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Confidential (FR) CLASS II — FOMC

Part 2

December 10, 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

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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	Nov.	12-5-75	93.0	-6.0	-.7	1.4
Unemployment rate (per cent)	Nov.	12-5-75	8.3	8.6 1/	8.4 1/	6.6 1/
Insured unemployment rate (%)	Nov.	12-5-75	5.5	5.7 1/	5.8 1/	4.3 1/
Nonfarm employment, payroll (mil.)	Nov.	12-5-75	77.5	.6	2.7	-1.1
Manufacturing	Nov.	12-5-75	18.5	.1	5.3	-5.8
Nonmanufacturing	Nov.	12-5-75	59.1	.8	1.9	.5
Private nonfarm:						
Average weekly hours (hours)	Nov.	12-5-75	36.3	36.2 1/	36.2 1/	36.2 1/
Hourly earnings ($)	Nov.	12-5-75	4.68	4.62 1/	4.60 1/	4.35 1/
Manufacturing:						
Average weekly hours (hours)	Nov.	12-5-75	39.8	39.9 1/	39.7 1/	39.5 1/
Unit labor cost (1967 = 100)	Oct.	11-28-75	149.8	6.4	1.9	9.5
Industrial production (1967 = 100)	Oct.	11-14-75	116.5	5.2	15.3	-6.7
Consumer goods	Oct.	11-14-75	127.4	7.6	6.1	-.6
Business equipment	Oct.	11-14-75	115.6	-3.1	6.0	-12.4
Defense & space equipment	Oct.	11-14-75	81.7	-11.6	-4.4	-2.9
Materials	Oct.	11-14-75	115.2	6.3	31.5	-10.1
Consumer prices (1967 = 100)	Oct.	11-20-75	164.4	7.9	5.1	7.6
Food	Oct.	11-20-75	179.9	15.5	5.6	7.8
Commodities except food	Oct.	11-20-75	151.7	4.0	4.8	7.0
Services 2/	Oct.	11-20-75	170.1	7.1	8.4	8.1
Wholesale prices (1967 = 100)	Nov.	12-4-75	180.4	.1	9.7	3.7
Industrial commodities	Nov.	12-4-75	176.2	7.3	10.2	5.8
Farm products & foods & feeds	Nov.	12-4-75	191.5	-14.2	10.9	-1.5
Personal income ($ billion) 3/	Oct.	11-19-75	1283.6	12.0	14.4	8.3
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Oct.	12-3-75	42.4	.3	1.6	-4.6
Capital goods industries	Oct.	12-3-75	11.8	-3.1	-5.8	-7.5
Nondefense	Oct.	12-3-75	10.6	4.2	-.8	-6.5
Defense	Oct.	12-3-75	1.2	-40.5	-34.9	-15.5
Inventories to sales ratio:						
Manufacturing and trade, total	Sept.	11-14-75	1.53	1.54 1/	1.59 1/	1.52 1/
Manufacturing	Oct.	12-3-75	1.67	1.70 1/	1.78 1/	1.66 1/
Trade	Sept.	11-14-75	1.36	1.36 1/	1.36 1/	1.36 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Oct.	12-3-75	.838	.831 1/	.838 1/	.705 1/
Auto sales, total (mil. units) 3/	Nov.	12-3-75	8.8	-3.9	-5.3	26.9
Domestic models	Nov.	12-3-75	7.6	-1.6	.2	34.1
Foreign models	Nov.	12-3-75	1.2	-16.3	-29.6	-5.6
Plant & equipment expen. ($ bil.) 4/						
All industries	1976 QI	12-4-75	118.16	-	-	3.1
	1976 QII	12-4-75	120.87	-	-	7.5
Capital Appropriations, Mfg.	QIII	11-28-75	10,821	-2.3	-14.7	-33.9
Housing starts, private (thous.) 3/	Oct.	11-18-75	1458	15.0	18.1	31.8
Leading indicators (1967 = 100)	Nov.	12-2-75	102.0	-.5	.0	1.8

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ Planned--Commerce Nov. survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Additional signs have emerged in the past month that the economic recovery has lost momentum. Industrial production and employment, which had recorded slowing growth rates in October, showed little or no gain last month. Moreover, although retail sales rose in November--reflecting recent sizable gains in personal income--dollar volume was only moderately higher than last summer. On a brighter note, residential construction activity strengthened further in October.

Business capital spending has leveled off in recent months but has yet to turn up convincingly. Surveys of spending plans suggest rising outlays over the next few quarters, however. Despite continued extensive underutilization of resources, wages and industrial prices rose strongly again in November.

Industrial production is estimated to have been essentially unchanged in November, following a rise of only 0.4 per cent in October. After posting large gains last summer, output of materials slowed in October and apparently leveled off in November. Output of raw steel declined further and production of other durable goods materials was probably reduced slightly. The strong advances in output of nondurable materials since March apparently slowed in November--the textile, paper, and chemical groups are estimated to have increased slightly further.

Auto assemblies were about unchanged at a 7.7 million units annual rate in November and production of most other consumer durable goods appears to have leveled off. Business equipment production is estimated to be about unchanged from the October level and up only slightly from the spring-time low.

Capacity utilization in major materials industries, at about 80 per cent in November, and in total manufacturing, at about 70 per cent, were estimated to be unchanged from October and thus remained far below their 1973 peaks.

Nonfarm payroll employment advanced by only 40,000 in November, well below the average monthly gain of nearly 300,000 from the cyclical low point in June to October. The bulk of the November increase was in services. After showing strong growth from June through October, manufacturing employment was essentially unchanged in November and the factory workweek edged off 0.1 hour. Trade employment declined for the second consecutive month.

Following a rise in October, the unemployment rate dropped back to 8.3 per cent in November, accompanying a large decline in the labor force. Jobless figures for the various demographic and industry categories were little changed from averages for August and September. Over the year ending in November, the labor force rose by only 1.2 million, off significantly from recent experience and below "normal" growth arising from population increases. In the past, brighter job prospects have drawn potential workers back into the labor force in large numbers.

NONFARM PAYROLL EMPLOYMENT
(Average monthly change in thousands, based on seasonally adjusted)

	Sept. 73 to Sept. 74	Sept. 74 to June 75	June 75 to Oct. 75	Oct. 75 to Nov. 75
Total	122	-276	291	41
Government	44	44	59	14
Private	78	-320	232	27
Manufacturing	-2	-223	99	2
Construction	-14	- 57	3	5
Trade	31	- 30	40	-12
Services	50	12	70	32

HOURLY EARNINGS INDEX*
(Per cent change, annual rates based on seasonally adjusted data)

	Sept. 73 to Sept. 74	Sept. 74 to June 75	June 75 to Nov. 75	Oct. 75 to Nov. 75
Private nonfarm	8.9	8.4	8.1	10.3
Manufacturing	9.8	9.4	8.3	6.2
Construction	7.4	6.8	7.7	24.8
Trade	9.2	7.5	7.6	7.9
Services	8.6	7.7	9.2	17.1

*Excludes the effects of interindustry employment shifts and fluctuations in manufacturing overtime pay.

COMPONENTS OF PERSONAL INCOME
(Average monthly change, billions of $, based on seasonally adjusted data)

	Sept. 73 to Sept. 74	Sept. 74 to June 75	June 75 to Oct. 75
Wage & salary disbursements	5.3	1.2	7.6
Private	4.3	-.2	6.1
Government	1.0	1.3	1.4
Proprietors income	-.7	-.5	2.4
Transfer payments*	2.1	3.0*	1.5*
All Other	1.9	2.0	2.7

*Data relate to July because the June transfer payments figure was swollen by the bonus payment to social security beneficiaries.

The average hourly earnings index, which adjusts for inter-industry shifts in employment and manufacturing overtime, rose at a 10.3 per cent annual rate in November. Although erratic in month-to-month movements, wages appear to have risen at about an 8 per cent rate since last spring, somewhat slower than during 1974.

Judging from November labor market data, the strong recent upward trend of aggregate wages and salaries and therefore, of personal income probably will slow somewhat in November. But recent sharp advances in private payrolls should support an expansion of consumer spending in the near term. Growth of transfer payments has been somewhat slower in recent months following the cost-of-living hike in social security benefits in July and as a result of declines in overall unemployment insurance payments.

According to staff estimates based on weekly data, retail sales rose about three-fourths of a per cent in November, but current dollar sales were still only a little above the levels of August. Sales of general merchandise and food outlets have shown a significant increase since then, while sales of furniture and apparel are down somewhat. Since consumer demand was buoyed earlier in the year by tax rebate-stimulated spending, a subsequent period of somewhat slower growth was not unexpected. Christmas sales will provide an important measure of the underlying strength of consumer demand; recent surveys suggest relatively favorable evaluations of present conditions but somewhat greater concern about the future.

