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Content last modified 6/05/2009.

CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

November 15, 1974

By the Staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

Industrial production in October declined an estimated 0.6 percent following a 0.3 percent increase the month before. At 124.9 percent of the 1967 base, industrial output was 1.7 percent below a year earlier. Reductions in output were general with both durable and nondurable goods manufacturing down.

The rate of capacity utilization in manufacturing declined in October to 78.4 percent, the largest reduction since early in the year when fuel shortages were a factor. Most of the October decline resulted from curtailment in the primary processing group.

MANUFACTURING UTILIZATION
1974

Industry	Quarter		Month 1/			
	II	III	July	Aug.	Sept.	Oct.
Manufacturing	80.1	79.2	79.5	79.1	79.1	78.4
Advanced processing	76.8	76.3	76.2	76.4	76.2	75.7
Primary processing	86.3	84.8	85.8	84.2	84.4	83.3

1/ Monthly indexes are not for publication.

Sales of new domestic-type autos in the first 10-day period of November were at a 5.5 million unit annual rate, down 15 percent from the rate during the month of October and down 38 percent below the same period a year earlier.

Preliminary figures indicate that sales of new trucks in October were at a 2.2 million unit annual rate, a fourth below the level of September and a fifth below October 1973. Stocks rose 15 percent above the advanced September level.

Despite some improvement from August to September, merchant builder sales of new single-family homes for the third quarter as a whole were at the lowest average for any quarter in four years. Builder backlogs of unsold homes at the end of the period remained quite large, representing nearly 10½ months' supply at the September sales rate. The median price of the mix of homes sold in September--$36,900--was more than a tenth above a year earlier and continued above the rising median price of units for sale.

SALES, STOCKS AND PRICES OF NEW SINGLE FAMILY HOMES

	Homes sold 1/	Homes for sale 2/	Months' supply	Median price of: Homes sold	Median price of: Homes for sale
	(thousands of units)			(thousands of dollars)	
1973					
QI	726	426	7.0	30.4	29.4
QII	680	436	7.7	32.7	31.2
QIII	566	453	9.6	33.5	32.1
QIV	483	446	11.1	34.0	32.9
1974					
QI	525	453	10.4	35.2	34.0
QII	567	435	9.2	35.6	35.0
QIII	480	415	10.4	36.4	35.7
June (r)	532	435	9.8	35.1	35.0
July (r)	507	431	10.2	36.8	35.3
Aug. (r)	456	433	11.4	35.6	35.5
Sept. (p)	478	415	10.4	36.9	35.7

1/ Seasonally adjusted annual rate.
2/ Seasonally adjusted, end of period.

Book value of retail trade inventories rose at a $14.7 billion annual rate in September following a $10.3 billion August rate. The third quarter average annual rate of growth of retail trade inventories was $12.2 billion, above the second quarter rate of $7.3 billion. The annual growth rate of book value of wholesale trade inventories was $7.1 billion in September, up from the $6.4 billion August growth rate. The wholesale trade third quarter annual rate was $7.8 billion, slightly above the second quarter rate.

For manufacturing and trade the annual rate of increase in book value of inventories was $53.8 billion in September, somewhat above the August rate. The third quarter rate increase of $55.4 billion was considerably above the second quarter rate of $43.2 billion. The manufacturing and trade inventory-sales ratio rose in September to 1.50 from the August ratio of 1.47.

Personal income increased $8.4 billion to $1186.4, seasonally adjusted in October following an upward revised $10.8 billion gain in September. The income level was 8.8 percent above a year earlier.

Wage and salary disbursement rose $5.7 billion with the increase evenly spread between the private and government sector where Federal employees received a 5.5 percent pay raise in October. Growth in manufacturing payrolls slowed somewhat in October as the work force was reduced. Compared to a year ago, wage and salary disbursements were also up 8.8 percent.

Total agricultural income declined a half of a percent in October after showing little change in September.

PERSONAL INCOME
(Billions of dollars; seasonally adjusted at annual rates)

	October 1974	September 1974-October 1974
Total personal income	1186.4	8.4
Wage and salary disbursements	773.4	5.7
Government	162.8	2.9
Private	610.6	2.8
Manufacturing	219.5	1.7
Other	391.1	1.1
Nonwage income	461.9	3.0
Less: Personal contribution for social insurance	48.9	.3
Addenda:		
Total nonagricultural income	1146.3	8.9
Total agricultural income	40.1	- .5

Gross national product in the third quarter, according to revised estimates, rose $31.6 billion to $1415.4 billion seasonally adjusted annual rate. (The preliminary figures had shown a $27.8 billion rise). In real terms GNP is now indicated to have declined at a 2.1 percent annual rate (instead of 2.9 percent). GNP prices as measured by the implicit price deflator are now indicated to have risen at 11.8 percent annual rate, slightly more than previously indicated and the gross private products fixed weighted price index slightly less at 13.8 percent per year.

