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Content last modified 6/05/2009.

CONFIDENTIAL (FR)

January 12, 1977

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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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 Rate)		
Civilian labor force	Dec.	1-12-77	95.9	.1	3.0	3.0
Unemployment rate (per cent)	Dec.	1-12-77	7.9	8.1[1/]	7.8[1/]	8.3[1/]
Insured unemployment rate (%)	Dec.	1-12-77	4.6	5.1[1/]	5.0[1/]	5.0[1/]
Nonfarm employment, payroll (mil.)	Dec.	1-12-77	80.0	3.9	1.9	2.8
Manufacturing	Dec.	1-12-77	19.1	2.3	-.1	2.9
Nonmanufacturing	Dec.	1-12-77	60.9	4.4	2.6	2.8
Private nonfarm:						
Average weekly hours (hours)	Dec.	1-12-77	36.3	36.2[1/]	36.0[1/]	36.4[1/]
Hourly earnings ($)	Dec.	1-12-77	5.01	4.99[1/]	4.92[1/]	4.68[1/]
Manufacturing:						
Average weekly hours (hours)	Dec.	1-12-77	40.1	40.1[1/]	39.7[1/]	40.3[1/]
Unit labor cost (1967=100)	Nov.	12-29-76	147.1	5.7	8.6	3.9
Industrial production (1967=100)	Nov.	12-15-76	132.0	14.7	2.1	6.9
Consumer goods	Nov.	12-15-76	138.9	21.1	4.1	5.9
Business equipment	Nov.	12-15-76	139.3	25.5	4.6	7.5
Defense & space equipment	Nov.	12-15-76	78.7	3.1	.5	1.8
Material	Nov.	12-15-76	133.0	11.8	.0	8.0
Consumer prices (1967=100)	Nov.	12-21-76	173.6	3.5	4.2	4.9
Food	Nov.	12-21-76	181.9	-2.6	.2	.7
Commodities except food	Nov.	12-21-76	159.8	5.3	4.8	5.0
Services	Nov.	12-21-76	184.7	4.6	5.9	7.6
Wholesale prices (1967=100)	Dec.	1-12-77	188.6	10.9	8.9	4.7
Industrial commodities	Dec.	1-12-77	188.7	3.8	8.7	6.3
Farm products & foods & feeds	Dec.	1-12-77	185.6	31.2	7.7	-1.2
sonal income ($ billion)[2/]	Nov.	12-16-76	1417.8	12.7	9.3	9.0
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Nov.	1-4-77	52.0	1.8	3.2	17.4
Capital goods industries	Nov.	1-4-77	15.8	-8.8	7.9	17.0
Nondefense	Nov.	1-4-77	12.8	-10.5	.9	12.6
Defense	Nov.	1-4-77	3.0	-.8	54.4	41.0
Inventories to sales ratio:						
Manufacturing and trade, total	Oct.	1-10-77	1.55	1.53[1/]	1.50[1/]	1.55[1/]
Manufacturing	Nov.	1-4-77	1.66	1.71[1/]	1.64[1/]	1.72[1/]
Trade	Oct.	1-10-77	1.38	1.38[1/]	1.36[1/]	1.39[1/]
Ratio: Mfrs.' durable goods inventories to unfilled orders	Nov.	1-4-77	.642	.641[1/]	.634[1/]	.615[1/]
Retail sales, total ($ bil.)	Dec.	1-10-77	57.4	3.1	6.0	11.9
GAF	Dec.	1-10-77	14.0	.6	4.7	6.5
Auto sales, total (mil. units)[2/]	Dec.	1-4-77	10.8	14.2	7.8	13.1
Domestic models	Dec.	1-4-77	9.3	17.2	13.5	13.6
Foreign models	Dec.	1-4-77	1.5	-1.8	-18.3	9.9
Plant & equipment expen. ($ bil.)[3/]						
All industries	1977	1-11-77	134.95	—	—	11.3
Manufacturing	1977	1-11-77	59.58	—	—	12.5
Nonmanufacturing	1977	1-11-77	75.37	—	—	10.4
Housing starts, private (thous.)[2/]	Nov.	12-16-76	1,705	-6.0	10.9	23.5
ading indicators (1967=100)	Nov.	12-29-76	127.5	1.0	1.0	6.9

Actual data. 2/ At Annual rate. 3/ Planned - Commerce Dec. 1976 Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

The faster pace of expansion of consumption and income growth evidenced in November apparently continued in December. Retail sales advanced sharply for a third month in a row; payroll employment rose by a quarter of a million; and industrial production apparently rose further. In addition, there are signs that inventory positions are being brought into better alignment with sales. However, the repercussions of the protracted earlier pause have apparently led to a weakening in capital spending. On the inflation front, retail price pressures have continued to be somewhat less intense than last summer and growth of wages remains near the slower rates in evidence since late 1975. Wholesale prices, however, rose sharply again in December reflecting higher prices for farm and food products and continued large increases for industrial commodities except fuel.

Retail sales rose 3 per cent in December, marking the third consecutive month of gains of 1 per cent or more. Excluding autos and nonconsumer items, the December rise was just under 2 per cent. With the exception of apparel and furniture and appliances, sales gains were fairly widespread across major types of stores. Fourth quarter consumer sales ex autos were about 3-1/4 per cent above the third quarter average; this is the strongest quarterly gain in over a year and a half and more than twice the average rise recorded during the previous half year.

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

	1976		1976			
	II	III	IV	Oct.	Nov.	Dec.a
Total sales	1.9	1.2	3.2	1.0	1.9	3.1
(Real*)	1.0	-0.1	n.a.	0.7	1.7	n.a.
Total, less auto and nonconsumption items	1.3	1.7	3.3	1.3	1.1	1.8
GAF	-.2	2.9	3.9	3.4	.6	.6
Durable	3.4	.2	2.8	.4	3.7	5.2
Auto	4.5	-.7	2.7	-.3	4.1	9.3
Furniture and appliances	2.7	-.2	2.9	3.3	2.9	-3.2
Nondurable	1.2	1.7	3.3	1.2	1.0	2.1
Apparel	-3.4	5.7	.5	2.1	-1.8	-.3
Food	1.2	1.0	2.9	1.1	.7	2.8
General merchandise	-.1	3.1	5.1	3.8	.6	1.9
Gasoline	.0	2.3	3.9	2.1	.6	2.4

[a]Advance, partial sample estimate.

*Deflated by all commodity CPI seasonally adjusted.

AUTO SALES
(Seasonally adjusted, millions of dollars)

	1976							
	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.
Total	10.3	10.2	9.8	10.5	10.0	9.5	9.5	10.8
Imports	1.4	1.6	1.6	1.6	1.8	1.9	1.5	1.5
Domestic	8.9	8.6	8.3	8.9	8.2	7.6	8.0	9.3
Large	2.7	2.2	2.2	2.2	1.8	1.7	2.2	2.8
Intermed.	2.7	2.6	3.0	2.6	2.6	2.8	2.9	3.2
Small	3.4	3.7	3.2	4.0	3.8	3.2	3.0	3.3

Unlike the previous two months, the December increase in goods consumption included a very sizable gain in automobile sales. Unit sales of domestic-type autos were at a 9.3 million annual rate, almost 9 per cent above the third quarter rate and the highest monthly figure since September 1973. The December surge reflected to some extent the continued snapback from the Ford strike, but more important was the improved availability of the popular GM models. Trade reports indicate full size and intermediate-sized cars showed impressive gains, but there was apparently a more moderate consumer response to rebates for small cars. Sales of imports were at a 1.5 million unit annual rate in December, the same as in the prior month and off almost 9 per cent from the third quarter sales rate--which benefited from special sales incentive programs.

Personal income rose by 1.1 per cent in November--the largest rise since last January--as manufacturing payrolls jumped due both to the return of striking auto industry workers and an unusually large increase in average hourly earnings. Although the fourth quarter income gain was significantly greater than that recorded in the preceding three month period, it did not match the gains recorded during the second half of 1975. Consumer outlays apparently rose in the fourth quarter at a pace faster than income and the saving rate is estimated to have fallen further to about 6 per cent--a rate low by the standards of the early seventies but near the average recorded in the sixties.

PERSONAL INCOME
(Per cent change at annual rate; based on seasonally adjusted data)

	July 75-* Nov. 76	Sept. 76- Oct. 76	Oct. 76- Nov. 76
Current Dollars			
Total Personal Income	9.9	9.7	12.7
Nonagricultural Income	10.8	10.5	12.9
Wage and Salary Disbursements	11.1	10.4	13.4
Private	11.7	8.1	14.6
Manufacturing	12.7	1.5	22.5
Government	9.0	18.7	9.2
Nonwage Income	7.9	8.4	11.5
Transfer Payments	8.2	9.3	14.2
Constant Dollars**			
Total Personal Income	4.3	5.5	9.2
Nonagricultural Income	5.2	6.3	9.4
Wage and Salary Disbursements	5.4	6.2	9.9

* July 1975 was the specific low for the deflated wage and salary component.
** Deflated by the CPI, seasonally adjusted.

The decline in the saving rate over the second half of 1976 may reflect some recent improvement in consumer confidence. The quarterly Michigan consumer survey showed that appraisals about inflation and unemployment improved substantially and expectations about longer-run business conditions were more optimistic, although there was a small dip in the index of sentiment following the strong third quarter gain. The bimonthly Conference Board index of consumer confidence measured in late November rose quite sharply to a level just under its first quarter high. This survey indicated a very strong improvement in buying plans for automobiles, homes, and major appliances over the next six months.

In contrast to the relative optimism characteristic of consumer expectations, businessmen continued to be cautious, and their attitudes apparently worsened during the pause. Business fixed investment, after rising at a moderate rate in the first three quarters of last year, appears to have slowed considerably in the fourth quarter--despite contrary indications by the Commerce November survey. Shipments of nondefense capital goods and sales of trucks were essentially unchanged in November and there was only a modest increase in non-residential construction outlays.

Evidence that this slowdown in capital spending may not be transitory is found in the slower advance in the second half of 1976 in contracts and orders for plant and equipment. In November, producers of nondefense capital goods reported that their bookings dropped 10.5

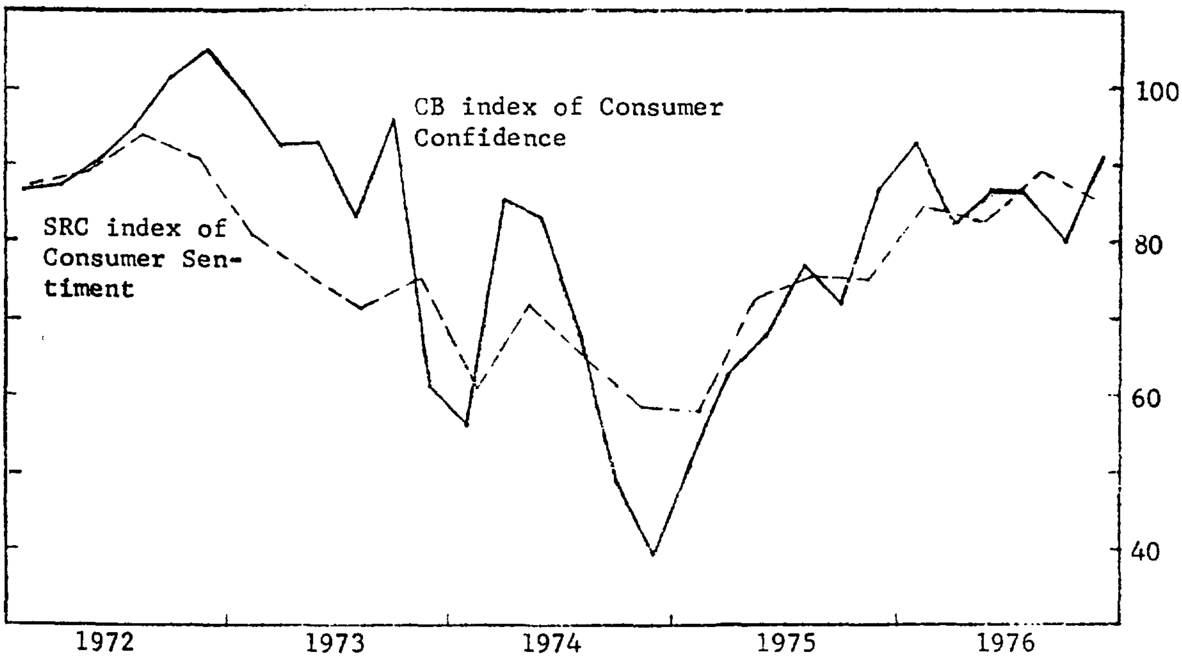
CYCLICAL CHANGES IN REAL INCOME*
(cumulative per cent change; based on seasonally adjusted data)

		Personal Income**	Wage and Salary Disbursements**
A. Expansions -- 16 months after trough			
Trough = June 1949		12.2	13.7
June 1954		11.0	11.5
Apr. 1958		7.6	10.0
Dec. 1960		7.9	8.5
Nov. 1970		8.0	7.7
July 1975		5.8	7.2
B. Change from Previous Peak			
Previous Peak	Trough plus 16 months		
Dec. 1948 -	Oct. 1950	9.2	9.9
May 1953 -	Oct. 1955	9.5	8.0
Mar. 1957 -	Aug. 1959	5.6	3.8
July 1960 -	Apr. 1962	6.8	6.4
Oct. 1969 -	Mar. 1972	8.3	5.4
Nov. 1973 -	Nov. 1976	2.4	0.4

* November 1973 was the specific high and July 1975 was the specific low for the deflated wage and salary component.
** Deflated by the CPI, seasonally adjusted.