RETAIL SALES
(Per Cent Change from Previous Period)

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

*Staff estimates based on weekly data ending 11/29/75.
**Deflated by unpublished BEA price measure.

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

	1975 I	II	II	Aug.	Sept.	Oct.	Nov.
Total auto sales	8.3	7.9	9.2	9.3	8.9	9.2	8.8
Imports	1.7	1.6	1.7	1.7	1.7	1.4	1.2p
Domestic models	6.6	6.3	7.5	7.6	7.4	7.8	7.6
Large	3.6	4.1	4.5	4.5	4.5	N.A.	N.A.
Small	3.0	2.2	2.9	3.0	2.8	N.A.	N.A.

Total unit auto sales dropped to an 8.8 million annual rate in November, their lowest level since last spring. Sales of domestic models were at a 7.6 million units annual rate in November, off slightly from October and no higher than last summer. Sales of foreign-made cars at approximately 1.2 million units, annual rate, were off further in November, with lack of inventories and increased competition from domestic models apparently cutting into their market share.

Residential construction has shown improvement in recent months. Housing starts which had increased markedly in the third quarter, rose 15 per cent between September and October to 1.46 million units (seasonally adjusted annual rate) with almost all of the increase in single family dwellings. Multi-family starts showed some further recovery in October but are still at a very low level.

Given the magnitude of the October rise in starts, the staff expects some drop in the November-December period. Even so, the volume of residential mortgage commitments outstanding and the recent strength of building permits suggests an overall average for the fourth quarter of a little over 1.4 million units. Such a rate would be more than two-fifths above the first quarter low, and the highest rate since the second quarter of 1974.

Indicators of business fixed investment plans appear now to confirm an end to the decline in capital spending, with moderate gains likely in the first half of next year. New orders for nondefense

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

	1975					Per cent change in Sept. from:	
	QI	QII	QIII	Sept.	Oct. (p)	Month ago	Year ago
Permits	.69	.90	1.04	1.10	1.09	--	+35
Starts	1.00	1.07	1.26	1.27	1.46	+15	+32
1-family	.75	.84	.95	.93	1.10	+19	+39
2- or more-family	.25	.22	.31	.34	.36	+ 5	+13
Under construction 1/	1.11	1.04	1.05	1.05	n.a.	-- 2/	-24 2/
Completions	1.39	1.22	1.24	1.21	n.a.	- 1 2/	-22 2/
MEMO:							
Mobile home shipments	.20	.21	.23	.22	.23	+ 7	--

1/ Seasonally adjusted, end of period.
2/ Per cent changes based on September.
Note--indicates change of less than 1 per cent.

capital goods rose 4.2 per cent in October, as nonelectrical machinery orders picked up sharply following an extended period of weakness. But the backlog of unfilled orders declined again in October suggesting little rise in rates of production during the fourth quarter. At the same time, commercial and industrial building activity appears likely to begin rising soon. The Dodge series on contracts for commercial and industrial buildings (measured in square feet) rose nearly 8 per cent in October following a rise in September, with increases in both the industrial and commercial components.

The Commerce Department's latest survey of anticipated plant and equipment expenditures implies a strengthening picture for early 1976. The latest survey, conducted in late October and November, shows that spending for the first half of 1976 is expected to rise about 11 per cent, annual rate, above the last half of 1975. The Commerce Survey results are not inconsistent with McGraw Hill Survey for 1976 as a whole.

Capital appropriations by large manufacturers, as reported by the Conference Board, edged down in the third quarter, primarily reflecting cuts in the petroleum industry. Exclusive of petroleum, appropriations were about unchanged, following overall reductions of about one-third from the fall of 1974 to the spring of 1975. In conjunction with smaller declines in expenditures, the sharp cuts in appropriations reduced the ratio of unspent appropriations to capital expenditures from 4.7 in the fall of 1974 to 3.8 in the fall of 1975..

MANUFACTURERS' NEW ORDERS
(Per cent change from prior period based on seasonally adjusted data)

	1974	1975					
	IV	I	II	III(p)	Aug.	Sept.	Oct.(p)
Total Durable Goods	-12.3	-12.5	7.9	7.2	2.4	-1.1	.3
Ex. iron & steel	-11.0	-10.2	6.9	6.8	1.3	.1	-.8
Iron & steel	-23.7	-35.6	22.0	11.4	16.5	-14.0	14.9
Nondefense Capital Goods	-10.9	-8.9	4.0	1.9	-3.1	-1.7	4.2

MANUFACTURERS' NEW CAPITAL APPROPRIATIONS[1/]
(Per cent change from prior period based on seasonally adjusted quarterly totals)

	1974				1975		
	I	II	III	IV	I	II(r)	III(p)
Manufacturing	5.5	16.5	9.3	-22.6	-9.7	-3.3	-2.3
Ex petroleum	6.2	3.1	3.0	-8.1	-15.4	-14.7	0.1
Durables	8.8	-4.1	3.8	-0.5	-27.4	-19.6	0.2
Nondurables	2.2	38.1	13.3	-37.3	9.2	8.2	-3.7

BUSINESS EXPENDITURES FOR NEW PLANT AND EQUIPMENT
(Billions of dollars at seasonally adjusted rates)1/

	1975				1976	
	I	II	III	IV	I	II
				------Anticipated2/	------	
All Industries	114.57	112.46	112.16	114.80	118.16	120.87
	(-1.4)	(-1.8)	(-.3)	(2.4)	(2.9)	(2.3)
Manufacturing	49.05	48.78	47.39	48.16	49.88	51.37
	(2.0)	(-.6)	(-2.8)	(1.6)	(3.6)	(3.0)
Durables	22.86	22.59	21.01	21.82	22.34	23.27
	(-1.8)	(-1.2)	(-7.0)	(3.9)	(2.4)	(4.2)
Nondurables	26.20	26.19	26.38	26.34	27.53	28.10
	(5.6)	(.0)	(.7)	(-.2)	(4.5)	(2.1)
Nonmanufacturing	65.52	63.68	64.76	66.64	68.28	69.50
	(-3.8)	(-2.8)	(1.7)	(2.9)	(2.5)	(1.8)

1/ Figures in parentheses are percentage changes from the previous quarter.

2/ Expenditure plans from Department of Commerce quarterly survey conducted in late October and November.

The period of overall stock liquidation appears now to be over, although liquidation continues in durable manufacturing. Book value of manufacturing inventories fell at a $1.2 billion annual rate in October (p), following a $2.0 billion rate of decline in September. For the third quarter as a whole, the decline was at $6.6 billion, annual rate, about half that of the second quarter. As is typical in a cyclical recovery, the adjustment in durables is taking longer than in nondurables. Stocks in durable manufacturing were reduced by $5.4 billion in October. Nondurable manufacturers added to inventories again in October, the third straight monthly increase. The ratio of inventories to shipments for total manufacturing edged down to 1.67 in October, about unchanged from a year earlier but well below the 1.95 peak in March 1975.

The book value of total manufacturing and trade inventories rose at a $5.2 billion annual rate in the third quarter following an $18.8 billion rate of decline in the second quarter. Trade inventories rose at an $11.8 billion rate in the third quarter.

Total durable goods orders rose slightly in October, following a 1.1 per cent drop in September. Exclusive of iron and steel orders, which were affected by the early announcement of a price hike on October 1, new durable orders declined slightly.

Although the wholesale price index was unchanged in November because of a drop for the volatile foods group, industrial commodities prices rose at a 7.3 per cent annual rate following a

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

	1975				
	I	II	III	Sept.	Oct.
Manufacturing and trade	-10.4	-18.8	5.2	4.2	n.a.
Manufacturing	3.2	-12.5	-6.6	-2.0	-1.2
Durable	7.6	-4.3	-8.6	-6.7	-5.4
Nondurable	-4.5	-8.2	2.0	4.7	4.2
Trade, total	-13.6	-6.3	11.8	6.7	n.a.
Wholesale	-4.1	-2.7	3.4	2.3	n.a.
Retail	-9.4	-3.6	8.4	4.4	n.a.
Auto	-8.3	-1.7	5.5	-.7	n.a.

INVENTORY RATIOS

	1974		1975	
	Sept.	Oct.	Sept.	Oct.
Inventory to sales:				
Manufacturing and trade	1.52	1.54	1.53	n.a.
Manufacturing total	1.67	1.66	1.70	1.67
Durable	2.08	2.06	2.23	2.19
Nondurable	1.22	1.21	1.16	1.15
Trade, total	1.36	1.42	1.36	n.a.
Wholesale	1.15	1.21	1.22	n.a.
Retail	1.54	1.59	1.47	n.a.
Inventories to unfilled orders				
Durable manufacturing	.687	.705	.831	.838

large rise in October. The annual rate of increase for this group averaged 3.4 per cent over the December to June period of inventory liquidation. However, from July through November prices for the group rose at a 9 per cent annual rate. Increases during November were pervasive, but machinery and equipment, textile products and apparel and fuels accounted for the bulk of the rise. Among consumer finished goods the rate of rise for nonfood items was cut in half in November. Prices of farm and food products declined in November (1.2 per cent) following large increases in September and October.

