual rate of 10 million units, 2 per cent above October and 5 per cent above a year earlier. Over the past five months, domestic sales have averaged a 9.9 million rate. Dealer inventories of new cars were equal to only a 46 day supply at the end of November, about the same as at the end of October and 14 per cent less than November 1971.

Sales of imported cars rose to a 1.7 million unit rate in November, 18 per cent above a month earlier and a third above the November 1971 level, which was depressed by Phase I measures and dock strikes. The import share of sales, seasonally adjusted, was 14.8 per cent in November, up from 13.4 per cent in October. The import share averaged 13.3 per cent in the first eleven months of 1972,--compared with 14.7 per cent for the same period in 1971.

Factory sales of major home appliances, TVs, and radios were up 3 per cent in November while inventories fell by the same percentage. Sales have strengthened this fall following some weakness during the summer when inventories accumulated. As a result of strengthened retailer purchases, the growth of factory and wholesale inventories has ceased over the past three months; however, stocks are still close to record levels. Appliances in the factory sales index either advanced slightly in November or maintained October levels. Retailer buying of TVs--including domestic label imports--was slightly below October but well above a year earlier. Radio purchases--almost entirely imports--were substantially above both a month and a year earlier.

FACTORY UNIT SALES AND INVENTORIES OF APPLIANCES, RADIOS, TVS
(Seasonally adjusted, 1967=100)

	1971	1972			Per cent change	
	Nov.	Sept.	Oct.	Nov.	Month ago	Year ago
Total factory sales	128	141	130_p	132_e	3	3
TVs 1/	119	149	135	132	-2	12
Radios 1/	86	98	84	98	16	14
Major appliances	132	140	130_p	135_e	4	2
***						
Total factory inventories	133	159	163_p	159_e	-3	19

1/ Includes foreign-made units sold under US brand names; foreign brands not included.

Conference Board Consumer Survey. The September-October Conference Board survey is in line with the optimistic findings of other recent surveys by the Census Bureau and the Michigan Survey Research Center. In the Conference Board survey, there was strong improvement in attitudes about the present business and employment situation and a sharp increase in intentions to purchase cars. There was also moderately greater optimism about business and income expectations 6 months from now. In the August-September Michigan survey, the increased optimism also was more centered on the present--rather than expected--business and personal financial conditions.

On the other hand, the Conference Board reported purchase plans for homes unchanged from the previous survey, and below a year ago. There was only a modest gain in purchase plans for all types of appliances and answers to this question were also weaker than a year earlier. However, the timing of this survey was changed earlier this year and the seasonal factors for purchase plans must still be considered tentative.

CONFERENCE BOARD
CONSUMER EXPECTATIONS & INTENTIONS
(Seasonally adjusted)

	1971	1972	
	September-October	July-August	September - October
	------Percentage of Households-----		
	Appraisal of Present Situation		
Business conditions			
good	15.1	25.5	28.7
Employment and			
jobs plentiful	6.5	13.4	16.6
	Expectations for Six Months Hence		
Business conditions			
better	25.9	25.1	25.7
worse	10.5	7.4	6.6
Employment			
more jobs	20.3	21.0	19.7
fewer jobs	19.2	15.3	14.4
Income			
increase	24.2	28.1	28.4
decrease	7.8	6.4	5.5
	Plans to Buy Within Six Months		
Automobile			
new or used	7.9	7.7	9.6
new	4.6	4.8	5.6
Home			
new or previously occupied	3.2	2.7	2.7
Major appliances	37.9	33.7	34.7

<u>Anticipated plant and equipment spending</u>. The Commerce November survey indicates a substantial shortfall of actual spending from earlier third quarter plans. However, present plans call for much of this shortfall to be made up in the next two quarters. For 1972 as a whole, anticipated spending for new plant and equipment is now up 9.0 per cent from 1971, rather than the 9.7 per cent indicated in the August survey.

ANTICIPATED 1972 EXPENDITURES FOR NEW PLANT
AND EQUIPMENT BY U.S.BUSINESS
(Per cent change from 1971)

	Comm-SEC	Commerce			
	(Dec. 1971)	(Feb. 1972)	(May 1972)	(Aug. 1972)	(Nov. 1972)
All business	9.1	10.5	10.3	9.7	9.0
Manufacturing	4.0	8.7	5.6	5.6	3.9
Durable goods	5.1	13.8	11.3	10.9	9.6
Nondurable goods	3.0	4.2	.6	.8	-1.2
Nonmanufacturing	12.1	11.6	13.1	12.1	12.0
Transportation	18.3	16.0	14.4	15.4	16.2
Electric utilities	16.1	13.4	13.2	13.3	13.1
Communication	12.8 1/	14.2 1/	14.3 1/	11.4 1/	10.6 1/
Commercial and other	7.3 1/	8.1 1/	11.9 1/	10.7 1/	11.8 1/

1/ Confidential, not published separately.

For the first half of 1973, the survey indicates that business plans a sharp increase of $4.3 billion (or 19 per cent, annual rate) in the first quarter with a slower increase in the second quarter as durable manufacturing spending levels out.

Past performance would suggest that the planned increases for the next two quarters may not, in fact, be as large as indicated. In recent years, expenditure plans for the quarter in which the Commerce surveys were taken have tended consistently to overstate actual spending, particularly in the fourth quarter. On the other hand, results of private surveys of investment plans and other relevant data suggest that the increase in fixed capital outlays will not slow then as much as indicated by this survey. For example, newly approved capital appropriations of large manufacturing firms rose 2 per cent in the third quarter, as reported by the Conference Board. This was the fifth straight increase in this series and would suggest continued strength in manufacturing investment through at least mid-1973.

Cyclical indicators. The Census composite index of leading indicators rose 0.6 per cent in October (p). The revised September index now shows a slight decline instead of a slight increase, but July and August were revised upwards, so that the change over the third quarter is the same as reported last month--3.1 per cent.

Leading series increasing in October included contracts and orders for plant and equipment, industrial materials prices, and common stock prices. The manufacturing workweek was unchanged and there were declines in unemployment initial claims (inverted), new orders for durable goods, housing permits, and the ratio of price to unit labor cost. Since the publication of the preliminary October index, new orders for durable goods and contracts and orders for plant and equipment have been revised upwards, and an increase was reported in the change in consumer instalment debt, but inventory change was slightly smaller than in September.

In November, common stock prices, industrial materials prices, and the manufacturing workweek rose.

CHANGES IN COMPOSITE CYCLICAL INDICATORS
(Per cent change from previous month)

	July	August	September	October (p)
12 Leading (trend adjusted)	.2	3.1	- .2	.6
12 Leading, prior to trend adjustment	- .2	2.7	- .6	.3
5 Coincident	.7	1.3	.8	1.4
5 Coincident, deflated	.6	1.5	.2	1.6
6 Lagging	.5	.9	1.2	.7

Construction and real estate. Seasonally adjusted value of new construction, which was revised appreciably upward in October to a new high, edged even higher in November to an annual rate of $126.4 billion. Along with residential construction activity, private non-residential outlays have risen further in recent months even though outlays for industrial plants have continued notably low. Outlays for public construction in November remained under earlier peaks.

The Census Bureau's composite index of construction costs in November was apparently little changed from the moderately higher level--140 per cent of the 1967 average--reached in October. On a year-to-year basis, the increase amounted to 5 per cent, still well below the average annual increases of other recent years.

Seasonally adjusted private housing starts turned upward again in October to an annual rate of 2.41 million units. The rise was concentrated entirely in multifamily units, which increased sharply to the highest rate since last February. Allowing for the volatility of the starts series, some declines are indicated over the remainder of the fourth quarter, to an average moderately below the exceptionally advanced levels of recent months.

NEW CONSTRUCTION PUT IN PLACE
(Seasonally adjusted annual rates, in billions of dollars)

	1972				
	QII	QIII(r)	September(r)	October(r)	Nov. 1/
Total - current dollars	121.2	122.9	125.2	125.7	126.4
Private	92.1	93.5	94.6	96.3	96.9
Residential	52.6	54.4	55.4	56.0	56.2
Nonresidential	39.4	39.1	39.2	40.4	40.6
Public	29.1	29.4	30.6	29.4	29.5
State and local	24.6	25.1	26.4	25.1	25.1
Federal	4.5	4.2	4.2	4.2	4.4
Total - 1967 dollars	88.8	88.8	90.0	90.1	90.3

1/ Data for November 1972 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

PRIVATE HOUSING STARTS, PERMITS, AND COMPLETIONS
(Seasonally adjusted annual rates, in millions of units)

	QI	QII	QIII(r)	August(r)	Sept.(r)	Oct.(p)
Starts	2.51	2.26	2.36	2.48	2.37	2.41
1-family	1.35	1.27	1.36	1.41	1.37	1.29
2-or more-family	1.16	.99	1.00	1.07	1.00	1.12
Permits	2.09	2.04	2.20	2.24	2.27	2.22
Completions	1.98	1.90	1.94	2.00	1.93	n.a.
MEMO:						
Mobile home shipments	.57	.60	.54	.53	.50	.54

p/ Preliminary.
n.a. Not available.

The considerably improved sales of homeowner properties which became evident last summer was also associated with a more than seasonal expansion of rental demand for the increased number of new apartments coming on the market at that time. Altogether, about 73 per cent of the privately financed, nonsubsidized apartments completed during the second quarter of the year were rented by the end of the third quarter, according to the latest report of the Census Bureau. This compared with a market absorption rate of only 69 per cent for such apartments at this stage a year earlier; and while well below the comparable rate in 1969, it was nearly as high as in the same period of 1970.

Manufacturers' orders and shipments. New orders for durable goods rose 0.5 per cent (p) in October, following a third quarter increase of 3.0 per cent (r). Orders in the volatile defense capital goods industry, which had declined sharply in the third quarter, were off in October following a strong gain in September. Total durable goods orders excluding defense were up 2.1 per cent--continuing the brisk pace of growth evident this year. Nondefense capital goods orders rose sharply further.

Durable goods shipments also increased in October but remained below the level of incoming orders; unfilled orders increased about 1 per cent, with particularly strong gains in the motor vehicles industry and in nondefense capital goods.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
(Per cent changes)

	QII from QI	QIII from QII (r)	Oct. from Sept.(p)
Durable goods, total	5.7	3.0	.5
Excluding defense	5.8	4.4	2.1
Primary metals	6.8	9.3	-1.9
Motor vehicles and parts	1.2	10.6	10.6
Household durables	8.4	.6	-1.9
Capital goods industries			
Nondefense	8.7	2.9	3.4
Defense	4.3	-18.2	-24.4
Construction & other durables	4.3	1.2	.2

Inventories. Book value of manufacturing and trade inventories rose at a $14 billion (p) annual rate in October, continuing the high rate of accumulation reached in the third quarter. The October rate was reached even though book value of automotive dealers' stocks was unchanged.