TWO MEASURES OF CONSUMER ATTITUDES:

Michigan Survey Research Center (SRC) Index of Consumer Sentiment (1966 QI = 100) and Conference Board (CB) Index of Consumer Confidence (1969-1970 = 100)



CB index plotted middle of bi-monthly period; SRC index plotted middle of quarter.

COMMITMENTS DATA FOR BUSINESS FIXED INVESTMENT
(Percentage change from preceding period; based on seasonally adjusted data)

	1976 QI	1976 QII	1976 QIII	1976 Sept.	1976 Oct.	1976 Nov.	Nov. 75 to Nov. 76
New Orders Received by Manufacturers							
Total Durable Goods							
Current Dollars	8.1	5.5	-.8	-.6	2.0	1.8	17.4
1967 Dollars 1/	6.6	4.7	-2.4	-1.6	.7	1.3	10.1
Nondefense Capital Goods							
Current Dollars	6.3	5.6	5.8	6.1	6.2	-10.5	12.6
1967 Dollars 1/	4.7	4.5	4.4	5.2	5.4	-10.8	6.5
Construction Contracts for Commercial and Manufacturing Building 2/							
Current Dollars	1.4	11.0	-7.0	30.9	4.0	7.0	57.1
Square Feet of Floor Space	-8.6	24.1	-3.8	-9.5	11.1	-9.5	18.3
Contracts and Orders for Plant & Equip. 3/							
Current Dollars	11.7	3.1	.0	3.6	15.1	-13.2	13.0
1972 Dollars 4/	10.4	1.6	-1.1	2.8	14.0	-13.3	7.4

1/ FR deflation by appropriate WPI.

2/ Current Dollar series obtained from FR seasonal. Floor space is seasonally adjusted by Census.

3/ Contracts and orders for plant and equipment (BCD Series No. 10) is constructed by adding new orders for nondefense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and new contracts awarded for private nonbuilding (e.g. electric utilities, pipelines, etc.). These series do not yet reflect the December revision in orders data

4/ BCD series No. 20.

per cent to a level only fractionally above the level last June. Although a good deal of this drop can be attributed to a very sharp decline in commercial aircraft orders, there was a weakening of machinery orders as well. Commercial and industrial construction contracts were also weak in November as floor space contracted fell 9.5 per cent, almost erasing the October rebound.

The two most recent Commerce surveys suggest that plant and equipment outlays may be relatively sluggish for another quarter or two and then strengthen later on in 1977. The annual survey, conducted in December, showed an 11.3 per cent increase for 1977--essentially consistent with the earlier results of private soundings. The November quarterly survey had indicated a very weak first half of 1977.

Business appears to be making significant progress in bringing inventories into better alignment with sales. In October, retailers liquidated inventories, but manufacturing stocks grew quite rapidly in September and October, despite production cutbacks. However,

SURVEY RESULTS OF ANTICIPATED PLANT AND EQUIPMENT EXPENDITURES
1977
(Per cent increase from 1976)

	McGraw-Hill Nov. 1976	Merrill Lynch 1/ Oct. 1976	Rinfret 2/ Oct. 1976	Commerce 3/ Dec. 1976
All Business	13.0	13.5	10.0	11.3
Manufacturing	15.4	12.2	10.4	12.5
Durable	22.6	21.1	17.9	12.2
Nondurable	9.4	5.0	4.5	12.7
Nonmanufacturing	11.0	14.6	9.6	10.4
Mining	10.1	20.8	20.6	11.0
Railroads	18.9	3.2	2.8	10.5
Nonrail Transportation	8.3	4.9	8.2	-13.7
Electric Utilities	12.0	14.6	14.8	13.5
Gas Utilities	17.1	2.3	11.4	17.2
Communications	11.0	12.5	9.7	14.4
Commercial and Other	9.0	20.4	3.4	9.5

1/ Confidential results, formerly released under the name of Lionel D. Edie & Company, Inc.

2/ Confidential results, formerly released under the name of Rinfret-Boston Associates, Inc.

3/ Corrected for systematic bias.

in November, the book value of manufacturing inventories rose at only a $2.9 billion annual rate compared with $21 billion in October and an average of $15.4 billion during the third quarter. While liquidation of nondurable stocks occurred for the first time in a year, the big adjustment was at durable goods producers where there was a $12.5 billion slowing in the monthly rate of inventory investment. By stage of processing, the adjustment was concentrated in finished goods. The inventory-sales ratio for durable manufacturing rose sharply in September and October, but the November slowing in accumulation dropped this ratio to about its first quarter level. The ratio in nondurable manufacturing was off a bit in November to a level still above the average recorded over the first two quarters of the year.

With sales strengthening and manufacturing inventories little changed in November, industrial production gains probably continued into December. Increases in motor vehicles output were substantial last month--auto assemblies rose 14 per cent to a 10 million unit annual rate as producers made determined efforts to build stocks of the popular larger cars, and manufacturing employment increased over the month.

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

	1975			1976				
	II	III	IV	I	II	III	Oct.	Nov.
Manufacturing and trade	-12.9	8.6	-.4	23.1	31.5	29.6	21.4	n.a.
Manufacturing	-10.0	-4.2	.6	7.5	14.2	15.4	20.5	2.9
Durable	-2.0	-7.3	-4.4	1.7	6.8	6.8	17.7	5.1
Nondurable	-8.1	3.1	5.0	5.8	7.5	8.6	2.8	-2.2
Trade, total	-2.8	12.8	-1.0	15.6	17.3	14.2	.9	n.a.
Wholesale	-2.7	3.1	-2.0	5.1	9.0	4.3	1.5	3.8
Retail	-.1	9.7	1.0	10.5	8.3	9.9	-2.3	n.a.
Auto	.0	5.9	-.9	1.1	.1	4.8	-5.6	n.a.

INVENTORY RATIOS

	1974	1975	1976				
	IV	IV	I	II	III	Oct.	Nov.
Inventory to sales							
Manufacturing and trade	1.51	1.57	1.50	1.51	1.53	1.54	n.a.
Manufacturing	1.71	1.75	1.64	1.63	1.66	1.71	1.66
Durable	2.13	2.27	2.07	2.03	2.04	2.14	2.06
Nondurable	1.26	1.22	1.21	1.22	1.26	1.26	1.24
Trade, total	1.38	1.38	1.36	1.37	1.38	1.38	n.a.
Wholesale	1.15	1.23	1.20	1.22	1.22	1.23	1.23
Retail	1.53	1.50	1.47	1.48	1.51	1.49	n.a.
Inventories to unfilled orders:							
Durable manufacruring	.512	.611	.620	.625	.640	.641	.642

CHANGES IN EMPLOYMENT
(Average monthly change in thousands; based on seasonally adjusted data)

	June 75- Apr. 76	Apr. 76- Dec. 76	Oct. 76- Nov. 76	Nov. 76- Dec. 76
Nonfarm Payroll Series				
Total	257	118	233	257
(Strike adjusted)	(254)	(113)	(125)	(230)
Construction	1	-8	13	-4
Manufacturing	88	11	116	36
(Strike adjusted)	(90)	(8)	(10)	(28)
Durable	48	21	116	47
Nondurable	40	-10	0	-11
Trade	58	28	-25	100
Services and Finance	70	64	85	75
Total Government	34	17	32	25
State and Local	34	16	28	23
Household Series				
Total	290	119	357	222

* June 1975 was the specific low for payroll employment.

SELECTED UNEMPLOYMENT RATES
(seasonally adjusted)

	1973	1974	1975	1976 QI	1976 QII	1976 QIII	1976 QIV	1976 Nov.	1976 Dec.
Total, 16 years and older	4.9	5.6	8.5	7.6	7.4	7.8	8.0	8.1	7.9
Men, 20 years and older	3.2	3.8	6.7	5.7	5.7	6.0	6.3	6.5	6.2
Women, 20 years and older	4.8	5.5	8.0	7.4	7.1	7.6	7.6	7.7	7.6
Teenagers	14.5	16.0	19.9	19.4	18.7	18.8	19.0	19.0	18.9
Household heads	2.9	3.3	5.8	5.0	4.9	5.3	5.3	5.4	5.2
Married men	2.3	2.7	5.2	4.1	4.1	4.4	4.4	4.6	4.3
Total, Alternative Seasonal Adjustment Methods									
All Additive Factors				7.9	7.3	7.7	7.7	7.8	7.7
1975 Factors				7.8	7.5	7.6	7.9	7.9	7.9

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

	1975	1976					Per cent change in Nov. from:	
	QIV	QI	QII	QIII(r)	Oct.(r)	Nov.(p)	Month ago	Year ago
All Units								
Permits	1.11	1.17	1.13	1.34	1.49	1.59	+6	+41
Starts	1.37	1.40	1.43	1.59	1.81	1.71	-6	+23
Under construction 1/	1.04	1.06	1.06	1.11	1.14	n.a.	+3*	+ 8*
Completions	1.28	1.30	1.33	1.37	1.32	n.a.	-5*	+18*
Single-family								
Permits	.81	.87	.81	.89	1.00	1.09	+9	+33
Starts	1.03	1.12	1.09	1.19	1.34	1.24	-8	+18
Under construction 1/	.56	.59	.61	.64	.67	n.a.	+4*	+20*
Completions	.91	.97	.99	1.05	.97	n.a.	-5*	+31*
Multifamily								
Permits	.30	.30	.32	.45	.49	.50	+1	+60
Starts	.33	.28	.35	.40	.47	.47	-1	+41
Under construction 1/	.48	.46	.46	.47	.48	n.a.	+2*	- 5*
Completions	.37	.33	.34	.31	.35	n.a.	-5*	- 7*
Memo:								
Mobile home shipments	.23	.27	.24	.24	.27	.24	-9	+ 6

* Per cent changes based on October data.
1/ Seasonally adjusted, end of period.

NOTE: Per cent changes are based on unrounded data. A change of less than 1 per cent is indicated by --.

Nonfarm payroll employment rose 230,000 (strike-adjusted) in December, following a November increase of about 125,000. Gains were concentrated in the service-producing industries. Adjusted for strike activity, manufacturing employment rose by about 30,000 in December after remaining essentially unchanged between April and November. Payroll employment was up by 2.2 million from December 1975, with about one-fourth of the gain in manufacturing. Following a rebound in November from strike-affected levels, the factory workweek remained unchanged in December at 40.1 hours.

