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Confidential (FR) CLASS II -- FOMC

# Part 2

November 12, 1975

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System

CONFIDENTIAL (FR)

November 12, 1975

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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 | | | Per Cent Change From | | |
|---|---|---|---|---|---|---|
| | Period | Release Date | Data | Preceding Period | Three Periods Earlier | Year Earlier |
| | | | | (At Annual Rates) | | |
| Civilian labor force | Oct. | 11-7-75 | 93.4 | 3.2 | 2.3 | 1.7 |
| Unemployment rate (per cent) | Oct. | 11-7-75 | 8.6 | 8.3 1/ | 8.4 1/ | 6.0 1/ |
| Insured unemployment rate (%) | Oct. | 11-7-75 | 5.7 | 5.8 1/ | 6.2 1/ | 3.6 1/ |
| Nonfarm employment, payroll (mil.) | Oct. | 11-7-75 | 77.5 | 3.4 | 4.2 | -1.6 |
| Manufacturing | Oct. | 11-7-75 | 18.5 | 7.0 | 9.6 | -7.3 |
| Nonmanufacturing | Oct. | 11-7-75 | 59.0 | 2.2 | 2.6 | .3 |
| Private nonfarm: | | | | | | |
| Average weekly hours (hours) | Oct. | 11-7-75 | 36.2 | 36.1 1/ | 36.0 1/ | 36.5 1/ |
| Hourly earnings ($) | Oct. | 11-7-75 | 4.62 | 4.60 1/ | 4.54 1/ | 4.34 1/ |
| Manufacturing: | | | | | | |
| Average weekly hours (hours) | Oct. | 11-7-75 | 39.8 | 39.8 1/ | 39.4 1/ | 40.0 1/ |
| Unit labor cost (1967=100) | Sept. | 10-29-75 | 148.9 | .8 | 1.3 | 9.9 |
| Industrial production (1967=100) | Sept. | 10-16-75 | 116.2 | 23.2 | 18.4 | -7.5 |
| Consumer goods | Sept. | 10-16-75 | 127.4 | 10.5 | 13.3 | -1.1 |
| Business equipment | Sept. | 10-16-75 | 116.6 | 15.6 | 9.5 | -11.9 |
| Defense & space equipment | Sept. | 10-16-75 | 83.6 | 16.0 | 3.4 | .6 |
| Materials | Sept. | 10-16-75 | 114.0 | 36.9 | 30.2 | -11.8 |
| Consumer prices (1967=100) | Sept. | 10-22-75 | 163.4 | 5.5 | 7.2 | 7.8 |
| Food | Sept. | 10-22-75 | 177.6 | 1.6 | 7.4 | 7.8 |
| Commodities except food | Sept. | 10-22-75 | 151.2 | 4.0 | 7.3 | 7.4 |
| Services 2/ | Sept. | 10-22-75 | 169.1 | 12.2 | 8.2 | 8.4 |
| Wholesale prices (1967=100) | Oct. | 11-6-75 | 180.4 | 21.3 | 12.8 | 5.1 |
| Industrial commodities | Oct. | 11-6-75 | 175.1 | 14.5 | 10.3 | 6.0 |
| Farm products & foods & feeds | Oct. | 11-6-75 | 193.8 | 20.1 | 12.8 | 2.9 |
| Personal income ($ billion) 3/ | Sept. | 10-20-75 | 1270.3 | 13.8 | 8.4 | 7.8 |
| | | | | (Not at Annual Rates) | | |
| Mfrs. new orders dur. goods ($ bil.) | Sept. | 11-3-75 | 42.3 | -.8 | 6.5 | -8.4 |
| Capital goods industries | Sept. | 11-3-75 | 12.3 | -1.5 | 1.7 | -9.3 |
| Nondefense | Sept. | 11-3-75 | 10.3 | -1.3 | 1.2 | -13.3 |
| Defense | Sept. | 11-3-75 | 2.0 | -2.9 | 4.2 | 18.5 |
| Inventories to sales ratio: | | | | | | |
| Manufacturing and trade, total | Aug. | 11-7-75 | 1.54 | 1.56 1/ | 1.62 1/ | 1.48 1/ |
| Manufacturing | Sept. | 11-3-75 | 1.70 | 1.72 1/ | 1.83 1/ | 1.67 1/ |
| Trade | Aug. | 11-7-75 | 1.36 | 1.35 1/ | 1.38 1/ | 1.32 1/ |
| Ratio: Mfrs.' durable goods inventories to unfilled orders | Sept. | 11-3-75 | .831 | .828 1/ | .846 1/ | .687 1/ |
| Retail sales, total ($ bil.) | Oct. | 11-11-75 | 50.0 | 1.0 | .6 | 9.0 |
| GAF | Oct. | 11-11-75 | 12.5 | -.5 | 1.4 | 6.3 |
| Auto sales, total (mil. units) 3/ | Oct. | 11-5-75 | 9.2 | 2.8 | .2 | 14.9 |
| Domestic models | Oct. | 11-5-75 | 7.8 | 7.3 | 3.2 | 21.3 |
| Foreign models | Oct. | 11-5-75 | 1.4 | -16.4 | -13.4 | -10.8 |
| McGraw Hill | 1976 | 11-3-75 | 123.45 | - | - | 8.8 |
| Housing starts, private (thous.) 3/ | Sept. | 10-17-75 | 1240 | -2.2 | 13.3 | 7.2 |
| Leading indicators (1967=100) | Sept. | 10-29-75 | 101.9 | -.9 | 2.5 | -2.3 |

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Signs of a slowing in the recent rapid pace of economic recovery have become prevalent in the last several weeks. In October, increases in industrial production and nonfarm employment were more modest than in earlier months. However, retail sales strengthened, and unit auto sales improved.

Liquidation of business inventories may now be at an end, and some accumulation seems likely in the fourth quarter. However, business capital spending remains depressed and the near-term outlook is questionable in view of the weakness in orders for nondefense capital goods. The longer-term outlook appears better if the private surveys of investment plans are adjusted for the downward bias generally experienced in the early periods of recovery.

Wholesale prices rose sharply in October, with both foods and industrials higher. Wage rates also increased substantially. However, recent declines in basic commodity prices and the cyclical improvement in unit labor costs stemming from rising productivity should help to moderate the increase in prices in the coming months.

Industrial production is estimated to have risen about 1/2 per cent in October--substantially less than the previous four monthly increases, in the 1 to 2 per cent range. Production of business equipment, which rose slightly in August and September, apparently edged down a bit in October reflecting weakness in output of heavy machinery and large trucks. Production of consumer goods other than autos--both durable and nondurable--continued to expand in October. Auto assemblies rose 3 per cent to a 7.7 million unit annual rate.

Production of materials appears to have risen a bit in October--mainly in nondurables. Output of raw steel was down about 5 per cent, following a 6-1/2 per cent rise in September prior to an October 1 price increase. Capacity utilization in major materials industries moved up only slightly as the drop in steel production nearly offset a strong increase in the nondurables in this group.

Total unit auto sales rose about 3 per cent to a 9.2 million unit annual rate; sales of domestic units rose to 7.8 million, annual rate--the highest level so far this year. Sales of foreign models declined from 1.7 million units to 1.4 million in October, possibly reflecting supply shortages. However, the initial impact of improved mileage of domestic autos and the new sub-compact recently introduced by General Motors may also have been factors. Retail sales, ex autos and nonconsumer items, rose about 1-1/4 per cent in October. Most of the increase came from the food group, reversing a previous dip in that category.

Indicators of business fixed capital spending continue to provide a mixed pattern. In September(p), new orders for nondefense capital goods declined for the second month in a row with orders received by the electrical machinery industries off sharply. On the other hand, contracts for commercial industrial buildings (measured in square feet) rose 16 per cent in September, reversing an 18 per cent drop in August. While this volatile series remains far below its recent highs, it may now have bottomed out. Much of the September increase was in the manufacturing sector which had been a source of weakness in recent months.

The recent McGraw-Hill survey of planned capital spending indicates a 9 per cent rise for 1976 following this year's 1 per cent gain in nominal terms. But McGraw-Hill also reports that respondents expected prices to increase by about 9 per cent, thus implying no gain in real investment. However, in past recoveries, private surveys have tended to underpredict spending increases by about 5-6 percentage points. All of the surveys now available suggest that the relative strength in 1976 will be centered in the nondurable manufacturing, electric utilities and communications sectors.

Liquidation of inventories appears to be coming to an end. The book value of retail trade inventories has risen from June to August. Wholesale trade inventories rose at a $2.3 billion annual rate in September, for the second month in a row. The decline in the book value of manufacturers' inventories in September was only $1.0 billion, annual rate, compared to the $6.2 billion annual rate decrease for the third quarter as a whole, and the $12.5 billion drop in the second quarter. Inventories of nondurable goods producers rose in September for the second consecutive month, while stocks of producers' durable goods continued to decline--but at a less rapid pace than before. Over half the September runoff was accounted for by producers of steel, where shipments surged in anticipation of the October 1 price hike.

Private housing starts in September held close to the August level and were up 17 per cent for the third quarter as a whole. Multi-family starts rose by more than a third--the first significant increase in almost three years--while starts of single-family dwellings advanced by about 12 per cent. Building permits rose in September and were up by 15 per cent in the third quarter, following a 30 per cent increase in the second. Outstanding mortgage loan commitments also advanced in September. These indicators suggest some further recovery of housing over the near-term. Additionally, the Administration has announced reactivation of an interest-rate subsidy program for low and moderate income families effective January 5, 1976.[1/]

Nonfarm employment continued to advance in October although the net increase (217,000) and the number of industries that increased employment (about 63 per cent of the 172 industries) were below that of other recent months. Nondurable manufacturing (up 82,000) and

1/ This program (FHA Section 235, revised) releases $264 million in previously appropriated funds for subsidizing mortgage interest payments on over 250,000 new or substantially rehabilitated dwellings. These HUD payments could reduce the homeowners' mortgage interest costs to as low as 5 per cent. While final regulations are not scheduled for release until January 1, 1976, units on which work was begun after October 17, 1975 could qualify under the program.

services (up 48,000) recorded the largest advances in October. Settlement of strikes accounted for over half of the 62,000 increase in State and local government employment. Average weekly hours were unchanged in manufacturing but rose slightly in trade, services and finance.

The total unemployment rate showed an increase of 0.3 to 8.6 per cent in October. Some or all of this increase appears to reflect seasonal adjustment problems. Use of an alternative seasonal adjustment technique, suggests little change over the month. Taking all programs into account, the number of insured unemployed continued to drift downward during October. However, initial claims for unemployment compensation remain relatively high, and have levelled off since July, after dropping sharply between February and June.

The average hourly earnings index, which adjusts for inter-industry shifts in employment and manufacturing overtime, rose 11 per cent (seasonally adjusted annual rate) in October, following a 3 per cent increase in September. When the monthly volatility in this series is smoothed out, it appears that the index has been rising at about an 8 per cent annual rate.

Wage rate adjustments in third quarter major collective bargaining agreements(which covered only 800,000 out of the 10.3 million workers under major contracts) averaged 10 per cent for the first contract year compared to about 11 per cent in the first half.

Settlements reached so far this year have provided slightly larger first-year wage gains than those negotiated during all of 1974.

Output per hour in the private nonfarm economy is estimated to have risen sharply in the third quarter (9.4 per cent at a seasonally adjusted annual rate)--the second consecutive quarterly gain and the largest increase since 1961. The third quarter movement is the result of a large--and possibly overstated--rise in overall output combined with a modest increase in hours worked. In manufacturing, productivity rose at an 8.9 per cent annual rate.

The sharp rise in private nonfarm productivity resulted in the first quarterly decline in unit labor costs since 1972. These costs fell at an 0.8 per cent annual rate in the third quarter, following a 1.9 per cent rate of increase in the second quarter and an average 13 per cent rise in the previous 5 quarters. Manufacturing unit labor costs also declined in the third quarter--by about 1 per cent, annual rate.

Wholesale prices rose 1.8 per cent, seasonally adjusted, in October to a level 5 per cent above a year earlier. Once again, the rise in the total index exceeded the rise of the component parts. Industrial commodities prices,which have been rising more rapidly in recent months, jumped 1.2 per cent in October following a 0.7 per cent September increase. While much of the more rapid October rise was due to introduction of new model cars, higher prices for metals--especially steel--along with textiles and fuel and power also were important. Prices of farm and food products rose sharply further, by 1.7 per cent, following a 2.3 per cent increase in September. Large increases occurred in dairy products, animal feeds and poultry. Since the mid-October pricing date there have been substantial declines in prices for many agricultural products.

The seasonally adjusted consumer price index rose 0.5 per cent in September as compared to 0.2 per cent in August. Prices of foods were about unchanged for the second month while nonfood commodities prices rose 0.3 per cent. Costs of services jumped 1 per cent, however, boosted partly by the rise in New York City transit fares. Costs of gas and electricity, fuel oil and medical services also rose rapidly.

The probability of a default by New York City now appears considerably greater than a month ago. In the event of a default, even if the city were allowed to bypass debt service payments, receipts from taxes and other sources would still fall short of spending needs by about $1.25 billion over the next 4 months. This excess in expenditures will require a massive round of expenditure cutting if some program of Federal aid is not enacted. And while this deficiency is small relative to the $227 billion total of State and local government spending, a retrenchment of spending outside of New York City is an increased likelihood because of constraints developing in financial markets. So far the reports of major impacts have been confined largely to the Northeast.

