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CONFIDENTIAL (FR)

February 9, 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	Jan.	2-4-77	95.5	-5.6	.9	2.2
Unemployment rate (per cent)	Jan.	2-4-77	7.3	7.8 1/	7.9 1/	7.8 1/
Insured unemployment rate (%)	Jan.	2-4-77	4.1	4.5 1/	5.0 1/	4.4 1/
Nonfarm employment, payroll (mil.)	Jan.	2-4-77	80.6	3.5	3.7	2.7
Manufacturing	Jan.	2-4-77	19.2	5.9	5.3	2.6
Nonmanufacturing	Jan.	2-4-77	61.4	2.7	3.2	2.8
Private nonfarm:						
Average weekly hours (hours)	Jan.	2-4-77	35.8	36.2 1/	36.1 1/	36.4 1/
Hourly earnings ($)	Jan.	2-4-77	5.06	5.02 1/	4.95 1/	4.72 1/
Manufacturing:						
Average weekly hours (hours)	Jan.	2-4-77	39.7	40.0 1/	39.9 1/	40.4 1/
Unit labor cost (1967=100)	Dec.	1-30-77	146.3	-5.7	1.4	3.5
Industrial production (1967=100)	Dec.	1-14-77	132.8	8.2	6.1	6.8
Consumer goods	Dec.	1-14-77	141.1	20.8	14.4	6.7
Business equipment	Dec.	1-14-77	140.9	12.0	9.9	7.1
Defense & space equipment	Dec.	1-14-77	78.6	4.6	4.6	1.2
Material	Dec.	1-14-77	132.3	.0	-.6	7.3
Consumer prices (1967=100)	Dec.	1-19-77	174.3	4.8	4.2	4.7
Food	Dec.	1-19-77	182.3	2.6	1.1	.4
Commodities except food	Dec.	1-19-77	160.6	6.0	5.3	5.1
Services	Dec.	1-19-77	185.4	4.5	5.2	7.3
Wholesale prices (1967=100)	Dec.	1-12-77	188.6	10.9	8.9	4.7
Industrial commodities	Dec.	1-12-77	188.7	3.8	8.7	6.3
Farm products & foods & feeds	Dec.	1-12-77	185.6	31.2	7.7	-1.2
Personal income ($ billion) 2/	Dec.	1-19-77	1440.7	16.3	14.1	10.1
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Dec.	2-1-77	56.7	7.7	13.2	23.2
Capital goods industries	Dec.	2-1-77	17.4	7.1	11.4	34.0
Nondefense	Dec.	2-1-77	13.7	6.3	1.7	23.9
Defense	Dec.	2-1-77	3.7	9.9	72.2	91.4
Inventories to sales ratio:						
Manufacturing and trade, total	Nov.	1-14-77	1.52	1.55 1/	1.51 1/	1.55 1/
Manufacturing	Dec.	2-1-77	1.60	1.66 1/	1.67 1/	1.68 1/
Trade	Nov.	1-14-77	1.36	1.38 1/	1.37 1/	1.38 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Dec.	2-1-77	.635	.640 1/	.640 1/	.613 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/	Jan.	2-7-77	10.5	-2.7	11.2	10.6
Domestic models	Jan.	2-7-77	8.8	-5.5	15.8	5.6
Foreign models	Jan.	2-7-77	1.7	14.7	-7.9	47.3
Housing starts, private (thous.) 2/	Dec.	1-18-77	1,940	13.1	5.4	51.2
Leading indicators (1967=100)	Dec.	1-30-77	129.8	1.6	3.3	8.5

1/ Actual data. 2/ At Annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent economic data for the most part confirm a continuation of the resurgence of economic strength apparent in the last months of 1976. In December, the inventory overhang evidently was reduced further and residential construction activity strengthened. Consumer spending apparently held up well in January. However, the severe weather experienced this winter has temporarily setback production and employment.

Industrial production is estimated tentatively to have declined about 1 per cent in January, reflecting lost production time due to extremely cold weather and natural gas shortages in many Eastern and mid-Western industrial States. Because the natural gas curtailments developed after mid-month and are not adequately reflected in the basic information now available, the preliminary January industrial production estimate is more tentative than usual. The staff has estimated that the output of consumer goods declined between three-fourths and 1 per cent over the month, with reductions widespread among producers of both durable and nondurable goods. Materials production, particularly in chemicals and textiles, appears to have been affected severely and probably declined by more than 1 per cent. Auto assemblies declined by 15 per cent from an exceptionally high December level, partly reflecting cutbacks to reduce inventories of small cars. Business equipment production is estimated to have dropped about three-fourths of 1 per cent.