The unemployment rate, seasonally adjusted, receded to 7.9 per cent in December from 8.1 per cent in November and 8.3 per cent in December 1975. The drop reflects an unchanged civilian labor force and an increase of 220,000 in total employment. The improvement in the jobless situation was concentrated among men aged 25 years and over.

Private housing starts declined 6 per cent further in November but were still 7-1/2 per cent above the third quarter rate; permits on the other hand, rose in November. The fourth quarter average for total starts was probably a 1.7 million annual rate--the highest figure in three years.

It appears that more than half of the fourth quarter increase in total starts was in the still depressed multifamily sector--where acceleration of starts under HUD programs accounted for nearly all of this gain. Single-family starts also rose in the fourth quarter, probably averaging close to 1-1/4 million units--only 7 per cent below the previous cyclical peak in 1973. The high level of these starts reflects favorable mortgage market conditions and strong demand for home-ownership as evidenced by the high level of home sales.

Spending by State and local governments continued to be on the weak side. Construction put-in-place fell $1.3 billion in November--the second consecutive month of sharp decline. Field reports indicate that a large part of this weakness was due to unseasonably cold weather that affected many projects in the South and in the border states.

The average hourly earnings index rose at an annual rate of 4.8 per cent in December, somewhat slower than over the first 11 months. For 1976, the rate of increase averaged 6.7, down from 7.9 per cent during 1975 and 9.4 per cent for all of 1974.

Prices of all consumer items rose 0.3 per cent in November, slightly below the increases last summer and fall. In November, food prices declined after six months of small or no increase, and prices of energy items rose at their slow rate since last May. Excluding prices of these two categories, the November CPI advance just was under 6 per cent, about the same as the average gain over the first 10 months of 1976.

The wholesale price index rose 0.9 per cent in December, the fourth successive large monthly increase. The bulk of the rise occurred in the farm and food products group, while industrial commodities rose only 0.3 per cent as a decline in the fuel and power group offset continued increases elsewhere. Exclusive of energy items, the industrial commodities index rose 0.5 per cent about the average rise for 1976 as a whole.

HOURLY EARNINGS INDEX*
(Per cent change from preceding period, compound annual rate;
based on seasonally adjusted data)

	1976 QI	1976 QII	1976 QIII	1976 QIV	Dec. 75- Dec. 76	Oct. 76- Nov. 76**	Nov. 76- Dec. 76**
Private Nonfarm	6.9	6.5	7.1	6.2	6.7	6.6	4.8
Construction	5.1	7.6	5.5	4.0	5.4	7.2	5.4
Manufacturing	7.4	6.3	9.2	6.2	7.3	7.8	5.4
Trade	5.2	5.6	6.9	7.4	6.6	5.7	6.0
Services	8.3	6.6	4.8	7.2	6.7	9.3	6.8
Transportation and Public Utilities	9.1	9.3	6.6	4.4	7.0	5.3	-1.1

* Excludes the effects of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
** Monthly change at an annual rate, not compounded.

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

	Relative importance Dec. 75	Dec. 74 to Dec. 75	Dec. 75 to Mar. 76	Mar. 76 to June 76	June 76 to Sept. 76	Sept. 76 to Dec. 76	Nov. 76 to Dec. 76
			Wholesale Prices				
All commodities	100.0	4.2	-1.8	6.6	4.7	9.0	10.9
Farm and food products	22.8	-0.3	-15.8	18.0	-11.0	7.9	31.9
Industrial commodities	77.2	6.0	3.2	3.6	9.6	8.9	3.8
Excluding fuels and related products and power	66.8	5.1	6.1	3.6	7.6	7.0	6.7
Materials, crude and intermediate 2/	48.1	5.5	3.5	4.3	9.5	10.2	6.6
Finished goods							
Consumer nonfoods	18.7	6.7	0.5	2.3	10.1	6.8	2.9
Producer goods	11.9	8.2	6.8	3.3	5.7	10.0	8.8
Memo:							
Consumer foods	11.1	5.5	-20.5	16.8	-12.2	11.7	28.9

	Relative importance Dec. 75	Dec. 74 to Dec. 75	Dec. 75 to Mar. 76	Mar. 76 to June 76	June 76 to Sept. 76	Sept. 76 to Oct. 76	Oct. 76 to Nov. 76
			Consumer Prices				
All items	100.0	7.0	2.9	6.1	5.8	4.2	3.5
Food	24.7	6.5	-7.9	7.2	1.8	3.3	-2.6
Commodities (nonfood)	38.7	6.2	2.9	5.6	6.6	4.5	5.3
Services	36.6	8.1	10.6	6.2	7.1	6.6	4.6
Memo:							
All items less food and energy 2/3/	68.1	6.7	7.7	5.5	6.7	3.6	5.7
Petroleum products 2/	4.5	10.1	-15.7	9.3	15.6	13.6	9.8
Gas and electricity	2.7	14.2	6.4	12.1	13.6	15.5	1.2

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

III-T-1

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		December	34.54	6.7	8.3	1.5
Nonborrowed reserves		December	34.48	7.4	8.4	1.7
Money supply						
M1		December	311.8	7.7	7.2	5.8
M2		December	739.3	12.0	12.8	11.3
M3		December	1235.9	12.3	13.6	13.1
Time and savings deposits (Less CDs)		December	427.5	15.1	17.0	15.7
CDs (dollar change in billions)		December	63.8	1.7	1.4	-19.1
Savings flows (S&Ls + MSBs + Credit Unions)		December	496.6	12.7	14.8	15.9
Bank credit (end of month)		December	771.3	1.9	7.9	6.3
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	1/5/77	4.47	-.20	-.70	-.65
Treasury bill (90 day)	"	1/5/77	4.41	.01	-.66	-.76
mmercial paper (90-119 day)	"	1/5/77	4.63	-.05	-.62	-.81
w utility issue Aaa	"	1/7/77	7.75	-.18	-.51	-1.13
Municipal bonds (Bond Buyer)	1 day	1/6/77	5.78	-.18	-.47	-1.35
FNMA auction yield	(FHA/VA)	1/10/77	8.46	-.05	-.34	-.67
Dividends/price ratio (Common stocks)	wk. endg.	1/5/77	3.93	-.01	-.06	.02
NYSE index (12/31/65=50)	end of day	1/11/77	56.34	56.33	53.87	50.99

Credit demands

		Net change or gross offerings: Current month 1976	Current month 1975	Year to date 1976	Year to date 1975
Business loans at commercial banks	December	-.5	-1.4	1.3	-7.5
Consumer instalment credit outstanding	November	1.2	1.3	14.9	5.7
Mortgage debt outst. (major holders)	October	5.4	5.3	48.2	34.2
Corporate bonds (public offerings)	December	2.4e	1.8	26.0e	32.6
Municipal long-term bonds (gross offerings)	December	2.3e	2.0	34.7e	30.5
Federally sponsored Agcy. (net borrowing)	December	--	.5	2.9	2.3
		1977	1976	1977	1976
U.S. Treasury (net cash borrowing)	January	6.4	7.8	6.4	7.8
Total of above credits		17.2	17.3	134.4	105.6

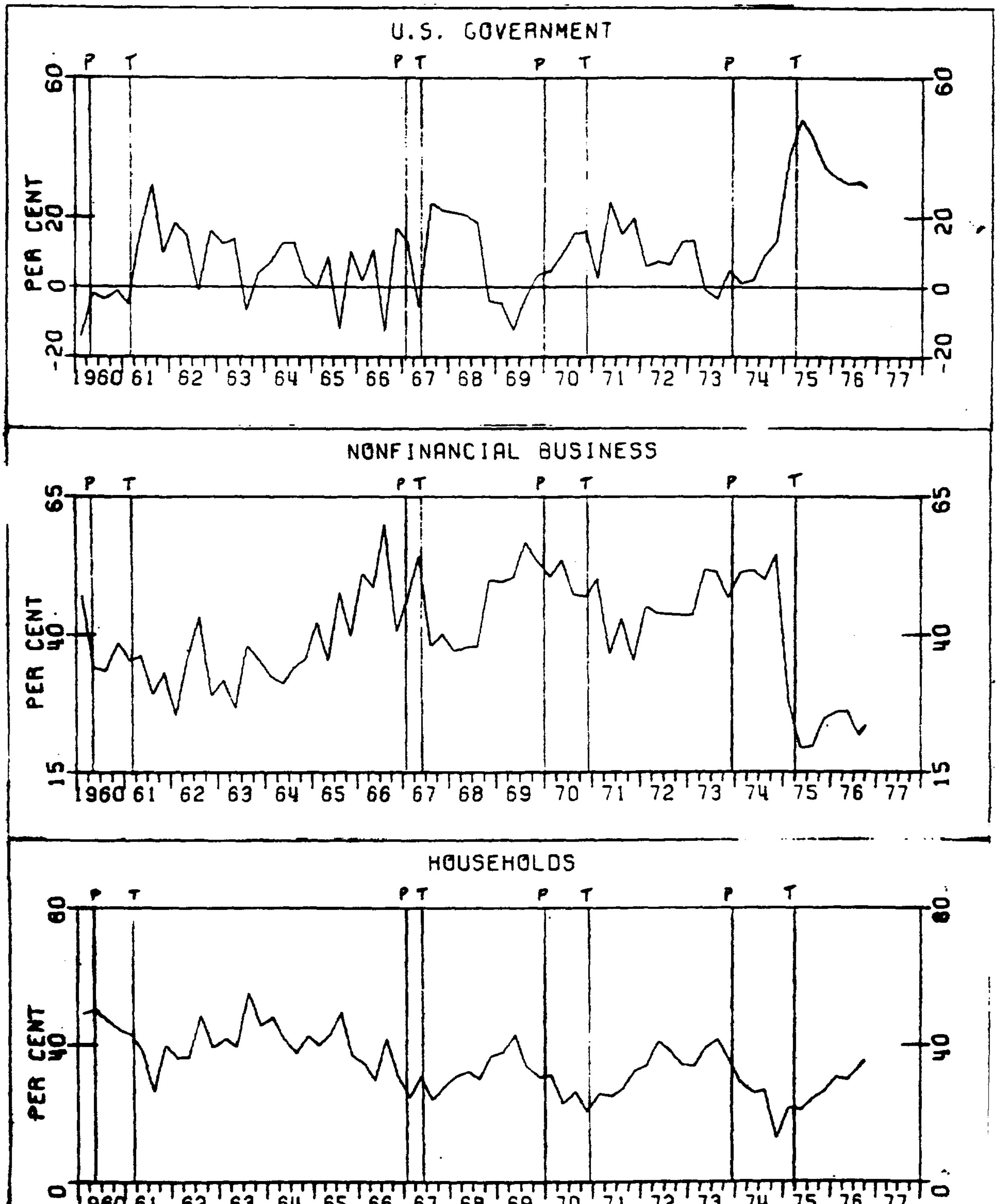
e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Total funds raised in credit and equity markets by all nonfinancial sectors increased moderately further in the fourth quarter--again about in line with the rise in GNP. Although borrowing by the Federal government continued to decline from the unprecedented rates reached in 1975, this sector still accounted for an unusually large share of total funds raised, particularly when compared with similar stages of previous economic expansions (see chart). In contrast, demands for funds by the nonfinancial business sector have remained quite small relative to the total, as internally-generated funds have been sufficient to finance over 90 per cent of expenditures for capital equipment and inventories. Households became the major borrowing sector during the last half of 1976, and accounted for more than a third of total funds raised in the fourth quarter; home mortgages continued to be the dominant form of household borrowing.

Financial intermediaries have been supplying an increasing share of total funds raised by the nonfinancial sectors in recent quarters, as shown in the lower panel of the table. With inflows of consumer-type time and savings accounts to banks and nonbank thrift institutions particularly strong in the fourth quarter, the depositary institutions accounted for an increased share of total funds advanced by all financial intermediaries.

FUNDS RAISED BY SELECTED SECTORS AS A PER CENT OF TOTAL FUNDS RAISED BY ALL NONFINANCIAL SECTORS 1/
(Quarterly totals at SAAR)
(1960-1976)



1/ U.S. Government, business, household, state and local government, and foreign sectors.
Source: Flow of Funds accounts. Data for 1976-Q4 are preliminary.