The staff is now projecting a unified Federal budget deficit of approximately $69 billion for FY 1976. The current estimate of outlays remains unchanged at $370 billion, and Federal tax receipts are now estimated at about $301 billion for FY 1976. Our estimates assume an extension of the current tax rate during 1976 and thus are to a large degree consistent with provisions recently adopted by the House Ways and Means Committee.

The Administration has recently revised the budget projections for FY 1976. The deficit for the current fiscal year is now estimated at about $69 billion, with receipts of $298 billion and outlays of approximately $367 billion. It should be noted, however, that the Administration estimates of receipts reflects the President's recent tax reduction proposals. Moreover, the revised outlay forecast assumes favorable Congressional action on $3.6 billion of previously proposed expenditure reductions. If these reductions are disallowed, the Administration forecast implies FY 1976 expenditures of $370 billion.

On a high employment basis, the staff is projecting a decline in fiscal stimulus from a deficit of about $36 billion (annual rate) in the second quarter of CY 1975 to one of $11 billion in the last half of the year. The full employment deficit continues at about this level in the first half of CY 1976.

These estimates reflect recent revisions in the calculation of the high employment budget, the details of which are discussed in the Greenbook Appendix B.

AUTO SALES
(Seasonally adjusted annual rates, in millions of units)

| | | | Domestic | | |
|---|---|---|---|---|---|
| | TOTAL | TOTAL | LARGE | SMALL | IMPORTS |
| 1974 QI | 9.0 | 7.5 | 4.8 | 2.7 | 1.6 |
| QII | 9.2 | 7.9 | 5.4 | 2.5 | 1.3 |
| QIII | 10.1 | 8.5 | 5.5 | 3.0 | 1.6 |
| QIV | 7.4 | 6.1 | 3.9 | 2.2 | 1.3 |
| Oct. | 8.0 | 6.4 | 3.9 | 2.5 | 1.6 |
| Nov. | 7.0 | 5.7 | 3.7 | 2.0 | 1.3 |
| Dec. | 7.2 | 6.1 | 4.0 | 2.1 | 1.1 |
| 1975 QI | 8.3 | 6.6 | 3.6 | 3.0 | 1.7 |
| QII | 7.9 | 6.3 | 4.1 | 2.2 | 1.6 |
| QIII | 9.2 | 7.5 | 4.5 | 2.9 | 1.7 |
| Jan. | 8.1 | 6.6 | 3.7 | 2.9 | 1.5 |
| Feb. | 9.2 | 7.2 | 3.6 | 3.6 | 2.0 |
| Mar. | 7.7 | 6.0 | 3.6 | 2.4 | 1.6 |
| Apr. | 7.3 | 5.7 | 3.8 | 1.9 | 1.6 |
| May | 7.7 | 6.2 | 4.1 | 2.1 | 1.5 |
| June | 8.7 | 7.1 | 4.5 | 2.6 | 1.6 |
| July | 9.2 | 7.5 | 4.6 | 3.0 | 1.7 |
| Aug. | 9.3 | 7.6 | 4.5 | 3.0 | 1.7 |
| Sept. | 8.9 | 7.2 | 4.5 | 2.8 | 1.7 |
| Oct. | 9.2p | 7.8 | | | 1.4 |

RETAIL SALES
(Percent Change from Previous Period)

| | 1975 | | | | | |
|---|---|---|---|---|---|---|
| | I | II | III | Aug. | Sept. | Oct. |
| Total | 2.5 | 3.4 | 3.8 | .5 | -.9 | 1.0 |
| Durable | 4.7 | 3.9 | 5.6 | .5 | -1.0 | .1 |
| Automotive | 6.1 | 4.6 | 7.3 | .2 | -2.2 | 1.0 |
| Furniture & appliances | -.7 | 4.9 | 2.0 | 1.4 | -.5 | -.8 |
| Nondurable | 1.6 | 3.1 | 3.0 | .6 | -.9 | 1.4 |
| Apparel | 5.0 | 3.3 | 3.5 | 4.7 | -2.2 | -.6 |
| Food | 2.9 | 1.2 | 2.8 | -1.0 | -1.8 | 3.3 |
| General merchandise | .3 | 5.5 | 1.9 | 2.4 | -.3 | -.5 |
| Gasoline stations | 1.2 | 2.7 | 6.6 | 1.1 | -.8 | .7 |
| Total, ex autos and nonconsumer items | 1.6 | 3.1 | 3.1 | - .7 | -.9 | 1.2 |
| GAF | 1.0 | 5.0 | 2.2 | 2.6 | - .7 | -.5 |
| Real* | .7 | 2.0 | 1.4 | .4 | -1.1 | n.a. |

* Deflated by unpublished BEA price measure.

Manufacturers' New Orders Durable Goods Industries
(Per cent change from prior month)

| | | Total Durable Goods | Nondefense Captial Goods |
|---|---|---|---|
| 1974: | Sept. | -6.0 | .2 |
| | Oct. | -3.9 | -3.8 |
| | Nov. | -3.8 | -6.7 |
| | Dec. | -10.8 | -1.5 |
| 1975: | Jan. | -5.0 | -3.7 |
| | Feb. | 3.3 | -1.1 |
| | Mar. | -3.7 | -4.5 |
| | Apr. | 8.4 | 8.3 |
| | May | 1.1 | -.1 |
| | June | .8 | -1.6 |
| | July | 4.9 | 5.8 |
| | Aug. | 2.4 | -3.1 |
| | Sept.(p) | -.8 | -1.3 |

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SURVEY RESULTS OF ANTICIPATED PLANT
AND EQUIPMENT EXPENDITURES
(Figures are percent change from prior year)

| | 1975 1/ | 1976 | | |
|---|---|---|---|---|
| | | McGraw Hill | Edie Survey 3/ | Rinfret-Boston Survey 3/ |
| All Industry | 1.0 | 8.8 | 2.9 | 11.7 |
| Manufacturing | 5.3 | 8.4 | 1.3 | 12.8 |
| Durables | -1.8 | 1.0 | -2.8 | 6.3 |
| Nondurables | 12.1 | 14.7 | 4.7 | 18.3 |
| Nonmanufacturing 2/ | -2.0 | 9.1 | 4.2 | 10.9 |
| Railroads | .9 | -2.0 | -6.2 | 23.9 |
| Other transportation | 11.2 | -1.1 | -34.5 | -27.1 |
| Electric Utilities | -3.3 | 13.0 | 15.6 | 18.1 |
| Gas Utilities | 9.9 | 32.1 | 23.0 | 33.9 |
| Communications | -4.9 | 7.0 | 6.2 | 4.6 |
| Commercial & Others | -6.5 | 5.0 | .1 | 7.2 |

1/ Results of BEA plant and equipment survey taken in late July and August.

2/ Includes industries not shown separately.

3/ These surveys were made available to the Board on a strictly confidential basis and their results should be restricted to internal use only

BUSINESS INVENTORIES
(Change at annual rates in seasonally
adjusted book values, $ billions)

| | 1975 | | | | |
|---|---|---|---|---|---|
| | I | II | III | Aug. | Sept. |
| Manufacturing and trade | -10.4 | -18.8 | n.a. | 18.4 | n.a. |
| Manufacturing | 3.2 | -12.5 | -6.2 | -7.3 | -1.0 |
| Durable | 7.6 | -4.3 | -8.3 | -11.9 | -5.8 |
| Nondurable | -4.5 | -8.2 | 2.1 | 4.6 | 4.8 |
| Trade, total | -13.6 | -6.3 | n.a. | 23.1 | n.a. |
| Wholesale | -4.1 | -2.7 | 3.4 | 10.2 | 2.3 |
| Retail | -9.4 | -3.6 | n.a. | 12.9 | n.a. |
| Auto | -8.3 | -1.7 | n.a. | 14.3 | n.a. |

INVENTORY RATIOS

| | 1974 | | 1975 | |
|---|---|---|---|---|
| | Aug. | Sept. | Aug. | Sept. |
| Inventory to sales: | | | | |
| Manufacturing and trade | 1.48 | 1.52 | 1.54 | n.a. |
| Manufacturing total | 1.63 | 1.67 | 1.72 | 1.70 |
| Durable | 2.04 | 2.08 | 2.29 | 2.23 |
| Nondurable | 1.19 | 1.22 | 1.15 | 1.16 |
| Trade, total | 1.32 | 1.36 | 1.36 | n.a. |
| Wholesale | 1.13 | 1.15 | 1.22 | 1.22 |
| Retail | 1.48 | 1.54 | 1.46 | n.a. |
| Inventories to unfilled orders | | | | |
| Durable manufacturing | .678 | .687 | .828 | .831 |

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

| | 1975 QI | QII | QIII | Aug. | Sept. (p) | Per cent change in Sept. from: Month ago | Year ago |
|---|---|---|---|---|---|---|---|
| Permits | .69 | .90 | 1.04 | 1.00 | 1.07 | + 8 | +26 |
| Starts | 1.00 | 1.07 | 1.25 | 1.27 | 1.24 | - 2 | + 7 |
| 1-family | .75 | .84 | .94 | .99 | .91 | - 8 | + 7 |
| 2- or more-family | .25 | .22 | .31 | .28 | .33 | +18 | + 7 |
| Under construction 1/ | 1.11 | 1.04 | n.a. | 1.05 | n.a. | + 1 2/ | -25 2/ |
| Completions | 1.39 | 1.22 | n.a. | 1.19 | n.a. | - 4 2/ | -25 2/ |
| MEMO: | | | | | | | |
| Mobile home shipments | .20 | .21 | .23 | .24 | .22 | - 9 | -17 |

1/ Seasonally adjusted, end of period.
2/ Per cent changes based on August.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(in thousands)

| | Employment (Oct. 1975) | Average Monthly Change Oct. 1974- Oct. 1975 | June 1975- Oct. 1975 | Sept. 1975- Oct. 1975 |
|---|---|---|---|---|
| Total nonfarm | 77,492 | -108 | +287 | +217 |
| Goods-producing | 22,675 | -158 | +111 | +100 |
| Construction | 3,387 | - 40 | - 1 | - 29 |
| Manufacturing | 18,518 | -121 | +105 | +108 |
| Service-producing | 54,817 | + 50 | +177 | +117 |
| Trade | 17,032 | - 10 | + 39 | - 10 |
| Services | 14,174 | + 31 | + 76 | + 48 |
| State and local government | 12,127 | + 43 | + 44 | + 62 |

SELECTED UNEMPLOYMENT RATES

(Seasonally Adjusted)

| | 1974 | 1975 | | |
|---|---|---|---|---|
| | Oct. | April | Sept. | Oct. |
| Total | 6.0 | 8.9 | 8.3 | 8.6 |
| Men 20 years and over | 4.3 | 7.0 | 7.0 | 7.1 |
| Women 20 years and over | 5.6 | 8.6 | 7.5 | 7.8 |
| Teenagers | 17.1 | 20.4 | 19.3 | 19.9 |
| Household heads | 3.7 | 6.0 | 5.7 | 5.9 |
| White | 5.5 | 8.1 | 7.6 | 7.9 |
| Negro and other races | 10.9 | 14.6 | 14.3 | 14.2 |
| State insured* | 3.6 | 6.8 | 5.8 | 5.7 |
| Industry | | | | |
| Construction | 12.0 | 19.3 | 19.2 | 17.9 |
| Manufacturing | 6.4 | 12.2 | 10.6 | 10.2 |
| Durable goods | 6.1 | 12.8 | 11.3 | 10.5 |
| Nondurable goods | 6.9 | 11.4 | 9.4 | 9.8 |
| Transportation and public utilities | 3.4 | 6.6 | 5.8 | 5.4 |
| Wholesale and retail trade | 6.8 | 9.1 | 8.7 | 8.8 |
| Finance and service industries | 4.8 | 6.6 | 6.3 | 7.1 |
| Government workers | 3.0 | 3.8 | 4.2 | 4.3 |

*per cent of covered workers

HOURLY EARNINGS INDEX*

(Seasonally adjusted; per cent change, annual rate not compounded)

| | Oct. 1974-<br>Oct. 1975 | Dec. 1975-<br>Oct. 1975 | Aug. 1975-<br>Oct. 1975 | Sept. 1975-<br>Oct. 1975 |
|---|---|---|---|---|
| Total private nonfarm | 8.2 | 8.2 | 7.2 | 11.1 |
| Manufacturing | 9.3 | 9.3 | 10.6 | 12.5 |
| Construction | 7.0 | 6.6 | 7.7 | 15.6 |
| Trade | 7.7 | 8.0 | 4.7 | 9.5 |
| Services | 7.5 | 7.1 | 8.0 | 13.1 |

*Excludes the effects of changes in manufacturing overtime and the distribution of employment among industries.