The revised figures in contrast to the previous ones show a smaller rise in business fixed investment which was more than offset by a smaller decline in inventory investment and a larger rise in Federal Government purchases of goods and services. (Table attached)

Corporate profits before tax for the third quarter (preliminary) are now estimated at $158.4 billion seasonally adjusted annual rate, up $19.4 billion or 14 percent from the second quarter. Excluding inventory valuation profits, they are up only $1.1 billion or 1 percent from the second quarter. Corporate profits before tax figures for the first and second quarters of this year have been revised to take account of effects on reported profits of a number of firms' shifting from FIFO to LIFO accounting valuation methods. The net effect of these revisions has been to reduce the gains and the levels earlier reported for these two quarters.

The coal bargainers November 13 tentatively agreed on a new three-year contract which provides significant increases in wages and benefits and improvements in safety and working conditions. The new agreement must be voted on by the 120,000 rank and file miners--a process which will take about ten days--but United Mine Workers officials expect the union will accept the new package ending the current strike after about two weeks of shutdown.

The new settlement provides wage increases totaling a minimum of 15 percent over the life of the contract--9 percent in the first year--and a one time $80 inflation catch-up bonus which will also be effective in the first year. The miners will be newly covered by a cost-of-living escalator which has a ceiling of 8 percent a year. The escalator formula provides about .8 to .9 percentage increase in wages for each 1 percent rise in the CPI.

Fringe benefits will increase substantially: funding of the UMW Retirement Fund by mine operators will almost double over the life of the contract and pension payments will increase from a present minimum of $150 a month to a minimum of $250 a month. Paid days off will total 30 days including paid sick leave--10 more days than under the old contract, and benefits for disabled miners will be raised substantially.

The noneconomic package provides many of the items the union had sought: safety standards and job training will receive increased emphasis and work rules will be changed in such a way as to create about 8,000 jobs immediately. Although the coal operators did not secure their objective of guarantees of fewer wildcat strikes, industry representatives predicted the new pact would improve labor management relationships.

The wholesale price index for October rose 2.3 percent, seasonally adjusted (not at an annual rate), to a level 22.6 percent above a year earlier.

The index of farm and food products increased 4.7 percent, seasonally adjusted, with most of the advance accounted for by higher prices for manufactured animal feeds, grains, fluid milk, and soybeans.

The index of industrial commodities rose 1.1 percent, seasonally adjusted, about at the same rate as in September. Although the increases for each of the last two months are less than those for any of the previous ten months, these increases are exceptionally large. The October rise reflected mainly the higher prices for motor vehicles and equipment, machinery and equipment, chemicals and allied products, and fuels and power. Lumber and wood products declined for the sixth consecutive month. Also lower were prices of textile products and hides and leather.

WHOLESALE PRICES
(Percent changes at seasonally adjusted compound annual rates)1/

	Oct.73 to Oct.74	Dec. 72 to June 73	June 73 to Dec.73	Dec.73 to June 74	June 74 to Sept.74	Sept.74 to Oct.74
All commodities	22.6	20.2	10.9	18.2	35.2	27.9
Farm and food products	10.6	45.8	10.4	-11.5	59.2	56.8
Industrial commodities	28.2	10.6	10.9	34.0	28.3	13.4
Crude materials	39.0	23.0	40.4	44.3	29.1	-5.2
Intermediate materials	31.4	12.2	11.7	38.0	32.2	12.6
Finished goods	21.9	6.3	7.1	24.5	22.7	23.5
Producer	21.4	5.4	5.3	20.0	31.8	29.1
Consumer, excl. food	22.0	6.7	8.1	26.8	18.5	20.8
Nondurable, excl. foods	27.1	8.5	11.3	35.6	19.1	15.6
Durable	14.1	4.5	2.8	13.2	15.6	37.0
Consumer finished foods	11.3	27.0	18.5	-1.1	29.4	47.5

Note: Farm and food products include farm products and processed foods and feeds.
1/ Not compounded for one-month changes.