NET FUNDS RAISED BY AND ADVANCED TO NONFINANCIAL SECTORS IN CREDIT AND EQUITY MARKETS
(Billions of dollars, SAAR)

	1975		1976	
	H1	H2	H1	H2 p/
Funds raised and advanced	184.2	236.5	242.0	259.0
Funds raised by:				
U.S. government	80.8	89.6	73.8	72.0
State and local govts.	13.8	15.9	16.7	20.6
Foreign	8.6	17.3	15.7	15.6
Nonfinancial business	42.0	53.3	62.9	63.0
Long-term debt 1/	49.1	43.2	41.4	43.4
Short-term debt	-17.4	0.5	8.2	10.3
Equities	10.3	9.6	13.3	9.3
Households	39.0	60.4	72.8	87.8
Mortgages	34.6	46.2	53.6	63.9
Other	4.4	14.2	19.2	23.9
Funds advanced by:				
U.S. govt. related 2/	23.9	25.3	21.5	22.3
Foreign	18.0	3.4	17.6	16.1
Private domestic nonfinancial	34.2	65.2	59.9	36.3
State and local govts.	12.4	11.8	14.8	18.8
Households	17.9	32.9	32.9	- 0.9
Business	3.9	20.5	12.2	18.4
Private financial institutions 3/	108.3	142.3	143.1	184.4
Depositary institutions 4/	68.6	93.5	85.5	127.5
Other financial	39.7	48.8	57.6	56.9

1/ Bonds and mortgages.

2/ U.S. government, federally-sponsored agencies and Federal Reserve System.

3/ Net of funds raised in credit and equity markets.

4/ Commercial banks, mutual savings banks, savings and loan associations, and credit unions.

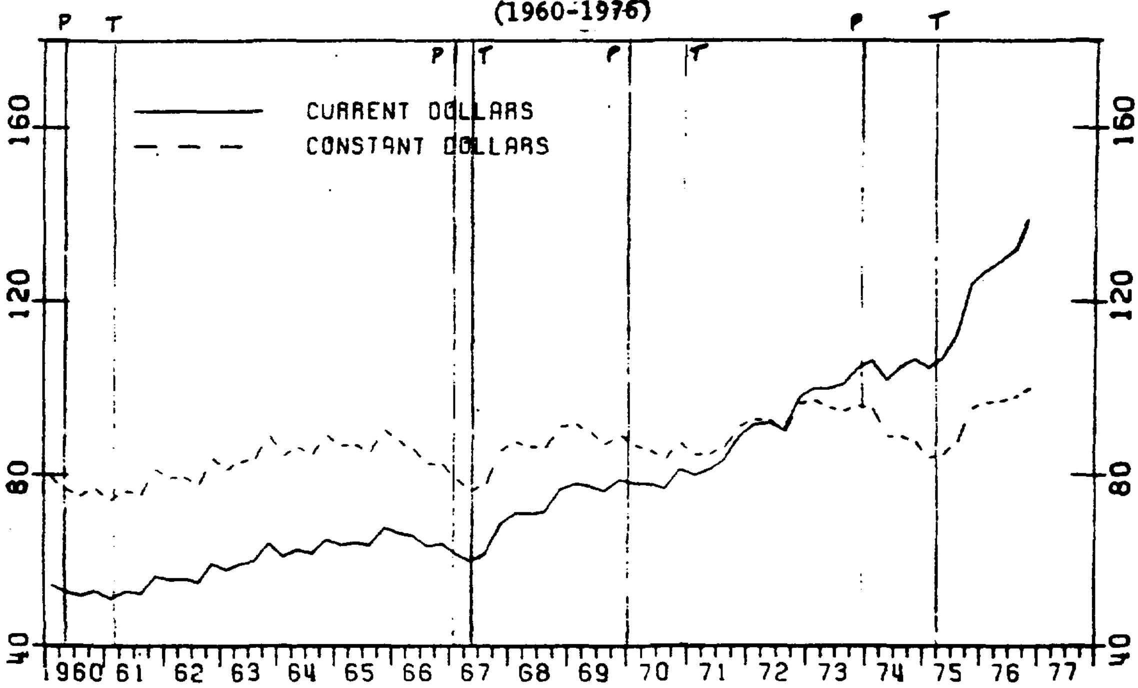
p/ Preliminary.

In association with ample credit supplies relative to demands, market interest rates generally declined through year-end. In the primary mortgage market, however, yield indices remained quite stable, although downward pressures on such rates intensified. Most short-term rates by year-end were at or near levels last seen in 1972, while most long-term rates had reached their lowest levels in three years. Moreover, as market rates fell further below ceiling rates on deposits of comparable maturity in the fourth quarter, deposit rate cutting by banks and nonbank thrift institutions became more widespread.

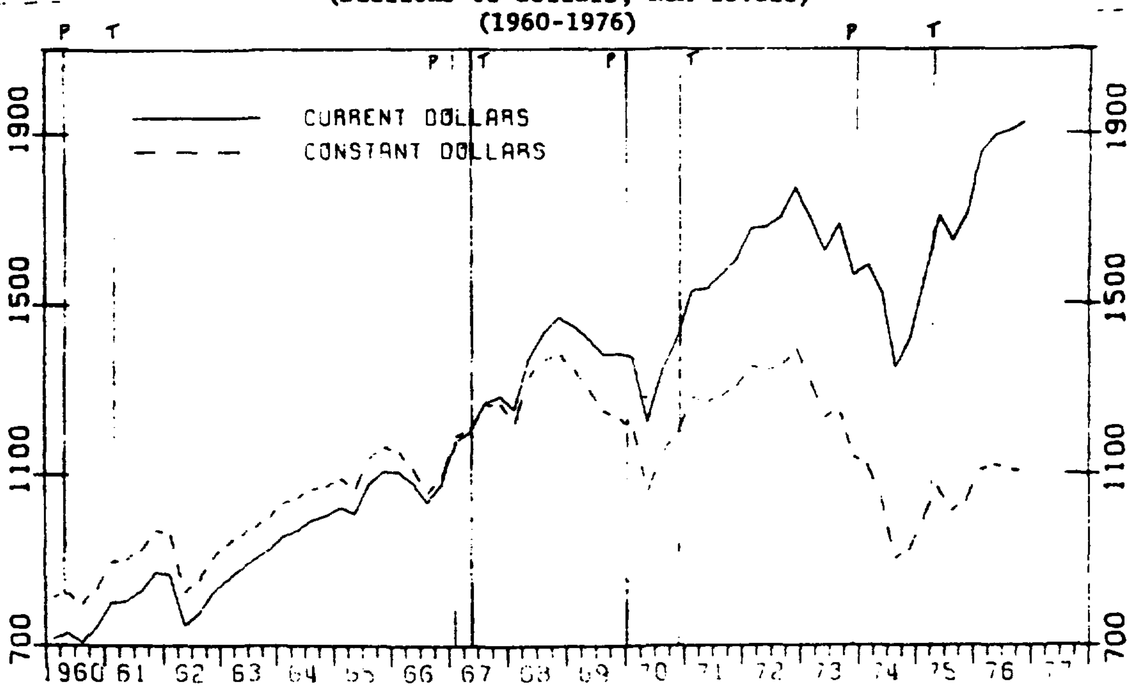
In the latest two weeks, however, market rates generally have backed up somewhat, due primarily to a revision in interest rate expectations. Primary home mortgage rates, on the other hand, declined moderately in early January.

Both businesses and households have continued to restructure their balance sheets by lengthening the maturity of their outstanding debt and by adding large amounts to their holdings of financial assets. However, as shown in the chart, liquid asset balances of nonfinancial corporations--when adjusted for price changes--are only slightly above levels reached four years ago. Moreover, in terms of purchasing power, household net worth is still well below levels reached during most of the 1967-1973 period, and has not increased since the first quarter of last year, partly reflecting the relative stability of stock prices.

NONFINANCIAL CORPORATE BUSINESS - LIQUID ASSET BALANCES
(Billions of dollars, NSA levels)
(1960-1976)



HOUSEHOLD SECTOR - FINANCIAL NET WORTH 1/
(Billions of dollars, NSA levels)
(1960-1976)



1/ Total financial assets less total liabilities.
Source: Flow of Funds accounts. Data for 1976-Q4 are preliminary.

Money Markets

At the time of the December FOMC meeting, which immediately followed announcement of a reduction in reserve requirements, short-term market interest rates had fallen to levels that suggested market anticipations of further reductions in the System's Federal funds rate target. Since that time, however, continued Federal funds trading around 4-5/8 per cent, improvements in incoming financial and economic data, and indications that fiscal stimulus to the economy by the new administration now seems more likely, have caused market participants to reassess their fund rate expectations. Treasury bill rates have increased about 30 to 35 basis points since the December meeting, placing the 3-month bill rate, on a coupon equivalent basis, above the Federal funds rate. Rates in most short-term private markets have increased somewhat less than on Treasury bills over this period.

Total commercial paper outstanding, seasonally adjusted, rose sharply during December for the second consecutive month. Nonfinancial corporate paper climbed by $700 million, while directly-placed paper of nonbank financial institutions increased $600 million. The finance subsidiaries of automotive manufacturers, reporting greater needs for funds to finance dealer inventories, were largely responsible for the increase in directly-placed paper.

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

	Dec. '75 FOMC Dec. 16	Oct. '76 FOMC Oct. 19	Nov. '76 FOMC Nov. 16	Dec. '76 FOMC Dec. 21	Dec. 28	Jan. 4	Jan. 11
Short-term							
Federal funds 1/	5.17	4.97	5.02	4.63	4.66	4.47	4.64 6/
Treasury bills							
3-month	5.51	4.84	4.83	4.27	4.35	4.49	4.60
6-month	5.94	4.95	4.95	4.47	4.52	4.63	4.80
1-year	6.28	5.10	5.07	4.61	4.64	4.75	4.94
Commercial paper							
1-month	5.50	4.75	4.88	4.50	4.50	4.50	4.63
3-month	5.88	5.00	5.13	4.63	4.63	4.63	4.75
Large neg. CD's 2/							
3-month	6.10	4.90	5.15	4.60	4.55	4.60	4.75
6-month	6.70	5.10	5.30	4.65	4.65	4.75	5.00
Federal agencies							
1-year	6.95	5.53	5.69	5.04	5.01	5.09	na
Bank prime rate	7.25	6.75	6.50	6.25	6.25	6.25	6.25
Intermediate and Long-term							
Corporate							
New AAA 3/	9.37	8.28	8.24	7.95	--	--	7.75p
Recently offered 4/	9.25	8.20	8.28	7.97	7.92	7.84	7.86p
Municipal (Bond Buyer) 5/	7.34	6.25	6.39	5.95	5.93	5.83	5.78
U.S. Treasury (Constant Maturity)							
5-year	7.82	6.60	6.60	6.14	6.16	6.19	6.68
20-year	8.22	7.69	7.67	7.29	7.26	7.22	7.52
Stock prices							
Dow-Jones Industrial	844.30	949.97	935.34	978.39	1000.08	987.87	976.65
N.Y.S.E. Composite	46.84	54.18	53.52	56.17	57.47	57.07	56.34
AMEX	82.31	98.56	98.23	104.32	108.09	110.30	110.01
Keefe Bank Stock	449	569	574	642	647	664	665

1/ Daily average for statement week.
2/ Highest quoted new issues.
3/ Average for preceding week.
4/ One day quotes for preceding Friday.
5/ One day quotes for preceding Thursday.
6/ Average for first 6 days of statement week ending January 12.

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

Longer-Term Securities Markets

While yields on intermediate-term Treasury coupon issues have risen even more than bill yields since the last FOMC meeting, yields on longer-term public and private securities have registered somewhat smaller increases, on balance. An apparent abundance of funds in the hands of major long-term investors has helped moderate movements in bond yields. Additional support has been provided by security dealers, whose inventories of Treasury coupon issues have remained near the high levels reached in late December.