PRICE BEHAVIOR
(Per cent changes at annual rates; based on seasonally adjusted data)1/

| | Relative importance Dec. 1974 | Dec. 1973 to Dec. 1974 | Dec. 1974 to Mar. 1975 | Mar. to June 1975 | June to Sept. 1975 | Sept. to Oct. 1975 |
|---|---|---|---|---|---|---|
| | | | Wholesale Prices | | | |
| All commodities | 100.0 | 20.9 | -6.3 | 7.2 | 11.1 | 21.2 |
| Farm and food products | 29.1 | 11.0 | -27.6 | 17.0 | 26.8 | 20.1 |
| Industrial commodities | 70.9 | 25.6 | 4.2 | 2.6 | 7.3 | 14.5 |
| Materials, crude and intermediate2/ | 46.0 | 28.0 | 1.4 | 1.6 | 7.8 | 13.5 |
| Finished goods | | | | | | |
| Consumer nonfoods | 17.5 | 20.5 | 3.8 | 4.1 | 10.7 | 14.7 |
| Producer goods | 8.6 | 22.6 | 11.8 | 5.1 | 5.8 | 19.8 |
| Memo: | | | | | | |
| Consumer foods | 13.4 | 13.0 | -12.9 | 23.7 | 15.0 | 20.0 |
| | | | Consumer Prices | | | |
| | | | | | | Aug. to Sept. |
| All items | 100.0 | 12.2 | 6.0 | 7.1 | 7.3 | 5.5 |
| Food | 24.8 | 12.2 | -0.2 | 10.0 | 7.5 | 1.4 |
| Commodities (nonfood) | 39.0 | 13.2 | 7.4 | 5.9 | 7.5 | 4.0 |
| Services | 36.2 | 11.3 | 8.0 | 6.3 | 8.5 | 12.2 |
| Memo: | | | | | | |
| All items less food and energy3/4/ | 68.3 | 11.3 | 9.4 | 4.2 | 6.6 | 6.9 |
| Petroleum products3/ | 4.4 | 22.8 | -0.5 | 19.4 | 16.5 | -3.2 |
| Gas and electricity | 2.5 | 19.6 | 17.7 | 17.5 | 13.9 | 21.6 |

1/ Not compounded for one-month changes.
2/ FR estimate.
3/ Confidential -- not for publication.
4/ Energy items excluded: gasoline and motor oil, fuel oil and coal, and gas and electricity

## FEDERAL BUDGET
(In billions of dollars)

| | Fiscal Year 1975* | Fiscal Year 1976 e/ Admin. Est. 1/ | Fiscal Year 1976 e/ Cong. Est. 2/ | Fiscal Year 1976 e/ F.R. Board | Calendar Years 1974 Actual | Calendar Years 1975 FRBe/ | Calendar Quarters 1975 I* | 1975 II* | 1975 III* | F.R.B. Staff Estimates 1975 IV | 1976 I | 1976 II |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Federal Budget--Unified | | | | | | | Unadjusted data | | | | | |
| Surplus/deficit | -43.6 | -67.6 | -68.8 | -69.2 | -10.9 | -71.0 | -18.0 | -12.0 | -18.5 | -22.5 | -26.1 | -2.1 |
| Receipts | 281.0 | 299.0 | 298.2 | 300.8 | 280.5 | 281.6 | 65.1 | 76.1 | 72.3 | 68.1 | 66.2 | 94.0 |
| Outlays | 324.6 | 366.6 | 367.0 | 370.0 | 291.4 | 352.6 | 83.1 | 88.1 | 90.8 | 90.6 | 92.3 | 96.1 |
| Means of financing: | | | | | | | | | | | | |
| Net borrowing from the public | 50.9 | n.a. | n.a. | 75.9 | 11.8 | 82.5 | 19.4 | 16.6 | 23.5 | 23.0 | 23.5 | 5.9 |
| Decrease in cash operating balance | 1.6 | n.a. | n.a. | 1.6 | 4.5 | -1.6 | -.7 | -1.0 | -3.0 | 3.1 | 2.4 | -1.0 |
| Off-budget deficit 3/ | -9.5 | n.a. | n.a. | -9.8 | -3.6 | -11.8 | -5.3 | -2.5 | -.8 | -3.2 | -3.0 | -2.8 |
| Other 4/ | .6 | n.a. | n.a. | 1.6 | -1.7 | 1.9 | 4.6 | -1.1 | -1.2 | -.4 | 3.2 | -- |
| Cash operating balance, end of period | 7.6 | n.a. | n.a. | 6.0 | 5.9 | 7.4 | 6.6 | 7.6 | 10.5 | 7.4 | 5.0 | 6.0 |
| Memo: Sponsored agency borrowing 5/ | 10.8 | n.a. | n.a. | n.e. | 16.6 | 2.8 | .1 | -.2 | .8 | 2.1 | 2.0 | n.e. |
| NIA Budget | | | | | | | Seasonally adjusted, annual rates | | | | | |
| Surplus/deficit | -47.2p/ | n.a. | n.a. | -64.5 6/ | -8.1 | -71.8 | -54.4 | -103.2 | -66.8p/ | -62.8 | -62.9 | -61.7 |
| Receipts | 282.8 6/ | n.a. | n.a. | 313.4 6/ | 291.1 | 285.5 | 284.1 | 251.8 | 295.1p/ | 311.1 | 321.2 | 329.9 |
| Expenditures | 330.0p/ | n.a. | n.a. | 377.9 | 299.1 | 357.3 | 338.5 | 355.0 | 361.9p/ | 373.9 | 384.1 | 391.6 |
| High Employment surplus/deficit (NIA basis) 7/ 8/ | 3.8 | n.a. | n.a. | -10.8 | 18.8 | -12.0 | 10.2 | -35.9 | -10.0 | -12.4 | -11.2 | -9.4 |

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

1/ Revised estimates contained in Administration's FY 1977 Current Services Budget, November 10, 1975.
2/ Concurrent Budget Resolution, May 14, 1975.
3/ Deficit of off-budget Federal agencies, i.e., Federal Financing Bank, Postal Service, Export-Import Bank, Rural Electrification and Telephone revolving fund, Housing for the Elderly or Handicapped Fund, and Pension Benefit Guaranty Corporation.
4/ Checks issued less checks paid, accrued items, and other transactions.
5/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
6/ Quarterly average exceeds fiscal year total by $.6 billion for fiscal 1975 and $.9 billion for fiscal 1976 due to spreading of wage base effect over calendar year.
7/ Estimated by F.R. Board staff.
8/ The high-employment budget estimates now fully incorporate taxes on inventory profits beginning 1973.

# DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

| Indicator | | Latest data: Period | Latest data: Level | Net change from: Month ago | Net change from: Three months ago | Net change from: Year ago |
|---|---|---|---|---|---|---|
| **Monetary and credit aggregates** | | | | SAAR (per cent) | | |
| Total reserves 1/ | | October | 34.6 | -2.2 | -4.3 | -1.4 |
| Reserves available (RPD's) 1/ | | October | 32.7 | -2.6 | -2.7 | -1.6 |
| Money supply | | | | | | |
| M1 | | October | 293.9 | -2.9 | .5 | 4.4 |
| M2 | | October | 658.2 | 3.5 | 4.7 | 8.3 |
| M3 | | October | 1076.5 | 6.5 | 7.8 | 10.9 |
| Time and savings deposits (Less CDs) | | October | 364.3 | 8.6 | 8.2 | 11.8 |
| CDs (dollar change in billions) | | October | 81.3 | 2.2 | -.8 | -4.9 |
| Savings flows (S&Ls + MSBs + credit unions) | | October | 418.4 | 11.6 | 12.8 | 15.2 |
| Bank credit (end of month) | | October | *719.7 | 6.0 | 5.0 | 3.6 |
| **Market yields and stock prices** | | | Percentage or index points | | | |
| Federal funds | wk. endg. | 11/5/75 | 5.17 | -.89 | -.92 | -4.46 |
| Treasury bill (90 day) | " | 11/5/75 | 5.52 | -.80 | -.85 | -2.24 |
| Commercial paper (90-119 day) | " | 11/5/75 | 5.88 | -.95 | -.62 | -3.12 |
| New utility issue Aaa | " | 11/7/75 | 9.09e | -.51 | -.35 | .09 |
| Municipal bonds (Bond Buyer) | 1 day | 11/6/75 | 7.52 | .04 | .36 | 1.36 |
| FNMA auction yield | (FHA/VA) | 11/3/75 | 9.32 | -.63 | 0.00 | -.61 |
| Dividends/price ratio (Common stocks) | wk. endg. | 11/5/75 | 4.14 | -.08 | -.16 | .76 |
| NYSE index (12/31/65=50) | end of day | 11/11/75 | 47.52 | 3.16 | 1.37 | 7.75 |

| Credit demands | | Net change or gross offerings: Current month 1975 | Current month 1974 | Year to date 1975 | Year to date 1974 |
|---|---|---|---|---|---|
| Business loans at commercial banks | October | 1.6 | 1.8 | -4.5 | 27.7 |
| Consumer instalment credit outstanding | September | 1.1 | 0.7 | 1.1 | 13.1 |
| Mortgage debt outst. (major holders) | August | 3.4 | 3.0 | 25.4 | 32.7 |
| Corporate bonds (public offerings) | October | 2.3e | 3.4 | 29.1e | 20.1 |
| Municipal long-term bonds (gross offerings) | October | 2.2e | 2.9 | 25.9e | 20.3 |
| Federally sponsored Agcy. (net borrowing) | October | 1.5e | 2.3 | 1.9e | 15.5 |
| U.S. Treasury (net cash borrowing) | November | 4.8e | 4.5 | 76.3e | 6.7 |
| Total of above credits | | 16.9 | 18.6 | 155.2 | 1136.1 |

e - Estimated
1/ Data adjusted for changes in reserve requirements.
* Bank credit data revised to reflect adjustment to the June 30, 1975, Call Report.

## DOMESTIC FINANCIAL DEVELOPMENTS

The rallies in private and U.S. Government securities markets which began in early October have continued into November. Moreover, home mortgage rates in the primary market have edged down since the October FOMC meeting and yields in the secondary mortgage market have dropped sharply. Municipal bond yields, on the other hand, have risen in recent weeks to near-record levels. Developments in the municipal market have had some impacts on other financial markets as investor preference for quality has intensified.

$M_1$ declined at nearly a 3 per cent annual rate in October, while total consumer-type time and savings deposits at banks and non-bank thrift institutions rose somewhat more rapidly than in September. Nonfinancial businesses increased their borrowing at banks and reduced their borrowing in the commercial paper market by roughly equal amounts. Household demands for consumer and home-mortgage credit remained strong, and S&L's became somewhat less cautious about making mortgage commitments as the outlook for savings inflows improved.

Short-term securities markets. Yields on private short-term credit instruments generally have fallen 20 to 40 basis points since the October FOMC meeting, and those on Treasury bills have declined 35 to 65 points. From their late-September peaks, short-term rates have now dropped 75 to 150 basis points. This sustained rally reflects to a considerable extent adjustments to the decline in the Federal funds rate--which has fallen since early October from around

SELECTED FINANCIAL MARKET QUOTATIONS
(One day quotes--in per cent)

| | Nov. '74 FOMC Nov. 19 | Aug. FOMC Aug. 19 | Sept. FOMC Sept. 16 | Oct. FOMC Oct. 21 | Oct. 28 | Nov. 3 | Nov. 10 |
|---|---|---|---|---|---|---|---|
| Short-term | | | | | | | |
| Federal funds 1/ | 9.34 | 6.15 | 6.28 | 5.73 | 5.65 | 5.17 | 5.22 4/ |
| Treasury bills | | | | | | | |
| 3-month | 7.46 | 6.47 | 6.54 | 5.66 | 5.63 | 5.57 | 5.30 |
| 6-month | 7.37 | 7.00 | 7.04 | 6.04 | 5.94 | 5.78 | 5.52 |
| 1-year | 7.18 | 7.22 | 7.38 | 6.28 | 6.19 | 5.93 | 5.81 |
| Commercial paper | | | | | | | |
| 1-month | 9.13 | 6.38 | 6.63 | 5.75 | 5.50 | 5.63 | 5.38 |
| 3-month | 8.88 | 6.63 | 6.88 | 6.13 | 5.88 | 5.88 | 5.75 |
| Large neg. CD's 2/ | | | | | | | |
| 3-months | 8.63 | 6.85 | 7.05 | 6.38 | 6.13 | 6.38 | 6.20 |
| 6-months | 8.50 | 7.70 | 7.85 | 6.88 | 6.75 | 6.88 | 6.70 |
| Federal agencies | | | | | | | |
| 1-year | 8.04 | 7.99 | 7.99 | 7.17 | 6.84 | 6.53 | 6.50p |
| Bank prime rate | 10.75 | 7.75 | 8.00 | 8.00 | 7.75 | 7.75 | 7.50 |
| Long-term | | | | | | | |
| Corporate | | | | | | | |
| New AAA 1/ | 8.87 | 9.43 | 9.64 | 9.53 | 9.32 | 9.22 | 9.09p |
| Recently offered 3/ | 9.17 | 9.49 | 9.50 | 9.41 | 9.30 | 9.33 | 9.24p |
| Municipal (Bond Buyer) 3/ | 6.55 | 7.17 | 7.40 | 7.29 | 7.17 | 7.36 | 7.52 |
| U.S. Treasury (20-year constant maturity) | 7.93 | 8.53 | 8.71 | 8.26 | 8.25 | 8.19 | 8.17 |
| Stock prices | | | | | | | |
| Dow-Jones | 614.05 | 808.51 | 795.13 | 846.82 | 851.46 | 825.72 | 835.48 |
| N.Y.S.E. | 36.19 | 45.23 | 43.59 | 47.91 | 47.89 | 46.56 | 47.23 |

1/ Weekly average.
2/ Highest quoted new issues.
3/ One day quotes for preceeding Thursday.
4/ Average for first 6 days of statement week ending November 12.