The Domestic Financial Situation

Mortgage market. According to the HUD (FHA) opinion survey, average interest rates on new commitments for conventional new-and existing home mortgages in the primary market fell 10 basis points during October to 9.70 percent--the first decline in these rates since February. Private secondary market yields on FHA-insured new-home mortgages fell 25 basis points to 10.13 percent. Such movements are consistent with the FHLMC series on primary market rates and FNMA secondary market auction yields cited in the Greenbook.

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES
(HUD-FHA Field Office Opinion Survey)

End of Month	Primary market: Conventional loans: Level 2/ (percent)	Primary market: Conventional loans: Spread 4/ (basis points)	Secondary market 1/: FHA-insured loans: Level 3/ (percent)	Secondary market 1/: FHA-insured loans: Spread 4/ (basis points)	Secondary market 1/: FHA-insured loans: Discounts (points)
1973 - Low	7.70 (Jan.)	30 (Jan.)	7.55 (Jan.)	15 (Jan.)	2.2 (Dec.)
High	8.95 (Sept.)	114 (Sept.)	9.18 (Sept.)	137 (Sept.)	9.4 (July)
1974 - Jan.	8.65	40	--	--	--
Feb.	8.55	45	8.54	44	2.3
Mar.	8.60	- 4	8.66	2	3.2
Apr.	8.90	- 3	9.17	19	5.1
May	9.15	6	9.46	37	5.3
June	9.25	-25	9.46	- 4	5.3
July	9.40	n.a.	9.85	n.a.	6.3
Aug.	9.60	-39	10.30	31	5.8
Sept.	9.80	-66	10.38	- 8	6.3
Oct.	9.70	-33	10.13	10	4.6

1/ Any gaps in data are due to periods of adjustment to changes in maximum permissible contract rates on FHA-insured loans.
2/ Average contract rate (excluding fees or points) on commitments for conventional first mortgage loans, rounded to the nearest 5 basis points.
3/ Average gross yield (before deducting servicing costs) to investors on 30-year minimum-downpayment FHA-insured first mortgages for immediate delivery in the private secondary market (excluding FNMA), assuming prepayment in 15 years.
4/ Average gross mortgage rate or yield minus average yield on new issues of Aaa utility bonds in the last week of the month.

INTEREST RATES

	1974			
	Highs	Lows	Oct. 15	Nov.14
Short-Term Rates				
Federal funds (wkly. avg.)	13.55(7/3)	8.81(2/27)	10.11(8/16)	9.37(11/13)
3-month				
Treasury bills(bid)	9.74(8/23)	6.93(2/6)	7.74	7.17
Comm. paper (90-119 day)	12.25(7/17)	7.75(2/22)	9.50	8.88
Bankers' acceptances	12.50(8/15)	7.75(2/26)	9.50	8.95
Euro-dollars.	14.38(7/16)	8.25(2/18)	11.19	10.19
CD's (NYC) 90-119 day				
Most often quoted new	12.00(9/4)	7.88(2/20)	9.25(8/16)	8.63(11/13)
6-month				
Treasury bills (bid)	9.86(8/23)	6.80(2/19)	7.92	7.35
Comm. paper (4-6 mo.)	12.13(7/10)	7.50(2/22)	9.38	8.75
Federal agencies	10.63(8/28)	7.16(2/19)	8.38	8.16p(11/13)
CD's (NYC) 180-269 day				
Most often quoted new	11.90(8/21)	7.50(2/27)	9.00(8/16)	8.25(11/13)
1-year				
Treasury bills (bid)	9.65(8/23)	6.37(2/15)	7.70	7.24
Federal agencies	10.18(8/26)	7.01(2/19)	8.57	8.22p(11/13)
CD's (NYC)				
Most often quoted new	9.75(7/17)	7.00(2/27)	8.50(8/16)	8.25(11/13)
Prime municipals	6.50(7/12)	3.70(2/15)	4.80(10/11)	4.25(11/15)
Intermediate and Long-Term				
Treasury coupon issues				
5-years	8.79(8/23)	6.72(2/14)	7.92	7.76(11/12)
20-years	8.72(8/26)	7.40(1/4)	8.31	7.98(11/12)
Corporate				
Seasoned Aaa	9.40(10/8)	7.73(1/2)	9.31	8.87
Baa	10.40(10/1)	8.54(1/2)	10.43	10.50
New Issue Aaa Utility	10.61(10/2)	8.05(2/13)	10.44(10/16)	8.87p(11/13)
Municipal				
Bond Buyer Index	6.95(7/10)	5.16(2/6)	6.48(10/16)	6.55(11/13)
Mortgage--average yield in FNMA auction	10.59(9/9)	8.43(2/25)	10.32(10/7)	9.93(11/4)

CORRECTIONS:

Page III-9. The statement that "instalment debt outstanding grew at its slowest rate of the year in September" is incorrect. The net change in September was $8.12 billion (SAAR) for instalment credit. The increase during February amounted to $8.05 billion, and the March gain totaled $7.40 billion.