U.S. Government. The Treasury has raised $2.5 billion of new funds since the December FOMC meeting through the auction of 5-year 1-month notes. With tax receipts in December somewhat larger than expected, the Treasury's cash balance at the end of 1976 totaled $11.7 billion--about $1 billion more than anticipated at the time of the December Greenbook. Also, the staff is projecting first-quarter marketable borrowing of $20 to 22 billion. Under this assumption, the Treasury would end the first quarter with a cash balance of around $10 billion--still a high level, but probably necessary to cover comfortably seasonal cash drains prior to the April tax date.

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

	1976					1977	
	HI	QIII e/	QIV e/	Nov. e/	Dec. e/	Jan. f/	Feb. f/
			Gross offerings				
Corporate securities--							
Total	4,666	3,495	4,284	3,100	5,100	5,200	4,800
Publicly offered bonds	2,499	1,568	2,100	1,200	2,450	3,200	3,000
By quality 1/							
Aaa and Aa	1,354	700	792	525	600	--	--
Less than Aa 2/	1,145	868	1,308	675	1,850	--	--
By type of borrower							
Utility	720	575	735	825	530	--	--
Industrial	1,055	515	865	325	1,270	--	--
Other	724	478	500	50	650	--	--
Privately placed bonds	1,055	1,293	1,467	1,200	2,000	1,200	1,000
Stocks	1,112	634	717	700	650	800	800
Foreign securities--total	928	702	812	1,366	720	--	--
Publicly offered 3/	530	422	598	1,310	250	300	--
Privately placed	398	280	214	56	470	--	--
State and local gov't securities							
Total	5,032	4,416	4,257	4,420	3,550	4,200	4,100
Long-term	2,886	2,735	3,040	3,250	2,350	3,200	3,000
Short-term	2,146	1,681	1,190	1,170	1,200	1,000	1,100
			Net offerings				
U.S. Treasury	5,128	5,215	4,669	6,623	6,053	5,500	10,500
Sponsored Federal agencies	207	383	165	-420	192	245	140

e/ Estimated.
f/ Forecast.
1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's.
3/ Classified by original offering date.

State and local governments. Yields on long-term tax exempt securities have changed little on balance since the December meeting.[1/] December's $2.35 billion of long-term municipal bond offerings brought the 1976 total to approximately $34.7 billion--14 per cent larger than the previous record high of 1975. However, short-term financing was down from the year earlier, and total financing in the municipal market during 1976 was about $56 billion, approximately 6 per cent less than in 1975.

The relatively low tax-exempt interest rates in the final quarter of 1976 allowed State and local governments to refund outstanding high-cost issues, to reduce further their dependence on the short-term market, and to accelerate long-term offerings scheduled for later dates. Recent announcements indicate that these trends will continue at least into early 1977.

Nonfinancial businesses. Corporate bond yields increased somewhat in early January, rising about 5 basis points above the levels reached around the time of the last FOMC meeting. Gross issues of publicly offered bonds by domestic corporations in December totaled $2.45 billion, more than twice the reduced November pace. As in other recent months, relatively few prime-rated bonds were brought to market, but a number of lower-rated (less than Aa) industrial and

1/ A compositional change in the Bond Buyer index in the first week of January caused a decline of about 5 basis points in the average.

finance company offerings were accelerated or enlarged. In addition, it is estimated that private placement takedowns, most of which are for lower-rated corporations, were a record in December.[1/]

January's corporate bond calendar is expected to be approximately $3.2 billion. A number of highly-regarded industrial corporations have scheduled bond offerings due to the relatively attractive levels of current yields. In addition, several utility companies have announced their intentions to call or refund coupon obligations that were issued in late 1969 and 1970 when corporate bond yields reached then-unprecedented highs. Five-year call and refunding protection periods have now expired for these issues, and at current market yields a large volume (possibly as much as $2.5 billion) are vulnerable to such action. January's calendar of gross offerings includes about $215 million of advance refundings.

Stock market prices have changed little, on balance, since the December FOMC meeting. New offerings of common and preferred stocks were $650 million in December, a continuation of the relatively light new issue volume that characterized the second half of 1976.

Monetary Aggregates

After showing no change in November, M_1 expanded at a 7.7 per cent seasonally adjusted annual rate in December, continuing

1/ Seasonal factors ordinarily account for large private placements in December.

the saw-toothed monthly pattern that has been quite pronounced over the September to December period. M_1 growth from the fourth quarter of 1975 to the fourth quarter of 1976 was 5.4 per cent, somewhat higher than the rate of increase registered in the two previous years. The pickup in M_1 growth occurred despite increased use of close M_1 substitutes--most importantly NOW accounts and business savings accounts--which are estimated to have held down the expansion in 1976 by roughly 1-1/2 percentage points.

Due to the rebound in M_1 and continued rapid growth of savings and time deposits at commercial banks, M_2 increased in December at a 12 per cent rate. Fueled by a record expansion of savings deposits, M_2 grew 10.9 per cent over the year. Even after excluding business and State and local government deposits, which increased rapidly, the growth of savings deposits in 1976 was at a record pace. Much of this strength can be attributed to the low level of short-term market interest rates relative to deposit rates at banks.

Net deposit flows to the nonbank thrift institutions slowed slightly in December, as deposit balances at mutual savings banks and S&L's taken together expanded at an annual rate of 12-1/2 per cent. As a consequence, growth of M_3 picked up only slightly in December. However, M_3 expanded more rapidly in 1976--12.8 per cent--than it had in any of the previous three years.

MONETARY AGGREGATES[1/]
(Seasonally Adjusted Changes)

	HI	QIII	QIV	Nov.	Dec.	Nov.-Dec.	Year[2/]
	Per Cent at Annual Rates						
M_1 (currency plus demand deposits)	5.6	4.1	6.0	0.0	7.7	3.9	5.4
M_2 (M_1 plus time deposits at commercial banks other than large CDs)	10.4	9.2	12.2	10.3	12.0	11.2	10.9
M_3 (M_2 plus deposits at thrift institutions)	11.8	11.6	13.9	11.5	12.3	12.0	12.8
Adjusted bank credit proxy	2.4	3.8	8.3	13.2	10.1	11.7	4.3
Time and savings deposits at CBs							
a. Total	6.3	7.1	12.0	15.6	17.6	16.8	8.1
b. Other than large negotiable CDs	14.1	13.2	16.7	17.9	15.1	16.6	15.2
1. Savings deposits	25.8	13.4	27.1	26.2	28.0	27.4	24.5
2. Time deposits	5.4	12.7	8.2	10.2	3.7	7.0	8.1
3. Small time deposits[2/]	9.5	26.0	29.1	33.1	3.2	18.2	19.7
Deposits at nonbank thrift institutions							
a. Savings and loans	15.5	16.5	18.2	14.8	14.5[e]	14.8[e]	17.3[e]
b. Mutual savings banks	9.7	12.2	12.1	10.0	8.4[e]	9.2[e]	11.3[e]
c. Credit unions	16.6	16.0	18.0	17.3	14.7[e]	16.1[e]	17.7[e]
	Billions of Dollars (Average monthly changes, seasonally adjusted)						
Memoranda:							
a. Total U.S. Government deposits	0.4	1.1	-1.0	-0.4	-3.4	-1.9	0.2
b. Negotiable CDs	-2.1	-2.7	0.5	0.1	1.7	0.9	-1.6
c. Nondeposit sources of funds	0.0	-0.1	0.3	0.1	0.1	0.1	0.1

1/ Year, half-year, and quarterly growth rates are based on quarterly average data.
2/ Small time deposits are total time deposits (excluding savings) less all large time deposits, negotiable and nonnegotiable.
e Estimated.

After declining for most of 1976, outstanding negotiable CD's at commercial banks showed little change in November and then rose sharply in December--by $1.7 billion. About one-third of this increase reflected issues of long-term CD's by two large New York City banks, but much of the growth was concentrated late in the month and appears to have been motivated by year-end window dressing considerations.

Despite reductions in offering rates by many institutions in the fourth quarter, yields available at depositary institutions were apparently still above yields on U.S. Government securities with similar maturities. Consequently, the rapid expansion in time and savings deposits at banks and nonbank thrift institutions continued through year-end. Initially, rate cutting at thrift institutions was more prevalent in longer-term certificate accounts, while that at banks was concentrated in time certificates maturing in 2-1/2 years or less. However, since the mid-November System survey of changes in deposit terms, reports in the financial press indicate that more banks and thrift institutions were reducing rates and that these actions were beginning to affect rates payable on savings deposits as well.1/

1/ As yet there are only scattered reports of cuts in rates payable on savings deposits, and some of the reductions have been limited to certain classes of depositors. By year-end, two very large banks on the West Coast had reduced, or were about to reduce, the rates offered on public savings deposits, and one of these banks announced a reduction in the rate it would pay on business savings deposits. Also, a number of smaller banks around the country were reported to have taken similar actions, and some of these banks cut rates on all savings deposits.

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

	1976 HI	1976 QIII	1976 QIV	Oct.	Nov.	Dec.	Nov-Dec	Year
Total loans and investments 2/	4.9	7.0	7.9	12.2	9.4	1.9	5.7	6.3
Treasury securities	36.8	0.0	10.6	-6.4	10.3	28.0	19.3	21.5
Other securities	-1.0	8.3	6.3	3.3	22.0	-6.4	7.7	3.2
Total loans 2/	1.6	8.0	7.8	18.2	5.7	-0.5	2.6	4.8
Business loans	-4.9	3.5	9.4	18.6	12.9	-3.4	4.7	0.7
Real estate loans	8.0	6.0	8.1	6.7	7.5	10.0	8.8	7.7
Consumer loans	4.9	11.3	n.a.	8.9	7.5	n.a.	n.a.	n.a.
Memoranda:								
a. Business loans less bankers acceptances	-3.5	0.5	5.9	16.2	5.6	-4.1	0.7	-0.2
b. Business loans less bankers acceptances plus nonfinancial commercial paper	-0.3	-2.2	7.0	14.5	5.8	0.6	3.2	1.0
c. Business loans (including bankers acceptances) plus nonfinancial commercial paper 3/	-1.7	0.6	10.3	16.7	12.7	1.3	7.0	1.9

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 to 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.
3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.

n.a.--not available

Loan Developments

Business loans. Acquisitions of Treasury securities and mortgages accounted for most of the modest expansion in total bank credit in December, as outstanding bank loans to business edged off following sizable increases in October and November. 1/ For the quarter as a whole, business loans grew at an annual rate of more than 9 per cent, but one-third of this increase reflected bank acquisitions of acceptances for tax purposes. Excluding acceptances, business loans had expanded sharply in October, but increased in November-December at less than a 1 per cent rate. The increase in business loans earlier in the quarter, and the subsequent drop-off, may be related to the rapid rate of inventory accumulation in manufacturing which more recently appears to have been brought closer into line with final sales.

Mortgage and consumer credit markets. Total mortgage lending apparently remained strong in December. Net mortgage acquisitions by S&L's in the October-November period were 5 per cent above the record pace of the third quarter, and S&L mortgage commitments outstanding rose $1 billion in November to a new high of $24.5 billion. Issues of GNMA-guaranteed securities remained large through December, and the fourth quarter average was one-fourth above the record third quarter rate. Moreover, net mortgage lending by commercial banks

1/ In 1974 and 1975, business loans contracted on a seasonally adjusted basis in December, while surrounding months showed growth. With December 1976 showing the same pattern, it appears that the weakness in business loans may be partly due to poor seasonal adjustment. On the other hand, if last year's pattern holds, recently-acquired acceptances will be allowed to mature without replacement, moderating the growth of business loans in the early months of 1977.

also increased further in the fourth quarter. These three sources accounted for more than four-fifths of the total net increase in mortgage debt in the third quarter of 1976.

Average rates on new commitments for conventional home mortgages in the primary market declined 8 basis points in early January, after remaining virtually unchanged for almost two months. In the secondary market, yields on conventional home mortgages have edged down on balance since the last FOMC meeting and in the more sensitive FHA/VA market have continued to move about in line with bond yields--declining through year-end and backing up most recently.1/ Despite recent movements, the spreads between primary conventional mortgage rates and both bond rates and secondary market rates for FHA/VA loans have widened considerably since the second quarter of last year.