In October, the consumer price index rose 0.7 per cent after seasonal adjustment--faster than in the previous two months, with food and energy items largely responsible for the rise. Excluding these groups, the advance was similar to the average for the second and third quarters of this year. The moderate 0.3 per cent advance for nonfood commodity prices included a further sharp rise for fuel oil and a small increase for apparel. Rates of price rise in October for household durables and a variety of nondurable items were somewhat higher than in the previous two quarters. Recent auto price increases were only partly reflected in the latest CPI data and an upward tilt in November and December from this source is probable. Service prices rose 0.6 per cent in October reflecting among other forces a further climb for the medical component and the largest increase in rents since 1973.

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

	Relative importance Dec. 1974	Dec. 1973 to Dec. 1974	Dec. 1974 to June 1975	June to Nov. 1975	Oct. to Nov. 1975
All commodities	100.0	20.9	.3	11.1	0.0
Farm and food products	29.1	11.0	-8.0	16.6	-14.2
Industrial commodities	70.9	25.6	3.4	9.0	7.3
Materials, crude and intermediate2/	46.0	28.2	2.1	8.3	6.4
Finished goods					
Consumer nonfoods	17.5	20.5	3.9	10.8	6.1
Producer goods	8.6	22.6	8.4	9.1	7.2
Memo:					
Consumer foods	13.4	13.0	3.8	12.1	-4.4

1/ Not compounded for one-month changes.
2/ FR estimate.

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

	Relative importance Dec. 1974	Dec. 1973 to Dec. 1974	Dec. 1974 to June 1975	June to Oct. 1974	Sept. to Oct. 1975
All items	100.0	12.2	6.6	7.5	7.9
Food	24.8	12.2	4.7	9.8	15.5
Commodities (nonfood)	39.0	13.2	6.6	6.6	4.0
Services	36.2	11.3	7.1	8.2	7.1
Memo:					
All items less food and energy2/3/	68.3	11.3	6.8	6.1	4.6
Petroleum products2/	4.4	22.8	9.0	15.0	10.3
Gas and electricity	2.5	19.6	17.6	11.8	5.5

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

Growth of State and local purchases of goods and services has slowed markedly, increasing only at a 9.3 per cent annual rate in the first three quarters of 1975 as compared to a 12.9 per cent average over the 1972-1974 period. This curtailed growth of expenditures helped to halt a deteriorating budgetary position and with a pickup of revenues now underway, the budget position of the State and local sector has begun to show improvement. Given the general atmosphere in the municipal bond market, however, State and local governments are expected to continue holding down spending in the months ahead. New York's apparent escape from formal default is not expected to alter that pattern.

The unified budget deficit for fiscal year 1976 is now expected to be approximately $70 billion, about $3 billion higher than the Administration's latest forecast. Outlays are still expected to total about $370 billion for the fiscal year, but projected revenues have been lowered by about $1 billion to reflect a recent court ruling that collections resulting from the $2 per barrel oil import fee should be placed in escrow pending determination of the legality of the fee.

Revised NIA data for the third quarter indicate that Federal grants to states and localities rose sharply again, following a very sizable advance in the second quarter. A large third quarter increase in highway grants reflects the Administration's release of previously impounded funds.

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 FRB e/	F.R.B. Staff Estimates: Calendar Quarters 1975 I*	1975 II*	1975 III*	1975 IV	1976 I	1976 II
Federal Budget--Unified							Unadjusted data					
Surplus/deficit	-43.6	-67.6	-74.1	-70.5	-10.9	-71.0	-18.0	-12.0	-18.5	-24.8	-27.5	.4
Receipts	281.0	299.0	300.8	299.5	280.5	281.6	65.1	76.1	72.3	66.7	66.2	94.3
Outlays	324.6	366.6	374.9	370.0	291.4	352.6	83.1	88.1	90.8	91.5	93.7	93.9
Means of financing:												
Net borrowing from the public	50.9	n.a.	n.a.	76.1	11.8	82.5	19.4	16.6	23.5	24.3	24.6	3.7
Decrease in cash operating balance	1.6	n.a.	n.a.	1.6	4.5	-1.6	-.7	-1.0	-3.0	2.4	2.5	-.4
Off-budget deficit 3/	-9.5	n.a.	n.a.	-9.8	-3.6	-4.8	-5.3	-2.5	-.8	-3.1	-3.1	-2.8
Other 4/	.6	n.a.	n.a.	2.6	-1.7	1.9	4.6	-1.1	-1.2	1.2	3.5	-.9
Cash operating balance, end of period	7.6	n.a.	n.a.	6.0	5.9	7.4	6.6	7.6	10.5	8.1	5.6	6.0
Memo: Sponsored agency borrowing 5/	10.8	n.a.	n.a.	6.0	16.6	2.2	-.2	-.2	.9	1.7	1.6	1.8
NIA Budget							Seasonally adjusted, annual rates					
Surplus/deficit	-47.2 p/	n.a.	n.a.	-65.8 6/	-8.1	-72.3	-54.4	-103.2	-67.0	-64.6	-65.2	-62.8
Receipts	282.8 6/	n.a.	n.a.	312.1 6/	291.1	285.3	284.1	251.8	295.7	309.7	318.5	327.9
Expenditures	330.0 p/	n.a.	n.a.	377.9	299.1	357.6	338.5	355.0	362.7	374.3	383.7	390.7
High Employment surplus/deficit (NIA basis) 7/8/	3.7	n.a.	n.a.	-10.3	18.8	-12.0	10.0	-36.0	-11.2	-10.9	-10.3	-9.0

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

1/ Revised estimates contained in Administration's FY'77 current services Budget, November 10, 1975
2/ Second Concurrent Budget Resolution, as of December 9, 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		November	34.6	12.4	4.7	-.2
Reserves available (RPD's)		November	32.5	5.3	1.0	-.9
Money supply						
M1		November	297.1	12.7	3.9	4.8
M2		November	665.7	13.1	7.3	8.8
M3		November	1088.8	12.6	9.2	11.5
Time and savings deposits (Less CDs)		November	368.6	13.5	10.2	12.4
CDs (dollar change in billions)		November	81.2	-.1	3.2	-4.3
Savings flows (S&Ls + MSBs + Credit Unions)		November	423.1	11.7	12.3	15.8
Bank credit (end of month)		November	726.0	10.5	6.2	4.1
Market yields and stock prices				Percentage or index points		
Federal funds	wk. endg.	12/3/75	5.25	+.08	-.81	-3.77
Treasury bill (90 day)	"	12/3/75	5.56	.04	-.84	-1.89
Commercial paper (90-119 day)	"	12/3/75	5.81	-.07	-.88	-3.41
New utility issue Aaa	"	12/5/75	9.46	.36	- -	-.04
Municipal bonds (Bond Buyer)	1 day	12/4/75	7.31	-.21	-.03	.42
FNMA auction yield	(FHA/VA)	12/1/75	9.32	- -	-.38	-.29
Dividends/price ratio (Common stocks)	wk. endg.	12/3/75	4.20	.06	-.10	-1.23
NYSE index (12/31/65=50)	end of day	12/9/75	45.91	-1.32	.26	11.21

Credit demands	Period	Net change or gross offerings: Current month 1975	Current month 1974	Year to date 1975	Year to date 1974
Business loans at commercial banks	November	.9	1.5	-3.6	29.2
Consumer instalment credit outstanding	October	.7	.4	1.4	11.8
Mortgage debt outst. (major holders)	September	4.4	2.8	29.8	35.5
Corporate bonds (public offerings)	November	1.7e	3.0	30.8e	23.2
Municipal long-term bonds (gross offerings)	November	2.3e	2.5	28.2e	22.8
Federally sponsored Agcy. (net borrowing)	November	.2e	.3	1.9e	15.8
U.S. Treasury (net cash borrowing)	December	7.1e	5.1	83.9e	11.8
Total of above credits		17.3	15.6	172.4	150.1

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Recent economic evidence has presented conflicting signals to financial market participants. The economic recovery appears less robust than generally anticipated, while the monetary aggregates resumed expanding at a rapid pace during November. Most short-term interest rates have backed up since the last FOMC meeting, and long-term yields have displayed a mixed pattern. Corporate bond rates are higher largely due to a heavy supply of new issues and yields on longer-term Government securities also are modestly higher, but municipal bond yields are somewhat lower in response to the improved financial outlook for New York City. In the mortgage market, rates have changed little.