Page IV-6, line 2 of text. Delete Interest Equalization Tax and substitute Controls on Direct Investments.

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.)

	1974-II		1974-III Commerce Prel. 10/17/74		1974-III Commerce Final 11/15/74	
	Amount	Change from 74-I	Amount	Change from 74-II	Amount	Change from 74-II
Gross National Product	1383.8	25.0	1411.6	27.8	1415.4	31.6
Final purchases	1370.3	28.4	1405.8	35.5	1406.7	36.4
Private	1065.9	20.3	1094.6	28.7	1094.4	28.5
Excluding net exports	1067.4	33.1	1098.7	31.3	1098.4	31.0
Personal consumption expenditures	869.1	28.5	899.9	30.8	901.3	32.2
Durable goods	129.5	5.6	136.0	6.5	136.1	6.6
Nondurable goods	375.8	11.4	388.1	12.3	389.0	13.2
Services	363.8	11.4	375.9	12.1	376.2	12.4
Gross private domestic investment	211.8	1.3	204.6	-7.2	205.8	-6.0
Residential construction	48.8	.4	46.3	-2.5	46.2	-2.6
Business fixed investment	149.4	4.2	152.5	3.1	150.9	1.5
Change in business inventories	13.5	-3.4	5.8	-7.7	8.7	-4.8
Nonfarm	10.4	-2.7	3.1	-7.3	6.6	-3.8
Net exports of goods and services	-1.5	-12.8	-4.1	-2.6	-4.0	-2.5
Exports	138.5	7.3	143.9	5.4	142.6	4.1
Imports	140.0	20.1	148.0	8.0	146.6	6.6
Gov. purchases of goods and services	304.4	8.1	311.2	6.8	312.3	7.9
Federal	114.3	2.8	116.4	2.1	117.2	2.9
Defense	76.6	.8	78.8	2.2	78.4	1.8
Other	37.7	2.0	37.7	.0	38.8	1.1
State and local	190.1	5.3	194.8	4.7	195.1	5.0
GNP in constant (1958) dollars	827.1	-3.4	821.1	-6.0	822.7	-4.4
Personal income	1134.6	22.1	1165.9	31.3	1168.2	33.6
Wage and salary disbursements	745.2	17.6	762.6	17.4	763.0	17.8
Disposable personal income	966.5	15.9	990.8	24.3	993.1	26.6
Personal saving	71.5	-12.9	64.6	-6.9	65.5	-6.0
Saving rate (per cent)	7.4		6.5		6.6	
	----------Per Cent Change at Annual Rates----------					
Gross National Product		7.6		8.3		9.5
Gross Private Product		7.7		8.5		9.8
Gross Private Nonfarm Product		13.7		9.3		10.1
GNP in constant prices		-1.6		-2.9		-2.1
GPP in constant prices		-2.0		-3.3		-2.4
GPNfP in constant prices		-2.9		-3.0		-2.5
GNP implicit price deflator		9.3		11.5		11.8
GNP fixed weighted price index		11.1		12.8		12.7
GPP fixed weighted price index		12.3		14.0		13.8

SUPPLEMENTAL APPENDIX A*
THE SUPPLEMENTARY BUDGET IN THE UNITED KINGDOM

On November 12, British Chancellor of the Exchequer Denis Healey announced a mildly reflationary supplementary budget, designed to "lay the foundation of a comprehensive strategy for dealing with Britain's economic problems over the next four years." He outlined three major objectives: (1) to give priority to investment and to the balance of payments over both public expenditure and private consumption; (2) to adjust prices to reflect real costs, especially of imported energy; and (3) to see that inflation is not fueled by an excessive increase in the money supply.