6-3/8 per cent to around 5-1/4 per cent. In general, market participants have concluded that the drop in the funds rate reflects the System's response to the shortfall in the monetary aggregates and the uncertainty being generated by the New York City financial crisis. These developments, along with the recent indications of a slower pace of economic growth, have convinced many participants that credit demands accompanying the expansion in general economic activity are unlikely to produce significant upward pressures on interest rates over the remainder of this year.

The money markets have been appreciably affected by increased investor preference for quality. In the bill market, dealers report retail demand from buyers who normally invest in private short-term instruments.[1/] Dealers also report that some investors are shying away from the CD's of certain large New York City banks, and that yields on these instruments have risen relative to rates on CD's of major banks outside New York City. In the commercial paper market, where a substantial shift to the highest-rated paper occurred last year, some investors who in the past have preferred bank holding company obligations are reported to be moving into high quality non-bank-related paper.

Long-term securities markets. The general easing of money market conditions and the growing investor preference for less risky instruments has contributed to a further decline in yields in the Treasury coupon market. Shorter-term coupon yields have fallen 35

1/ The bill market also benefited from heavy buying by foreign central banks during October--nearly $1.4 billion net in the second half of the month. This was a sharp reversal of the equally heavy foreign selling that occurred in September.

to 50 basis points since the October FOMC meeting, returning to their mid-June levels, while longer-term rates have declined by 10 to 20 basis points. In the November refunding, which raised $1.1 billion of new money, the Treasury took advantage of the improved market conditions to lengthen its debt; it sold $2.5 billion of 7-year notes and $1.0 billion of a reopened 8-3/8 per cent bond due in nearly 25 years. The issues were well received, with an auction average of 8.23 per cent for the bond--21 basis points below the average when this issue was first auctioned 3 months earlier. Good progress has been made in the distribution of the notes, although the bond issue has been moving more slowly. Moreover, while the note yield has been falling since the auction, the yield on the bonds--which were bid for quite aggressively--has shown little change.1/

Gross issues of publicly-offered bonds by domestic corporations totaled $2.3 billion in October, a sizable increase from the $1.4 billion recorded in August as well as September. Although to some extent seasonal, the increase also was in response to the sharp decline in long-term bond yields that has occurred since the end of September. New issues by industrial corporations during October surpassed utility offerings for the first month since July, with non-prime issues (A-rated or below) accounting for nearly three-fifths of the aggregate volume. This larger than usual share of lower-rated

1/ Estimates of Treasury borrowing needs over the balance of the year remain unchanged from the October Greenbook, and Treasury financing is expected to be concentrated in bills. Estimated Federal agency requirements have been revised downward, due to expected reduced demands by housing-related agencies.

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

| | 1975 | | | | | |
|---|---|---|---|---|---|---|
| | H1 | QIII e/ | Sept. e/ | Oct. e/ | Nov. f/ | Dec. f/ |
| | | | Gross offerings | | | |
| Corporate securities--Total | 5,155 | 3,383 | 3,450 | 4,500 | 3,700 | 3,400 |
| Publicly-offered bonds | 3,556 | 1,833 | 1,400 | 2,300 | 1,800 | 1,600 |
| Utility | 1,005 | 740 | 810 | 875 | 900 | 800 |
| Industrial | 2,046 | 587 | 345 | 1,150 | 900 | 800 |
| Other | 505 | 506 | 245 | 275 | | |
| Privately-placed bonds | 650 | 733 | 1,000 | 700 | 700 | 1,000 |
| Stocks | 949 | 817 | 1,050 | 1,500 | 1,200 | 800 |
| Foreign securities 1/ | 382 | 408 | 300 | 102 | 950 | 300 |
| State and local government securities | | | | | | |
| Long-term | 2,543 | 2,789 | 2,112 | 2,246 | 1,800 | 1,700 |
| Short-term | 2,828 | 1,808 | 2,526 | 2,547 | 2,000 | 2,200 |
| | | | Net offerings | | | |
| U.S. Treasury 2/ | 6,010 | 7,817a/ | 8,463a/ | 12,000 | 4,800 | 6,200 |
| Sponsored Federal agencies | -20 | 291 | 28 | 1,267 | 146 | 502 |

e/ Estimated.
f/ Forecast.
a/ Actual.
1/ Includes issues of foreign private and official institutions.
2/ Total Treasury issues, including Federal Financing Bank.

issues implies that the corporate market has largely escaped any adverse spillover effect from recent municipal market developments.

Foreign bond offerings in domestic capital markets were quite small in October; however, they are expected to increase to a record $950 million during November in the wake of the recent decline in rates in U.S. bond markets. Canadian public and private corporations, which traditionally finance in the U.S. market, account for the bulk of this volume. New bond issues by domestic corporations are expected to fall to only $1.8 billion in November, due in part to the competition from foreign issues.

New stock offerings by corporations, buoyed by a $550 million issue by AT&T, totaled $1.5 billion during October--the largest volume in over two and one-half years. Public utilities continued to account for the bulk of these issues; a number of utilities have been restructuring their balance sheets, in many cases selling equities below book value. Major stock market price indexes have shown little over-all change since the October FOMC meeting. However, share prices of the major New York bank holding companies fell, on average, by approximately 6 per cent over this period as investors continued to be concerned about the impact on bank earnings of a New York City default and prospective losses on loans to REITs.

During the inter-meeting period, average yields on long-term municipal securities declined initially--along with other market rates. But recently, as a New York City default began to be viewed as a virtual certainty, municipal bond yields have moved up close to the historic highs of early October, reflecting a further increase in the differential between yields on highest-rated and lower-rated securities to an all-time high. The market for new higher quality municipal issues has continued to function fairly well and the volume of securities distributed has remained substantial.

<u>Monetary aggregates</u>. In October, $M_1$ declined on a daily average basis to about its August level, following three months of very slow growth. While weakness in the third quarter may have reflected in part portfolio adjustments in response to the earlier large spurt in demand deposits associated with tax rebates and special social security payments, the continuation of weakness into the fourth quarter has been puzzling. The recent pattern suggests that $M_1$ growth measured on a quarterly average basis will be relatively slow during the fourth quarter.

Growth of the more broadly defined money stock measures--$M_2$ and $M_3$--slowed slightly in October, but this was due primarily to the contraction in $M_1$. Expansion in time and savings deposits other than large CD's at commercial banks picked up somewhat. Growth in deposits at nonbank thrift institutions, which had been slowing from the record rates recorded in the first half of the year, was at about the same pace as in September. As market interest rates have declined, competitive pressure on thrift institutions from market instruments has eased; for example, noncompetitive tenders as a share of total tenders in the three Treasury note auctions held during October were sharply below the comparable ratios established in September's note auctions.

MONETARY AGGREGATES
(Seasonally adjusted changes)

| | 1975 H1 1/ | QII 1/ | QIII 1/ | Aug. | Sept. | Oct. | Twelve months ending October 1975p |
|---|---|---|---|---|---|---|---|
| | Per cent at annual rates | | | | | | |
| $M_1$ | 4.2 | 8.6 | 6.9 | 2.9 | 1.6 | -2.9 | 4.4 |
| $M_2$ | 8.5 | 11.2 | 10.4 | 5.9 | 4.8 | 3.5 | 8.3 |
| $M_3$ 2/ | 10.9 | 13.8 | 13.1 | 9.4 | 7.3 | 6.5 | 10.9 |
| Adjusted bank credit proxy | 4.8 | 5.2 | 1.4 | -5.5 | 6.7 | 4.7 | 4.0 |
| Time and savings deposits at commercial banks: | | | | | | | |
| a. Total | 9.1 | 5.2 | 4.9 | -4.6 | 9.1 | 13.3 | 8.1 |
| b. Other than large CD's | 12.3 | 13.3 | 13.2 | 8.1 | 7.7 | 8.6 | 11.8 |
| Deposits at nonbank thrift institutions: | | | | | | | |
| a. Savings and loan assocs. 3/ | 19.2 | 20.5 | 15.6 | 14.2 | 13.3 | 13.5 | 17.2 |
| b. Mutual savings banks 3/ | 12.9 | 14.9 | 9.5 | 10.1 | 7.2 | 6.5 | 10.5 |
| c. Credit unions | 20.6 | 22.5 | 17.3 | 19.4 | 17.7 | n.a. | 19.1 5/ |
| | Billions of dollars 4/ | | | | | | |
| Memoranda: | | | | | | | |
| a. U.S. Gov't demand deposits | .3 | 1.0 | -0.2 | 0.4 | 0.2 | -0.2 | -.1 |
| b. Negotiable CD's | -1.0 | -1.9 | -1.7 | -4.1 | 1.1 | 2.2 | -.4 |
| c. Nondeposit sources of funds | -.2 | .2 | -- | 0.2 | -- | 0.9 | -- |

1/ Except where otherwise defined, growth rates are based on changes in the average amounts outstanding for the period.
2/ $M_3$ is defined as $M_2$ plus credit union shares, mutual savings bank deposits, and shares of savings and loan associations.
3/ Based on month-end series.
4/ Changes in average levels month-to-month or average monthly change for the period, measured from last month in period to last month in period, not annualized.
5/ For the twelve months ending September 1975.
p - Preliminary.

The build-up in outstanding CD's which began in September, as some large banks acquired liquid assets for statement-date window dressing and to position themselves for adverse market responses to possible loan or security losses, ended after the first week in October. However, after mid-month, some large banks--particularly in New York City--sharply increased their borrowings from the Euro-dollar market as domestic money market participants became more reluctant to invest in their CD's. In recent weeks, many of the major institutions in New York City were extending the maturity of their managed liabilities by reducing borrowing from the overnight Federal funds market as well as by lengthening the maturity of CD issues and Euro-dollar borrowings.

Loan developments. Lending by commercial banks picked up substantially in October and accounted for all of the 6 per cent increase in total bank credit as holdings of securities by these institutions declined.[1/] Most major types of bank loans expanded, with commercial and industrial loans showing what appears to be the first significant rise since last year.[2/] Business loans at the largest banks continued to be relatively weak, although not so weak as in other recent months.

1/ Bank holdings of Treasury securities, which had been rising rapidly since January, dropped off in October. Strength in the "other securities" component at large banks was attributable mainly to a pickup in net acquisitions of Federally-sponsored agency issues early in the month. Moreover, some municipal tax warrants were acquired later in the month, in some cases substituting for holdings of agency securities.

2/ Growth in business loans outstanding would have been at an annual rate of about 11.4 per cent in the absence of large write-offs of loans to W.T. Grant in October.

COMMERCIAL BANK CREDIT [1]
(Seasonally adjusted changes at annual percentage rates)

| | 1975 | | | | | |
|---|---|---|---|---|---|---|
| | QI | QII | QIIIp | Aug.p | Sept.p | Oct. p |
| Total loans and investments[2] | 5.7 | 4.6 | 3.6 | 6.8 | 2.0 | 6.0 |
| U.S. Treasury securities | 79.5 | 95.0 | 26.0 | 36.0 | 23.8 | -31.1 |
| Other securites | .3 | 7.1 | 3.9 | 5.9 | -- | 14.2 |
| Total loans | -- | -6.7 | .2 | 2.7 | -.7 | 9.5 |
| Business loans[2] | -3.5 | -9.8 | -- | -.7 | -7.3 | 10.7 |
| Real estate loans | 3.1 | 1.2 | .3 | -- | .9 | 5.5 |
| Consumer loans | -6.7 | -6.8 | 5.4 | 3.0 | 7.4 | n.a. |
| MEMO: | | | | | | |
| Business loans plus non-financial commercial paper [3] | -1.6 | -12.1 | -.6 | .6 | -13.0 | 3.1 |

1/ Last Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, non-consolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.
3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.
p - Preliminary.
n.a. - Not available.
NOTE: Data shown, beginning in the first quarter of 1975, reflect revisions based on the June 30, 1975, Call Report; revisions are discussed in detail in Appendix A.

A substantial portion of the increase in commercial bank loans to business appears to reflect lending by smaller banks to firms which have inadequate internal funds and lack access to market financing.

Despite the sharp rise in bank loans to business, total short-term business credit outstanding increased only modestly in October as net issues of commercial paper by nonfinancial corporations declined by a substantial amount for the second consecutive month. Even though commercial paper rates have fallen by more than the bank prime rate since early October (the spread is currently 160 basis points), issuance of paper by nonfinancial businesses has remained limited due to reduced cash needs of these issuers. However, total commercial paper outstanding rose moderately in October as net issues by nonbank financial corporations--primarily finance company subsidiaries of auto companies and large retail stores--increased sharply.