M_1 increased sharply in November after showing little net change since June. With strong November inflows also recorded in consumer-type time and savings deposits at bank and nonbank thrift institutions, growth of M_2 and M_3 accelerated to rates about as rapid as those experienced during the second quarter. Short-term business borrowing remained weak in November, as a small increase in business loans at banks--reflecting mainly a rise in bankers' acceptances--was about offset by a decrease in nonfinancial commercial paper. Home mortgage credit flows were large in November, with S&L's remaining the dominant lender. Growth in consumer credit outstanding slowed in October, although borrowing to finance automobile purchases remained large.

Short-term securities markets

Short-term market interest rates have advanced 10 to 40 basis points on balance since the last FOMC meeting. Prime lending rates at most major banks were reduced, however, to 7.25 per cent, and one major New York City bank lowered its prime rate to 7.00 per cent. These prime rate reductions reflected both continuing weak loan demands and earlier large declines in market interest rates.

The recent general backup of short-term rates is mainly attributable to a change in market views about the chances for further declines in the Federal funds rate, given the recent strength in the monetary aggregates. In these circumstances, the Treasury's recent heavy reliance on bills as a source of new money also has added to upward pressures on short-term rates.

Long-term securities markets

Despite upward movements of 10 to 35 basis points in corporate bond rates, yields on longer-term Treasury issues have moved only slightly higher since the November FOMC meeting, due both to the absence of additional Treasury coupon financing since the mid-November refunding and to System purchases of coupon issues totaling $700 million. The Treasury has announced two rate auctions in December that will raise $3 billion of new money--$2.5 billion of 2-year notes on December 16 and $2.0 billion of 4-year notes on December 22. In addition, net new borrowing by Federally sponsored agencies is expected to total about $300 million in December.

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

	Nov. '74 FOMC Nov. 19	Sept. FOMC Sept. 16	Oct. FOMC Oct. 21	Nov. FOMC Nov. 18	Nov. 25	Dec. 2	Dec. 9
Short-term							
Federal funds 1/	9.34	6.28	5.73	5.24	5.28	5.25	5.29 4/
Treasury bills							
3-month	7.46	6.54	5.66	5.47	5.56	5.57	5.68
6-month	7.37	7.04	6.04	5.80	6.00	6.01	6.14
1-year	7.18	7.38	6.28	6.12	6.26	6.24	6.50
Commercial paper							
1-month	9.13	6.63	5.75	5.38	5.38	5.50	5.50
3-month	8.88	6.88	6.13	5.75	5.75	5.88	6.00
Large neg. CD's 2/							
3-months	8.63	7.05	6.38	6.13	6.25	6.35	6.30
6-months	8.50	7.85	6.88	6.70	6.88	6.88	6.88
Federal agencies							
1-year	8.04	7.99	7.17	6.88	6.85	n.a.	n.a.
Bank prime rate	10.75	8.00	8.00	7.50	7.50	7.25	7.25
Long-term							
Corporate							
New AAA 1/	8.87	9.64	9.53	9.11	9.40	--	9.46p
Recently offered 3/	9.17	9.50	9.41	9.24	9.30	9.25	9.34p
Municipal (Bond Buyer) 3/	6.55	7.40	7.29	7.43	7.39	7.39	7.31
U.S. Treasury (20-year constant maturity)	7.93	8.71	8.26	8.36	8.34	8.34	8.36p
Stock prices							
Dow-Jones	614.05	795.13	846.82	855.24	855.40	843.20	824.15
N.Y.S.E.	36.19	43.59	47.91	48.15	47.95	47.22	45.98
Keefe Bank Stock	439	481	488	494	478	482	456

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 December 10.
n.a.--not available.
p--preliminary.

Gross public offerings of bonds by domestic corporations declined to $1.7 billion in November from $2.3 billion for the previous month. The decline in domestic offerings was more than offset, however, by $825 million of publicly offered foreign bonds, the second largest monthly total on record.[1/] Thus, publicly offered bonds--domestic and foreign--totaled more than $2.5 billion during November, slightly above the October level. In addition, privately placed bonds are estimated to have increased to $1.2 billion during November, due primarily to a $936 million takedown of funds by BP/Sohio as part of their $1.75 billion Alaskan pipeline financing--the largest private placement on record.

A smaller volume of bond offerings by industrial corporations accounted for most of the drop in domestic public offerings in November, but the volume of utility offerings also declined. Finance companies, on the other hand, increased their offerings in November, and are expected to offer a sizable volume of issues again in December. Less-than-prime rated corporations (less than Aa) continued to account for more than half of the total supply of domestic public issues in November.

In equity markets, new stock offerings declined to $850 million in November, appreciably below October's $1.6 billion total which included a $550 million issue by AT&T. Stock market prices

1/ Two-thirds of November's foreign bonds were issued by Canadian provinces, but December's $950 million slate of foreign offerings is dominated by a $750 million World Bank issue.

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

	1975					1976
	H1	QIII e/	Oct. e/	Nov. e/	Dec. f/	Jan. f/
			Gross offerings			
Corporate securities--Total	5,155	3,383	4,600	3,750	3,450	3,400
Publicly offered bonds	3,556	1,819	2,300	1,700	1,700	1,800
Utility	1,005	740	875	850	650	800
Industrial	2,046	587	1,150	475	550	1,000
Other	505	492	275	375	500	
Privately placed bonds	650	734	700	1,200	1,000	750
Stock	949	802	1,600	850	750	850
Foreign securities--Total 1/	382	408	102	825	950	300
Canadian	214	175	102	550	50	300
Other	168	233	--	275	900	
State and local government securities						
Long-term	2,543	2,826	2,253	2,261	1,900	2,400
Short-term	2,828	1,808	2,690	2,016	2,000	2,000
			Net borrowings			
U.S. Treasury 2/	6,010	7,817	11,743	5,500	7,100	7,500
Sponsored Federal Agencies	-70	273	1,267	150	286	537

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

have declined by about 3.5 per cent since the November FOMC meeting, partly in response to increased concern over the strength of the economic recovery. During the same period, prices of major bank holding company issues as measured by the Keefe Bank Stock Index, have fallen about twice as much, as investors appear especially concerned about the outlook for bank earnings.

Yields on municipal securities have declined slightly since the last FOMC meeting, reflecting the improved outlook for avoiding a New York City default. The Bond Buyer Index fell to 7.31 per cent on December 4, just 12 basis points below its level prior to the November meeting. Yield spreads between higher- and lower-rated municipal bonds continue to be at record levels, and offerings of new municipal bonds remain large.

Although President Ford announced on November 26 that he would support a bill providing $2.3 billion of short-term loans for New York City, there is still considerable uncertainty surrounding the three-year, $6.8 billion package that has been put together to meet the City's financing needs.[1/] Much of the uncertainty stems from a court challenge to the stretch-out in maturities of New York City notes, mandated by a bill recently passed in the New York State legislature. Since this stretch-out is a key part of the financing plan, resolution of the legal issue is necessary before the plan can be implemented.

1/ Details of the plan are provided in the Appendix.

Both average interest rates on new commitments for conventional home mortgages at S&L's and yields in FNMA auctions of 4-month commitments to purchase home mortgages have remained largely unchanged since the last FOMC meeting. Demands for FNMA's commitments moved to higher levels during the intra-meeting period, however, as mortgage bankers faced somewhat lower prices on GNMA-guaranteed mortgage-backed securities. Outstanding commitments at S&Ls reached $18 billion at the end of October (the largest volume since July 1973), even though new mortgage commitments at these institutions fell somewhat below the high levels set in August and September. More recently, S&L's in most FHLB Districts have reported funds to be adequate relative to demand.

Monetary aggregates

M_1 increased at a rapid pace in November after declining in October and growing only modestly since the summer. With money market rates remaining low relative to interest rate ceilings on accounts at depositary institutions, inflows of consumer-type time and savings deposits also were comparatively strong in November and early December. As a result, November growth of M_2 and M_3 was vigorous, at rates about as high as those experienced during the second quarter.

At commercial banks, growth in passbook savings deposits picked up considerably during November, apparently reflecting the change in Federal Reserve and FDIC regulations (effective November 10), which allowed partnerships and corporations to hold savings deposits.

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 previous week	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
Nov. 7	9.17	- 7	3
14	9.14	- 3	2
21	9.13	- 1	0
28	9.12	- 1	1
Dec. 5	9.12	0	1

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA AUCTIONS OF FORWARD PURCHASE COMMITMENTS						Yields on GNMA guaranteed mortgage-backed securities for immediate delivery 2/
	Conventional			Govt.-underwritten			
	Amount ($ millions)		Yield to FNMA 1/	Amount ($ millions)		Yield to FNMA 1/	
	Offered	Accepted		Offered	Accepted		
1974--High	164	63	10.71	1,155	333	10.59	9.98
Low	14	7	8.47	26	18	8.43	7.79
1975--High	100	51	10.02	643	366	9.95	9.10
Low	10	9	8.96	25	18	8.78	8.01
Nov. 3	20	15	9.54	70	42	9.32	8.40
17	69	35	9.40	293	181	9.33	8.52
Dec. 1	74	41	9.38	256	138	9.32	8.57

1/ Average gross yields before deducting fee of 38 basis points for mortgage servicing. Data 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.