As expected, a major focus of the Chancellor's new policy actions was the need to improve both the liquidity position and the profitability of private industry, in order to encourage investment. To improve the financial position of the larger firms, these firms would be allowed to write down their inventory appreciation to a maximum of 10 per cent of trading profits for the accounting period ending in financial year 1973/74; this represents a deferment of tax and would affect tax bills currently due for payment. Similar measures are envisaged next year, together with relief for smaller firms. Also, initial tax allowances for industrial buildings are to be raised from 40 to 100 per cent. These changes in corporate tax are estimated to improve corporate liquidity by nearly £800 million this winter.

The Bank of England will remind banks that they are urged to give priority to financing productive investment. Moreover, the Bank of England and the clearing banks have agreed to expand the lending facilities of their jointly-owned medium-term investment agency, Finance for Industry (FFI), by up to £1000 million over the next 2 years or so. Arrangements have been made for periodic purchases of marketable FFI stock by a wide range of financial institutions.

To improve industry's profitability, the Chancellor announced some easing for the next stage of the price control program -- which has operated principally by controlling profit margins. The main item was a cut in the so-called "labor productivity deduction"; whereas currently companies can pass on in prices a maximum of 50 per cent of the increase in labor costs, the new proposals will allow them to pass on up to 80 per cent, the exact amount varying according to the proportion of labor costs in total costs. Other limited adjustments to the price code were proposed, and 17-1/2 per cent of the cost in any year of investment on plant, machinery, and industrial buildings

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will be recoverable during that year in higher prices. All of these changes will add an estimated £800 million to the profits of industrial and commercial companies in the full year 1975, and could raise prices by about 1 per cent by mid-1975, according to the Chancellor.

As a step towards more rational use and pricing of energy, the Chancellor announced that the value-added tax on gasoline will be raised from 8 to 25 per cent, or by about 18 U.S. cents per U.S. gallon. A heavy excise tax on gasoline is already in effect as well. The total tax per gallon will now be 71 cents and the retail price about $1.20 per gallon. This will cause the retail price index to rise by 0.55 per cent.

Initial investment allowances for insulation of industrial buildings will be increased from 40 to 100 per cent, and hire purchase restrictions on space heating equipment will be eased. The Chancellor announced his intention of phasing out completely, over a period of time, all subsidies on the prices of the nationalized industries' energy products. Currently, for example, the price of electricity -- which at the margin is generated entirely from imported oil -- is subsidized, thereby encouraging uneconomic use of oil.

To offset some of the effects of inflation on the lower-income groups, the Chancellor announced that pensions and other long-term benefits would increase 16 per cent from next April, and would increase further the following December. Family allowances will also be raised substantially next April, and changes in personal taxation will be considered at that time. The cost to the government of these increased benefits will be £205 million in a full year.

In order to help steer resources into exports and investment, the Chancellor announced his intention to keep the annual growth of real public expenditure down to 2-3/4 per cent over the next 4 years. He noted that it would not be possible for most people to improve their living standards appreciably over the next few years.

Finally, the Chancellor announced that a new capital transfer tax, a tax on revenue from North Sea Oil, a development land tax, and a wealth tax would all be examined in the near future.

For the present, at least, he said there will be no significant change in the stance of monetary policy. The supplementary deposit scheme introduced last December will be extended for another six months on essentially the existing terms, i.e., if the growth of a bank's interest-bearing liabilities exceeds 1-1/2 per cent of liabilities outstanding in October-December 1973, the bank must make a special deposit at the Bank of England. However, the Bank will restore interest payments on special deposits, to enable banks to increase their capital base.

The Chancellor summed up the effects of his policy actions by noting that the total public sector borrowing requirement for 1974/75 will rise by £800 million to £6300 million (or roughly 9 per cent of British GDP). There will be a corresponding improvement in the company sector borrowing requirement. Prices will rise by an extra 1-1/2 per cent or more by mid-1975. The financial benefit to companies will amount to £1500 million in the full calendar year 1975 (roughly half from price relief and half from tax relief). The Chancellor forecast that total output would grow at an annual rate of 2 per cent over the "period ahead" (presumably through the first half of 1975), implying that unemployment would increase but would remain below 1 million.

<u>Assessment</u>. The actions announced in the budget can be contrasted with the policy prescriptions urged on the Chancellor both by the Confederation of British Industries (CBI) and the Trades Union Congress (TUC). The CBI had warned that industry would need £2400 million in tax and price control relief during the rest of this financial year (ending in March) simply to survive its present cash flow crisis, and would need £3750 million or more next year. These figures are consistent with official statistics that show the financial deficit of the company sector (i.e., net saving after taxes, fixed capital formation, and inventory appreciation) running at an annual rate of about £4500 million in the first half of 1974.