The inventory-sales ratio for manufacturing and trade was revised downward in September, as sales were revised upwards more than inventories, and in October the ratio dropped to 1.47, the lowest since June 1966. Inventories declined relative to sales not only at retail auto dealers but in the other major divisions of the trade sector as well. Durable manufacturers' stocks declined relative to both sales and unfilled orders.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
(Seasonally adjusted annual rate, billions of dollars)

	1972			
	Q II	Q III (Rev.)	Sept. (Rev.)	Oct. (Prel.)
Manufacturing and trade	8.7	13.3	16.2	14.0
Manufacturing, total	4.2	7.7	3.6	6.7
Durable	3.3	5.6	3.5	5.4
Nondurable	.9	2.1	.1	1.4
Trade, total	4.5	5.5	12.6	7.2
Wholesale	1.9	4.1	5.9	3.9
Retail	2.6	1.5	6.6	3.3
Durable	.0	- .2	6.9	.8
Automotive	- 1.4	- .6	6.4	- .2
Nonautomotive	1.4	.4	.5	1.0
Nondurable	2.7	1.7	- .2	2.5

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

INVENTORY RATIOS

	1971		1972	
	Sept.	Oct.	Sept. (Rev.)	Oct. (Prel.)
Inventories to sales:				
Manufacturing and trade	1.60	1.61	1.49	1.47
Manufacturing, total	1.82	1.82	1.65	1.64
Durable	2.22	2.20	1.96	1.91
Nondurable	1.36	1.38	1.27	1.29
Trade, total	1.38	1.40	1.34	1.31
Wholesale	1.23	1.25	1.21	1.19
Retail	1.48	1.49	1.42	1.38
Durable	2.04	2.06	1.87	1.80
Automotive	1.68	1.72	1.46	1.39
Nonautomotive	2.63	2.58	2.48	2.41
Nondurable	1.20	1.21	1.20	1.17
Inventories to unfilled orders:				
Durable manufacturing	.958	.953	.877	.873

Labor market. There were signs in November of further strong improvement in the labor market. The unemployment rate declined by 0.3 percentage points, October manufacturing employment was revised up substantially, November payroll employment advanced by over 200,000, and the factory workweek increased.

Growth of employment has been unusually strong in recent months. The nonfarm payroll total in November--up 2.7 million from a year earlier--has increased at a 3.3 million annual rate since July. The largest gains have been in manufacturing industries, but factory employment is still nearly one million below its mid-1969 peak. In the nonmanufacturing sector, job growth in recent months has continued brisk. Average weekly hours of manufacturing production workers rose in November to 40.9 hours, 0.8 hours above a year ago and the highest level since autumn 1968. Factory overtime hours advanced to 3.7 hours--0.7 hours above a year ago.

NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted; in thousands)

	Change to November 1972 from:		
	Nov. 1971*	July 1972	Oct. 1972
	------------Annual rate------------		
Total	2,666	3,312	2,472
Government	442	408	480
Federal	-28	51	96
State and local	470	357	384
Private			
Goods-producing	862	1,467	600
Manufacturing	759	1,296	936
Production worker	682	1,089	816
Service-producing	1,362	1,437	1,392
Trade	628	714	996
Service and finance	599	531	420

* Not seasonally adjusted.

Unemployment and labor force. The unemployment rate declined to 5.2 per cent in November reflecting a small advance in total (household survey) employment and a relatively sharp decline in the civilian labor force following substantial gains in the preceding four months. The November labor force decline occurred among adults seeking full-time work, and resulted in a sharp reduction in unemployment rates for both male and female workers 20 years and over; the jobless rate for teens was about unchanged. Unemployment among blue-collar workers also was little changed, but the white-collar unemployment rate fell markedly. Compared with a year ago, when the overall unemployment rate was 6.0 per cent, jobless rates are generally down except for Negro workers.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1971	1972		
	Nov.	April	Oct.	Nov.
Total	6.0	5.9	5.5	5.2
Men 20 years and over	4.4	4.3	3.9	3.6
Women 20 years and over	5.8	5.4	5.5	5.0
Teenagers	16.7	17.3	15.3	15.4
Household heads	3.6	3.4	3.4	2.9
White workers	5.6	5.4	5.0	4.6
Negro workers	9.4	9.6	10.1	9.8
White-collar	3.4	3.4	3.6	3.1
Blue-collar	7.5	6.8	5.9	5.8

Earnings. Average hourly earnings of production workers on private nonfarm payrolls (adjusted for overtime in manufacturing and inter-industry shifts) rose only slightly in November, according to preliminary figures, following sizable increases in the preceding two months. The pace of earnings increases over the past three months has been somewhat faster than in the first part of the year. The most notable step-up has been in construction and services--industries which had shown quite moderate rates of increase in the earlier months of the year.

The Pay Board has reported that the weighted average of approved wage increases in the first year of the program for Category I and II cases (firms with over 1,000 employees) amounted to 5.2 per cent and affected 21 million workers. For category I cases alone (5,000 or more employees) the weighted average increase was 5.3 per cent for both new contracts and deferred agreements. Since November 1971, the Construction Industry Stabilization Committee has approved over 1,600 cases covering 635,000 workers. The average first-year increase was for 5.7 per cent and the average second year adjustment was 4.8 per cent.

HOURLY EARNINGS INDEX
(Per cent change; seasonally adjusted, annual rate)

	Jan. 1971- Aug. 1971	Jan. 1972- Aug. 1972	Aug. 1972- Nov. 1972	Sept. 1972- Oct. 1972	Oct. 1972- Nov. 1972
Total	6.6	4.7	6.4	8.6	1.7
Manufacturing	6.0	4.9	5.6	7.1	2.6
Mining	8.3	4.5	-4.6	-3.5	-13.1
Construction	8.8	4.2	8.7	9.7	8.1
Transportation	8.2	9.5	6.3	12.4	2.4
Trade	6.2	4.1	4.7	7.0	.9
Finance	7.1	3.7	2.4	-6.2	1.0
Services	5.5	2.3	8.7	7.7	1.7

Wholesale prices. Wholesale prices rose between October and November at a seasonally adjusted annual rate of about 7-1/2 per cent. Price increases for farm and food products accelerated and those for industrial commodities rose sharply following last month's decline which reflected an unusual drop in prices of autos and trucks, pending a price commission decision on increases for safety and anti-pollution equipment on the new models.

Consumer finished foods increased further in November, despite lower prices for meats. Higher seasonally adjusted prices were recorded for fresh vegetables, eggs, and dairy products. Prices of consumer nonfood commodities and producers' equipment also rose. Most of the advance in industrial commodities was the result of sharply higher materials prices with increases for coal, natural gas, hides, leather, and some textile products.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	Pre-stabilization	1972			Phase II
	Dec. 1970 to Aug. 1971	Dec. 1971 to Aug. 1972	Aug. to Nov.	Oct. to Nov.	Nov. 1971 to Nov. 1972
All commodities	5.2	5.7	3.9	7.4	5.4
Farm products 1/	6.5	9.5	9.7	17.6	10.3
Industrial commodities	4.7	4.3	2.2	5.5	3.7
Crude materials 2/	3.3	11.1	13.9	29.2	11.2
Intermediate materials 3/	6.5	4.7	3.4	5.1	4.1
Finished goods, excl. foods	2.7	3.2	-0.7	2.8	2.3
Producer goods	3.7	3.7	-1.3	2.0	2.5
Consumer goods	2.2	3.0	-0.4	3.2	2.2
Consumer finished foods	6.8	6.7	5.0	8.0	7.3

1/ Farm products and processed foods and feeds.
2/ Excludes crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco.
3/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.

November marked the end of the first year of Phase II, and the WPI showed a rise over the period of 5.4 per cent, a rate of increase slightly above that in the period during 1971 before the inauguration of the price-wage freeze. Farm and food products rose more sharply but industrial commodity price increases moderated somewhat. Widespread and large increases were registered by most groups included in the farm and food products index over the year; livestock, meat, grain, and manufactured animal feeds accounted for more than one-half of the rise. All commodity groups in the industrial commodities price index increased over this period, but fuels, lumber and plywood, metals, textiles and apparel, and hides and leather accounted for more than one-half of the over-all increase.

Producers' equipment prices rose at a slower rate during the first year of Phase II than in the 8 months prior to the freeze, and consumer nonfood finished goods increased at the same rate in both periods. However, this reflected the unusual October development noted earlier. If October is excluded, the indexes for both producer and consumer nonfood finished goods show much larger increases during the first year of Phase II; producers' finished goods show an increase of 3.4 per cent and consumer finished goods an increase of 3.2 per cent.

The December WPI will reflect the price increases for passenger cars recently approved by the Price Commission and, on the basis of recent data, will probably show more-than-seasonal increases for grains, livestock, and meat.

Consumer prices. Consumer prices rose in October at a seasonally adjusted annual rate of 3.8 per cent, somewhat above the average rate of advance during Phase II. The increase was due to a further advance in the cost of foods and an accelerated rise for services; nonfood commodity prices fell because of a large seasonally adjusted drop in prices of new passenger cars.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Relative Importance Dec. 1971	1971	1972			Phase II
		Dec. 1970 to June 1971	Dec. 1971 to June 1972	June to Sept.	Sept. to Oct.	Nov. 1971 to Oct. 1972
All items	100.0	3.8	2.9	4.6	3.8	3.5
Food	22.2	5.8	3.5	7.0	1.9	4.7
Commodities less food	40.4	2.8	2.6	4.1	-1.0	2.6
Services 1/	37.4	4.2	3.7	3.1	4.6	3.6
Addendum:						
All items less mortgage costs 2/	96.3	4.7	2.9	4.8	2.9	3.6
Services less home finance 1/ 2/ 3/	31.0	7.4	3.5	2.5	3.7	3.3
Commodities less food, used cars, home purchase 3/	32.2	2.5	2.2	3.4	-2.0	2.2

1/ Not seasonally adjusted.
2/ Home financing costs excluded from services reflect property taxes and insurance rates as well as mortgage costs, which in turn move with mortgage interest rates and house prices.
3/ Confidential.