The relative stability of rates on conventional mortgages has reflected in part limited sensitivity of diversified lenders to recent increases in spreads between yields on conventional mortgages and other investment alternatives;2/ although commercial and mutual savings banks stepped up their mortgage lending in the fourth quarter, they still provided only a relatively modest share of total mortgage funds in that period. Moreover, extremely strong demands for home

1/ Development of the market for GNMA-guaranteed securities backed by pools of FHA/VA mortgages has tightened the relationship between bond rates and secondary market yields on Government-underwritten mortgages.

2/ The limited reaction in the supply of funds to the conventional mortgage market at a time when other rates were falling is also due in part to the relatively underdeveloped secondary market for conventional loans.

INTEREST RATES AND SUPPLY OF FUNDS FOR CONVENTIONAL HOME MORTGAGES AT SELECTED S&Ls

End of period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from month or week earlier	Spread 1/ (basis points)	Per cent of S&Ls with funds in short supply
1976--High	9.10	--	93	11
Low	8.70	--	-17	0
June	8.90	+12	+20	6
July	8.98	+ 8	+26	7
Aug.	9.00	+ 2	+53	7
Sept.	8.97	- 3	+74	9
Oct.	8.90	- 7	+61	8
Nov.	8.80	-10	+75	6
Dec. 3	8.80	0	+85	2
10	8.80	0	+87	3
17	8.80	0	+85	3
24	8.78	- 2	--	4
31	8.78	0	+93	3
1977--Jan. 7	8.70	- 8	+95	n.a.

1/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.

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		
1976--High	171	121	9.31	634	321	9.20	8.44
Low	33	23	8.80	21	20	8.39	7.57
Dec. 6							7.62
13	80	68	8.89	36	23	8.51	7.60
20							7.57
27	71	67	8.80	21	20	8.39	7.57
1977--Jan. 3							7.56
10	184	133	8.81	386	286	8.46	7.92

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.

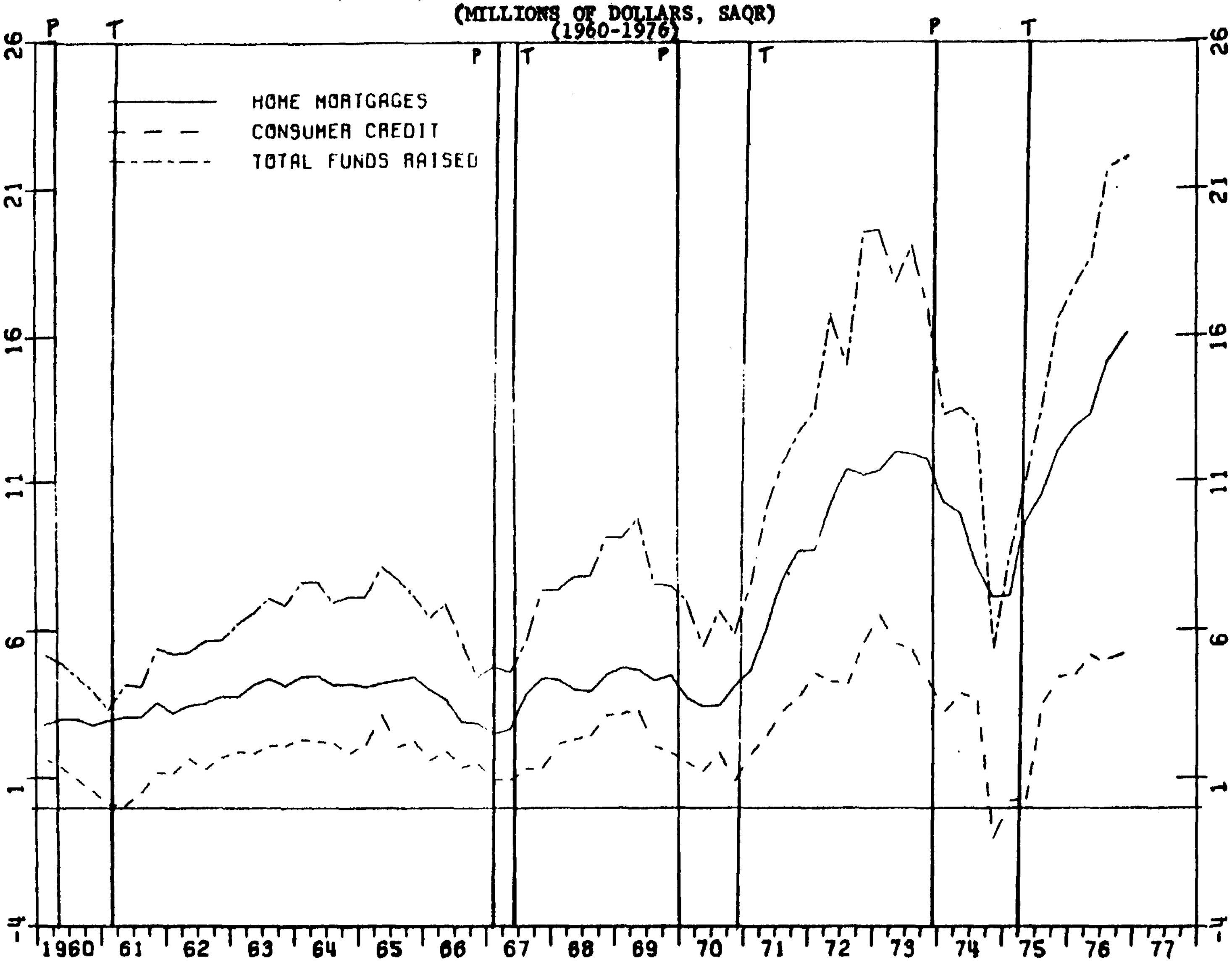
2/ Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate on such loans.

mortgage funds have helped to sustain rates on conventional mortgages. Indeed, very large amounts of funds have been lent in this market--primarily by the S&L's--at virtually unchanged interest rates, which are still extremely high by historical standards.

The strong demand for mortgage financing has been associated not only with a rise in the value of new-home sales, but also with the record volume of transactions in existing homes. Mortgage credit, of course, may be used by households for a variety of purposes, and may substitute to some extent for short- and intermediate-term consumer credit. During recent quarters, as shown in the following chart, the increase in home mortgage debt of households relative to consumer credit has been striking.

The growth rate in consumer instalment credit outstanding receded during November from the comparatively brisk October pace, slipping below the lower end of the 9 to 11 per cent range that prevailed since the spring. Thus, the rate of consumer credit expansion continued to fall short of the 13 to 15 per cent rates that characterized previous postwar recoveries. The moderate pace of credit growth in 1976 reflected in part the pause in durable goods sales growth in the second and third quarters, and a somewhat smaller than usual rise in the ratio of credit extensions to retail sales--particularly for autos.

HOUSEHOLDS--NET INCREASE IN CREDIT MARKET BORROWING
(MILLIONS OF DOLLARS, SAQR)
(1960-1976)



SOURCE: FLOW OF FUNDS ACCOUNTS.DATA FOR 1964-Q4 ARE PRELIMINARY.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976 1/ QII	QIII	Oct.	Nov.
Total						
Change in outstandings						
$ Billions	9.0	6.8	16.9	16.7	18.8	14.9
Per cent	6.1	4.4	10.5	10.0	10.9	8.6
Bank share (%)	44.4	41.7	40.1	43.8	42.9	30.7
Extensions						
$ Billions	160.0	163.5	182.5	186.8	192.7	189.2
Bank share (%)	45.4	47.2	47.2	47.9	47.4	47.5
Liquidations ($ billions)	151.1	156.6	165.6	170.1	173.9	174.2
Automobile Credit						
Change in outstandings						
$ Billions	0.3	2.6	7.6	7.1	6.3	5.7
Per cent	0.7	5.2	14.2	12.6	8.9	8.0
Extensions						
$ Billions	43.2	48.1	54.6	55.8	55.0	55.6
New-car loans over 36 mos. as % of total new-car loans						
Commercial banks 2/	8.8	14.0	22.4	28.5	--	30.7
Finance companies	8.6	23.5	32.3	36.2	36.9	37.5
New-car finance rate (APR)						
Commercial banks (36 mo. loans)	10.97	11.36	11.03	11.07	11.04	11.02
Finance companies	12.61	13.11	13.15	13.18	13.20	13.22

1/ Quarterly and monthly dollar figures and related percentage changes are SAAR.
2/ Series was begun in May 1974, with data reported for the mid-month of each quarter. Figure for 1974 is average of May, August, and November.

U.S. International Transactions
(In millions of dollars, seasonally adjusted 1/)

January 11, 1977

IV - T - 1

		1975 YEAR	1976 Q1	1976 Q2	1976 Q3	1976 Oct.	1976 Nov.
	erchandise exports	107,088	26,836	28,428	29,581	9,754	9,646
2	erchandise imports	98,058	28,510	29,771	32,614	10,654	10,710
3.	Trade Balance	9,030	-1,674	-1,343	-3,033	-900	-1,064
4.	Bank-reported private capital flows	-12,840	-2,960	-1,246	-1,607	1,716	-4,081
5.	Claims on foreigners (increase -)	-13,487	-3,637	-4,764	-3,341	-764	-3,519
6.	Long-term	-2,373	-291	-385	-989	-140	-266
7.	Short-term	-11,114	-3,346	-4,379	-2,352	-624	-3,253
8.	(of which on commercial banks in offshore centers 2/)	(-7,212)	(-3,603)	(-2,393)	(-2,258)	(-209)	(-2,226)
9.	Liabilities to foreigners (increase +)	647	677	3,518	1,734	2,480	-562
10.	Long-term	-300	-91	-25	66	171	-3
11.	Short-term	947	768	3,543	1,668	2,309	-559
12.	to commercial banks abroad	-666	1,077	2,220	1,957	2,466	-1,546
13.	(of which to commercial banks in offshore centers 3/)	(1,798)	(-227)	(1,205)	(299)	(3,156)	(-2,071)
14.	to other private foreigners	1,549	155	468	905	-128	979
15.	to int'l and regional organizations	64	-464	855	-1,194	-29	8
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,667	453	-598	3,020	19	538
17.	Other private securities transactions (net)	-3,701	-1,430	-1,226	-2,729	-350	-517
18.	Foreign net purchases (+) of U.S. corp. securities	2,505	1,030	131	77	20	-121
19.	(of which stocks)	(3,054)	(943)	(102)	(-31)	(-225)	(-110)
20.	U.S. net purchases (-) of foreign securities	-6,206	-2,460	-1,357	-2,806	-370	-396
21.	(new foreign issues on bonds and notes)	(-7,168)	(-2,830)	(-1,622)	(-3,011)	(-402)	(-434)
22.	Change in foreign official assets in the U.S.	5,211	2,329	3,310	1,272	842	919
23.	OPEC countries (increase +)	5,940	2,230	2,737	1,228	44	-65
24.	(of which U.S. corporate stocks)	(1,643)	(555)	(591)	(374)	(130)	(62)
25	Other countries (increase +)	-729	99	573	44	798	984
	hange in U.S. reserve assets (increase -)	-607	-773	-1,578	-407	-81	-431
27.	Other transactions and statistical discrepancy (net payments (-))	240	4,055	2,681	3,484	-1,246	4,636
28.	Other current account items	2,667	1,614	2,159	1,977		
29.	Military transactions, net 4/	-883	-5	-146	366		
30.	Receipt of income on U.S. assets abroad	18,219	5,495	5,594	5,797		
31.	Payment of income on foreign assets in U.S.	-12,212	-3,216	-3,134	-3,085		
32.	Other services, net	2,163	458	765	824		
33.	Remittances and pensions	-1,727	-483	-452	-464		
34.	U.S. Gov't grants 4/	-2,893	-635	-468	-1,461		
35.	Other capital account items	-6,952	-2,414	-1,202	49		
36.	U.S. Gov't capital, net claims 4/ (increase -)	-1,731	798	-212	301		
37.	U.S. direct investment abroad (increase -)	-6,307	-1,757	-202	-1,245		
38.	Foreign direct investment in U.S. (increase +)	2,437	-728	422	784		
39.	Nonbank-reported capital, net claims (increase -)	-1,351	-727	-1,210	209		
40.	Statistical discrepancy	4,525	4,855	1,724	1,458		
	MEMO:						
41.	Current account balance	11,697	-60	816	-1,056	n.a.	n.a.
42.	Official settlements balance	-4,604	-1,556	-1,732	-865	-761	-488
43.	O/S bal. excluding OPEC	1,336	674	1,005	363	-717	-553

NOTES:

1/ Only trade and services, U.S. Govt. grants and U.S. Govt. capital are seasonally adjusted.