In addition to the complete abolition of price controls and tax relief on stock appreciation, the CBI had urged the Chancellor to reduce the corporate tax rate (from 52 per cent to 35 per cent) and to withdraw the Advance Corporation Tax surcharge.

The TUC had asked the Chancellor to inject an extra £2500 million into the economy: £1500 million by budgetary means, such as increasing child allowances and other social improvements, and £1000 million by increasing private investment. (The TUC would prefer to see investment increased by direct government intervention, rather than by the measures urged by the CBI.) An injection of £2500 million would result in a growth rate of GDP of 3-1/2 per cent, according to the TUC.

Thus, the budget announced on November 12 falls short of the degree of stimulus urged by either the CBI or the TUC. The budget does, however, provide substantial relief to the corporate sector. It does come to grips in a vigorous way with the energy conservation problem (especially since the Chancellor asserted that in three years over half of Britain's oil requirement would be met from national sources). By cutting back on public expenditure and private consumption (by allowing prices to rise), the budget does leave resources free for the growth of exports and investment. All of these actions were politically quite courageous, and represent a reasonable strategy in the face of a difficult policy dilemma.

Nevertheless, serious doubt remains as to whether these benefits will be sufficient to induce any early pickup in investment. Given the degree of pessimism expressed in recent investment intentions surveys -- and given the expected weakness in other components of demand, which are likely to be reinforced by the new policy actions -- it appears that the Chancellor's forecast of a 2 per cent annual rate of growth of output may not be realized.

SUPPLEMENTAL APPENDIX B*
BANK CREDIT REVISION

Seasonally adjusted bank credit data (last-Wednesday-of-the-month series) have been revised for the period January through September 1974 on the basis of June 30, 1974, Call Report data. These revised data have been used in the current Greenbook tables.

According to the June Call Report data, growth in total commercial bank credit was at a somewhat faster pace in the first half of 1974, than the partly estimated data had indicated. The annual rate of growth in total loans and investments in the first half of 1974 had been estimated to be a 13.9 per cent rate but on the basis of Call data was revised upward to a 15.0 per cent rate (Table 1). Some small upward adjustments occurred in all three quarters of 1974. (Data subsequent to June, however, are subject to further revision when the December 31, 1974, Call Report becomes available.)

The higher June bank credit level was reflected in larger holdings of total loans and "other" securities (securities other than U.S. Treasury issues) than had been estimated (Table II). Holdings of U.S. Treasury securities were lower on the Call than estimated. These revisions reflect three sources of error in the initial monthly estimates of loans and investments at all commercial banks. Monthly data are unavailable for most nonmember banks, so the estimates prepared for these banks on the basis of data reported by small member banks are subject to estimating errors. The amount of the nonmember component error is determined as of each Call date. In addition, a "window dressing" adjustment is made in June and December to convert reported last-Wednesday of month figures to a Call date basis and this is also subject to estimating error. Revisions in the nonmember estimates raised each of the major credit categories--total loans, U.S. Treasury securities, and other securities. However, "window dressing" estimates were too high in the case of total loans and investments, total loans, and U.S. Treasury securities and partially offset the upward revisions in nonmember estimates for these items.

Monthly estimates are also made for domestic interbank loans which are subtracted from the reported data. These loans were estimated at too low a level according to Call Report figures. Revisions for these estimates also partially offset the upward revisions of nonmember loans. Over the first half of the year, total loans adjusted to exclude domestic interbank loans, expanded at an annual rate of 16.7 per cent compared with an estimated 15.3 per cent.

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In the case of U.S. Treasury securities the Call date error was slightly larger in absolute volume than the last-Wednesday error and was also in the opposite direction. These holdings were estimated to have increased $400 million between June 26 and June 30--typically over the years window dressing adjustments have been upward. However, they actually dropped $800 million, more than offsetting the effect of the upward ratio revision. Over the first half of the year, Treasury holdings increased at an annual rate of 13.6 per cent compared with an estimated 16.3 per cent. The same directional error had occurred in estimating window dressing on the December 1973 Call and this may be indicative of some changing pattern in the handling of these assets around Call dates.

Holdings of other securities have always increased between last-Wednesdays and calls, and this year the adjustment was estimated correctly. The basic series revision resulted in an increase of 9.7 per cent between December and June compared with an estimated 8.0 per cent.