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

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1975 HI 1/	1975 QII 1/	1975 QIII 1/	1975 Sept.	1975 Oct.	1975 Nov. p	Twelve months ending November 1975 p
	Per cent at annual rates						
M_1	4.2	8.6	6.9	2.0	-2.9	12.7	4.8
M_2	8.5	11.2	10.4	4.8	4.0	13.1	8.8
M_3 2/	10.9	13.8	13.2	7.8	7.3	12.6	11.5
Adjusted bank credit proxy	4.8	5.2	1.4	6.7	5.2	12.8	4.5
Time and savings deposits at commercial banks:							
a. Total	9.1	5.2	4.9	9.1	13.6	10.8	8.8
b. Other than large CD's	12.3	13.3	13.2	7.7	9.3	13.5	12.4
Deposits at nonbank thrift institutions:							
a. Savings and loan associations 3/	19.2	20.5	15.6	13.3	13.5	11.1	17.4
b. Mutual savings banks 3/	12.9	14.9	9.5	7.0	7.4	9.3	10.9 5/
c. Credit unions	24.6	26.4	10.5	17.7	13.5	n.a.	19.6 5/
	Billions of dollars 4/						
Memoranda:							
a. U.S. Government demand deposits	.3	1.0	-0.2	0.2	-0.2	0.6	-.1
b. Negotiable CD's	-1.0	-1.9	-1.7	1.1	2.2	-0.1	-.4
c. Nondeposit sources of funds	-.2	.2	--	--	0.9	0.3	0.1

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 October 1975.
p - Preliminary.
n.a. - Not available.

By the end of the month these deposits amounted to approximately $400 million at weekly reporting banks, with smaller reporters outside of New York and Chicago accounting for most of the increase. This pattern of inflows suggests that smaller non-weekly reporting banks, for which data on business savings deposits are not collected, also are enjoying sizable flows into these accounts.

Deposits at nonbank thrift institutions are estimated to have grown at a 10.6 per cent seasonally adjusted annual rate in November. Flows to mutual savings banks expanded at a 9.3 per cent rate, up substantially from the 7.4 per cent rate of October. This improvement was strongly influenced by renewed inflows at New York City savings banks, many of which had not experienced net inflows for an entire calendar month since July. At savings and loan associations, on the other hand, deposit growth dropped to about an 11.5 per cent annual rate in November, down from the 13.5 per cent rate that had prevailed in October.

Outstanding CD's at commercial banks contracted slightly in November, following net expansion over the two preceding months. After mid-October, domestic money market participants became more cautious about purchasing CD's from major New York City banks. As a result, many regional banks were able to issue CD's at rates lower than those being offered by the New York banks. Some New York City banks turned to the Euro-dollar market for funds rather than raise their CD offering rates. But by the end of November the improved financial outlook for New York City precipitated net CD issuance by some City banks and a reduction in their Euro-dollar borrowing. Also, the rate spreads between CD's of City banks and regional banks were reported to have narrowed.

Bank credit and nonfinancial commercial paper

Outstanding short-term business credit changed little in November for the second consecutive month, suggesting that inventory accumulation and capital outlays are still being financed in large part from internal sources although long-term financing continued relatively large. Net growth in short-term business credit was constrained by some repayment of short-term bank loans and a substantial net reduction of commercial paper with funds taken down from the large BP/Sohio private bond placement. In addition, banks apparently are maintaining cautious lending policies.

The modest growth that has occurred recently in business loans largely reflects bank acquisitions of bankers' acceptances, which are classified as business loans. These acquisitions by a few large banks more than accounted for the November growth in business loans as well as a substantial portion of the October growth. Some banks are acquiring acceptances for tax purposes. That is, since provision for loan losses is a deductible expense only if the resulting

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

	1 9 7 5					
	QI	QII	QIIIp	Sept.p	Oct.p	Nov. p
Total loans and investments 2/	5.7	4.6	3.6	2.0	6.0	10.5
U.S. Treasury securities	79.5	95.0	26.0	23.8	-31.1	19.2
Other securities	.3	7.1	3.9	--	14.2	9.9
Total loans	--	-6.7	.2	-.7	9.5	9.4
Business loans 2/	-3.5	-9.8	--	-7.3	10.7	6.0
Real estate loans	3.1	1.2	.3	.9	5.5	2.7
Consumer loans	-6.7	-6.8	5.4	7.4	7.3	n.a.
Memo:						
Business loans plus nonfinancial commercial paper 3/	-1.6	-12.1	-.6	-13.0	1.9	1.3

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 non-consolidated 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.

ratio of loan loss reserves to eligible loans does not exceed a specified maximum, a few banks are using acceptances to increase the amount of their eligible loans. Other banks are purchasing acceptances to enjoy the high yield earned on these assets relative to other market instruments.

In October-November, real estate loans at banks expanded significantly for the first time since last spring. Some of this increase reflects the purchase of loans from a REIT by one large bank, as well as the reclassification of some loans, and thus part of the measured increase in real estate loans is not reflective of a change in bank lending policies or in the demand for credit. However, in the San Francisco and Chicago districts there are indications that some banks have been increasing their acquisitions of mortgages for existing properties.

Banks continued to participate in new Treasury offerings in November, but the increase in their holdings of Governments, while substantial, was less than in most months earlier in the year. Holdings of other securities increased moderately, with acquisitions of short-term tax warrants accounting for most of the increases at large banks. In other asset categories, banks sharply increased their security loans in November, as corporate and municipal dealer positions rose over the month.

Consumer credit

Consumer instalment credit outstanding increased during October at a 5.5 per cent seasonally adjusted annual rate, considerably less than in September but only a little below the third quarter average. Instalment credit extensions at commercial banks and retail firms declined in October, although the decrease at commercial banks was marginal. Finance rates on consumer loans have shown a mixed pattern lately.

CONSUMER INSTALMENT CREDIT

	Change in outstandings (SAAR)		Credit extensions			New-car finance rates
	($ billions)	(Per cent)	Total, SAAR ($ billions)	Bank share (Per cent)	Open-end share* (Per cent)	APR at finance companies (Per cent)
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
Oct.	8.6	5.5	177.1	42.3	31.8	13.16p/

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

Note: Data on extensions to consumers exclude a large business transaction in mid-October--the purchase by commercial banks of nearly $400 million of instalment paper from Chrysler Financial Corporation.

p/ Preliminary.

INTERNATIONAL DEVELOPMENTS

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

	1974	1 9 7 5				
	YEAR	Q-1	Q-2	Q-3	Sept.*	Oct.*
1. Trade balance	-5,277	1,830	3,345	2,281	701	669
2. Merchandise exports	98,309	27,188	25,694	26,899	9,083	9,148
3. Merchandise imports	103,586	25,358	22,349	24,618	8,382	8,479
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	-4,438	3,340	203	-3,831
9. Claims on foreigners (inc. -)	(-19,325)	(-3,756)	(-3,870)	(-786)	(-390)	(-2,175)
10. Short-term	-18,166	-3,358	-3,509	-175	-121	-1,834
11. Long-term	-1,159	-398	-361	-611	-269	-341
12. Liabilities to foreigners (inc. +)	(16,791)	(-1,659)	(-568)	(4,126)	593	-1,656
13. Long-term liabilities	9	-39	-287	-114	19	-78
14. Short-term liabilities 2/	16,782	-1,620	-281	4,240	574	-1,578
15. to commercial banks abroad	(12,636)	(-2,684)	(284)	(2,356)	(-42)	(-1,861)
16. (of which liab. to branches) 3/	(1,957)	(-1,184)	(224)	(-43)	(-2,836)	(1,602)
17. to other private foreigners	(2,851)	(202)	(105)	(679)	(253)	(107)
18. to int'l & regional organizations	(1,295)	(862)	(-670)	(1,205)	(363)	(176)
19. Private transactions in securities, net	-1,317	-1,371	-323	-180	22	-29
20. U.S. purchases (-) of foreign securities	(-1,989)	(-2,021)	(-1,001)	(-1,071)	(-94)	(-508)
21. of which: New bond issues	(-2,373)	(-2,142)	(-1,256)	(-1,264)	(-178)	(-409)
22. Foreign purch. (+) of U.S. corp. securities	(672)	(650)	(678)	(891)	(116)	(479)
23. Stocks	544	958	895	1,270	240	365
24. of which by OPEC	(216)	(324)	(319)	(360)	(71)	(130)
25. Bonds (includes U.S. Govt. agencies)	128	-308	-217	-379	-124	114
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	87	-465	165	
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	-4,581	-1,435	1,939
32. OPEC countries (inc.+) 3/	10,025	270	961	1,631	89	782
33. Other countries (inc. +)	-217	3,323	706	-6,212	-1,524	1,157
34. Changes in U.S. reserve assets (inc.-)	-1,434	-326	-51	-342	-261	-194
35. Gold	--	--	--	--	--	--
36. Special drawing rights	-172	-5	-38	-25	-25	-21
37. Reserve position in the IMF	-1,265	-307	-7	-95	-17	-7
38. Convertible currencies	3	-14	-6	-222	-219	-166
39. Errors and omissions	4,593	1,870	-714			
Memo:						
40. Official settlements balance, S.A.		-3,267	-1,616	4,923		
41. N.S.A.	-8,374	-2,220	-1,203	3,011	1,696	-1,745
42. O/S bal. excluding OPEC, S.A.		-2,997	-655	6,554		
N.S.A.	1,651	-1,950	-242	4,642	1,785	-963

*/ 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 (excluded from GNP net exports).
2/ Includes transactions in U.S. Treasury bonds and notes.
3/ Not seasonally adjusted. p = preliminary.