2/ Offshore centers are United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda).

epresents mainly liabilities of U.S. Banks to their foreign branches in offshore centers which are the nited Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda).

4/ Excludes prepayments for military purchases.

INTERNATIONAL DEVELOPMENTS

<u>Foreign exchange markets</u>. In the four week period since the last green book the trade-weighted value of the dollar initially declined about 1.2 per cent, then recovered 0.7 per cent -- probably in response to changing expectations about interest rate differentials between the U.S. and foreign currencies. Also the British pound, Canadian dollar, and Mexican peso continued to recover from their recent weakness, and the mark rose against its partner currencies in the snake.

Since reaching a record low of $1.57 in late October, the pound has risen about 9 per cent to the $1.71 level, with about 2 per cent of this rise occurring during the last month. In addition the Bank of England was able to reduce gradually its Minimum Lending Rate 3/4 percentage point to 14 per cent. The pound has been bolstered recently by a series of favorable developments: a) on December 15 the U.K. government announced a new economic stabilization program; b) on December 22 the Group of Ten countries and Switzerland agreed to lend the IMF almost $3 billion through the General Arrangements to Borrow to help finance the Fund's loan to Britain; c) on January 3 the IMF formally approved the $3.9 billion loan to the U.K., and d) on January 10 an agreement to offset reductions in official sterling balances was announced by the Bank for International Settlements.

Under the terms of the IMF loan, the U.K. drew about $1.15 billion on January 7, and will be eligible to draw another $1.1 billion during 1977 and the final $1.6 billion in 1978. The agreement on official sterling balances involves an undertaking to seek an orderly reduction in the reserve role of sterling, in part through the offer of medium-term foreign-currency-denominated bonds by the United Kingdom to official holders in exchange for their present sterling balances. In addition the BIS will provide a $3 billion stand-by credit to the U.K. to finance any other reductions of official sterling holdings. To the extent that the BIS cannot finance from its own resources drawings by the United Kingdom, it can call upon a back up facility provided by the United States and other countries; the U.S. share will be $1 billion. The Managing Director of the IMF will assist in the implementation of the sterling balance agreement, which is linked to the conditions of the IMF loan to the United Kingdom.

During the past month the Canadian dollar has continued to recover from the sharp November decline that was associated with the election victory of the French Separatist Party in Quebec. From a low of about 97 U.S. cents in late November the Canadian currency has appreciated about 2 per cent, half of which occurred during the last four weeks.

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On December 24, the Italian monetary authorities announced a reduction in their tax on the purchase of foreign exchange from 7 per cent to 3-1/2 per cent. In addition they announced that the tax would be further reduced at a rate of 1/2 per cent per week till it is completely terminated on February 18. The lira had been very strong during the nine weeks that the tax was at the 7 per cent level,

. Following

the announcement of the gradual reduction of the foreign exchange tax, the lira came under some downward pressure,

. After about a week, however, the lira stabilized,

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After reaching a low of about 3.6 U.S. cents on November 22 when the Bank of Mexico prohibited commercial banks from dealing in foreign exchange, the peso recovered to about 5 cents after the inauguration of incoming President Lopez Portillo on December 1. During the last four weeks the peso has stabilized around this 5 cent level, and the spreads between bid and offer quotations have narrowed from about 2 per cent to 1/2 per cent. On December 20 the Bank of Mexico again allowed Mexican banks to trade foreign exchange,

.

On January 5 and 6 the Belgian and the Netherlands central banks cut their discount rates by 1 percentage point to 8 and 5 per cent respectively. Subsequently the mark rose against these and other currencies in the European joint float, and the German unit is now above the bottom of the snake for the first time since it was realigned on October 18.

. The System made purchases of Swiss francs from the Swiss National Bank sufficient to reduce the Swiss franc swap debt by \$60 million to \$1.026 billion. The System also drew and then repaid \$15 million on the swap facility with the Bundesbank. On net the System sold \$39 million equivalent of marks during the period.

The price of gold declined about \$4.00 during the past month to its present price of \$130.45. On January 10 the IMF began the restitution of 6-1/4 million ounces of gold to its members. On January 26 the Fund will hold its sixth gold auction. Beginning in March the auctions will be held on the first Wednesday of each month, rather than every six weeks.

<u>U.S. International Transactions</u>. Major recent developments include: (1) an increased trade deficit in November, bringing the October-November deficit to about the third quarter rate; (2) a rise in net receipts from investment income and military sales in the third quarter, offsetting part of the increase in net payments for goods; (3) a reduction in placements of OPEC funds in the U.S.

The U.S. <u>merchandise trade</u> balance in November was a deficit of $12.8 billion at an annual rate. For October-November combined, the United States recorded a deficit of $11.8 billion at an annual rate, about the same as in the third quarter. Over the two months combined, both exports and imports declined slightly as the pause in economic recovery continued in the United States and abroad.

In January-November 1976, the U.S. trade balance with non-oil LDCs declined by almost $6 billion from the level recorded in January-November 1975, as these countries continued to adjust to large current account deficits related to higher oil prices. Some LDCs have also cut back imports in 1976 because of lower export earnings in 1975. Over the first 11 months of 1976, U.S. imports from non-oil LDCs rose by 29 per cent while exports fell by 4 per cent, compared with the same period in 1975.

<u>Non-agricultural exports</u> in October-November fell by about 1 per cent from the third quarter level as the economic

pause in major industrial countries persisted and as non-oil LDCs continued to reduce their imports from the U.S. The volume of exports was off by about 3-1/2 per cent from the third quarter, while non-agricultural export prices rose by about 2-1/2 per cent, about in line with the higher rate of increase in U.S. industrial prices in general over the last few months.

New export orders for machinery, which account for one third of non-agricultrual exports, remained flat in October and November at about the third-quarter level and 25 per cent higher than in the second quarter. However, October-November machinery exports were off by 3 per cent from the third-quarter rate, even though some increase was expected, given the normal order-delivery lag of about 3 months.

Agricultural exports in October-November dropped off by 3 per cent from the record third-quarter rate. Both the volume and the price of these exports fell in response to the news of record world grain crops. Exports of soybeans, corn, barley, and grain sorghum to the areas of Europe stricken by drought last summer remained strong. The volume of wheat exports was down 40 per cent from the same period last year, reflecting the much improved crops in wheat-importing regions, especially the Soviet Union and India. On balance, the outlook is for a continued heavy volume of agricultural exports with little change in prices.

Non-fuel imports declined in October-November. They were reduced by the effects of the economic pause in the United States and a slowdown in car imports from Canada following the September-October Ford strike in the United States, which interrupted deliveries of parts to Canada. Car imports from Europe and Japan in October-November picked up slightly from the third-quarter rate as sales remained relatively strong.

Fuel imports jumped to a record rate of 8.8 million barrels per day in November after falling to 7.4 million barrels per day in October. The average rate of 8.1 million barrels per day in October-November, while down slightly from the third-quarter rate, was still high relative to current demand, reflecting additional stockpiling in anticipation of the OPEC price increase. The average price of a barrel of imported oil rose from $12.17 in the third quarter to $12.25 in October and $12.34 in November.

Third-quarter 1976 military and service transactions data now available show a $15.6 billion dollar (annual rate) surplus, up $3.3 billion from the revised second-quarter figure and up $8.3 billion from the 1975 rate. Military exports were $2.3 billion higher (annual rate) in the third quarter than in 1975. This new higher level is expected to be maintained in the fourth quarter of 1976 and in 1977. Third-quarter net investment receipts also rose substantially, by more than $4.8 billion at an annual rate over the 1975 level. Higher income receipts from U.S. direct

U.S. Merchandise Trade-International Accounts Basis
(billions of dollars, seasonally adjusted annual rates)

	1975	1976						
	Year	1Q	2Q[r]	3Q[r]	Oct. & Nov.	Sept.	Oct.	Nov.
EXPORTS	107.1	107.3	113.7	118.3	116.4	118.3	117.0	115.8
Agric.	22.2	21.3	23.4	25.4	24.5	25.2	28.3	20.8
Nonagric.	84.8	86.1	90.3	93.0	91.9	93.0	88.8	95.0
IMPORTS	98.1	114.0	119.1	130.5	128.2	131.8	127.8	128.5
Fuels	28.5	31.8	36.5	40.1	39.7	38.5	36.2	43.2
Nonfuels	69.5	82.3	82.6	90.4	88.5	93.3	91.6	85.3
BALANCE	+9.0	-6.7	-5.4	-12.1	-11.8	-13.5	-10.8	-12.8

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

Price and Volume of U.S. Non-agricultural Exports and Non-Fuel Imports
(Index Numbers, 1973=100)

	1975	1976						
	Year	1Q	2Q	3Q	Oct. & Nov.	Sept.	Oct.	Nov.
NONAG. EXPORTS								
Price	114.1	150.3	152.4	153.9	157.7	156.5	157.4	158.0
Volume	110.1	107.0	110.8	112.9	108.9	111.1	105.4	112.3
NONFUEL IMPORTS								
Price	140.9	138.6	141.7	144.1	145.0	145.1	145.1	144.9
Volume	80.2	96.6	94.8	102.0	99.3	104.6	102.8	95.8

investment abroad, mainly due to increased earnings of oil companies, accounted for over half the growth in net investment income.

The current-account balance for the third quarter of 1976 showed a deficit of $4.2 billion at an annual rate, after a surplus of $3.3 billion in the second quarter. U.S. Government grants to Israelwere bunched in the third quarter rather than spread evenly between the first, second, and third quarters because of an initial Presidential veto of enabling legislation. Assuming an even use of these grants throughout the year, the third-quarter current account deficit was inflated by about $2 billion and the second-quarter surplus overstated by about $1 billion at an annual rate.

Bank-reported capital transactions data show a net outflow of $4.1 billion in November. After correcting for the bias introduced by temporary weekend transactions, the outflow is reduced to about $2.1 billion. For October-November, a $2.4 billion net outflow was recorded, mostly connected with transfers of funds from head offices of U.S. banks to their Caribbean branches, where they financed an expansion of both loans to non-banks and interbank placements. Data for October and November from the overseas branches of U.S. banks suggest a sizable refinancing of maturing credits to nonbank foreigners, likely involving takedowns on several large Eurocredit facilities arranged for a number of non-oil LDCs.

New issues of foreign bonds in the United States were about the yearly average of $2.5 billion per quarter in the fourth quarter of 1976. Planned foreign bond issues in January-February are about $1 billion, $900 million of which are new Canadian issues. New foreign bond issues are probably being delayed by a heavy volume of new U.S. corporate bonds early in 1977 and higher spreads currently facing Canadian borrowers.

Foreign official assets in the United States increased by about $900 million in November and by about $1.8 billion in October and November combined. OPEC official reserve holdings in the United States fell slightly in October-November, as several non-Middle East OPEC nations ran down their reserves in the United States at a rate which more than offset the increases recorded by the other OPEC nations.

Monetary policy and monetary conditions in major foreign industrial countries. No major shifts in the direction of domestic monetary policy occurred in major foreign countries in the past three months. Authorities in the United Kingdom and Italy did adopt some new measures, but these were essentially additional means of implementing the restrictive policies that high inflation rates and consequent exchange-market pressure had induced them to adopt earlier. Similarly, French authorities maintained their restrictive policies. In Canada, Germany, and Switzerland monetary policy actions continued to be directed toward hitting the target for monetary growth that each country had announced previously. In the countries participating with Germany in the EC snake, earlier exchange-market pressure subsided following the realignment of the snake in October; as anticipated, interest rates have been allowed to decline from their extraordinarily high levels, especially in Belgium and the Netherlands. No changes in the direction of domestic monetary policy were made in Japan.