Business and real estate loans were both moderately higher on the June Call date than had been estimated. Again, however, in the case of business loans, the error in the Call figure was smaller than that in the last-Wednesday figure reflecting a too high estimate of window dressing. Over the first half of the year, business loans increased at an annual rate of 24.1 per cent and real estate loans, 13.8 per cent, compared with estimated rates of 23.3 per cent and 12.4 per cent respectively. Consumer loans--which are taken from Consumer Credit statistics--were not affected by the benchmark revisions.

The largest error among the loan components occurred in the agricultural category (not shown on the tables). Agricultural loans were $900 million lower on the June 30 Call than had been estimated. Thus, agricultural loans increased only $400 million, seasonally adjusted, over the first half of 1974--far below the unusually sharp increases of other recent periods. Agricultural loans had increased $1.3 billion in the second half of 1972; $1.1 billion in the first half of 1973; and $2.0 billion in the second half of 1973. However, the first half of 1974 increase was in line generally with volume changes of years prior to 1972. The reduced rate of growth in agricultural loans at commercial banks in 1974 reflected to some extent tight money conditions at rural banks which apparently resulted in some shift of borrowing to the Production Credit Association whose loans increased more than usual. Also, loan demand by livestock feeders was sharply reduced by lower operating rates and lower prices on livestock in inventory. In the second half of both 1972 and 1973, the unusually large loan increases had been associated in part with delayed sales because of expectations of higher prices. In addition, farmers purchased machinery and feed--which normally might have been delayed until the next year--both because of expected higher prices and tax advantages.

Differences between the June 30, 1974, Call and estimated data for security and nonbank financial loans were small. While changes in the estimated portion of these items--i.e., those at the nonweekly reporting banks--are generally nominal, large errors may sometimes occur because of incorrectly estimated window dressing adjustments at the large reporting banks.

Table I
Seasonally Adjusted Bank Credit 1/
Comparison of Old and Revised Series
(Seasonally adjusted changes at annual percentage rates)

	Total loans 2/ & investments		U. S. Treasury securities		Other securities		Total loans 2/		Business loans 2/		Real estate loans	
	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised
1974--1st Half	13.9	15.0	16.3	13.6	8.0	9.7	15.3	16.7	23.2	24.1	12.4	13.8
1st Qtr.	15.9	17.5	25.8	27.3	6.8	8.3	17.4	19.0	22.2	24.0	12.2	12.9
2nd Qtr.	11.5	12.0	6.4	--	9.1	10.8	12.7	13.8	23.0	22.9	12.2	14.7
3rd Qtr.	4.5	5.6	-37.8	-29.8	.3	--	10.7	11.2	13.1	14.2	6.7	6.0
1974--January	14.7	16.5	36.4	38.6	10.1	12.0	13.6	15.1	15.2	15.9	13.2	12.2
February	15.5	17.0	39.7	45.3	10.1	11.0	14.2	15.7	9.0	12.7	9.1	10.0
March	16.8	18.4	--	--	--	1.8	23.6	25.4	41.6	42.2	14.0	15.0
April	16.0	17.9	10.7	14.9	3.6	5.4	20.1	21.8	34.4	33.6	11.9	15.8
May	10.2	12.1	--	2.1	9.9	11.7	11.5	13.5	20.9	23.6	13.7	14.6
June	7.8	5.7	8.5	-16.8	13.4	15.1	6.2	5.7	12.3	10.2	10.7	11.6
July p	13.1	16.0	-35.7	-12.8	--	-.9	22.4	24.0	19.7	22.3	7.6	7.6
August p	9.4	9.4	-15.2	-10.8	.9	--	14.5	14.2	18.7	19.2	7.6	6.6
September p	-8.8	-8.6	-65.8	-67.3	--	.9	-5.0	-4.8	.7	.7	4.7	3.8

1/ Last-Wednesday of month series.
2/ Includes outstanding amounts of loans sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
NOTE: Data revised to reflect adjustments to June 30, 1974, Call Report benchmark.