Savings and loan associations have continued to dominate the private mortgage market despite some pickup in net mortgage lending at other depositary institutions. Although estimated new mortgage commitments at S&L's fell slightly in September, outstanding commitments increased further to the highest level in over 2 years. By mid-October, S&L's in as many as 4 FHLB Districts were reporting mortgage funds to be in short supply relative to demand, but the number has declined since then as conditions in the money and bond markets have continued to improve. Indeed, field reports indicate that the thrift institutions, which are in a strong liquidity position, have become more optimistic about the near-term course of deposit flows and less cautious about entering into new mortgage commitments.

Average interest rates on new commitments for conventional home mortgages at S&L's, which had been rising moderately since mid-August, have declined slightly since the last FOMC meeting. In the secondary market, average yields in FNMA's auctions of 4-month commitments to purchase home mortgages fell as much as 60 basis points in this period, after rising substantially during the previous 3 months. Demands for FNMA's commitments weakened considerably in the most recent auctions as market expectations about future mortgage yields were revised downward. Also, prices of GNMA-guaranteed mortgage-backed securities rose with bond prices generally, thus making FNMA a less attractive marketing alternative for originators of Government-underwritten mortgages. The decline in secondary mortgage market yields has relieved pressure on the Administration to increase the 9 per cent ceiling rate on FHA and VA loans.

New extensions of consumer instalment credit reached a record level in September, and the net increase in credit outstanding was the highest for the year--an annual rate of growth of $13 billion or more than 8 per cent. Credit unions have continued to account for the largest share of the expansion, although a sharp turnaround from earlier liquidation has occurred at commercial banks where credit outstanding expanded at an annual rate of about 7 per cent in September. Auto loans have paced the growth in total instalment credit, accounting for two-fifths of the September increase. Maturities on auto loans showed

## INTEREST RATES AND SUPPLY OF FUNDS FOR CONVENTIONAL HOME MORTGAGES AT SELECTED S&L's

| End of period | Average rate on new commitments for 80% loans (Per cent) | Basis point change from month or week earlier | Number of Federal Home Loan Bank Districts with funds in short supply |
|---|---|---|---|
| 1974--High | 10.03 | -- | 12 |
| Low | 8.40 | -- | 0 |
| 1975--High | 9.59 | -- | 10 |
| Low | 8.80 | -- | 0 |
| Oct. 3 | 9.20 | + 6 | 2 |
| 10 | 9.21 | + 1 | 3 |
| 17 | 9.21 | 0 | 4 |
| 24 | 9.25 | + 4 | 4 |
| 31 | 9.24 | - 1 | 2 |
| Nov. 7 | 9.17 | - 7 | 3 |

## FNMA AUCTIONS OF HOME MORTGAGE PURCHASE COMMITMENTS

| | Government-underwritten | | | Conventional | | |
|---|---|---|---|---|---|---|
| | Amount (In millions of dollars) | | Yield to FNMA | Amount (In millions of dollars) | | Yield to FNMA |
| | Offered | Accepted | | Offered | Accepted | |
| 1974--High | 1,155( 3/25) | 333 ( 3/25) | 10.59 (9/9) | 164 ( 4/8) | 63 ( 4/8) | 10.71 (9/9) |
| Low | 26(11/18) | 18 (11/18) | 8.43 (2/25) | 14 (10/21) | 7 (11/18) | 8.47 (3/11) |
| 1975--High | 643( 8/25) | 366 ( 8/11) | 9.95 (9/22) | 100 ( 4/7) | 51 ( 4/21) | 10.02 (9/22) |
| Low | 25( 2/10) | 18 ( 2/10) | 8.78 (3/10) | 11 ( 1/27) | 9 ( 2/10, 10/20) | 8.96 (3/10) |
| Oct. 6 | 199 | 143 | 9.95 | 28 | 24 | 10.02 |
| 20 | 43 | 23 | 9.65 | 10 | 9 | 9.81 |
| Nov. 3 | 70 | 42 | 9.32 | 20 | 15 | 9.54 |

NOTE: Average secondary market yields are gross before deduction of the fee of 38 basis points paid for mortgage servicing. They reflect the average accepted bid yield for home mortgages assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA commitment fees and FNMA stock purchase and holding requirements on 4-month commitments. Mortgage amounts offered by bidders relate to total bids received.

no further lengthening in September and interest rates on such loans at finance companies rose somewhat after holding steady for several months.

As the economic recovery has developed, consumers have been able to meet their debt obligations more readily. Personal bankruptcies declined 8 per cent during the third quarter, and were up only 9 per cent from a year ago--as compared with 30 per cent year-over-year increases in other recent quarters. At commercial banks, during the third quarter delinquency rates on instalment loans were well below the near-record levels which had prevailed early in the year.

CONSUMER INSTALMENT CREDIT

| | Change in outstandings (SAAR) ($ billions) | (Per cent) | Credit extensions Total, SAAR ($ billions) | Bank share (Per cent) | Open-end share* (Per cent) | New-car finance rates APR at finance companies (Per cent) |
|---|---|---|---|---|---|---|
| 1973 - I | 24.0 | 19.1 | 162.4 | 42.5 | 25.9 | 11.85 |
| II | 20.0 | 15.3 | 164.2 | 41.8 | 27.3 | 11.94 |
| III | 21.0 | 15.4 | 170.1 | 42.3 | 27.1 | 12.28 |
| IV | 15.3 | 10.9 | 164.4 | 42.3 | 28.5 | 12.42 |
| 1974 - I | 8.8 | 6.1 | 164.3 | 41.9 | 29.2 | 12.29 |
| II | 14.0 | 9.5 | 172.9 | 41.5 | 30.0 | 12.50 |
| III | 14.1 | 9.3 | 172.5 | 42.3 | 30.6 | 12.84 |
| IV | -3.2 | -2.1 | 155.7 | 41.1 | 33.2 | 13.10 |
| 1975 - I | -2.4 | -1.6 | 156.5 | 41.9 | 32.5 | 13.07 |
| II | .2 | .1 | 161.2 | 41.5 | 32.7 | 13.09 |
| III | 9.7 | 6.3 | 174.8 | 41.9 | 32.1 | 13.18 |
| July | 10.4 | 6.8 | 172.5 | 41.4 | 31.2 | 13.09 |
| Aug. | 6.0 | 3.9 | 172.3 | 42.1 | 32.6 | 13.10 |
| Sept. | 12.7 | 8.2 | 179.7 | 42.0 | 32.4 | 13.18 |

*Open-end credit consists of extensions on bank credit-card and check credit plans, and retail "other consumer goods" credit extensions.

# INTERNATIONAL DEVELOPMENTS

CONFIDENTIAL (FR)

IV - T - 1 November 12, 1975

U.S. International Transactions
(In millions of dollars; seasonally adjusted)

| | 1974 | 1975 | | | | |
|---|---|---|---|---|---|---|
| | YEAR | Q-1 | Q-2 | Q-3 | Aug.* | Sept.* |
| 1. Trade balance | -5,277 | 1,830 | 3,345 | 2,281 | 851 | 853 |
| 2. Merchandise exports | 98,309 | 27,188 | 25,694 | 26,899 | 9,014 | 9,158 |
| 3. Merchandise imports | 103,586 | 25,358 | 22,349 | 24,618 | 8,163 | 8,305 |
| 4. Net service transactions | 9,102 | 1,348 | 1,914 | | | |
| 5. Balance on goods and services 1/ | 3,825 | 3,178 | 5,259 | | | |
| 6. Remittances and pensions | -1,721 | -448 | -475 | | | |
| 7. Gov't grants and capital, net | -4,342 | -1,201 | -1,088 | | | |
| 8. Bank-reported private capital, net change | -2,534 | -5,415 | -4,190 | 3,336 | 1,772 | 195 |
| 9. Claims on foreigners (inc. -) | (-19,325) | (-3,756) | (-3,625) | (-786) | (19) | (-361) |
| 10. Short-term | -18,166 | -3,358 | -3,424 | -175 | 83 | -86 |
| 11. Long-term | -1,159 | -398 | -201 | -611 | -64 | -275 |
| 12. Liabilities to foreigners (inc. +) | (16,791) | (-1,659) | (-565) | (4,122) | (1,753) | (556) |
| 13. Long-term liabilities | 9 | -39 | -287 | -114 | -56 | 19 |
| 14. Short-term liabilities 2/ | 16,782 | -1,620 | -278 | 4,236 | 1,809 | 537 |
| 15. to commercial banks abroad | (12,636) | (-2,684) | (286) | (2,353) | (1,209) | (-58) |
| 16. (of which liab. to branches) 3/ | (2,349) | (-1,077) | (200) | (-540) | (3,280) | (-3,341) |
| 17. to other private foreigners | (2,851) | (202) | (104) | (678) | (523) | (232) |
| 18. to int'l & regional organizations | (1,295) | (862) | (-668) | (1,205) | (77) | (363) |
| 19. Private transactions in securities, net | -1,317 | -1,371 | -323 | -230 | -257 | -64 |
| 20. U.S. purchases (-) of foreign securities | (-1,989) | (-2,021) | (-1,001) | (-1,155) | (-362) | (-91) |
| 21. of which: New bond issues | -2,373 | -2,108 | -1,256 | (-1,267) | (-214) | (-178) |
| 22. Foreign purch. (+) of U.S. corp. securities | (672) | (650) | (678) | (925) | (105) | (27) |
| 23. Stocks | 544 | 958 | 895 | 1,270 | 441 | 240 |
| 24. of which by OPEC | (216) | (324) | (319) | (306) | (82) | (71) |
| 25. Bonds (includes U.S. Govt. agencies) | 128 | -308 | -217 | -345 | -336 | -213 |
| 26. U.S. direct investment abroad, (inc. -) | -7,455 | -1,041 | -2,001 | | | |
| 27. Foreign direct investment in U.S., (inc. +) | 2,224 | 340 | 623 | | | |
| 28. Nonbank-reported: liquid claims, (inc. -) | -133 | 318 | 102 | | | |
| 29. other claims, (inc. -) | -3,004 | 231 | -93 | | | |
| 30. liabilities, (inc. +) | 1,493 | 272 | 119 | | | |
| 31. Changes in liab. to foreign official agencies | 9,808 | 3,593 | 1,667 | -4,500 | -451 | -1,455 |
| 32. OPEC countries (inc. +) 3/ | 10,025 | 270 | 961 | 1,631 | 643 | 89 |
| 33. Other countries (inc. +) | -217 | 3,323 | 706 | -6,131 | -1,094 | -1,544 |
| 34. Changes in U.S. reserve assets (inc. -) | -1,434 | -326 | -51 | -342 | -68 | -261 |
| 35. Gold | -- | -- | -- | -- | -- | -- |
| 36. Special drawing rights | -172 | -5 | -38 | -25 | -- | -25 |
| 37. Reserve position in the IMF | -1,265 | -307 | -7 | -95 | -42 | -17 |
| 38. Convertible currencies | 3 | -14 | -6 | -222 | -26 | -219 |
| 39. Errors and omissions | 4,593 | 1,870 | 451 | | | |
| Memo: | | | | | | |
| 40. Official settlements balance, S.A. | | -3,267 | -1,616 | 4,842 | | |
| 41. N.S.A. | -8,374 | -2,220 | -1,203 | 3,011 | 519 | 1,716 |
| 42. O/S bal. excluding OPEC, S.A. | | -2,997 | -655 | 6,473 | | |
| N.S.A. | 1,651 | -1,950 | -242 | 4,642 | 1,162 | 1,805 |

*/ Not seasonally adjusted (except for merchandise trade data lines 1-3).
1/ Differs from "net exports" in the GNP account by the amount of special military shipments of Israel (excluding from GNP net exports).
2/ Includes transactions in U.S. Treasury bonds and notes.
3/ Not seasonally adjusted. p=preliminary.

<u>Foreign exchange markets</u>. In the four weeks since the last Greenbook the trade weighted value of the dollar has fluctuated within a very narrow band of less than one per cent, and on net has declined about 1/3 of a per cent. The dollar remains about 8 per cent above its level in early June and about 10 per cent above its March low.

The forces tending to depress and strengthen the dollar during the last month seem to have approximately canceled out. Among the factors tending to weaken the dollar were: the decline in U.S. interest rates and the expectation that this decline would continue in the near future; the financial difficulties of New York City; and the more rapid rise of U.S. wholesale prices. Factors tending to support the dollar included: the announcement of another sizeable U.S. trade surplus in September, discount rate cuts by Switzerland and Japan, the elimination of the German ban on the issue of mark-denominated bonds by foreigners, and net purchases of over $1.3 billion by foreign central banks.

The major purchaser of dollars during the past month was the Bank of France which acquired about $600 million to prevent the franc from appreciating against the mark. The central banks of Canada and Germany also bought dollars -- $250 million and $215 million respectively. No major central bank sold dollars on net during the month.

The System purchased and sold German marks during the month in small amounts that approximately canceled out.

Euro-dollar interest rates in the longer maturities followed U.S. CD rates in declining 1/4 to 1/2 of a percentage point in the latter part of October, but have changed little since then. Shorter maturity Euro-dollar rates fluctuated throughout the period, with little net change.

In the last month the price of gold has fluctuated in a narrow range between \$142 and \$147 per ounce. On November 12 it was \$143.40, just 65 cents above its level four weeks before.