Foreign exchange markets. The value of the dollar, on a weighted average basis against 10 major industrial currencies, has risen about 1-1/2 per cent since the middle of November. The increase in the past four weeks about offsets the decline in the value of the dollar from early October to early November, which resulted from concern over a New York City default and from declining U.S. interest rates. A change in expectations about these factors contributed to the dollar's rise in the past four weeks. President Ford's statement of support of Federal loans for New York City reduced the market's expectations that New York City would default, while the release of higher money supply growth figures led the market to expect that U.S. interest rates would rise in the near term. The reports of a large U.S. trade surplus in October and of no change in wholesale prices in October also helped to bolster the dollar. The dollar is now about 1/2 per cent below its peak at the end of September but 10-1/4 per cent above its low in March of this year.

As the dollar strengthened, the Japanese yen came under pressure, as a strike by public employees crystallized the growing doubts about the immediate domestic economic prospects for Japan and its trade position. The central bank sold over $500 million to hold the rate at 303 yen/$ and an additional $270 million to keep the rate at 305 yen/$. In light of this pressure, the Bank of Japan abandoned its support efforts at these rates, and the market rate has moved to around 307 yen/$.

The Swiss franc has moved up sharply since the beginning of December, rising 1-1/2 per cent against the dollar and at one point reaching parity with the German mark. Some of the strength in the Swiss franc is seasonal, reflecting year-end demand by Swiss banks, which like to report large Swiss franc assets, as well as demand by foreign residents who are making interest payments or hedging outstanding Swiss franc borrowings. The BNS has purchased nearly $150 million since the beginning of December to moderate the franc's rise.

Including the intervention by the Japanese and the Swiss, central bank intervention resulted in net sales of $330 million in the past four weeks. Other purchasers of dollars included the central banks of England, France, and Canada, while the Bank of Italy was a major seller of dollars.

During the past month, the Bank of England adopted a new foreign exchange intervention policy. Whereas it had formerly intervened only sporadically to moderate large changes in sterling's effective rate, it is now intervening very actively on both sides of the market. Its primary purpose is reportedly to gain better information on transactions and transactors in the market, and possibly to smooth intra-day fluctuations in the exchange rate. The Bank of England is supposedly quite pleased with the results achieved so far, although there is no clear evidence that the functioning of the market has been improved (e.g., by narrowing the spread between bid and asked quotations).

The pre-1971 swap drawing with the Belgians were rewritten on December 2 to reflect the two U.S. devaluations and the Belgian revaluation. Under the rewritten contract, the System owes approximately

$316 million equivalent of Belgian francs. The System bought a small amount of Belgian francs on Tuesday December 8 as part of a program to buy roughly $100 million equivalent per quarter.

The gold price has tended to drift downward during the past month, declining from roughly $144 to $139.

Foreign activities of U.S. banks. In the first ten months of this year the foreign activities of U.S. banks grew much less vigorously than in 1974, at foreign branches as well as domestic offices. The world-wide recession can be considered the main cause of this overall deceleration. Important additional influences include the banks' more cautious attitude towards lending in the Euro-currency market, their concern over capital adequacy, and a change in balance of payments conditions in Japan.

At foreign branches reporting to the System, assets increased $10.3 billion (8 per cent) in the first nine months of the year, down from a rise of $18.7 billion (18 per cent) in the comparable period of last year when the growth for the year as a whole reached $21.6 billion (21 per cent). (These figures exclude claims on other branches of the same bank.) The 1975 expansion was slower in the third quarter than earlier in the year. At the end of September, branch assets came to $134.6 billion excluding interbranch claims for the same bank. (See table.)

Through end-September, this year's increase in outstanding branch loans to foreign nonbank borrowers was only one-third as large as in the comparable period of 1974, because of the slowdown in world economic activity, although the rise in branch loans contrasts with the decline

Foreign Assets and Liabilities of U.S. Banks
(outstanding amounts in billions of dollars; end of month)

	1973 Dec.	1974 Dec.	1975 June	1975 Sept.	1975 Oct.
I. Foreign Branches					
A. Total claims 1/	102.7	124.3	131.5	134.6	n.a.
1. On nonbank foreigners	33.7	46.8	51.1	51.8	n.a.
2. On banks and other foreigners	59.1	64.4	68.5	69.9	n.a.
3. On head offices 2/	1.9	4.5	2.3	3.3	n.a.
4. On other U.S. addresses	3.2	2.4	3.2	3.3	n.a.
B. Total liabilities 1/	103.7	125.0	131.9	135.7	n.a.
1. To nonbank private foreigners	17.7	20.2	20.7	20.3	n.a.
2. To foreign official institutions	10.3	20.2	21.1	19.7	n.a.
3. To foreign banks	65.4	65.7	65.0	70.6	n.a.
4. To head offices	1.6	5.8	12.2	10.8	n.a.
5. To other U.S. addresses	4.0	6.2	6.4	8.1	n.a.
II. Domestic Offices 3/					
A. Claims on foreigners	26.7	46.1	53.6	54.1	56.3
1. Loans and acceptances	17.3	29.0	29.1	30.4	30.7
2. Placements with foreign branches 4/	1.6	5.8	12.2	10.8	n.a.
3. Other claims	7.8	11.3	12.3	12.9	n.a.
B. Liabilities to foreigners 5/	38.6	60.5	55.5	57.0	55.5
1. Official: non-OPEC	11.2	13.6	9.6	10.5	10.1
2. Official: OPEC	1.5	4.9	5.2	5.0	5.3
3. Private: foreign branches 2/	1.8	3.7	2.8	2.7	4.3
4. Private: other	24.1	38.3	37.9	38.8	35.9

1/ Excluding claims and liabilities between branches of the same bank. Timing differences produce inequalities between these interbranch claims and liabilities. Components do not add to totals because of omission of miscellaneous accounts.

2/ These series differ from each other because of timing differences and differences in coverage.

3/ Including agencies and branches of foreign banks.

4/ Based on branch data for liabilities to head office.

5/ Excluding Treasury bills and certificates held in custody.

in U.S. banks' domestic loans this year. Branch loans to head offices decreased $1.2 billion compared with a $1.7 billion increase over the first nine months of last year, reflecting the change in U.S. money market conditions. But claims on the United States other than on head offices rose this year after last year's decline, and the rise in placements with other banks was about the same as in the year-earlier period.

On the liabilities side of branch operations, there was no increase in deposits from foreign nonbank sources, and deposits from foreign official institutions declined slightly after a rapid build-up in 1974. Consequently, the branches had to increase their borrowings from other banks (after not doing so last year) and to increase their fundings from head offices, which were already expanding rapidly. Liabilities to head offices rose $6.4 billion in the first half of the year; by the end of September the rise was cut back to $5 billion because of the third-quarter upturn in the cost of raising funds in the United States.

Much of the increase in total branch activity has been concentrated at the Bahamas branches, where (together with Cayman Islands branches) assets rose $8.1 billion (29 per cent) through September. The increased role of the Bahamas in overall foreign branch activity can be largely ascribed to both administrative convenience -- "shell" branches at run at the head offices -- and the desire to take advantage of the absence of Bahamian taxes on income earned by bank branches located there.