The lack of policy initiatives in recent months reflects, in addition to uncertainty about the outlook for economic activity, the absence of serious exchange-market disruptions which had induced sharp policy responses in previous periods. The Canadian dollar is the only currency, among the major industrial countries, to have come under pronounced pressure, and the Bank of Canada, as usual, chose not to adjust policy to affect the exchange rate.

The development of interest rates and the monetary aggregates in selected countries is shown in the tables below. Against a background

3-MONTH AND LONG-TERM INTEREST RATES IN SELECTED INDUSTRIAL COUNTRIES
(Per cent per annum)

	1976 High	1976 Low	1976 Sept.*	1976 Oct.*	1976 Nov.*	1976 Dec.*	Latest
3-MONTH RATES 1/							
Belgium	15.00 (Sept.)	6.13 (Jan.)	13.90	13.94	12.48	10.73	8.25 (1/11)
Canada	10.38 (Mar.)	8.00 (Dec.)	9.40	9.34	9.08	8.51	8.13 (1/11)
France	11.25 (Oct.)	6.00 (Jan.)	9.53	10.39	10.41	10.55	10.00 (1/12)
Germany	5.00 (Dec.)	3.40 (May)	4.57	4.76	4.61	4.82	4.80 (1/12)
Italy	20.88 (July)	7.50 (Jan.)	16.83	18.61	17.76	17.13	15.75 (1/12)
Japan	8.25 (Jan.)	7.25 (May)	7.50	7.50	8.00	8.00	7.50 (1/12)
Netherlands	16.00 (Aug.)	2.63 (Mar.)	12.67	10.23	8.22	6.51	6.13 (1/11)
Switzerland	2.63 (Jan.)	0.75 (June)	1.40	1.80	2.12	1.98	1.25 (1/12)
United Kingdom	16.25 (Oct.)	8.31 (Feb.)	12.11	14.57	14.75	14.27	14.06 (1/11)
United States	5.75 (June)	4.50 (Dec.)	5.25	5.03	4.87	4.54	4.50 (1/5)
LONG-TERM GOV'T. BOND YIELDS 2/							
Belgium	9.30 (Nov.)	8.80 (Jan.)	9.11	9.17	9.30	n.a.	9.30 (11/30)
Canada	9.49 (Jan.)	8.47 (Dec.)	9.16	9.09	8.82	8.47	8.47 (12/29)
France	10.72 (Dec.)	9.89 (Feb.)	10.43	10.67	10.70	10.72	10.72 (12/31)
Germany	7.74 (Jan.)	6.26 (Dec.)	7.00	6.93	6.39	6.44	6.27 (1/7)
Italy	14.54 (Oct.)	11.40 (Jan.)	13.49	14.52	14.09	13.92	13.92 (12/31)
Japan	8.80 (Nov.)	8.61 (Feb.)	8.77	8.77	8.80	8.73	8.73 (12/31)
Netherlands	9.76 (Sept.)	7.00 (Feb.)	9.76	8.37	7.98	7.43	7.43 (12/31)
Switzerland	5.86 (Jan.)	4.41 (Nov.)	4.89	4.60	4.41	4.42	4.42 (12/31)
United Kingdom	15.51 (Oct.)	12.84 (Feb.)	14.76	15.36	14.65	13.82	13.40 (1/7)
United States	8.17 (May)	7.26 (Dec.)	7.77	7.74	7.51	7.27	7.52 (1/11)

* The 3-month rates shown are the average of daily rates in the month; long-term yields are end-month quotations.
1/ Interbank rates, except: Belgium-time deposit rate; Canada-finance company rate; Japan - rate on paper of 2-month or greater maturity; U.S. - 90-day CD rate (most often quoted).
2/ The long-term rates quoted are all government bond yields (mostly composite yields). For the United States, the 20-year constant maturity bond yield is quoted.

GROWTH OF THE MONEY STOCK
IN SELECTED INDUSTRIAL COUNTRIES
(Percentage change; SAAR)

	Average change during latest 3 months	Average change during previous 3 months	Change in latest 3 months from same period year earlier	Latest Month
Canada M_1	2.2	13.0	4.2	Nov.
M_2	11.3	15.4	16.2	Oct.
France M_1	7.6	8.2	13.7	Oct.
M_2	10.4	9.1	16.2	Oct.
Germany M_1	4.7	6.8	7.5	Nov.
M_2	13.1	12.6	8.9	Nov.
CBM 1/	13.3	10.5	9.4	Nov.
Japan M_1	9.7	15.4	16.2	Nov.
M_2	11.4	12.8	15.1	Nov.
Switzerland M_1 2/	6.4	1.9	9.0	Oct.
United Kingdom M_1	7.2	16.1	14.1	Nov.
M_2	15.8	17.1	13.0	Nov.
United States M_1	4.5	3.8	4.9	Nov.
M_2	12.0	8.6	10.3	Nov.

1/ "Central Bank Money," which approximately equals a weighted sum of the components of M_3.

2/ Swiss data are not seasonally adjusted.

of declining U.S. rates, short-term interest rates abroad have tended to fall since the third quarter of 1976. While short-term rates in France, Germany, Japan, and the United Kingdom now are as high or higher than they were at the end of September, they are below the peaks reached during the fourth quarter. In all countries except the United States short-term rates are currently above their 1976 lows. Long-term yields have declined in Canada, Germany, the Netherlands, Switzerland, the United Kingdom, and Japan, and have risen in Italy, and France, and Belgium. The money stock in recent months has grown more slowly than in previous months in Canada, Japan and the United Kingdom, but has grown more rapidly in Germany and Switzerland; in France, M_1 has grown more slowly and M_2 more rapidly.

On December 15, British Chancellor of the Exchequer Denis Healey announced, in his Letter of Intent to the IMF, that (1) public spending plans and the public sector borrowing requirement for the next two years will be cut, and (2) that domestic credit expansion (DCE) will be limited to £9 billion in the year ending April 20, 1977 and to £7.7 billion in the subsequent year. DCE comprises all lending in sterling by British banks, net lending by nonresidents to the British public sector, and the change in nonbank holdings of notes and coins.

The DCE target implies a rate of growth of M_3 of about 12 per cent in the current fiscal year (about 10-1/2 per cent if one excludes residents' foreign-currency deposits). This is the same growth rate envisioned by the Chancellor in his budget statement last July, and, therefore, represents no significant change in the already-restrictive stance of monetary policy. That policy is being implemented in part by limits, announced in mid-November, on the growth of the banks' interest-bearing liabilities (the "corset"). In addition, the Bank of England has sold a very large volume of government securities (gilts) to nonbanks (£4 billion, net of redemption, in the three months to mid-December). The sharp increase (from 13 to 15 per cent) in the Bank of England's Minimum Lending Rate on October 7 and the subsequent gradual decline in that rate (to 14 per cent on January 7) evidently generated expectations of declining interest rates that gave strength to the bond market.

Data recently received confirms that the Italian central bank was successful throughout most of 1976 in reducing the rate of growth of the Italian monetary base. Whereas the total base (adjusted for reserve requirement changes and for seasonal factors) increased almost 24 per cent in the 12 months ending September 1975, it increased less than 10 per cent in the 12 months to September 1976. However, the base increased by almost 5 per cent in October 1976 alone and, given the unwinding (from mid-October to mid-July 1977) of the import-deposit scheme and the continuing large government deficit, it is likely that it has been growing rapidly in subsequent months as well. The strength of the Treasury bill market, reflected in the general decline in Italian short-term interest rates from their end-October peak, suggests that the banks are very liquid. Indeed, the Bank of Italy seems to have acknowledged the difficulty of controlling the growth of the monetary base by announcing, on October 15, that a ceiling of 11 per cent would be imposed on the expansion of bank credit in the period from end-June 1976 to end-March 1977. The ceiling, which was justified publicly in terms of the need to meet the DCE target agreed upon with the EC, applies to customers with 100 million lire (just over $100,000) or more of outstanding debt; these customers account for the bulk of bank credit.

Near the end of September, Prime Minister Barre of France announced his anti-inflationary program and noted a target for the growth rate of M_2 of 12.5 per cent during 1977. Also in September, the Bank of France raised its discount rate (from 9.5 to 10.5 per cent) and lowered the ceilings for the expansion of bank credit in 1977 (as compared with the ceilings in the second half of 1976). Since then there has been little change in the basic stance of French monetary policy. At the end of October, the Bank of France began to require banks to hold interest-free reserves at the Bank of France in amounts equal to 0.5 per cent of new and outstanding loans. In addition, the base on which these reserves are calculated was slightly enlarged, as of January 1, by disallowing the deduction from that base of certain bonds denominated in French francs which had been issued on the domestic capital market and are officially quoted on a stock exchange. But short-term interest rates have fallen from their October peak (though long-term yields have continued to rise).

The slow growth of M_1 in Canada in recent months -- 2.2 per cent (SAAR) for the September-November period compared with the target rate of 8-12 per cent announced last August -- prompted the Bank of Canada to lower its discount rate from 9.5 to 9 per cent on November 22 and to 8.5 per cent on December 21. Governor Bouey stated that the trend of employment and output -- in addition to the money stock data -- supports the judgment that a reduction in the discount rate will be constructive, but he emphasized that it should not be interpreted as a change in the basic orientation of Canadian monetary policy.

In contrast to Canada, monetary growth in Germany and Switzerland has exceeded target rates. Available German data show that the average level of "Central Bank Money" (CBM) in January through November 1976 was 8.9 per cent above the 1975 average; the target for all of 1976 was for an increase of 8 per cent. The Bundesbank announced in mid-December that it will aim for an 8 per cent growth rate of CBM in 1977, comparing the average level of CBM in 1977 with the average level in 1976. According to the Bundesbank, growth of CBM was particularly steep in the last few months of 1976, so that the new 1977 target implies a growth rate of CBM of 6 to 7 per cent from 1976Q4 to 1977Q4.

The Swiss National Bank announced at the end of November that it has set a target of 5 per cent for the growth of M_1 in 1977, again comparing the average level of M_1 in 1977 with the average level in 1976. In its latest report, the SNB said that the slow growth of M_1 in 1975 (relative to the target) was offset by excessive growth in 1976, so that, on balance, M_1 growth in 1975-76 was in line with the 6 per cent targets it had set for each of those years.

There seems to be a broad consensus that some stimulative actions are needed in Japan, but the December election and the change in government have slowed the decision-making process. A moderate program concentrating on increased and accelerated public works spending and promotion of private investment was adopted in November; a supplemental budget (incorporating increased outlays for public works) was approved by the Cabinet on January 5 and will be introduced in the Diet around mid-January. A reduction in the Bank of Japan's discount rate in January is also widely expected; it now stands at 6.5 per cent.

The Bank of Japan recently announced its credit ceilings for the first quarter of 1977. The ceilings allow for an expansion of credit by city banks of a little over 2 per cent in the current quarter over the previous quarter -- a slower rate of expansion than in previous quarters, but a rate thought to be ample given the weak demand for credit.

In the smaller European countries, the situation is mixed. In the Benelux and some of the Scandinavian countries, monetary conditions were tightened sharply in the third quarter in an attempt to defend the exchange-rate relationship with Germany in the EC "snake". Since the "snake" realignment in mid-October, market interest rates have declined significantly in Belgium and the Netherlands and, to a lesser extent, in Denmark. Last week, the central bank discount rate in Belgium was lowered from 9 to 8 per cent and in the Netherlands from 6 to 5 per cent; the Dutch rate had declined from 7 to 6 per cent in late November. The discount rate in Denmark was lowered from 11 to 10 per cent in December, but, because of balance-of-payments problems, policy -- especially fiscal policy-- remains very tight. In Sweden and Norway, where inflation rates remain relatively high and unemployment rates relatively low, monetary policy has not eased significantly since the "snake" realignment.