International financial markets. According to World Bank data, publicized medium-term Euro-credits arranged in the third quarter amounted to \$4.9 billion, slightly exceeding the second-quarter level and well above the first-quarter volume despite seasonal factors tending to reduce third-quarter market activity. As shown in the accompanying table, the \$1.2 billion of loans arranged by borrowers in developed countries was 50 per cent greater than in the second quarter. The increase reflected larger borrowings by governments or firms in Britain, Ireland, and South Africa; these increases more than compensated for a reduction in French borrowings in the wake of French Government restrictions on the taking up of foreign credits. U.S. companies' recourse to the market was slightly less than in the two preceding quarters.

Credits arranged by non-oil developing countries showed another large increase in the third quarter, to \$2.6 billion, as Brazil, Greece, Mexico and Spain stepped up their borrowings. As in 1974, for the first nine months of 1975 Brazil and Mexico were by far the largest borrowers in this group, and their borrowings this year have been at a slightly

## Borrowing in International Financial Markets
(in millions of dollars)

| | 1974 Year | 1975 Q-1 | 1975 Q-2 | 1975 Q-3 | 1975 Jan-Sept. |
|---|---|---|---|---|---|
| I. Publicized Euro-credits 1/ | | | | | |
| A. Developed countries 2/ | 16,915 | 1,090 | 825 | 1,245 | 3,160 |
| Finland | 309 | 95 | 110 | 123 | 328 |
| France | 3,303 | 20 | 357 | 84 | 461 |
| Ireland | 321 | 53 | 4 | 250 | 308 |
| United Kingdom | 5,897 | 196 | 42 | 290 | 528 |
| United States | 1,439 | 148 | 168 | 138 | 454 |
| Others | 5,646 | 578 | 144 | 360 | 1,081 |
| B. Oil-exporting countries 2/ | 773 | 109 | 1,263 | 800 | 2,172 |
| Indonesia | 349 | 54 | 938 | 0 | 992 |
| Iran | 115 | 5 | 0 | 220 | 225 |
| Iraq | 0 | 0 | 0 | 500 | 500 |
| Others | 309 | 50 | 325 | 80 | 455 |
| C. Other developing countries 2/ | 8,833 | 1,099 | 1,964 | 2,588 | 5,650 |
| Brazil | 1,668 | 346 | 342 | 738 | 1,425 |
| Greece | 438 | 19 | 0 | 220 | 239 |
| Korea (South) | 264 | 245 | 56 | 0 | 301 |
| Mexico | 1,478 | 209 | 395 | 595 | 1,199 |
| Spain | 1,169 | 67 | 272 | 354 | 693 |
| Others | 3,816 | 213 | 899 | 681 | 1,793 |
| D. Other countries and international institutions | 2,103 | 594 | 794 | 241 | 1,629 |
| Total Euro-credits | 28,624 | 2,892 | 4,845 | 4,874 | 12,612 |
| II. Euro-Bonds (by currency of denomination) | | | | | |
| U.S. dollar | 3,079 | 845 | 924 | 1,574 | 3,343 |
| German mark | 644 | 1,244 | 1,080 | 399 | 2,723 |
| Other European | 422 | 302 | 376 | 140 | 818 |
| Composite and other | 366 | 164 | 441 | 349 | 954 |
| Total Euro-bonds | 4,511 | 2,555 | 2,821 | 2,461 | 7,837 |
| III. Foreign Bonds (by market country) | | | | | |
| United States 3/ | 2,373 | 2,109 | 1,212 | 1,267 | 4,588 |
| Switzerland | 986 | 542 | 703 | 825 | 2,070 |
| Other OECD | 642 | 192 | 596 | 302 | 1,090 |
| OPEC countries 4/ | 2,5[illegible]2 | 0 | 14 | 133 | 147 |
| Other | 0 | 0 | 0 | 50 | 50 |
| Total foreign bonds | 6,573 | 2,843 | 2,525 | 2,577 | 7,945 |

1/ Only credits of over one year maturity. Data are based on completions of loan arrangements and not on drawdowns.
2/ Includes only IBRD members. Allocation of countries to these groups follows IBRD practice.
3/ Balance of payments basis.
4/ Placements with monetary authorities.
Sources: IBRD; U.S. sources for bond issues in the United States.

higher rate than last year. Credits to oil exporters fell to $0.8 billion in the third quarter as Indonesia, which had borrowed nearly $1 billion in the first half, temporarily withdrew from the market, and negotiations for a large loan to Algeria were delayed. Iraq arranged a $500 million borrowing, its first in the medium-term Euro-credit market. Indonesia arranged a new $300 million loan last week. Borrowings by other countries, mostly in Eastern Europe, decreased in the third quarter; more recently, credits to Eastern Europe picked up again in October.

Lending spreads were little changed in the third quarter, and remained at 1-1/2 to 2 per cent over LIBO on the majority of credits although top quality borrowers have sometimes been able to borrow at a 1-1/4 per cent spread. Loan maturities remained almost exclusively in the 5 to 7 year range, but with some tendency toward lengthening.

In the international bond markets, new issue volume held up well in the third quarter considering the seasonal lull in August and the closing of the D-mark sector at the end of July. At that time the German Central Capital Markets Committee took action that effectively prohibited further D-mark issues by foreigners in either the Euro- or domestic bond market, in order to facilitate easier monetary conditions in Germany. This prohibition lasted until November 1. New Euro-bond issues in the third quarter came to $2.5 billion, not greatly below the first two quarters of the year. The proportion denominated in U.S. dollars rose sharply from 33 per cent in the second quarter to 64 per cent in the third; this resulted principally from the ban on D-mark issues which forced borrowers to choose other currencies, with the rise of the dollar on the exchange markets also being cited as a factor. D-mark issues were 16 per cent of the total, down from 38 per cent in the second quarter. There were no further SDR-denominated issues.

Euro-bond yields continued to show little change in July despite heavy new issue volume, but turned up in August and rose sharply in September as U.S. bond yields increased further. Yields on outstanding dollar Euro-bonds rose 50-75 basis points between end-July and end-September to their highest levels since the beginning of the year. Yields on D-mark issues underwent more moderate increases as the German policy move cut off the supply of new bonds. In the first half of October a decline in dollar bond yields reversed about one-fourth of the August-September rise, while D-mark yields were stable.

Foreign bond issues (i.e., foreign issues in national bond markets) amounted to $2.6 billion in the third quarter, about equal to the second quarter total. While issues in the German market were not possible after July, there was a resumption of placements with monetary authorities in OPEC countries (mainly consisting of the $100 million AT&T placement in Saudi Arabia) and new issues in Switzerland increased about $100 million. Foreign issues in the United States were nearly unchanged from the second quarter at $1.3 billion, of which close to $500 million by Canadian borrowers and $500 million by international organizations. As reported on page 10, a surge in Canadian issues is expected to raise sharply the total of foreign issues in the U.S. market in the fourth quarter.

U.S. International Transactions.

Major developments in U.S. international transactions in the third quarter of 1975 included 1) an upturn in the volume of both exports and imports and a continuation of the substantial trade surplus; 2) continued small net outflows through securities transactions as increased foreign purchases of U.S. stocks offset the high rate of foreign bond issues here; 3) a shift to net inflows through bank-reported private capital flows; 4) a large decline in liabilities to foreign official agencies of the non-OPEC countries, the first net outflow since the third quarter of 1974; and 5) a stepped-up rate of inflow from the OPEC countries. Partial data for October indicate an increase in U.S. liabilities to foreign official agencies and a decline in liabilities to private foreigners, reversing the third quarter pattern.

Based on actual data for merchandise trade and projections for net service transactions, it is estimated that the U.S. current account was in a strong surplus position in the third quarter. This surplus, together with large reported inflows of private capital which occurred mainly in response to a widening of differentials between U.S. and foreign interest rates, resulted in a rise in the value of the dollar in foreign exchange markets. The upward trend was, however, moderated -- and the inflow of private capital accommodated -- by an increase in the market supply of dollars arising from foreign central bank interventions to limit the depreciation of their currencies.

Merchandise trade. -- In the third quarter, the United States recorded its third consecutive quarterly surplus. The surplus of exports over imports was at a seasonally adjusted annual rate of $9.1 billion (balance of payments basis), down from the $13.4 billion rate in the second quarter but in line with the average in the first half of 1975.

U.S. MERCHANDISE TRADE

| | 1974 | 1975 I | II | III |
|---|---|---|---|---|
| | (billions of dollars, seasonally adjusted annual rates) | | | |
| Exports | 98.3 | 108.8 | 102.8 | 107.6 |
| Agricultural | 22.4 | 25.1 | 19.3 | 22.1 |
| Non-agricultural | 75.9 | 83.7 | 83.5 | 85.5 |
| Imports | 103.6 | 101.4 | 89.4 | 98.5 |
| Fuel | 27.4 | 27.9 | 24.6 | 30.1 |
| Non-fuel | 76.2 | 73.5 | 64.8 | 68.4 |
| Balance | -5.3 | +7.3 | +13.4 | +9.1 |
| Percent Changes from Preceding Period | | | | |
| Exports | | | | |
| Value | +37.7 | +2.2 | -5.5 | +4.7 |
| Price* | +27.0 | +3.4 | -.7 | -.6 |
| Volume | +8.4 | -1.1 | -4.9 | +5.2 |
| Imports | | | | |
| Value | +47.1 | -9.3 | -11.9 | +10.2 |
| Price* | +50.4 | +1.0 | +.9 | -3.5 |
| Volume | -2.2 | -10.3 | -12.6 | +14.1 |

* As measured by the unit value index.

Following substantial declines in the second quarter -- especially for imports -- U.S. exports and imports expanded in both value and volume.

The pickup in imports was more pronounced and, to some extent, appeared to reflect the upturn in U.S. economic activity. Although much of the export advance consisted of agricultural commodities, shipments of non-farm products also picked up. The latter development can, in part, be traced to a modest strengthening in business activity in Japan and Canada and the bottoming out of a cyclical contraction in other countries. Price movements in the third quarter reflected the worldwide sluggishness in demand: export prices, as measured by the unit value index, declined slightly again, while import prices dropped for the first time in many years.

The quarterly pattern of agricultural exports has shown wide swings this year. The recovery in the volume of shipments in the third quarter was stimulated by strong foreign demand stemming from a further reduction in supplies abroad -- the world grain stock/consumption ratio, for example, is estimated to have dropped by mid-1975 close to the extremely low 1972/73 level -- combined with large U.S. export availabilities. Even though labor disputes hampered the loading of grain shipments to the U.S.S.R., about one-fourth of the increase in farm exports represented shipments to that country.

The third quarter increase in nonagricultural exports was largely confined to transportation equipment -- automotive equipment to Canada and aircraft. Nevertheless, the volume of industrial materials shipments leveled off following four successive quarterly declines, and machinery exports flattened after they had fallen in both the first and second quarters.

Most of the third quarter advance in U.S. imports represented imports of nonfuel products -- particularly cars and foods -- which rose by 10.5 per cent in volume following five successive quarterly declines. The relatively strong pace of auto sales in this country stimulated imports of cars from both Canada and overseas suppliers. The increase in food imports was largely related to stepped-up arrivals of coffee as importers sought to build up inventories in anticipation of reduced supplies from frost-damaged Brazilian fields. Imports of industrial supplies fell again but at a lower rate than in the preceding quarter; most of the decline was concentrated in steel-mill products and related materials.

Imports of petroleum and products averaged a seasonally adjusted daily rate of 6.9 million barrels in the third quarter, up from 5.7 million in the second quarter. Stockbuilding in anticipation of a continued rise in U.S. industrial activity probably contributed to the pickup; inventories at the end of the September remained below levels reached a year ago, nonetheless. Some of the speed-up in arrivals, especially in September, occurred as oil companies scheduled a faster turnaround of tankers in order to move more oil out of producing areas prior to the October 1 price increase decreed by the OPEC countries.

Securities transactions. -- The net outflow of funds from the United States through securities transactions amounted to $230 million in the third quarter, somewhat below the second quarter rate. A notable development was the $400 million increase in foreign purchases of U.S.

corporate stocks. Foreign purchases were especially heavy early in the quarter but began tapering off in late August and September as market activity and stock prices declined in the United States. An especially large increase was recorded in the third quarter for Switzerland, some of which may have represented purchases in behalf of OPEC buyers. Direct OPEC purchases of U.S. corporate equities amounted to $300 million, about the same quarterly rate as in the first half. Indications are that foreigners stepped-up their stock purchases somewhat in October as the U.S. stock market moved up.

Although the third quarter total of $1.3 billion in foreign bond issues showed little change compared with the second quarter, foreign offerings declined in both August and September as borrowing conditions deteriorated and some issues were switched to the Euro-bond market and others postponed. The downward trend was reversed in October as U.S. interest rates began to decline; in October the value of new issues more than doubled to $400 million and those scheduled for November and December approach $1.6 billion. For 1975 as a whole foreign issues are estimated at over $6-1/2 billion, far above the previous record amount registered in 1974.