At the <u>domestic offices</u> of U.S. banks (including U.S. agencies and branches of foreign banks), transactions with foreigners in the first ten months of the year show a much slower rise in claims than last year, and actual decreases in official and private liabilities after large increases in 1974. Through the end of October, claims on foreigners were up \$10.2 billion (22 per cent) compared with last year's rise of \$19.4 billion (73 per cent) for the full year. Four-fifths of this year's increase took place in the first six months. There was almost little in the third quarter, when short-term interest rates in the United States rose relative to foreign rates; the increase resumed in October, when the movement of relative U.S. interest rates was downward. One-half or more of the rise in total claims was in placements with foreign branches which, after moving up \$5 billion through September, appear to have risen further (perhaps \$1 billion) in October. Loans and acceptances, which together had increased \$11.7 billion last year, rose only \$1.7 billion in the first ten months of this year. Much of this contrast results from divergent movements in claims on Japan. These have declined \$2.2 billion this year as Japanese imports have contracted. Last year they rose \$6.1 billion for the year as a whole, reflecting Japanese policy to finance increased oil imports through foreign borrowing by Japanese banks.

Domestic offices' liabilities to foreigners fell \$5 billion in the first ten months compared with last year's full-year rise of \$21.9 billion. (These figures exclude custody holdings of Treasury bills and certificates.) Deposits and CD's held by foreign commercial banks and foreign nonbanks declined, and a rise in liabilities to official institutions in OPEC countries was more than offset by a drop in liabilities to other official institutions abroad. The rise in claims and decline in liabilities produced a $15.2 billion net capital outflow through the banking system in the first ten months, in contrast with last year's small net inflow.

U.S. International Transactions. Data available for October indicate (1) a smaller-than-expected decline in the large trade surplus, due in part to a strong jump in agricultural export volumes; (2) a sharp resumption of net outflows in bank-reported private capital transactions, together with (3) a substantial increase in liabilities to foreign official agencies; and (4) an increase in U.S. purchases of new foreign bond issues, which continue to show sharp increases in estimated data for November and December.

Merchandise trade. The trade balance for October recorded a substantial surplus of $8.0 billion (seasonally adjusted annual rate),

U.S. MERCHANDISE TRADE
(Values in billions of dollars, seasonally adjusted annual rates)

		1975				
	1974	I	II r	III r	Sept. r	Oct.
Exports	98.3	108.8	102.8	107.1	109.0	109.8
Agricultural	22.4	25.1	19.4	22.0	22.4	24.6
Non-ag.	75.9	83.7	83.4	85.1	86.6	85.2
Imports	103.6	101.4	89.3	98.8	100.6	101.7
Fuels	27.4	27.9	24.6	30.0	32.4	32.2
Nonfuel[1]	76.2	73.5	64.7	68.7	68.2	69.5
Balance	-5.3	7.3	13.5	8.3	8.4	8.0
Volumes (1974=100)						
Ag. Exports	100	105.2	88.7	103.3	104.3	116.1
Non-ag. Exports	100	95.5	94.2	96.1	97.8	96.3
Fuel Imports	100	97.8	87.0	107.5	116.9	114.8
Nonfuel Imports	100	86.6	74.9	83.3	82.5	84.0

r = Revised data

slightly below both the September level and the third quarter average. Both exports and imports increased from their September levels and their third quarter averages, as agricultural exports strengthened sharply and non-fuel imports continued to climb in apparent reflection of the upturn in domestic incomes and activity.

The strong increase in agricultural exports in October over their third quarter rate reflected a 12 percent climb in volume and a slight decline in unit value. Most of this strength was provided by corn exports, partly because this year's harvest was early and marketings have been more advanced than usual. Nevertheless, it is expected that agricultural export volumes will continue to strengthen during the remainder of this year. Although estimates of the Soviet grain harvest have recently been revised downward, the Staff has not made any corresponding upward adjustments in its projections of agricultural exports, partly because of Soviet denials of any intentions to increase their grain imports, and partly because of the increased likelihood that the Soviets will instead make fundamental downward revisions in their planned allocations for grain consumption.

Exports of capital goods (excluding automotive products) in October were 2 percent higher in volume than the third quarter rate, but were still 6 percent below the peak rate achieved in the fourth quarter of 1974. Given the downturns in economic activity abroad, the failure of capital goods export volumes to show an even greater decline from last year's levels has been surprising. In particular, exports of non-electric machinery--which constitute roughly two-thirds of capital goods exports and over a quarter of all non-agricultural exports -- averaged 6 percent higher in volume from January through August than in the same period last year, and in addition increased 23 percent in unit value. This jump in non-electric machinery exports was dominated by increased shipments of agricultural machinery, especially to Canada; rising sales of steam power boilers and turbines to Western Europe; and higher sales of construction and materials handling machinery, including oil well drilling and mining equipment, predominantly to Western Europe and OPEC. Some indication of continued strength in these exports is provided by data on new export orders for machinery, which in October were 12 percent higher in volume than the third quarter rate.

Nonfuel imports in October were slightly higher in volume than their third quarter rate, and 12 percent above their second quarter rate, apparently reflecting the upturn in domestic incomes and activity. October import volumes were lower than third quarter rates for consumer nondurables and for automotive products, both from Canada and from other countries; but imports of both capital goods and consumer durables were up 8 percent in volume, imports of nonfuel industrial supplies were up 4 percent, and imports of foods, feeds, and beverages were 2 percent higher. Seasonally adjusted data on stocks of new (non-Canadian) foreign cars increased slightly in October as sales dipped below imports for the first time this year. The unit value of nonfuel imports in October held steady at its third quarter average, 4 percent below its peak in the second quarter. Unit values for most major categories of non-fuel imports have also fallen since the second quarter, although prices of automotive products and consumer nondurables have risen. The predominantly downward movement in these import prices may reflect the effects of the appreciation of the dollar earlier this year.

Bank-reported private capital transactions for October showed a net outflow of \$3.8 billion (monthly rate), more than reversing the net inflow for the entire third quarter. Much of this outflow can be attributed to a decline in short-term interest rates in the United States relative to comparable rates in most financial centers abroad, and New York City's financial problems may also have contributed to a reduced private foreign demand for dollar-denominated assets. Moreover, the private outflow would have been smaller in the absence of official intervention in support of the dollar. Claims on foreigners increased by \$2.2 billion in October, with short-term claims up \$1.85 billion and long-term claims up \$.35 billion. Liabilities to private foreigners declined by \$1.7 billion, with an even greater decline in short-term liabilities to commercial banks abroad, as short-term liabilities to other foreigners increased by a small amount and long-term liabilities declined slightly. These monthly changes in short-term liabilities are notably erratic; September and October changes were affected by the fact that both August and October ended on Fridays, when U.S. banks have incentives to increase their over-the-weekend liabilities to branches abroad. Data for weeks ending on Wednesdays do provide the general impression, however, that undistorted figures for October would also show a decline in short-term liabilities to private foreigners.

Transactions in securities (other than U.S. Treasury issues) on balance showed a small net outflow in October; U.S. purchases of foreign securities increased to $500 million while foreign purchases of U.S. corporate securities were only slightly less. Stocks accounted for three quarters of the U.S. securities purchased by foreigners, with direct stock purchases by OPEC accounting for $130 million, not much more than the average rate of OPEC purchases for the first three quarters. After tapering off in August and September, U.S. purchases of new foreign bond issues increased to $400 million in October and $800 million (preliminary data) in November, and are expected to exceed $1 billion in December, including $750 million of IBRD issues.

U.S. liabilities to foreign official agencies, apart from OPEC, increased by $1.2 billion in October, after declining by $1.5 billion in September and $4.3 billion (these figures are not seasonally adjusted) for the third quarter as a whole. Much of the October increase showed up in the holdings of France and Germany, reflecting intervention purchases of dollars. Liabilities to official OPEC institutions increased by $800 million in October, considerably more than the average rate of $320 million for the first nine months.

Weekly data for November and early December indicate moderate net reductions in official holdings of dollars in the United States, in part reflecting Japanese intervention to mitigate market pressure on the yen.

<u>Trade and Current Account Developments in Major Foreign Industrial Countries</u>. The trade balance of the six major foreign industrialized countries combined registered a very large surplus in the first two quarters of 1975 but has since declined sharply. During the first half of 1975, imports of these countries were at relatively low levels because of the general slack in economic activity and the run-down of inventories. In Japan, the United Kingdom, France, and Italy, these developments led to a greater decline in import than in export volume. This decline, coupled with an improvement in the terms of trade because of the fall in the prices of primary commodities, led to substantial improvements in the trade balances of these countries in value terms (see Table 1). In Germany and Canada, on the other hand, export volumes dropped sharply during the first half of 1975, reflecting, in the case of Germany, decreased exports of industrial materials and consumer goods, and, in the case of Canada, weak import demand in the United States. At the same time, import volumes in both countries held up fairly well. In Canada, a deterioration in the terms of trade also contributed to the shift from a trade surplus in 1974 to a trade deficit during the first half of 1975, but in Germany the trade surplus fell despite an improvement in its terms of trade.