The decline in new car prices accompanied the introduction of 1973 models at manufacturers' list prices hardly changed from 1972 but with new safety and emission control equipment which, is considered a quality improvement. Dealers' prices rose, as they usually do in October when new models come in, but most of the increase was offset by the BLS allowance for quality improvement. Seasonally unadjusted prices thus rose relatively little and on a seasonally adjusted basis there was a decline. The effect of the more recently approved increases should appear mainly in early 1973 when new car prices usually fall seasonally. Moreover, the producers have asked for additional increases to cover higher costs.

Among nondurables there was a further rise in apparel prices which have increased since November 1971 at a 2.6 per cent rate. Gasoline prices fell somewhat, after their record climb of the preceding three months, but remained above earlier levels.

The acceleration in service prices reflects the annual adjustment--upward this year--to the health insurance component which brought the 12-month increase for medical care services to nearly 4 per cent. Property taxes posted another substantial increase and were nearly 11 per cent above the October 1971 level.

A sharp advance in pork prices contributed to the rise in food costs, as did less than seasonal declines for beef, poultry and fresh fruits. Fresh vegetable prices, however, dropped contra-seasonally and the rise in the index for restaurant meals and snacks slowed markedly.

Retail food prices are believed to have climbed further last month. Meat prices around the early November pricing dates--according to the Dept. of Agriculture's chainstore sample--may show a significant seasonally adjusted increase, especially pork, despite lower prices at the wholesale and farm levels. The widening of margins represents a recovery from the depressed levels for pork which prevailed during most of the year. For beef, however, margins have averaged well above pre-freeze levels since February.

MEAT PRICES AND MARGINS 1/
(Indexes, 1967=100)

	1971	1972				
	Nov.	Feb-July	August	Sept.	Oct.	Nov. 2/
Beef						
Retail value	128.7	138.4	140.2	136.7	136.6	136.3
Farm value	132.6	140.0	134.0	131.3	130.4	125.3
Spread	121.6	135.5	151.4	146.3	147.6	156.1
Pork						
Retail value	106.2	120.5	128.0	128.9	130.2	130.2
Farm value	97.4	130.0	146.8	150.0	144.0	141.7
Spread	115.7	110.3	106.5	106.2	115.4	117.9

1/ Calculated from USDA dollars-and-cents estimates for choice beef and pork.
2/ Preliminary estimate, not for publication.

Agricultural developments. Prices received by farmers increased 1 per cent during the month ending November 15. Higher prices for eggs, milk, soybeans, wheat, and cotton were partially offset by lower livestock and citrus prices. In late November and early December, however, livestock prices turned upward, with hogs reaching a 25-year high. Prices of soybeans, wheat, corn, and cotton continued to increase through early December due partly to wet weather, suggesting that the index of farm prices for the mid-December period will rise further.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data Period	Latest data Level	Change from Month ago	Change from Three months ago	Change from Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		November	34.4p	11.1	8.6	10.1
Reserves available (RPD's)		November	29.3p	13.2	10.0	9.0
Money supply						
M1		November	243.5p	5.9	5.0	6.9
M2		November	508.1p	7.4	7.9	10.3
M3		November	801.1p	8.9	10.0	12.6
Time and savings deposits (Less CDs)		November	264.6p	8.7	10.7	13.5
CDs (dollar change in billions)		November	41.3p	0.6	2.0	9.1
Savings flows (S&Ls + MSBs)		November	293.0p	12.0	13.7	16.8
Bank credit (end of month)		November	551.9	20.6	14.8	14.4
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	12/6/72	5.17	-.08	+.28	+.58
Treasury bill (90 day)	"	12/6/72	4.94	+.23	+.32	+.79
Commercial paper (90-119 day)	"	12/6/72	5.28	+.15	+.28	+.53
New utility issue Aaa	"	12/8/72	7.15	-.12	-.23	-.08
Municipal bonds (Bond Buyer)	1 day	12/7/72	4.96	-.08	-.42	-.48
FNMA auction yield	wk. endg.	12/11/72	7.67	-.04	+.04	+.05
Dividends/price ratio (Common stocks)	"	12/6/72	2.68	-.06	-.13	-.49
NYSE index (12/31/65=50)	end of day	12/12/72	64.89	+2.49	5.32	10.70

Credit demands		Net change or gross offerings: Current month 1972	Current month 1971	Year to date 1972	Year to date 1971
Business loans at commercial banks	November	1.7	-0.6	12.8	5.5
Consumer instalment credit outstanding	October	1.5	0.9	11.4	5.9
Mortgage debt outst. (major holders)	September	5.0	3.9	41.4	29.9
Corporate bonds (public offerings)	September	1.9	3.2	21.2	29.3
Municipal long-term bonds (gross offerings)	September	1.7	2.1	17.7	18.9
Federally sponsored Agcy. (net borrowing)	November	0.4e	-0.2	3.1e	0.6
U.S. Treasury (net cash borrowing)	December	2.4e	8.5	13.4e	24.8
Total of above credits		14.6	17.8	121.0	114.9

e - Estimated
p - Preliminary

DOMESTIC FINANCIAL SITUATION

Short-term interest rates, including the Federal funds rate, have increased from 10 to 25 basis points since the last Committee meeting, associated in part with seasonal credit demands and a relatively large increase in the market supply of Treasury bills. Bill supplies rose by over $6 billion from new issues of tax anticipation bills, continued increments to the regular weekly and monthly bill offerings, and net sales by foreign central banks shifting to other dollar assets. In the second week of December, the 90-day bill was auctioned at around 5.10 per cent, and dealer positions of bills and short-term coupon issues had risen substantially.

Some long-term rates also edged up along with the rise in short-term yields. There were reports that, as a result of tax swapping, corporate dealer positions of secondary market issues have increased, while new municipal issues, at offering rates near the year's lows, were selling slowly. In mortgage markets, rates remained relatively stable.

Commercial banks continued to supply a substantial amount of real estate and consumer credit in November, and their business loan growth was maintained at rates above that of the third quarter. Business lending was heavy at banks of various sizes across the country, and borrowing was broadly distributed by industry categories. Banks also participated heavily in the tax bill and agency financings in November, with acquisitions of tax bills financed by full tax and loan account credit.

Outlook. Short-term interest rates are likely to be under upward pressure over the next few months. However, such pressures in the near-term may be limited by the abatement of pre-holiday seasonal pressures and reinvestment of funds obtained by State and local governments from revenue sharing. On the other hand, dealer positions in Treasury bills are relatively high, and the market is likely to be sensitive to any significant rise in the Federal funds rate and day-to-day financing costs.

A significant increase in short-term rates would be likely to spill over into bond markets. In coming weeks, this impact is likely to be moderated by January reinvestment demand from pension funds and institutional investors and continuation of a relatively modest pace of new issue volume. There are reports, however, that underwriters are attempting to convince corporations to accelerate some issues now planned for later in 1973.

In primary home mortgage markets, average contract interest rates are likely to change little in early 1973, as demands for mortgages level out and net savings inflows remain relatively ample. Secondary market mortgage yields, however, could begin to show some anticipatory upward adjustment if and as short-term market interest rates advance further.

Monetary aggregates. Preliminary data indicate that M_1 expanded at a 5.9 per cent annual rate during November, a somewhat more rapid rise than in October. This increase probably reflects the return to a growth path more consistent with the continuing rapid expansion in nominal GNP.[1/] Over the year ending in November, M_1 has increased at a 6.9 per cent rate.

M_2 in November increased at a 7.4 per cent annual rate, slightly below its growth rate in October. While growth in consumer type time and savings deposits remained strong, they increased less rapidly in November than in the previous three months, thus partially offsetting the more rapid growth in the demand deposit component of M_2.

Net sales of negotiable CD's increased appreciably in November--with the greatest changes occurring at weekly reporting banks outside New York and Chicago. However, with Treasury deposits expanding rapidly, net sales of these instruments were considerably below the high levels attained in the second and third quarters.

With the substantial rise in U.S. Government deposits accompanying the increase in private demand and total time deposits, the adjusted credit proxy in November grew at the most rapid rate since July. The rise in Government deposits was associated in large part with the two Treasury financings during the month--allowing 100 per cent tax and loan credit--as well as the delay in sending out revenue sharing checks.

Bank credit. Total bank credit at all commercial banks (last Wednesday of the month series) advanced at close to a 20 per cent

1/ It should be noted that the revision of Regulation J, as implemented on November 9, caused demand deposits included in M_1 to rise. However, to avoid a discontinuity in the money stock series the current money supply data have been adjusted to eliminate the resulting increase; consequently, the higher growth rate of M_1 in November presumably is not associated with the implementation of Regulation J. The level adjustment resulting from the Regulation J change will be incorporated in the statistics at the time of the regular annual benchmark and seasonal adjustment review and will be available in time for the January FOMC meeting.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1972					
	QI	QII	QIII	Sept.	Oct.	Nov. p
	Per cent at annual rates					
M_1 (Currency plus private demand deposits)	9.3	5.3	8.5	5.5	3.5	5.9
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's	13.3	8.6	9.3	8.4	7.7	7.4
M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	15.5	10.8	11.6	10.4	10.4	8.9
Adjusted bank credit proxy	11.3	11.1	10.7	10.2	8.9	11.2
Time and savings deposits at commercial banks						
a. Total	14.8	15.7	13.2	13.7	11.6	9.9
b. Other than large CD's	17.1	11.8	10.1	11.6	11.5	8.7
	Billions of dollars 1/					
Memorandum:						
a. U.S. Government demand deposits	-.1	-.8	--	.7	.7	1.7
b. Negotiable CD's	-.1	3.7	3.2	1.0	.4	.6
c. Nondeposit sources of funds	-.3	--	.3	-.1	.2	.1

p Preliminary and partially estimated.
1/ Month-to-month and last-month-in-quarter to last-month-in-quarter changes in averages, not annualized.

seasonally adjusted annual rate in November, the highest rate since May. While total loans continued to provide the major thrust, holdings of both U.S. Government and other securities also increased significantly. The rise in Government security holdings largely reflects the financing operations noted above. At the same time, banks increased their acquisitions of participation certificates, municipals, and "other" securities--the latter probably reflecting acquisitions of several Agency issues offered during the month.

Total loans in November continued to expand at a rate somewhat above that of the third quarter. Almost all loan categories were strong, with real estate and consumer loans continuing to rise at a particularly rapid pace. The rise in consumer loans was no doubt associated with continued high sales of consumer durables, including a small rise in new car sales in November.

In addition to the strength in consumer and real estate loans, business loans grew at a 16 per cent annual rate during November, continuing the relatively strong pattern of recent months. Over-all growth in this credit component was fairly widely distributed among banks in contrast to the recent past when growth was mainly at banks outside New York City. Similarly, loan demand was rather broadly based across industry groups with borrowing by trade concerns, public utilities, metals, petroleum refining and foreign business concerns especially heavy at the large banks.