Table II
Seasonally Adjusted Bank Credit 1/
Comparison of Old and Revised Series
(In billions of dollars)

	Total loans 2/ & investments		U.S. Treasury securities		Other securities		Total loans 2/		Business loans 2/		Real estate loans	
	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised
1974--January	642.4	643.3	54.4	54.5	131.3	131.5	456.7	457.3	160.4	160.5	119.0	118.9
February	650.7	652.4	56.2	56.4	132.4	132.7	462.1	463.3	161.6	162.2	119.9	120.0
March	659.8	662.4	56.2	56.4	132.4	132.9	471.2	473.1	167.2	167.9	121.3	121.
April	668.6	672.3	56.7	57.1	132.8	133.5	479.1	481.7	172.0	172.6	122.5	123.1
May	674.3	679.1	56.7	57.2	133.9	134.8	483.7	487.1	175.0	176.0	123.9	124.6
June	679.3	682.9	57.1	56.4	135.5	136.6	486.7	489.9	176.8	177.5	125.5	126.3
July p	686.7	692.0	55.4	55.8	135.5	136.5	495.9	499.7	179.7	180.8	126.3	127.1
August p	691.6	696.9	54.7	55.3	135.6	136.5	501.3	505.1	182.4	183.6	127.1	127.8
September p	686.5	691.9	51.7	52.2	135.6	136.6	499.2	503.1	182.5	183.7	127.6	128.2

1/ Last-Wednesday of month series.
2/ Includes outstanding amounts of loans sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
NOTE: Data revised to reflect adjustments to June 30, 1974, Call Report benchmark.

SUPPLEMENTAL APPENDIX C*
SUGAR SUPPLY AND PRICE DEVELOPMENTS

After several years of relative stability, world sugar prices began to rise in 1970-71, but turned more sharply upward in recent months. On November 12 the U.S. sugar price was almost seven times its 1971 level and more than double the peaks reached during the Civil War and World War I periods. The world sugar price was 13 times its 1971 level. The longer term increase has resulted mainly from the failure of world production, though increasing, to keep pace with the more rapidly increasing world consumption. Expiration of the Sugar Act at the end of this year--the effect of which may be to reduce U.S. sugar production--is one of a number of special factors which has contributed to the most recent sharp price increases.

As shown in the accompanying table world sugar production has increased each year since 1970-71 and is well above average production in 1967-70. Production increased an average 1,537 million metric tons from 1970-71 through 1973-74 while disappearance increased an average 2,106 million metric tons. Year-end stocks as a percent of disappearance have declined from an average 30 percent during 1965-66 through 1969-70, to an expected 18 percent in 1974-75.

As world stocks of sugar declined the world sugar price increased in 1971 and 1972, but not until 1973 did the world price reach the previously stable but much higher U.S. sugar price. Until 1973, a world sugar surplus (stocks in excess of 20 percent annual usage) prevailed, and to protect the U.S. sugar industry, the domestic price had been kept high by limiting imports. When the world price reached the U.S. price level, then the two prices began to move together. The crops coincidence of the world and U.S. prices was one factor which contributed to an accelerated rate of increase.

Another factor triggering the recent faster rate of price increase has been the decision of Congress in June 1974 not to extend the Sugar Act. Since 1934 U.S. sugar producers have been protected from foreign competition by import quotas. Expiration of the Act on December 31, 1974, will remove the protection and this may result in less expansion in U.S. production than would otherwise occur. This is because harvest of a larger cane crop would not begin until two years after planting, and growers fear that prices may change enough by then that protection will again become a factor in the profitability of U.S. crops. However, before year-end the President is likely to

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implement quotas by proclamation and this would re-establish the protection desired by the high-cost domestic sugar producers.

Though world sugar production has been increasing, there have been some notably poor crops in recent years. The Russian sugarbeet crop, the largest source of world sugar supplies, was badly hurt in 1972, the same year their wheat crop was short. Also the recent U.S. and European sugarbeet crops were below last year. While these poor crops have had some effect, the main problem has been deficient expansion of beet and cane acreage.

A large Southern Hemisphere cane crop will be harvested early next year and this may cause a break in the sugar price. Recently large profits will induce expansion of sugar crop plantings, but the results will be slow because of the two years required for sugarcane to reach the harvest stage. Expansion in sugarbeet production may however bring some earlier price relief.

WORLD SUGAR BALANCE
1000 Metric Tons

Year	Production	Disappearance	Ending Stocks	Stocks % of Disappearance
1965-70	67,870	67,366	19,907	30
1970-71	72,771	75,052	19,081	25
1971-72	73,852	75,776	17,157	23
1972-73	77,173	78,536	15,794	20
1973-74	80,493	80,794	15,493	19
1974-75 (est.)	82,494	83,235	14,752	18