FOREIGN BOND ISSUES IN THE UNITED STATES
(millions of dollars)

| | | 1975 | | | | |
|---|---|---|---|---|---|---|
| | 1974 | I | II | III | IV^e | Yr^e |
| Total | 2,373 | 2,109 | 1,212 | 1,267 | 2,000 | 6,588 |
| Canada | 1,744 | 744 | 705 | 483 | 1,320 | 3,250 |
| International Organizations | -- | 875 | 75 | 500 | 150 | 1,600 |
| Other | 629 | 490 | 432 | 284 | 530 | 1,738 |

Bank-reported capital. -- In a sharp reversal of the first half 1975 pattern, bank-reported capital transactions shifted from large net outflows in the first two quarters to an inflow of $3.3 billion in the third. Underlying this development was the rapid rise in U.S. interest rates relative to those in most major financial centers; for example, rates on 60-89 day U.S. CD's averaged 78 basis points higher than in the second quarter while the Frankfurt interbank loan rate declined by 72 basis points. The impact of changes in interest rate differentials was evident on both U.S. claims and liabilities. The increase in claims was only $800 million -- the smallest quarterly growth of bank assets abroad in two years -- compared with outflows averaging $3.7 billion in the first two quarters. Following declines in the first and second quarters, bank-reported liabilities to private foreigners rose by $4.1 billion which approached the quarterly rate registered in 1974. In October, however, a renewed outflow was recorded.

Following a small increase in the second quarter, U.S. liabilities to foreign official agencies of the non-OPEC countries fell by an estimated \$4.3 billion (not seasonally adjusted) in the third quarter. The drawing down of these official dollar holdings largely reflected the foreign exchange support operations by a number of central banks -- particularly those of Japan, Germany, and Italy. Partial data for October indicate that, as the dollar began to weaken early in the month, central banks shifted to net dollar purchases in order to limit the appreciation of their currencies.

Liabilities to the OPEC countries continued to rise in September, and preliminary data for October show a further increase. In the third quarter, holdings of such dollar assets of the oil producing countries increased \$1.6 billion compared with only \$1.2 billion in the two previous quarters combined. If direct purchases of U.S. corporate securities are added to the \$1.6 billion and some allowance is made for the indirect acquisition of stocks through European investment houses, total OPEC placements of surplus earnings in the United States amounted to over \$2 billion in the third quarter.

Economic activity in major foreign countries. There seems to be a consensus among private and official forecasters that the cyclical decline in economic activity in major foreign industrial countries has ended -- or will end -- sometime this year, but that the recovery will be slow and uncertain. Signs of an upturn are already apparent in Japan and Canada, but evidence of an upturn is more difficult to find in Europe. Unemployment rates, which have increased sharply in most countries -- except in Japan and Italy -- are not expected to fall significantly for some time, because of the slowness of the recovery and the current underutilization of employed persons. Rates of inflation have generally diminished this year, but they still remain uncomfortably high in many countries and the outlook is for continued high inflation next year, with many countries expected to record price rises of close to or above double-digit rates.

In Japan, industrial production in September was 8 per cent above its low in February (rising in six out of the past seven months), as residential construction and public works have increased in response to stimulative actions by the Government. Inventories of finished goods rose in July and August after declining since last December; inventories of raw materials continued to increase in those two months. Latest data suggest that foreign demand for Japanese products has also increased recently, but other components of final demand -- especially business fixed investment -- have remained weak. In Canada, where the recession has been milder than in most other industrial countries, real GNP rose slightly in the second quarter of this year, and the monthly indicator of real domestic product was 1-1/2 per cent higher in August than at its low in March. Most indicators of activity in the manufacturing industries in Canada, such as shipments, new orders, and the inventory/shipments ratio, also showed gradual but steady improvement through August.

After declines in April-July, German industrial production (including construction) rose strongly in both August and September, although the third quarter average remained slightly below the second quarter, and well below the first. More significantly, new industrial orders in Germany (in volume terms) rose sharply in September. There now seems to be a clear uptrend in foreign orders since June; the trend in domestic orders was distorted by the need to place orders for investment goods prior to June 30 to qualify for a bonus, but latest figures show some strength in that series, as well.

In Italy, activity continues to be very weak, and there are no signs yet of an upturn. Inventories, according to recent surveys, are still considered by businessmen to be quite high. There is little hard evidence of recovery in France, either. Household consumption rose in the third quarter, unsold inventories of new housing are declining, and consumer confidence is thought to be picking up. But excess capacity, low profits, and weak cash flow are leading many firms to revise downward their investment plans for 1976.

In the United Kingdom, officials at the Bank of England and the Treasury have asserted, both publicly and privately, that the inventory liquidation has been largely completed. Latest available data show that the stock/output ratio in manufacturing was at an historically high level in the second quarter; this ratio has been high just before the recovery phases of previous cycles in Britain. The volume of retail sales increased moderately during May-September, but remains at a low level. Sterling advances to the private sector -- which had been flat -- showed some increase in October, with much of the lending going to the manufacturing industries.

Economic activity in the smaller European countries has recently been more sluggish than in the major countries, in contrast to 1974 and early 1975 when their performance was stronger. Since activity in the smaller countries tends to lag behind activity in the major countries -- because of the importance of exports in the former group of countries -- this relative sluggishness is expected to continue next year.

The recovery in OECD countries is generally expected to be fairly slow. In documentation recently prepared for a series of international meetings, the Secretariat of the OECD has forecast that real GNP in the six major foreign industrial countries will be only about 3 per cent higher in 1976 than in 1975 (see Table 1). These forecasts are presently being revised upward, taking into account the latest national forecasts, which are more optimistic. GNP in the smaller OECD countries is forecast to rise by only 1-1/2 per cent. By way of perspective, GNP in the six major foreign countries grew at an average annual rate of over 6-1/2 per cent from 1960 to 1973, while in the

Table 1. GROWTH OF REAL GNP IN MAJOR FOREIGN INDUSTRIAL COUNTRIES
(percentage changes from preceding period; SAAR)

| | Average 1960-1973 | 1974 | 1975[e] | 1976[e] | 1975 H1 | 1975 H2[e] | 1976 H1[e] | 1976 H2[e] |
|---|---|---|---|---|---|---|---|---|
| France[a/] | 5.9 | 3.9 | -2.0 | 2.5 | -5.0 | 2.3 | 2.7 | 2.5 |
| Germany | 4.9 | 0.4 | -4.1 | 3.0[b/] | -7.1 | 0.9 | 3.6[b/] | 4.0[b] |
| Italy[a/] | 5.6 | 3.2 | -4.5 | 1.0 | -5.7 | 0.2 | 0.8 | 2.2 |
| United Kingdom[a/] | 3.3 | 0.2 | -2.3 | -0.2 | -4.5 | -5.1 | 1.3 | 1.8 |
| Japan | 10.9 | -1.8 | 1.5 | 4.5 | -0.2 | 3.6 | 4.7 | 5.3 |
| Canada | 5.1 | 2.8 | -0.8 | 4.7 | -2.7 | 3.3 | 5.2 | 5.0 |
| Total of above[c/] | 6.7 | 0.8 | -1.7 | 2.9 | -4.0 | 1.4 | 3.4 | 3.8 |

e/ These forecasts, prepared by the Secretariat of the OECD, represent the mid-point of an approximately 3 percentage point range.
a/ GDP
b/ OECD forecasts of GNP growth in Germany in 1976 are being revised; these figures represent out best estimate of what the revised forecasts will be.
c/ 1974 weights and exchange rates.

smaller OECD countries the long-term average growth rate was 5-1/2 per cent. Only in Canada (and the United States) is the rate of growth in 1976 forecast to be close to its long-term average.

The moderate pace of the forecast recovery is attributable to the absence of any strong sector to sustain the upturn. With the exception of Canada, the slowing of inventory liquidation -- and possible rebuilding -- is the primary cause of the forecast upturn, and the stimulus from this source cannot be expected to continue for long. Private consumption expenditures, which generally led the downturn, are expected to strengthen (except in the United Kingdom), but unless saving rates fall significantly from their present very high levels (see below), such expenditures will not provide a major source of strength. The proposed increase in the value-added tax in Germany, scheduled for the beginning of 1977, might induce a buying spree in the second half of 1976, but only at the expense of 1977 expenditures. Private fixed investment has been especially weak, and, given the exceptionally high margins of excess capacity, is not likely to increase rapidly. Public expenditure has been the only component of aggregate demand that has generally continued to increase in 1974-75. But the need to finance the already huge public sector deficits and the fear of rekindling inflation are likely to inhibit further increases in government expenditures. Finally, the coincidence of weak aggregate demand in all the industrial countries means that no individual country can rely on external sources of demand to stimulate recovery. Financing difficulties that are expected to constrain the imports of non-oil-exporting developing countries also will contribute to the slow growth of world trade.

It should be stressed that current forecasts for real GNP are clouded by major areas of uncertainty. Principal among these is the outlook for personal saving behavior. If the rise in saving rates in most countries in recent years was induced by increasing rates of inflation, then one would expect some decline in saving rates next year in response to the slowing of price inflation that has already been observed. Similarly, if saving rates rose in an attempt to restore previous levels of real wealth that had been eroded by higher prices for goods and services and lower prices for financial assets, then the decline in interest rates this year, together with any increase in the stock of net liquid assets that may already have taken place, would also suggest a decline in saving rates. On the other hand, expectations of continued high or even rising levels of unemployment provide a precautionary motive to maintain high saving rates.

On balance, the OECD forecasts presented in Table 1 -- which assume, inter alia, that saving rates will remain essentially unchanged in most countries -- seem to be more pessimistic than most other private and official forecasts. Official national forecasts in the European countries, in particular, show rates of growth in 1976 considerably higher than those in Table 1; in addition to showing a general upward bias that they have exhibited in the past, these forecasts are based on assumptions of relatively strong growth of world trade and a decline in personal saving rates. FRB staff forecasts are in fairly broad agreement with the Secretariat's, although they show a somewhat higher growth rate for the United Kingdom.

All of these forecasts, however, imply that a considerable degree of underutilization of resources will persist for some time. Table 2 (below) represents an attempt to suggest the magnitude of the gap between actual GNP and potential GNP that is forecast for the second half of 1976. In this table the OECD Secretariat's forecasts of growth through the end of next year have been converted into an index based on the second half of 1973 -- a period of generally high employment. The resulting index for 1976H2 is then compared with two crude measures of potential GNP in that period. The first measure, labeled "potential," assumes simply that GNP could have increased from 1973H2 to 1976H2 at the same rate it increased on average in 1960-73 (see the first column of Table 1). The second measure, labeled "adjusted potential," assumes that historic growth rates are no longer feasible and that feasible growth rates are 1 percentage point below long-term growth rates for all countries except Japan, where the feasible growth rate is 4 percentage points below the long-term average. The lowering of feasible growth rates for 1974-1976 reflects the loss of income and the costs of adjustment associated with a sharply different set of relative prices (i.e., higher oil prices); it also allows for the possibility that the low levels of unemployment in 1973H2 were not sustainable, i.e. that economies were above their long-run non-inflationary growth paths.

Table 2. GNP "GAP" IN MAJOR FOREIGN COUNTRIES

| | Level of GNP(1973H2 = 100) | 1976H2 | | | Gap of forecast GNP in 1976H2(per cent) | |
|---|---|---|---|---|---|---|
| | 1975H2 a/ | Forecast a/ | Potential b/ | Adjusted Potential b/ | From Potential b/ | From Adjusted Potential b/ |
| France c/ | 100.7 | 103.3 | 118.8 | 115.4 | -13.0 | -10.5 |
| Germany | 96.0 | 99.7 | 115.4 | 112.2 | -13.6 | -11.1 |
| Italy c/ | 95.9 | 97.3 | 117.8 | 114.4 | -17.4 | -14.9 |
| United Kingdom c/ | 96.2 | 97.7 | 110.2 | 107.1 | -11.3 | -8.8 |
| Japan | 100.3 | 105.4 | 136.4 | 122.2 | -22.7 | -13.7 |
| Canada | 103.0 | 108.3 | 116.1 | 112.8 | -6.7 | -4.0 |
| Total of above d/ | 98.7 | 102.2 | 121.6 | 115.2 | -15.6 | -11.2 |

a/ Based on forecasts prepared by the OECD Secretariat (see Table 1.)
b/ See accompanying text for an explanation of the GNP gaps shown in this table.
c/ GDP
d/ 1974 weights and exchange rates.

The results of this exercise, even allowing for its crudeness, suggest that a very large gap between actual and potential GNP -- of over 10 per cent -- will remain at the end of next year. Although the gaps shown in Table 2 have been calculated on the basis of OECD forecasts for growth in 1976, which are on the lower end of the range of current forecasts, similar calculations based on the very optimistic forecasts of the national authorities would tell substantially the same story.

## APPENDIX A *
## Bank Credit Revision

The commercial bank credit figures used in this month's analysis of financial developments reflect revisions based on the June 30, 1975, Call Report. This Appendix explains the effects of the revisions on our previous estimates.

According to the June Call Report data, growth in commercial bank credit was somewhat larger over the first half of 1975 than the partially estimated data had indicated. The annual rate of growth in total loans and investments was 5.1 per cent over the January-June 1975 period compared with an estimated 3.4 per cent as shown in Table 1, and was revised upward in both the first and second quarters. The new higher total credit level over the first half reflects larger than estimated holdings of total loans and "other" (than U.S. Treasury) securities offset in part by lower than estimated levels of U.S. Treasury securities, as shown in Table II.