With strong deposit inflows, large banks, in accommodating rapid loan growth, did not significantly reduce their liquidity ratios,

COMMERCIAL BANK CREDIT ADJUSTED
FOR LOANS SOLD TO AFFILIATES 1/
(Seasonally adjusted changes at annual percentage rates)

	QI	QII	QIII	1972 Sept.	Oct.	Nov.
Total loans and investments 2/	15.7	9.5	13.6(13.0)3/	11.9(10.1)3/	11.4(13.2)3/	20.6(19.9)6/
U.S. Treasury securities	10.5	5.8	-7.6	11.7	-40.6	14.0
Other securities	16.8	6.2	9.8	10.7	--	19.1
Total loans 2/	16.3	11.2	18.8(17.9)3/	12.4(9.7)3/	23.5(26.2)3/	21.8(20.8)6/
Business loans 2/	10.6	8.0 4/	12.4	5.7	21.0	15.9
Real estate loans	18.7	19.2	17.5	14.3	16.7	20.3
Consumer loans 5/	11.9	14.2	18.0	16.3	19.6	19.3

1/ Last Wednesday of month series.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
3/ Adjusted to exclude an $800 million matched sale-purchase transaction by the Federal Reserve on the last Wednesday of September.
4/ Second quarter figures have been adjusted to exclude a reclassification of loans by a major New York City bank in June.
5/ Data revised to conform with major revisions in Consumer Credit statistics.
6/ Adjusted to exclude a $300 million matched sale-purchase transaction by the Federal Reserve on the last Wednesday of November.

which remained near the peak levels attained earlier in the year. However, liquidity ratios at New York City banks declined moderately for the second consecutive month while those at banks outside New York increased slightly.

Nonbank thrift institutions. Expansion in deposits at nonbank thrift institutions moderated during November, according to estimates based on sample data. While deposit growth at these institutions remains quite strong by historical standards, the most recent data indicate a continuation of the slowdown evident since late summer.

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)

	Mutual savings banks	Savings and loan associations	Both
1971 - QI	16.3	24.6	21.9
QII	15.0	18.4	17.3
QIII	9.6	15.7	13.7
QIV	10.6	13.8	12.8
1972 - QI	14.3	23.4	20.5
QII	11.1	16.0	14.5
QIII	11.1	17.8	15.7
September	12.5	17.3	15.8
October p/	9.5	15.2	13.5
November e/	9.1	11.0	10.4
October and November e/	9.4	13.2	12.0

p/ Preliminary.
e/ Estimated on the basis of sample data.

During October, S&L's increased their liquidity slightly, and borrowed about $350 million from the FHL Banks. Commitments by S&L's to make mortgage loans showed contra-seasonal strength in October, and indications are that this strength continued in November as well.

<u>Commercial paper outstanding</u>. Commercial paper outstanding declined at estimated $200 million in November, following a sharp rise in October. All of the estimated decline occurred in dealer-placed paper and was accounted for, in part, by the paydown of maturing paper by public utility companies out of proceeds of long-term debt issues. In other categories, outstandings changed little.

COMMERCIAL PAPER OUTSTANDING
Seasonally adjusted, in billions of dollars

	Estimated outstandings		Estimated change	
	Nov. 30 1972	October 1972	November	Year through November
Total commercial paper outstanding	33.3	.9	-.2	.8
Bank-related	2.5	.2	*	.6
Nonbank-related	30.7	.7	-.2	.3
Directly-placed	18.6	*	*	-.1
Dealer-placed	12.2	.7	-.3	.33

* Less than $50 million.
NOTE: Detail may not add to totals due to rounding.

Even though short-term credit requirements have been rising, and commercial paper has had a significant rate advantage over bank borrowing, total paper outstanding is estimated to have increased only $.8 billion during the first eleven months of 1972. A number of factors appear to account for this limited growth of commercial paper. In particular, finance companies--the major issuers of directly placed paper--have reduced their outstandings, reflecting mainly the substantial volume of funds that these firms have raised in bond markets this year. Prime industrial firms, the major users of dealer-placed paper, apparently have been able to finance a large part of their working capital needs from internally generated funds.

<u>Consumer credit</u>. Consumer credit outstanding advanced by a record seasonally adjusted annual rate of over $23 billion or 18 per cent in October, with widespread increases both by type of credit and by type of lender. So far this year monthly growth in credit has averaged a seasonally adjusted annual rate of $17.3 billion, as compared with a $10.3 billion rate in the first 10 months of 1971.

Strong retail sales during October were reflected in consumer instalment credit growth at an annual rate of $18.0 billion. Non-automotive consumer goods debt rose at a record high rate of $7.4 billion, bolstered partly by continued heavy credit purchases of appliances and other household items. Other major types of instalment credit, except personal loans, showed somewhat smaller increases than in September, but gains in noninstalment credit were larger. Retail charge account balances--a form of noninstalment credit--were up $1 billion, after declining $1.4 billion in September.

Commercial banks have continued to increase their share of the consumer credit market. At the end of October, banks held 47.6 per cent of consumers' instalment receivables, an increase of 1.6 percentage points since the end of last year. Commercial banks accounted for 54 per cent of the net increase in consumer instalment credit that occurred in the first 10 months of 1972.

Consumer borrowing has been expanding relatively faster than income for seven consecutive quarters and the ratio of instalment credit extensions to disposable personal income reached a new high of 18.1 per cent in the third quarter, sharply above the recent low (15.8 per cent) in the fourth quarter of 1970. Meanwhile, the acceleration in instalment borrowing that began during the wage-price freeze recently has been reflected in a growing volume of repayments. In the two most recent quarters, the ratio of instalment debt repayments to disposable income moved up to 16.1 per cent from the narrow range within which it had fluctuated since early 1967.

CONSUMER INSTALMENT CREDIT EXTENDED AND REPAID

	Extended	Repaid	Extended	Repaid
	(Billions of dollars, seasonally adjusted annual rate)		(Percentage of disposable personal income)	
1970 - QI	110.5	105.5	16.5	15.8
QII	111.8	107.0	16.3	15.6
QIII	114.2	107.6	16.3	15.4
QIV	111.3	108.9	15.8	15.5
1971 - QI	116.1	110.6	16.0	15.2
QII	122.8	114.9	16.5	15.5
QIII	126.2	115.4	16.8	15.4
QIV	131.0	119.1	17.3	15.7
1972 - QI	135.2	122.0	17.6	15.8
QII	140.5	125.6	17.9	16.1
QIII	144.5	128.4	18.1	16.1

Repayments on outstanding consumer instalment debt may already have reached the burdensome point for some marginal borrowers. Delinquency rates on bank loans have risen steadily so far this year--to the highest rate since 1949--and delinquencies on automobile loans at finance companies have turned up slightly this fall. Delinquency rates on bank loans are usually declining at this stage of a business upturn.

Short-term Interest Rates. Rates on Federal funds and short-term Treasury bills have risen about 25 basis points since the November meeting of the Committee, moving the yield on the 3-month bill up to about 5.10 per cent--the highest level since announcement of the New Economic Program in August 1971. While other short-term rates also have risen generally since late November, their advance has lagged behind the more sensitive Federal funds and short-term bill rates.

Short-term rates frequently show some seasonal advance in the weeks just prior to Christmas. But this year seasonal advances have been accentuated by the firming of money market conditions and sizeable increases in the floating supply of bills. Since the November meeting, the Treasury has issued $4.5 billion of tax anticipation bills, and has or will add by the end of December nearly $1.3 billion to the supply of regular weekly and monthly bills. In addition, from November 21 to date foreign central banks have been net sellers of about $600 million of bills in the market.

Recent growth in the supply of Treasury bills has also contributed to a sharp build-up in dealer bill positions. To some extent this apparently represents pre-positioning of inventories in anticipation of the temporary reinvestment of revenue sharing funds by State and local governments. In the past week these governments have received $2.7 billion of revenue sharing payments, and they will receive an equivalent amount again in early January.

SELECTED SHORT-TERM INTEREST RATES
(Per cent)

	1972				Change
	Nov. 20	Nov. 27	Dec. 4	Dec. 11	Nov. 20-Dec. 11
Treasury bills					
3-month	4.76	4.88	4.92	5.10	+.34
6-month	5.05	5.17	5.22	5.28	+.23
1-year	5.15	5.28	5.27	5.28	+.13
Federal agency					
1-year	5.56	5.63	5.61	5.71	+.15
Commercial paper					
90-119 days	5.25	5.25	5.25	5.25	--
Large negotiable CD's 1/					
60-89 days	5.00	5.00	5.00	5.00	--
90-119 days	5.12	5.12	5.12	5.25	+.13
Bank prime rate-most prevalent	5.75	5.75	5.57	5.75	--
	Statement Week Ended				Change--week ending Nov. 22 to week ending Dec. 12
	Nov. 22	Nov. 29	Dec. 6	Dec. 12 2/	
Federal funds (daily average)	4.97	5.03	5.17	5.25	+.28

1/ Rate is for closest preceding Wednesday.
2/ Average for first 6 days of the week.

Long-term security markets. Recent advances of short-term interest rates have been reflected in sympathetic rate increases in most sectors of longer-term securities markets. Yields on intermediate- and long-term U. S. Government securities have moved up 5 to 10 basis points from their late November lows, and yields on newly issued corporate bonds have risen about 15 basis points. The relatively light fall calendar of corporate issues had encouraged underwriters to price new offerings aggressively and pushed rates to the lowest point of the year around late November. But institutional investors resisted these low rates, and with the upturn in short rates, syndicates on a number of recent offerings broke and led to somewhat higher secondary market yields. Although tax-exempt yields have continued to fluctuate narrowly around their lows for the year, underwriters and dealers currently hold large amounts of unsold municipal bonds. Apparently rates have held steady despite the rise in inventories because dealers expect the large revenue-sharing payments to be reflected both in some pay-off of maturing debt and a slowing in the pace of new offerings.

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa 1/ utility bonds	Long-term 2/ State and local bonds	U.S. Gov't. (10-year constant maturity)
1971			
Low	7.02 (2/5)	4.97 (11/21)	5.42 (3/26)
High	8.26 (7/30)	6.23 (6/24)	6.89 (7/20)
1972			
Low	6.99 (12/1)	4.96 (11/24)	5.87 (1/14)
High	7.60 (4/21)	5.54 (4/14)	6.61 (9/28)
Week ending:			
Nov. 3	7.27	5.04	6.37
10	--	5.10	6.29
17	7.12	5.01	6.25
24	6.99	4.96	6.26
Dec. 1	7.05	4.99	6.29
8	7.15	4.96	6.31p

p- preliminary
1/ FRB series.
2/ Bond Buyer (mixed qualities).