During the third quarter, first-half gains in the trade balances of Japan, the United Kingdom, France, and Italy were reversed, and the German trade balance continued to decline, as imports held up or strengthened while exports remained static or continued to fall. The decline in the aggregate trade balance of the major industrialized

Table 1. Merchandise Trade of Major Industrial Countries
(In billions of U.S. dollars at seasonally adjusted annual rates) 1/

		1973	1974	1974 III	1974 IV	1975 I	1975 II	1975 III	1975 Aug.	1975 Sept.	1975 Oct.
France	exports	36.6	46.6	48.7	49.7	54.7	54.5	52.4	51.8	49.7	49.5
	imports	35.2	50.1	53.1	52.0	53.0	50.0	50.4	48.4	49.4	53.8
	balance	1.5	-3.4	-4.4	-2.3	1.8	4.5	2.0	3.4	.2	-4.3
Germany	exports	67.7	89.4	91.8	94.1	92.8	93.1	86.5	82.6	85.7	85.7
	imports 2/	52.3	66.4	70.4	70.9	69.3	72.4	70.4	70.3	71.1	71.8
	balance	15.4	23.0	21.4	23.2	23.5	20.7	16.1	12.3	14.6	13.9
Italy 3/	exports	22.1	29.8	32.7	31.8	33.7	33.5	34.7	34.8	34.7	34.9
	imports	26.0	38.3	42.4	39.3	34.4	34.1	36.1	31.1	39.7	38.3
	balance	-3.9	-8.4	-9.7	-7.4	-0.8	-0.6	-1.4	3.7	-5.1	-3.4
U.K.	exports	28.2	36.5	39.8	38.8	43.4	41.5	39.4	37.7	39.6	43.0
	imports	33.8	48.8	51.0	52.1	51.4	47.9	47.3	47.1	44.7	48.1
	balance	-5.6	-12.3	-11.3	-13.3	-8.0	-6.4	-7.9	-9.4	-5.1	-5.1
Canada	exports	25.4	33.1	34.5	34.3	32.2	32.0	31.9	31.0	33.8	32.6
	imports	22.7	31.5	33.6	34.3	34.0	32.7	32.9	34.6	33.1	33.7
	balance	2.7	1.6	0.9	-0.1	-2.0	-0.7	-1.0	-3.6	0.6	-1.1
Japan	exports	36.3	54.4	57.1	61.2	58.7	54.6	51.9	51.4	51.9	56.5
	imports	32.6	52.8	53.5	53.2	50.7	46.6	49.1	46.7	52.3	52.9
	balance	3.7	1.7	3.6	8.0	8.0	8.0	2.8	4.7	-0.4	3.6
BALANCE FOR ABOVE SIX COUNTRIES		13.8	2.2	0.5	8.1	22.5	25.5	10.6	11.1	4.8	3.6
U.S.	exports	71.4	98.3	100.1	106.4	108.8	102.8	107.1	107.6	109.0	109.8
	imports	70.4	103.6	109.4	111.9	101.4	89.3	98.8	98.0	100.6	101.7
	balance	1.0	-5.3	-9.3	-5.5	7.3	13.5	8.3	9.6	8.4	8.0

Note: French and German trade on a customs basis; others on a balance of payments basis. Imports f.o.b., except f.a.s. for the U.S.. Details may not add to totals due to rounding.
1/ Data converted to dollars on the basis of average exchange rates for each period as published in the *Federal Reserve Bulletin*. 2/ Imports adjusted to f.o.b. by FRB staff.
3/ Seasonally adjusted and 1975 III onward converted to balance of payments basis by FRB staff.

countries probably will continue in the near future due to the expected upturn in domestic economic activity. Increased imports resulting from higher incomes and inventory restocking are not likely to be offset completely by increased exports to each other, while exports to OPEC countries are expected to grow more slowly, and exports to non-oil developing countries may be severely limited by the difficulties these countries face in financing present deficits.

The current accounts of the six major foreign industrialized countries have followed the same pattern as their trade accounts. Their combined current account (seasonally adjusted) during the first half of 1975 was close to balance following the $19.1 billion deficit of 1974, as the decline in the extremely high German current account surplus and the sharp increase in the Canadian current account deficit were offset by improvements in the current accounts of France, Italy, Japan, and the United Kingdom.

The German trade account for the first nine months of 1975 was in surplus at an annual rate of $20.1 billion, down from the large $23.0 billion surplus for the same period in 1974. (The drop in the surplus was steeper in DM terms due to the appreciation of the mark between the two periods). The 14 per cent drop in the volume of exports in the first nine months from a year earlier was quite large, while imports, in volume terms, rose by 3 per cent. The bulk of the decrease in the trade surplus occurred vis à vis other industrialized countries, and was offset only partially by a decrease in the deficit with the OPEC countries. During the same period, the deficit on services and transfers increased slightly, decreasing the German current account surplus for the nine-month period to about $5 billion at a seasonally adjusted annual rate, compared with a surplus of over $9 billion for the corresponding period in 1974. By the third quarter, the seasonally adjusted current account recorded a surplus of only $0.75 billion at an annual rate.

Canada experienced a significant shift in its trade and current accounts during the first nine months of 1975. The trade deficit during this period was $1.2 billion at an annual rate, a substantial fall from the $1.6 billion surplus recorded in 1974. The change from surplus to deficit resulted mainly from a large decline in exports to the United States, reflecting the weakness in U.S. economic activity. Exports to the United States represent nearly two-thirds of Canada's exports, and, whereas total Canadian exports declined by 3 per cent between the last half of 1974 and the first half of 1975, exports to the United States declined by almost 9 per cent. The weakening in the Canadian current account was even sharper than the decline in the trade account. The deficit on services and transfers increased by almost one-third, pushing the current account deficit for the first 9 months of 1975 to $5 billion (annual rate), up from the deficit of $1.7 billion in 1974.

During the first half of this year, the Japanese trade surplus increased as the decline in imports triggered by inventory adjustments and depressed economic activity exceeded the decline in exports. In the third quarter, however, this trend was reversed as both imports and exports rose in volume terms, with the increase in imports exceeding the increase in exports. The turnaround in imports reflects the moderate recovery in Japanese industrial activity. Exports have been slower to recover, since foreign demand, particularly in the non-Communist, non-oil-exporting developing countries, and Europe has remained weak. The relative weakness in exports, combined with a slight deterioration in the terms of trade, and a depreciation of the yen relative to the dollar, resulted in a decrease in the third quarter trade surplus to $2.8 billion (annual rate) from the $8.0 billion (annual rate) surpluses recorded in each of the preceding three quarters.

For the first ten months of 1975 the Japanese deficit on services and transfers about equaled the trade surplus, so that the current account balance was approximately zero. This represents a return to the current account position of 1973 after the $4.7 billion deficit recorded in 1974.

In the United Kingdom both imports and exports fell in volume terms during the first half of 1975, but the rise in export prices, reflecting the high U.K. inflation rate, resulted in an increase in exports in value terms. The trade deficit for the first half of 1975 decreased to $7.2 billion (annual rate) compared with the $12.3 billion deficit in 1974. During the third quarter, export volume continued to decline, while import volume picked up sharply, leading to an increase in the deficit in the U.K. trade balance.

During the third quarter the increase in the U.K. surplus on invisible transactions was not sufficient to offset the increase in the trade deficit. The current account deficit, after decreasing to $2.7 billion (annual rate) in the first half of 1975, increased to $4.8 billion (annual rate) in the third quarter. The deficit recorded so far in 1975, however, still remains far below the $8.6 billion deficit recorded in 1974.

In France, the decline in export volume between the last half of 1974 and the first half of 1975 was less than that experienced by other major foreign industrialized countries, while import volume fell substantially. Over the same period, the terms of trade improved as well, so that the trade account shifted from a $3.8 billion deficit (annual rate) for the first nine months of 1974 to a $2.8 billion surplus (annual rate) for the same period this year. During the last few months, however, the trade surplus has declined and by October moved into deficit, reflecting a sharp increase in imports. For the first nine months of 1975, the current account also registered a small surplus although the third quarter yielded a deficit. This compares with a deficit of almost $6 billion for all of 1974.

Although Italy's trade deficit increased slightly in the third quarter, for the first 9 months the trade deficit was under $1 billion (annual rate), considerably lower than the 1974 deficit, which exceeded $10 billion. The reduction in the trade deficit is attributable to a drop in imports in volume terms because of very low rates of economic activity, maintenance of export volumes due to strong sales to the OPEC countries, and an improvement in the terms of trade. Improved net tourist receipts during the Holy Year and a drop in payments for freight and insurance on imports increased the Italian surplus on services, further contributing to the improvement in the Italian current account. For the first half of this year, the current account (not seasonally adjusted) recorded a deficit of about $0.5 billion, a significant decrease from the 1974 deficit of nearly $5 billion for the same period.