There were two sources of error involved in the original monthly estimates of commercial bank credit:

1) Nonmember bank figures for both loans and "other" securities were initially estimated too low. These estimates were derived by applying nonmember/country member bank ratios of these items to loan and investment levels from the December 1974 Call to total loans and investments reported monthly by country member banks. The June 1975 Call ratios were higher than those for December reflecting more rapid growth in these credit items at nonmember banks than at country member banks. Actually, loans declined at country banks while increasing slightly at nonmember banks. In the case of U.S. Treasury securities, however, the June ratio was lower than the December ratio indicating somewhat less rapid growth at the nonmember banks relative to the country banks. The resulting revision of nonmember estimates added $3.9 billion to loans, and $1.2 billion to "other securities" and subtracted $0.7 billion from U.S. Treasury securities as of June 30, 1975. These revisions in nonmember bank shares of loans and investments in June were allocated to earlier months back to January 1975 and carried forward in monthly estimates subsequent to June 1975.

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* Prepared by Mary Jane Harrington, Economist, Banking Section, Division of Research and Statistics.

2) "Window-dressing" estimates were too low. An estimate of the difference in levels between the last-Wednesdays of June and December and the Call dates (termed "window-dressing") must be made and incorporated in the series except for the rare instances when the last-Wednesday dates coincide with the Call dates. Between Wednesday, June 25, and the June 30, 1975 Call date, the actual amount of "window-dressing" was $1.5 billion higher than estimated for loans, $0.3 billion for "other" securities, and $0.1 billion for U.S. Treasury securities. Therefore, the ratio errors in the basic series noted above in (1) stemming from changes in the ratios of nonmember to country member bank assets were augmented by these amounts. However, the "window-dressing" errors affect only the monthly changes involving June, i.e., the larger increases or smaller declines in June were followed by correspondingly smaller increases or larger declines in July.

There are two other sources of error that may be involved in original monthly estimates but neither contributed directly to changes in the June 1975 levels. From time to time, estimating errors in levels of domestic interbank loans have been large and have added considerably to total errors but these loans were estimated only nominally too high in June 1975 and did not constitute a significant source of error in the series. Interbank loans, estimated initially for nonmember banks on the basis of the December 1974 nonmember/country member bank ratio, were subtracted from total loans to derive "loans adjusted", the concept used in the Board's seasonally adjusted series.

Also there may be errors in the original reported member bank data which are incorporated into the credit series. And since nonmember estimates are based on country member bank reports, the nonmember bank levels would correspondingly be in error. However, the volume of error in such reporting cannot be determined for June 1975; it can only be determined when the last-Wednesday of June or December happens to be a Call date. Data for past available dates have indicated that reporting errors do occur and in some cases, have been fairly substantial.

Among the major loan categories, business loans were $1.1 billion higher on the June Call than had been estimated while real estate loans were $0.4 billion lower. Consumer loans, which are a part of consumer credit reports, were not affected by the benchmark revision. However, it should be noted that there are no all member bank reports for classes of loans, these figures are available from large commercial weekly reporting banks only. Estimates for other commercial banks are made largely on the basis of the movement of total loans at the smaller banks, the trend of business and other loans as indicated by the most recent Call Report, and patterns for previous years established in the monthly benchmarking of the series. Over the first half of 1975, business loans declined at an annual rate of 6.6 per cent compared with an estimated 7.7 per cent while real estate loans increased at an annual rate of 2.2 per cent compared with an estimated 2.6 per cent.

Levels of loans to nonbank financial institutions and to brokers and dealers in securities (not shown on the tables) were the same on the June Call as had been estimated. Ordinarily these loans change little between Calls at nonweekly reporting banks where the volumes outstanding are very small compared with those at weekly reporting banks. However, incorrect estimates for "window-dressing" at the large banks have produced substantial errors for some past dates. Agricultural loans, which are concentrated at the smaller banks, were also the same on the Call as had been estimated. On balance, $4.6 billion of the $5.4 billion estimating error in total loans was in the residual "all other loans."

In the July-September period, the new higher ratios established from the June Call Report were used to derive revised estimates for nonmember banks, and the estimated level of the commercial bank credit series was raised accordingly. Over the third quarter of 1975, total loans and investments were estimated to have increased at an annual rate of 3.6 per cent compared with 4.8 per cent indicated earlier. 1/ Growth in all major credit categories was slightly smaller on the revised basis than on the original basis except for business loans which showed no change compared with a small decline shown previously. All data subsequent to June 1975 are subject to further revision when the December 1975 Call Report becomes available.

1/ Growth rates were lower in the third quarter even though the estimated levels for July, August, and September were raised because the upward revision for June was greater than in subsequent months due to the one-month effect of window-dressing errors.

Table 1
Commercial Bank Credit 1/
Comparison of Old and Revised Rates of Growth
(Seasonally adjusted changes at annual percentage rates)

| | Total loans and investments 2/ | | U.S. Treasury securities | | Other securities | | Total loans | | Business loans 2/ | | Real estate loans | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Old | Revised | Old | Revised | Old | Revised | Old | Revised | Old | Revised | Old | Revised |
| 1975--1st Half | 3.4 | 5.1 | 99.2 | 96.7 | 1.7 | 3.7 | -5.5 | -3.3 | -7.7 | -6.6 | 2.6 | 2.2 |
| 1st Qtr. | 4.3 | 5.7 | 81.1 | 79.5 | -1.4 | .3 | -1.5 | -- | -4.5 | -3.5 | 3.7 | 3.1 |
| 2nd Qtr. | 2.3 | 4.6 | 97.4 | 95.0 | 4.9 | 7.1 | -9.5 | -6.7 | -10.9 | -9.8 | 1.5 | 1.2 |
| 3rd Qtr. p | 4.8 | 3.6 | 26.8 | 26.0 | 4.5 | 3.9 | 1.6 | .2 | -1.8 | -- | .9 | .3 |
| Jan. | 3.5 | 4.7 | -- | -2.5 | -2.6 | -.9 | 5.5 | 6.9 | 8.4 | 9.7 | 5.5 | 4.6 |
| Feb. | 2.8 | 4.3 | 110.7 | 110.9 | 2.6 | 4.3 | -7.6 | -5.9 | -11.6 | -10.3 | 2.7 | 1.8 |
| March | 6.7 | 7.9 | 121.6 | 119.5 | -4.3 | -2.6 | -2.4 | -1.0 | -10.4 | -9.7 | 2.7 | 2.8 |
| April | 2.4 | 3.4 | 118.6 | 112.8 | -2.6 | -.9 | -9.8 | -8.1 | -4.6 | -3.3 | 2.7 | 2.7 |
| May | 3.8 | 5.1 | 80.0 | 78.8 | 5.2 | -.9 | -6.5 | -5.0 | -9.9 | -8.5 | .9 | -- |
| June | .9 | 5.1 | 73.3 | 73.9 | 12.0 | 14.5 | -12.4 | -7.0 | -18.6 | -17.8 | .9 | .9 |
| July p | 5.3 | 2.0 | 16.4 | 16.6 | 8.5 | 5.9 | 2.7 | -1.2 | 4.0 | 8.0 | .9 | -- |
| Aug. p | 6.8 | 6.8 | 37.3 | 36.0 | 5.1 | 5.9 | 2.7 | 2.7 | -1.3 | -.7 | -- | -- |
| Sept. p | 2.2 | 2.0 | 25.2 | 23.8 | -- | -- | -.7 | -.7 | -8.1 | -7.3 | 1.8 | .9 |

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank) and nonconsolidated nonbank subsidiaries of holding companies.
NOTE: Data revised to reflect adjustment to June 30, 1975, Call Report benchmarks.
p - Preliminary.

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

| | Total loans and investments 2/ | | U.S. Treasury securities | | Other securities | | Total loans | | Business loans 2/ | | Real estate loans | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Old | Revised | Old | Revised | Old | Revised | Old | Revised | Old | Revised | Old | Revised |
| 1975--January | 693.9 | 694.6 | 48.8 | 48.7 | 139.8 | 140.0 | 505.3 | 505.9 | 186.6 | 186.8 | 130.8 | 130.7 |
| February | 695.5 | 697.1 | 53.3 | 53.2 | 140.1 | 140.5 | 502.1 | 503.4 | 184.8 | 185.2 | 131.1 | 130.9 |
| March | 699.4 | 701.7 | 58.7 | 58.5 | 139.6 | 140.2 | 501.1 | 503.0 | 183.2 | 183.7 | 131.4 | 131.2 |
| April | 700.8 | 703.7 | 64.5 | 64.0 | 139.3 | 140.1 | 497.0 | 499.6 | 182.5 | 183.2 | 131.7 | 131.5 |
| May | 703.0 | 706.7 | 68.8 | 68.2 | 139.9 | 141.0 | 494.3 | 497.5 | 181.0 | 181.9 | 131.8 | 131.5 |
| June | 703.5 | 709.7 | 73.0 | 72.4 | 141.3 | 142.7 | 489.2 | 494.6 | 178.2 | 179.2 | 131.9 | 131.6 |
| July p | 706.6 | 710.9 | 74.0 | 73.4 | 142.3 | 143.4 | 490.3 | 494.1 | 178.8 | 180.4 | 132.0 | 131.6 |
| August p | 710.6 | 714.9 | 76.3 | 75.6 | 142.9 | 144.1 | 491.4 | 495.2 | 178.6 | 180.3 | 132.0 | 131.6 |
| September p | 711.9 | 716.1 | 77.9 | 77.1 | 142.9 | 144.1 | 491.1 | 494.9 | 177.4 | 179.2 | 132.2 | 131.7 |

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank) and nonconsolidated nonbank subsidiaries of holding companies.
NOTE: Data revised to reflect adjustment to June 30, 1975, Call Report benchmarks.
p - Preliminary.

## APPENDIX B

### THE FULL EMPLOYMENT BUDGET: AN ADJUSTMENT IN PROCEDURE*

For some time, the staff has recognized the need to modify its calculation of the full-employment budget in order to make our estimates of this measure more representative of recent economic experiences. The issues which demanded attention most urgently were (a) the degree of responsiveness of personal tax rates to rising levels of nominal income (calculated at full-employment), and (b) the appropriate adjustment to unemployment benefits for the impact of high levels of unemployment. The revisions adopted by the staff are generally consistent with those adopted by other government agencies which produce estimates of the full-employment budget.

Previously, the tax rates used by the staff in calculating personal taxes at full-employment had implied that, due to the progressive structure of personal tax rates, a 1 per cent rise in full-employment income would be accompanied by roughly a 1.25 per cent increase in personal taxes. However, recent economic studies have indicated that the sensitivity of personal taxes to rising incomes is actually greater, especially during periods of high rates of inflation. Accordingly, the staff is now assuming a faster growth in effective personal tax rates which results in an annual increase of 1.4 per cent in personal taxes for each 1 per cent rise in full-employment income during the forecast period.

On the expenditure side, the calculation of the full-employment budget required an adjustment to take account of the fact that the observed level of unemployment benefits would be much lower if the economy were operating at full capacity. In the past, full-employment outlays were derived by reducing actual outlays by $1.4 billion for each percentage point the unemployment rate exceeded 4 per cent. However, a study by the staff of the Council of Economic Advisors indicates that, while this dollar adjustment was approximately correct for 1974, it should be increased to $1.8 billion in 1975 and $2.3 billion in 1976. These larger adjustments reflect (a) increases in average weekly benefits and the number of eligible persons, and (b) extensions in the number of weeks an individual is eligible for benefits.

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* Prepared by Frank Russek, Economist, Government Finance Section, Division of Research and Statistics.

The following table shows the full-employment budget estimated both with and without the staff's revisions. It should be noted that our new approach is more consistent with that of the Council of Economic Advisors and the Joint Economic Committee, but that the estimates may still differ due to different assumptions regarding the path of expenditures and the projected rate of inflation. Using 1967 GNP as a base, our estimates as well as those provided by other analysts assume a constant 4 per cent growth rate for the potential path of real GNP which presumably would yield an unemployment rate of around 4 per cent over the long run. 1/ If one were to assume that a higher unemployment rate of 5 or 5-1/2 per cent represented a non-inflationary state of full-employment, the level of capacity GNP would be lower. However, the staff has not adopted such an assumption since the growth rate of capacity GNP would be affected very little, and hence, the period-to-period changes in the full-employment budget would not differ by much. Also, the assumption of a higher unemployment rate for full-employment calculations would make our method inconsistent with that of other government agencies.

Full Employment Budget
(surpluses (+) and deficits (-) expressed in billions of dollars)

| Period | Current Estimates | Unrevised Estimates |
|---|---|---|
| 1974--I | 14.4 | 14.0 |
| II | 19.9 | 19.6 |
| III | 25.1 | 24.7 |
| IV | 15.7 | 15.0 |
| 1975--I | 10.2 | 11.0 |
| II | -35.9 | -36.2 |
| III | -10.0 | -11.5 |
| IV | -12.4 | -14.9 |
| 1976--I | -11.2 | -15.7 |
| II | -9.4 | -15.1 |
| III | -9.8 | -16.0 |
| IV | -11.2 | -18.5 |

1/ The 4 per cent growth in potential GNP reflects an assumed 1.8 per cent growth in the labor force, a .3 per cent decrease in annual hours worked, and a 2.5 per cent rise in output per man-hour when the economy is operating at its potential.