All major stock price indices continued to climb through November and into December, reaching successive new record highs. As indicated on the table, the largest price gains have been registered on the NYSE, where blue chip issues are concentrated. Volume on the major exchanges was quite heavy; the NYSE has averaged 19.6 million shares daily over the last 4 weeks.

RECENT CHANGES IN STOCK PRICES

	Level of prices as of:		Per cent change from:
	Oct. 30	Dec. 11	Oct. 30 to Dec. 11
D-J Ind.	946.42	1,036.27	9.49
NYSE	61.12	65.14	6.58
AMEX	25.87	26.7	3.48
NASDAQ	129.46	134.83	4.15

Corporate bond offerings in the public market last month totaled almost $1.4 billion. This was substantially above earlier estimates due to the shifting of a $500 million AT&T issue from December to November. The staff estimates that December volume, which typically is limited by the end-of-year holiday period, will be about $950 million. Although there appears to be some build-up in the January calendar, scheduled debt issues by public utility firms remain low and no large industrial offerings are planned at this time. Take-downs of private placements and new stock issues remain at relatively high levels.

Sales of tax-exempt bonds have moderated slightly in the fourth quarter. The December volume is estimated at about $1.4 billion, reflecting a seasonal decline from the $1.8 billion of the previous month. The staff estimates that the January total will again be close to $1.8 billion, as the normal January upturn, especially in revenue bonds, occurs. The large current revenue-sharing payments and the improved fiscal position of State and local governments this year may exert some moderating influence on the growth of new debt, particularly in the short-term area.

CORPORATE AND MUNICIPAL LONG-TERM SECURITY OFFERINGS
(Monthly or monthly averages, in millions of dollars)

	1971	First 9 months 1972	1972 Oct.	1972 Nov.	1972 Dec.	1973 Jan.
Corporate securities Total	3,743	3,374	3,500	3,050	2,600	3,100
Public bonds	2,066	1,576	1,650	1,350	950	1,500
Privately placed bonds	605	696	650	650	1,000	700
Stock	1,072	1,100	1,200	1,050	650	900
State and local government securities	2,080	1,968	1,970	1,800	1,400	1,800

Mortgage market. Average rates on home mortgages were unchanged in November. Despite field reports of some further shift away from HUD(FHA)-insured home loans toward high-ratio conventional mortgages with above-average yields,[1/] contract interest rates on conventional loans as a group remained at an average of 7.70 per cent on new homes and at 7.75 per cent on existing homes, according to the HUD(FHA) series. The spread between gross returns on both new- and existing-home loans in November and the reduced level of yields on new issues of high-grade utility bonds became more attractive than it had been in several years, although it was still below earlier standards.

1/ Fragmentary field information suggests that 90 or 95 per cent conventional home mortgages available at S&L's may carry somewhat higher contract interest rates than mortgages with 70 per cent loan-to-value ratios, even though private mortgage insurance is required on the higher-ratio loans.

In the secondary market, yields remained at 7.57 per cent on Government underwritten home mortgages. Secondary-market transactions in conventional loans reportedly continued active. In the third quarter conventional loans accounted for one-third of the volume of all home mortgages purchased in the secondary market by reporting investors.

Based on bi-weekly information, a slight downtrend in secondary market mortgage yields has been under way since early last month, judging from results of FNMA's auction of forward commitments to purchase FHA and VA loans. The average yield in the latest (December 11) auction was 2 basis points below the level of November 27, and 5 basis points below the recent October high. The volume of mortgages offered to FNMA in the latest auction, while up slightly from the previous auction, was still quite low, suggesting the continuance of strong private demand for FHA/VA loans and industry expectations of further increases in mortgage prices over the near term.

During the third quarter, the average delinquency rate on home mortgages (MBA series) increased to a new postwar high for the quarter of 3.8 per cent. However, most of the rise was concentrated in HUD(FHA)-insured loans, both subsidized and unsubsidized. On HUD(FHA) Sec. 235 interest-rate-subsidy mortgages, where defaults are expected to reflect the higher underwriting risks involved, the 30-day-and-over delinquency rate reached a record 10.8 per cent.

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES

	Primary market: conventional loans		Secondary market: HUD (FHA)-insured loans		
	Level (per cent)	Spread (basis points)	Level (per cent)	Spread (basis points)	Discounts (points)
1971 - Low	7.55	-36	7.32	-27	2.5e
High	7.95	52	7.97	31	7.8
1972 - Low	7.55	15	7.45	5	3.7
High	7.70	61	7.57	48	4.7
Aug.	7.65	28	7.55	18	4.5
Sept.	7.70	30	7.56	16	4.6
Oct.	7.70	32	7.57	19	4.7
Nov.	7.70	61	7.57	48	4.7

NOTE: HUD(FHA) series: interest rates on conventional first mortgages (excluding additional initial fees and charges) are rounded by FHA to the nearest 5 basis points. On HUD (FHA) loans carrying the 7 per cent ceiling rate in effect since mid-February 1971, a change of 1.0 points in discount is associated with a change of 12 to 14 basis points in yield. Gross yield spread is average mortgage return, before deducting servicing costs, minus average yield on new Aaa utility bonds.

e/ Estimated.

November data confidential until December 15

<u>Federal finance</u>. Preliminary evidence indicates that Federal purchases of goods and services in the fourth quarter of calendar 1972 will be less than was projected in the chart show, with the shortfall mainly occurring in the area of defense. Consequently, we have revised downward our estimate of total Federal spending for fiscal year 1973 by $1 billion, resulting in an NIA total expenditure estimate of $260.6 billion, and budget outlays of $252 billion. It is possible that the $250 billion spending goal of the Administration can be achieved (even while holding to this level of NIA spending) if, for example, sales of financial assets by Federal agencies are increased. A case in point is the sale of approximately $400 million in Participation Certificates sponsored by the G.S.A., half of which was made in October and $227 million of which is expected to be announced in December. This sale will allow the construction of Federal buildings without the incurrence of budget outlays for construction costs. Moreover, the debt created by the sale of these Participation Certificates will not be treated as Federal debt, but rather as debt of the trustee.

The staff's estimate of receipts for fiscal year 1973 is $226.5 billion, the same as reported in the November Greenbook. Given our new outlays projection, the budget deficit for this fiscal year is now estimated to be $25.5 billion.

We are projecting high employment deficits of $1.0 billion for calendar 1972, $10.7 billion for fiscal 1973, and $8.0 billion for calendar 1973. However, fiscal policy appears to be considerably less stimulative in this period when allowance is made for the surplus expected in the State and local government sector. The Federal sector projections show a strong shift toward fiscal restraint in the last two quarters of calendar 1973, with the budget moving from a high employment deficit of $16.2 billion (annual rate) in Q-II 1973 to a surplus of $2.4 billion (annual rate) in Q-IV 1973. This shift is partly attributable to the swing from large tax refunds in the first half of calendar 1973 to overwithholding in the second half; in the first half of calendar 1974 the budget is expected to shift again toward deficit--by perhaps 10 billion dollars (annual rate)--because of another large volume of tax refunds.

The end-of-November Treasury cash balance was $8.3 billion. We anticipate an auctioning of a $2 billion two-year note in late December, and continuation of additions to the weekly bill auctions at least through January 25. Projected net cash borrowing in the first quarter of calendar 1973 is nearly $8.0 billion, a record amount for that period of the year.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Nov.	Dec.	Jan.	Feb.
Total net borrowing	5.3	2.4	3.0	0.6
Weekly and monthly bills	1.1	0.8	1.0	0.1
Tax bills	2.0	2.5	--	--
Coupon issues	3.0	--	--	--
As yet unspecified new borrowing	--	--	2.0	1.2
Special issues to foreigners	-.2	--	--	--
Agency transactions, debt repayment, etc.	-.6	-.9	--	-.7
Plus: Other net financial sources a/	-1.1	-1.0	1.6	-.5
Plus: Budget surplus or deficit (-)	-3.9	-2.9	-5.4	-2.2
Equals: Change in cash balance	0.3 b/	-1.5	-.8	-2.1
Memoranda: Level of cash balance, end of period	8.3 b/	6.8	6.0	3.9
Derivation of budget surplus or deficit:				
Budget receipts	17.3	18.8	19.1	17.5
Budget outlays	21.2	21.7	24.5	19.7
Maturing coupon issues held by public c/	1.3	1.2	--	4.8
Net borrowing by gov't-sponsored agencies	0.4	0.4	0.3	0.1

a/ Checks issued less checks paid and other accrual items.
b/ Actual
c/ In the August prefunding, $.9 billion and $1.1 billion, respectively, were exchanged for the November and December maturities, leaving $1.3 billion and $1.2 billion to be redeemed in cash.

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	Fiscal Year 1972*	Fiscal Year 1973		Calendar Years F.R. Estimates		F.R.B. Staff Estimates Calendar Quarters					
		Adm. 1/ Estimate	F.R. Board	1972	1973	1972 III*	1972 IV	1973 I	1973 II	1973 III	1973 IV
Federal Budget											
Surplus/deficit	-23.2	-23.5	-25.5	-19.0	-21.5	-2.0	-12.1	-13.0	1.8	-1.5	-8.8
Receipts	208.6	226.5	226.5	221.8	244.3	55.6	50.8	52.5	67.6	65.5	58.7
Outlays	231.9	250.0	252.0	241.0	265.8	57.6	63.0	65.5	65.8	67.0	67.5
Means of financin:											
Net borrowing from the public	19.4	n.a.	22.3	13.4	18.7	5.0	10.6	7.7	-1.0	2.5	9.5
Decrease in cash operating balance	-1.3	n.a.	2.6	4.5	-.2	0.3	3.0	2.3	-3.0	.5	--
Other 2/	5.1	n.a.	0.5	1.2	3.0	-3.3	-1.5	3.0	2.2	-1.5	-.7
Cash operating balance, end of period	10.1	n.a.	7.5	6.8	7.0	9.8	6.8	4.5	7.5	7.0	7.0
Memo: Net agency borrowing 3/	4.7	n.a.	n.e.	3.5	n.e.	0.7	1.2	0.9	n.e.	n.e.	n.e.
National Income Sector											
Surplus/deficit	-22.1	n.a.	-25.6	-18.9	-22.2	-11.6	-27.7	-31.7	-31.3	-14.5	-11.2
Receipts	211.0	n.a.	235.1	227.9	248.5	230.0	235.4	239.9	234.9	256.8	262.3
Expenditures	233.1	n.a.	260.6	246.9	270.7	241.6	263.1	271.6	266.2	271.3	273.5
High employment surplus/deficit (NIA,basis) 4/	4.1	n.a.	-10.7	-1.0	-8.0	3.7	-13.7	-16.8	-16.2	-1.5	2.4

*Actual e--projected n.e.--not estimated n.a.--not available

1/ Revised Administration estimates of $225.0 billion in receipts and $250.0 billion in outlays were disclosed by Secretary Shultz in testimony before the House Ways and Means Committee on September 18, 1972. Receipts were revised upward to $226.5 as a result of higher social security taxes incorporated in HR-1.

2/ Includes such items as deposit fund accounts and clearing accounts.

3/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

4/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

12/13/72

III -- T - 1
U.S. Balance of Payments
(In millions of dollars; seasonally adjusted)

	1971 Year	1972p/ QI	QII	QIII	Oct.*
Goods and services, net 1/	726	-1,188	-1,601	-896	
Trade balance 2/	-2,689	-1,687	-1,948	-1,588	-453
Exports 2/	42,770	11,791	11,445	12,307	4,323
Imports 2/	-45,459	-13,478	-13,393	-13,895	-4,776
Service balance	3,416	499	347	692	
Remittances and pensions	-1,530	-389	-383	-357	
Govt. grants & capital, net	-4,422	-944	-630	-819	
U.S. private capital (- = outflow)	-9,782	-3,192	-110	-2,345	
Direct investment abroad	-4,765	-1,266	-100	-1,132	
Foreign securities	-909	-393	-354	227	23
Bank-reported claims -- liquid	-566	-533	312	-449	359
" " " other	-2,372	-765	115	-745	-521
Nonbank-reported claims -- liquid	-506	-140	-115	-118	
" " " other	-664	-95	32	-128	
Foreign capital (excl. reserve trans.)	-4,551	1,484	2,838	1,489	
Direct investment in U.S.	-68	-360	350	259	
U.S. corporate stocks	849	695	165	379	294
New U.S. direct investment issues	1,161	296	766	372	
Other U.S. securities (excl. U.S. Govt.)	272	76	25	-74	
Liquid liabilities to:	-6,691	554	1,189	396	874
Commercial banks abroad	-6,908	476	980	282	627
Of which liab. to branches 3/	(-4,942)	(-199)	(399)	(34)	(92)
Other private foreigners	-465	53	281	148	201
Intl. & regional institutions	682	25	-72	-34	46
Other nonliquid liabilities	-74	223	343	157	
Liab. to foreign official reserve agencies	27,417	2,822	1,080	4,678	787
U.S. monetary reserves (increase, -)	3,065	607	-53	122	-96
Gold stock	866	544	--	3	--
Special drawing rights 4/	468	--	7	--	--
IMF gold tranche	1,350	-1	185	-15	-5
Convertible currencies	381	64	-245	134	-91
Errors and omissions	-10,927	800	-1,141	-1,872	
BALANCES (deficit -) 4/					
Official settlements, S.A.		-3,429	-1,027	-4,800	
" " , N.S.A.	-30,482	-3,216	-741	-5,544	-691
Net liquidity, S.A.		-3,310	-2,413	-4,629	
" " , N.S.A.	-22,719	-3,079	-3,043	-5,274	
Liquidity, S.A. 5/		-3,983	-2,216	-5,196	
" , N.S.A.	-23,791	-3,808	-2,930	-5,765	-1,565

* Monthly, only exports and imports are seasonally adjusted.
1/ Equals "net exports" in the GNP, except for latest revisions.
2/ Balance of payments basis which differs a little from Census basis.
3/ Not seasonally adjusted.
4/ Excludes allocations of SDRs as follows: $717 million on 1/1/71 and $710 million on 1/1/72.
5/ Measured by changes in U.S. monetary reserves, all liabilities to foreign official reserve agencies and liquid liabilities to commercial banks and other foreigners.

INTERNATIONAL DEVELOPMENTS

Summary and outlook. Exchange markets have not encountered any major disturbances in the past month and the dollar has been firm. The Japanese yen has continued to be strong, reflecting a huge trade surplus, though revaluation rumors have tended to subside. Some downward pressure developed on the Italian lira (reflecting political uncertainties and rising interest rates elsewhere in Europe) and the Canadian dollar (partly reflecting a drop in deposit rates of Canadian banks).

The over-all U.S. balance of payments deficit on the official settlements basis apparently was about $300 million in November, and has averaged about $400 million a month since the end of the speculative flurry in late June and early July. On the liquidity basis the monthly deficits since July have averaged about $1 billion. The official settlements deficit has been held below the liquidity deficit by large borrowings from the Euro-dollar market, mainly by the agencies and branches of foreign banks in this country.

The deficit in the basic balance (current account plus long-term capital) in the third quarter, according to confidential preliminary tabulations, was at an annual rate of about $9.0 billion -- slightly higher than in the second quarter. In the fourth quarter a further improvement in the trade balance is occurring, as well as heavy foreign purchases of U.S. corporate stocks. These factors should serve to offset an increase in outflows for direct investment; the customary fourth-quarter window dressing reflows of direct investment funds may be small this year, since the outflows in the first three quarters were relatively low.

In most other industrial countries a striking feature of the current situation is the continuing high price inflation and the policy response, generally relying heavily on tighter monetary policy. Interest rates have been rising steeply -- apart from a few countries, especially Canada and Japan where economic activity is still substantially below par. So far these measures do not seem to have resulted in increases in interest rates (taking into account forward exchange rates) sufficient to induce major disequilibrating capital flows. Of course the barriers to inflows of capital established in many countries earlier in the year are helping to deter such movements.

Foreign exchange markets. Exchange markets turned fairly active toward the end of November, following the latest round of restrictive monetary actions in Europe and a move toward lower interest rates in Canada (see pp. III -14-15).

The German mark advanced by nearly 1/2 percent and the Swiss franc by 3/4 percent between November 24 and December 1, but, since both currencies were initially well away from their upper limits, neither central bank was required to intervene. The restrictive monetary measures elsewhere in Europe served to increase the selling pressures on the Italian lira, already regarded by the market as a fairly weak currency. On November 30 and December 1, rumors circulated in the markets concerning a possible floating of the lira, or at least allowing it to drop out of the EC narrow band, and heavy Bank of Italy intervention support was required to keep the lira within the band. On Monday, December 4, the Bank of Italy announced an increase in its rate for fixed-term advances and offered to purchase dollars from Italian commercial banks on a swap basis at rates favorable to the banks. These two actions seemed to have had a calming influence on the market, and the selling pressures abated. It would appear that the Bank of Italy's swap dollar purchases in the week ending December 8 were nearly sufficient to finance its reserve losses of the previous week. As the speculation against the lira subsided, the mark and the Swiss franc turned easier, and by December 8, those two currencies had lost almost half of their previous week's gain.

Among other major European currencies, sterling and the French franc eased moderately over the past few weeks, despite interest rate increases in the U.K. and France in line with those elsewhere in Europe. The softness of the French franc has generally been attributed to the market's uneasiness over political opinion polls which show large gains for the left-wing parties at the expense of the Gaullist government.

While interest rates in Europe were rising, a move toward lower interest rates in Canada precipitated heavy market sales of

Canadian dollars. Between November 27 and December 7, the Bank of Canada sold U.S. $300 million, while the exchange rate declined from 101.20 to 99.84. Subsequently, the Canadian dollar stabilized, the rate moved back above 100.00 on December 12, and the Bank of Canada purchased nearly U.S. $150 million on December 12 and 13.

The Bank of Japan has continued to purchase on the order of $40 - $50 million per day, and six-month forward yen continue to trade at about 10 percent above par.

The System repaid an additional $15 million equivalent of Belgian franc and $30 million equivalent of Swiss franc swap drawings between November 15 and December 13, using balances previously purchased in the market. Outstanding swaps in Belgian and Swiss francs now total $435 million and $1,170 million equivalent, respectively.

Euro-dollar market. Rates on most maturities of dollar deposits abroad came under upward pressure in the final week of November, mostly in reaction to discount rate increases by several European central banks in addition to seasonal factors. In the period from November 22 to December 1 the discount rate was increased in Belgium (1/2 percent), France (1 percent) and Germany (1/2 percent) and the Bank of England raised its new "minimum lending rate by 1/4 percent. These actions caused Euro-dollar rates to advance, their impact being felt largely because they confirmed earlier increases in market rates in those countries and called attention to

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES

Average for month or week ending Wednesday	(1) Over-night Euro-$1/	(2) Federal Funds2/	(3) Differ-ential (1)-(2)(*)		(4) 1-month Euro-$ Deposit1/	(5) 30-59 day CD rate (Adj.)3/	(6) Differ-ential (4)-(5)(*)	
1972 - June	4.07	4.46	-0.37	(0.64)	4.82	4.50	0.32	(1.53)
July	5.20	4.55	0.65	(1.95)	5.34	4.72	0.62	(1.96)
Aug.	4.47	4.80	-0.33	(0.79)	5.18	4.73	0.45	(1.75)
Sept.	4.54	4.86	-0.33	(0.79)	5.15	4.96	0.19	(1.48)
Oct.	4.77	5.05	-0.28	(0.91)	5.10	5.10	0.00	(1.28)
Nov.	4.74	5.05	-0.31	(0.88)	5.08	5.01	0.07	(1.34)
Nov. 1	4.71	5.06	-0.35	(0.83)	5.01	5.00	0.01	(1.26)
8	4.74	5.25	-0.51	(0.68)	5.04	5.00	0.04	(1.30)
15	4.80	4.89	-0.09	(1.11)	4.95	5.00	-0.05	(1.19)
22	4.65	4.98	-0.33	(0.83)	4.93	5.00	-0.07	(1.16)
29	4.76	5.03	-0.27	(0.92)	5.27	5.06	0.19	(1.53)
Dec. 6	5.00	5.17	-0.17	(1.08)	6.15	5.21	0.94	(2.48)
13p	4.73	5.25	-0.52	(0.66)	6.13	5.21	0.92	(2.45

1/ All Euro-dollar rates are noon bid rates in the London market; overnight rate adjusted for technical factors to reflect the effective cost of funds to U.S. banks.

2/ Effective rates.

3/ Offer rates (median, as of Wednesday) on large denomination CD's by prime banks in New York City; CD rates adjusted for the cost of required reserves.

*/ Differentials in parentheses are after adjustment of Euro-dollar rates for the 20 percent marginal reserve requirement (relevant to banks with borrowings in excess of their reserve-free bases).

p/ Preliminary.

the direction in which European interest rates have been moving for the past several months. A further rise in German rates after the discount rate action, and small increases in some U.S. short-term rates, also contributed to the pressure on Euro-dollar rates. The 1-month Euro-dollar rate moved up a full percentage point, and the 3-month rate a half point, in response to these moves and the approach of the year-end. Rates on these maturities have changed little since the beginning of this month.

Even with their recent rise Euro-dollar rates are not generally above levels that prevailed in the third quarter (after allowing for the tendency of rates to harden at this time of the year), and this despite the substantial increases in short-term rates in European national markets in recent months. Euro-dollar rates declined during most of October and November. A principal explanation for this is the strengthening of the forward dollar that has occurred since last summer on the exchange markets, partly generated by greater confidence in the continuation of present dollar parities. The reduced discounts or higher premiums on the forward dollar vis-à-vis other currencies have prevented or minimized incentives to shift funds from the Euro-dollar market to the Euro-DM market and to European national markets. In addition, the supply of Euro-dollars presumably has continued to be augmented by infusions of dollars from official institutions in Japan.

The cost to U.S. banks of borrowing reserve-free Euro-dollars, relative to issuing CD's of comparable maturity, has increased to about 90 and 75 basis points, respectively, for 1-month and 3-month Euro-dollars. But the differential favoring overnight Euro-dollars over Federal funds has continued, and has widened in the past week to about 1/2 percent. Banks' liabilities to their foreign branches have continued at about the level of their reserve-free bases.

Balance of payments. The over-all balance on the official settlements basis registered a deficit of about $300 million in November, following an October deficit of $750 million (not seasonally adjusted). Average monthly deficits since the speculative crisis in June-July have been about $400 million, with considerable monthly variation. On the liquidity basis the November deficit was probably about $800 million -- down from $1.5 billion in October -- and for the four months August-November the monthly average was over $1 billion. The difference between these liquidity and official settlements deficits results from increased borrowings by U.S. agencies and branches of foreign banks from foreign money markets. These inflows are largely from the Euro-dollar market where very short-term interest rates remain below the rates on Federal funds.

Details on international transactions in October and November are sparse. As noted below, the trade deficit was further reduced in October (November data are not yet available), and lending by U.S. banks to foreigners appears to have been moderate in both October and November. Foreign purchases of U.S. corporate stocks were extremely large; preliminary data indicate net purchases of $300 million in October and again in November. These would be the largest monthly purchases since last December and indicates increased confidence of foreigners in the U.S. economy. Foreign purchases of U.S. bonds in October and November were about the same as the average monthly amounts purchased in the third quarter.

Relatively complete data for the third quarter balance of payments accounts indicate that the deficit in the basic balance (current account plus private long-term capital flows) was nearly $9 billion at an annual rate, moderately larger than in the second quarter. There were contrary movements in the current and capital accounts. The balance on goods and services showed marked improvement as the trade deficit fell by $1-1/4 billion (at annual rate) while the net surplus on income and services increased. Private long-term capital flows, however, were less favorable than in the second quarter; direct investment outflow by U.S. companies recovered from the exceptionally low amount reported in the second quarter and there was some reduction in foreign purchases of the offshore bond issues of U.S. corporations.

For the first three quarters of the year the basic balance was a deficit of $7.7 billion (not at an annual rate) -- about the same as in the like period of 1971. Within this total the balance on goods and services worsened by nearly $5 billion, mainly because of the deepening of the trade deficit. However, this was nearly matched by a $4 billion reduction in outflows of long-term private capital.

Of this improvement, about $1-1/2 billion resulted from lower outflows of <u>U.S.</u> private long-term capital and about $2-1/2 billion from larger inflows of <u>foreign</u> private capital.

Flows of short-term private capital have been erratic this year. Sizable inflows during calm periods in the exchange markets (induced by U.S. and foreign interest rate differentials) were offset by outflows during market disruptions, as in the June-July period. Recorded flows of private short-term capital showed a small net inflow for the first nine months of the year. On the other hand, short-term outflows (largely speculative) are probably reflected in the residual errors and omission item which was negative by $1 and $2 billion, respectively, in the second and third quarters. Such speculative outflows were probably concentrated at the end of the second quarter and the first part of the third quarter. It should be noted that the third quarter data are still preliminary estimates for many items.

<u>U.S. foreign trade</u>. The U.S. trade balance improved in October as exports rose more than imports. For the two months September-October the trade deficit was at an annual rate of $5-1/2 billion (balance of payments basis). Though still high, the trade deficit in the last two months is considerably below the peak level of $7-3/4 billion recorded in the second quarter of the year.

The pattern of changes in U.S. trade in October was about the same as that of the third quarter. Prices (unit-value) of imports continued their upward movement, accounting for more than one-third of the increased value of October imports. The rise in prices of imported finished goods in October was particularly strong, mainly in consumer durable items. Although unit-value indexes customarily show considerable month-to-month variations, the strong rise in the index for finished manufactures in October suggests either a greater pass-through of the effects of the exchange rate changes of last year, increased internal prices abroad, or a combination of the two.

In contrast, prices (unit-values) of exports rose only marginally from September to October, so that almost all of the increased value of exports in October was in real terms. Export prices of wheat and corn rose sharply in October, partly from the reduction of the wheat export subsidy and its termination in September, and partly because of higher domestic grain prices following the grain sales to the Soviet Union. The increase in foodstuffs prices was offset by a decline in prices of exports of finished manufactures and crude materials.

As in the third quarter, the expansion in exports in October continued to be broadly based by commodities. Shipments of agricultural commodities -- soybeans, tobacco, cotton -- accounted for nearly two-fifths of the total export rise, and reached an annual rate of over $10 billion compared to less than $8 billion in calendar 1971. Exports of agricultural commodities to Western Europe and Japan rose strongly but grain exports to the Soviet Union did not increase. There were small shipments of wheat to Communist China in September and October.

Exports of machinery and nonagricultural industrial materials (particularly chemicals and metals) also expanded further in October. Foreign orders for machinery have been strong; in July-October the value of such orders averaged about 15 percent higher than in the first half of the year, and the backlog of unfilled orders has begun to rise. Deliveries of commercial aircraft also picked up in October from the relatively low level of the third quarter as initial deliveries of the DC-10 were made to foreign airlines. Exports of nonfood consumer goods (other than autos), which have ordinarily been stable (and relatively small) among U.S. export categories, rose again in October following a moderate gain in the third quarter. By areas, the most significant advance in exports in October was in shipments to Japan. Large shipments of agricultural commodities accounted for about half of the increase to that country, but exports of non-agricultural materials continued to expand above the already high third-quarter levels.

The increase in value of <u>imports</u> in October was, as in the immediately preceding months, largely in industrial materials. Imports of fuels fell back from their record September value but still remain high relative to past periods. Imports of steel and other metals, paper and lumber all continued to rise. Imports of finished goods --

capital goods and consumer goods (other than automobiles) -- were generally flat and unchanged from their third quarter levels. Imports of autos, particularly from Europe, were up sharply in October from the relatively low level of September, but were no higher than the monthly average of the third quarter. Dealer sales of foreign cars in the United States rose steeply in November, however, and accounted for a larger share of total domestic car sales than they have in recent months.

U.S. BALANCE OF PAYMENTS
(billions of dollars, seasonally adjusted)

	1971	1972 Qtr.1	1972 Qtr.2	1972 Qtr.3p	Jan - Sept. 1971	Jan - Sept. 1972p
Merchandise exports	42.8	11.8	11.4	12.3	33.2	35.5
Merchandise imports	-45.5	-13.5	-13.4	-13.9	-34.4	-40.8
TRADE BALANCE	-2.7	-1.7	-1.9	-1.6	-1.2	-5.2
Investment income, net	+8.0	+1.9	+1.8	+1.9	+5.7	+5.6
Military transactions, net	-2.9	-0.9	-1.0	-0.8	-2.1	-2.7
Other services, net	-1.7	-0.5	-0.5	-0.4	-1.2	-1.3
BALANCE ON GOODS & SERVICES	+0.7	-1.2	-1.6	-0.9	+1.3	-3.7
Remittances and pensions	-1.5	-0.4	-0.4	-0.4	-1.1	-1.1
CURRENT ACCOUNT	-0.8	-1.6	-2.0	-1.3	+0.1	-4.8
U.S. Gov't. grants & capital	-4.4	-0.9	-0.6	-0.8	-3.3	-2.4
U.S. private long-term capital	-6.3	-1.9	-0.9	-1.3	-5.4	-4.0
Foreign private long-term capital	+2.3	+0.8	+1.6	+1.1	+1.0	+3.5
BALANCE ON CURRENT ACCOUNT AND LONG-TERM CAPITAL	-9.3	-3.6	-1.9	-2.3	-7.6	-7.7
U.S. private short-term capital	-3.4	-1.3	+0.8	-1.1	-2.3	-1.6
Foreign private short-term capital	-6.7	+0.7	+1.2	+0.4	-5.6	+2.2
Errors and omissions	-11.0	+0.8	-1.1	-1.9	-8.9	-2.2
OFFICIAL SETTLEMENTS BALANCE (excluding SDR allocations)	-30.5	-3.4	-1.0	-4.8	-24.4	-9.3

p = Preliminary, subject to revision prior to publication.

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

<u>Interest rate developments in selected countries</u>. Short-term interest rates have been rising in the major European countries, with particularly sharp increases in Germany, the United Kingdom and France. In Canada and a few smaller European countries, such as Sweden and Denmark, rates have remained relatively flat in recent months, while in Japan, some short-term rates in December increased slightly. (See Table 1.)

The upward trend in rates earlier this fall was mainly a reflection of rising economic activity which generated a stronger demand for funds. Recently, however, monetary authorities have moved to tighten policy, partly reflecting a concerted move by the EEC countries to slow the persistent price inflation. Central bank discount rates have been increased since October in Germany, France, Belgium, the Netherlands and Austria, and the new minimum lending rate of the Bank of England also increased. Italy also increased one of its Lombard rates. (See Table 2.) Most of the official actions to raise interest rates followed earlier uptrends in market rates in the various countries.

In addition to the recent monetary measures, certain fiscal measures were taken -- or are planned -- in France, Switzerland and Belgium as part of the anti-inflationary effort. These vary from a reduction in certain value-added taxes in France, to a more restrictive budget in Belgium. Since the economic recovery in its early stages had been strongly supported by government demand, fiscal policy might

TABLE 1. REPRESENTATIVE MONEY MARKET RATES[1/]
(In Per Cent)

	1971				1972						
	Sept.	Oct.	Nov.	Dec.	May	June	July	Aug.	Sept.	Oct.	Nov.
United Kingdom	5.38	5.06	4.38	4.63	4.88	7.38	8.25	7.50	7.50	7.88	8.38
Germany	7.50	7.25	6.50	5.50	4.50	4.88	4.50	5.00	6.38	7.25	3.63
France	6.50	5.81	5.81	5.75	5.13	4.88	4.63	4.63	5.25	6.63	--
Italy	5.50	5.38	5.25	5.50	5.25	5.25	5.25	5.25	5.25	5.38	--
Belgium	4.90	4.80	4.80	5.15	3.80	3.80	3.90	4.05	4.05	4.25	--
Netherlands	5.56	5.75	5.50	5.50	2.50	2.38	1.13	0.88	2.13	4.13	4.63
Japan	6.25	5.75	5.75	5.75	4.75	4.25	4.25	4.25	4.50	4.50	4.38
Canada	5.06	4.94	4.81	4.42	6.23	5.19	5.31	5.31	5.19	5.31	4.94

1/ Yields at or near end of month.

appropriately become less stimulative in view of the broadening of the recovery. However, it is clear that in no case so far do the price pressures reflect demand inflation. Therefore, there remains the question of how far aggregate policy measures can appropriately serve to curb price increases. Indeed, in a number of countries -- notably Britain, Austria, the Netherlands and Norway -- supporting price and wage measures were taken.

In Germany, the central bank acted to reduce price pressures and reinforce the recent deceleration in the rate of growth of the money stock by increasing its discount rate and Lombard rate (for advances

TABLE 2. SELECTED CENTRAL BANK DISCOUNT RATES FOR MAJOR COUNTRIES1/
(In Per Cent)

	July	Aug.	Sept.	Oct.	Nov.	Dec.
United Kingdom	6.0	←→	6.0	'last resort rate' - new 7.25 (10/13) 7.50 (10/27)	7.50	7.75 (12/1) 8.00 (12/3)
Germany	3.0	←→		3.5	4.0 (11/2) 4.5 (11/30)	4.5
France	5.75	←→		5.75	6.50 (11/2) 7.50 (11/30)	7.50
Italy	4.0	←→				4.0
Belgium	4.0	←→		4.0	4.5	4.5
Netherlands	4.0	4.0	3.0	3.0	4.0 (11/3)	4.0
Switzerland	3.75	←→				3.75
Japan	4.25	←→				4.25
Canada	4.75	←→				4.75

1/ End of month rate.

against securities) three times in October-December. On October 9 the discount rate was raised from 3.0 to 3.5 per cent and the Lombard rate from 4.0 to 5.0 per cent, and on November 3 the two rates were raised again to 4.0 per cent and 6.0 per cent, respectively. On December 1 the discount rate was increased again to 4.5 per cent, while the Lombard rate was raised to 6.5 per cent. Commercial banks' rediscount quotas are also to be cut by 10 per cent, or roughly $665 million, on February 1, 1973.

The Bundesbank felt it could safely raise its rates without triggering an undesired inflow of capital since the covered differential between German and foreign rates had narrowed substantially. In particular, the discount on forward sales of U.S. dollars against DM had decreased sharply. Thus, while Euro-dollar interest rates had risen only a little, the interbank 3-month Euro-DM rate had risen from 1 per cent last July to about 4 per cent by mid-October, and rates on Euro-DM loans to German borrowers had risen correspondingly. With the 50 per cent cash deposit ("Bardepot") requirement doubling the cost of such loans, it became more expensive for German enterprises to borrow abroad than at home. On December 6 the authorities tightened the Bardepot requirement by reducing from DM 500,000 to DM 50,000 the amount of borrowings exempted from the requirement.

Market rates were already beginning to rise in August. The Bundesbank's actions in October-December have been accompanied by sharp increases in the level of short-term rates. The interbank call money rate rose more than seasonally from 2.30 per cent in July to 5.75 per cent in November, while the three-month interbank deposit rate increased from 4.50 per cent in July to 8.63 per cent in November.

Short-term interest rates in the United Kingdom have increased sharply since early June, with the average tender rate for treasury bills rising from 4.39 per cent on June 2 to 7.47 per cent on December 8. This increase mainly reflects the general rise in economic activity and very strong demand for funds from all sectors of the economy, but was reinforced in November by a Bank of England call for Special Deposits and by the Bank's forcing the discount houses to borrow from the Bank at its new minimum lending rate, which is automatically set each week at a penalty level. The Bank of England hopes that control of bank liquidity, as well as the substantial rise in interest rates since June, will help to reduce further the rate of growth in the stock of money (broad definition), which earlier declined from an annual rate of 31 per cent in the first half of 1972 to 18 per cent in August-October. Bank lending rates rose this week, and in view of the Bank's current policy objectives and the general upswing in economic activity, short-term rates are likely to rise somewhat further in the coming months.

Accelerating price increases in France have caused the authorities to take various restrictive measures in recent months. From late September through December 1 the Bank of France increased its money market intervention rate from 3.75 per cent to 6.875 per cent. Also, on November 17 the marginal cash reserve requirement for bank loans was raised from 15 to 33 per cent. This requirement applies to increases in bank loans above the level outstanding on April 5, 1972. Finally, the Bank of France increased its discount rate from

5.75 to 6.50 per cent on November 2, and from 6.50 to 7.50 per cent on November 30. Because the discount rate has been kept well above the money market intervention rate since January of 1971, accommodation at the open market window has replaced rediscounts in the extension of Bank of France credit. Nevertheless, the increases in the discount rate will have some psychological impact, as well as insuring that the discount rate remains above money market rates.

On December 7 the French Government announced that further monetary and fiscal measures would be taken to curb rising inflation. New credit ceilings will be imposed on the banks, requiring them not to expand their credit by more than 19 per cent by March 31, 1973, over the same date a year earlier, and by 17 per cent by June 30, 1973, over the same date a year earlier. Penalties will be applied in case the ceilings are exceeded. In addition, the nationalized banks will be enjoined from further increasing the interest rate on loans that they make, and it is expected their lead will set the behavior pattern for the entire banking system.

As a direct measure to hold prices down, the basic value-added tax rate will be reduced from 23 to 20 per cent, while the rate for "essential" goods will be cut from 7.5 to 7.0 per cent. France also plans to issue 5 billion francs of 15-year bonds in early 1973, with an exchange value guaranty against any devaluation of the franc.

In Belgium, the rising level of economic activity contributed to a gradual increase in short-term interest rates in July-September and a more rapid increase in October-November. By November 23 short-term rates were 55-65 basis points above the June 30, 1972, level. Largely in response to the higher level of domestic interest rates and interest rate increases in several other European countries, the central bank on November 23 raised its discount and lending rates by 0.5 percentage points. Earlier in August and November the central bank took steps to reduce bank liquidity that had increased as a result of speculative capital inflows following the floating of the pound sterling. In August commercial banks were required to place BF 10 billion in special non-interest bearing deposits with the central bank, and on November 10 an additional BF 7.5 billion had to be placed with the central bank by the commercial banks, savings banks and semi-official credit agencies.

The Bank of Italy on December 5 raised its rate on fixed-term advances from 3.5 to 5.5 per cent. The Bank's rediscount rate and its rate on open-end advances were left unchanged. The rise in the rate on fixed-term advances is designed to discourage commercial bank financing of advance payments for imports and speculative purchases of Italian equities, both of which have increased sharply of late. The acceleration of import payments is related to the anxieties persisting since last June over a possible devaluation of the lira, and has been an important part of the stepped-up capital outflow from Italy in recent weeks. The latest monetary policy measures have mainly been dictated by the desire to reduce the capital outflow, and not by any basic desire to tighten domestic monetary conditions since easy monetary and fiscal policies are still thought necessary in view of the slack in the economy.

Rising economic activity in Switzerland and a reversal of short-term inflows as the forward premium on the Swiss franc declined contributed to a reduction in bank liquidity in recent months. As a result, banks have increased the rate paid on three-month deposits on four occasions since October 12. By November 29 the rate stood at 4.0 per cent, as compared to 1.5 per cent prior to October 12. Concerned about the growing inflationary pressures, the Swiss authorities announced on December 4 that they plan to reimpose credit ceilings and enact other anti-inflationary measures soon. These include the authority to impose reserve requirements for banks' domestic and foreign liabilities, to revise the depreciation tax schedule, to impose export deposit requirements, to control the domestic issue of public securities, and to establish price guidelines.

Interest rates in Japan have generally been declining since November of 1970 and are now at postwar lows. Rates have declined mainly because of the Bank of Japan's easy money policy, slack demand for investment funds during the 1970-71 recession, and the excess liquidity created by the surpluses in Japan's balance of payments.

Although average bank lending rates declined steadily through September 1972 (6.8 per cent as compared to the October 1970 peak of 7.7 per cent), the call loan rate has been generally stable at 4.25 per cent since June of this year. The Bank of Japan's basic discount rate has also remained unchanged since the last reduction on June 24, 1972, to 4.25 per cent.

In recent months the authorities have become concerned about an acceleration in the rate of increase in prices, as well as the excess liquidity caused by the balance-of-payments surpluses. It is doubtful that they will increase the central bank's discount rate soon for fear of damping the economic recovery, but some tightening measures, such as an increase in commercial bank reserve requirements, may be taken. Unless reserve requirement increases are much larger than now seems likely, interest rates will probably remain at relatively low levels in the coming months because of the highly liquid position of most businesses and banks.

Canadian monetary policy has been expansionary this year, in order to sustain the economic expansion now in progress and to reduce the high (6.6 per cent) rate of unemployment. Major short-term interest rates have moved within a relatively narrow range since early September, the rate for three-month finance company paper having fluctuated between 5.12 and 5.25 per cent. Earlier, money market and bank deposit rates had moved up sharply in January-May, and then declined rapidly in June.

The main reason for the sharp drop in June (the rate on the three-month finance company paper fell from 6.13 per cent on May 26 to 4.88 per cent on June 23) was the announcement on June 12 of the Winnepeg Agreement to put a ceiling on CD rates. Under this Agreement, the commercial banks, with the concurrence of the Minister of Finance, agreed that they would pay no more than 5.5 per cent on deposits of $100,000 or more for terms of less than one year. On November 27, the CD ceilings for various maturities under 270 days were lowered by 1/8 to 1/4 percentage points.