Largely as a result of these production cuts, the January industrial materials capacity utilization rate is estimated to have fallen approximately 1 percentage point to 79 per cent--its lowest level since last January. Liquidation of inventories of steel mill products has kept basic metal production weak since last summer; the January utilization rate for that group fell below 70 per cent after reaching a post-recession high of 83.5 per cent last August.

Agricultural production also has been damped by the cold weather. Frost has damaged the citrus crop in Florida, where a record harvest was expected. Winter vegetables suffered considerable damage as well, and supplies will be sharply lower and prices higher for several weeks until spring crops become available. During the spring and summer California crop production could be affected by lower water supplies; early indications are that cotton, rice, and tomatoes would be among the crops most affected.

In contrast, grain supplies are plentiful and will allow for both livestock feeding and additions to stocks. Beef supplies appear to be declining less than previously expected; production of red meat for the first three weeks of January was down just 1 per cent from the same period last year.

The curtailment of production over the month is only partially reflected in January's employment and labor force reports because the survey week, which ended the 15th, preceded disruptions of natural gas service. Nonfarm payroll employment rose by 230,000

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

	June 75-* Apr. 76	Apr. 76- Oct. 76	Oct. 76- Jan. 77	Nov. 76- Dec. 76	Dec. 76- Jan. 77
Nonfarm Payroll Series					
Total**	287	85	245	216	231
(Strike adjusted)	(284)	(100)	(200)	(189)	(231)
Manufacturing**	88	-11	84	35	94
(Strike adjusted)	(90)	(4)	(46)	(27)	(93)
Durable	48	0	69	35	61
Nondurable	40	-12	16	0	33
Construction**	22	-6	-14	-13	-65
Trade**	778	27	50	87	80
Services** and Finance	73	59	82	66	103
State and Local Govt.**	20	13	20	33	-18
Household Series***					
Total	283	68	273	221	117
Nonagricultural	280	83	347	212	284

* June 1975 was the specific low for payroll employment

** These data reflect benchmark revisions to the contract construction, retail trade, services, and State and local government components of the series.

*** The revised labor force data reflect the inclusion of the 1976 experience in the seasonal adjustment procedure.

between mid-December and mid-January; manufacturing employment was up 95,000. Job gains averaged 200,000 monthly (strike adjusted) over the three months ending in January--twice the average of the April to October period. At mid-January, the only significant impact of the weather on employment was in construction, where there was a decline of 65,000 jobs. However, the severe weather which preceded the gas shortages was a factor in reducing hours of work in virtually all industries. Weather-induced lost worktime in manufacturing reduced the average workweek from 40.0 hours in December to 39.7 hours in January.

The January labor force survey reported a sharp drop in the civilian labor force, and the unemployment rate fell from a revised level of 7.8 per cent in December to 7.3 per cent in January. Problems of seasonal adjustment probably exaggerated the unemployment change, and the extremely cold weather may well have curtailed job-seeking activity in some areas. The reported decline in unemployment was largest among adult workers who had lost their last job. Nonagricultural employment (household survey) was up 284,000 from December to January.

There were also indications in the household survey that the extreme weather during early January curtailed economic activity. Persons employed, but not at work all week due to bad weather, numbered 1.2 million (not seasonally adjusted) in January, and over 4.2 million workers (not seasonally adjusted) who normally work full

SELECTED UNEMPLOYMENT RATES*
(Seasonally adjusted)

	1975	1976						1977
	IV	I	II	III	IV	Jan.	Dec.	Jan.
Total, 16 years and older	8.4	7.6	7.4	7.8	7.9	7.8	7.8	7.3
Men, 20 years and older	6.9	5.8	5.7	6.0	6.2	5.9	6.2	5.6
Women, 20 years and older	7.9	7.4	7.1	7.7	7.5	7.5	7.4	6.9
Teenagers	19.6	19.2	18.7	18.9	19.1	19.4	19.0	18.7
Household heads	5.8	5.1	4.9	5.3	5.3	5.2	5.1	4.8
Married men	5.0	4.1	4.1	4.4	4.4	4.1	4.3	3.8
Total, Alternative Seasonal Adjustment Method								
All Additive Factors	8.3	7.9	7.3	7.7	7.7	8.0	7.8	7.5
1975 Factors	8.4	7.8	7.5	7.6	7.9	8.0	7.9	7.6

* The revised labor force data reflect the inclusion of the 1976 experience in the seasonal adjustment procedure.

EMPLOYED PERSONS AFFECTED BY BAD WEATHER
(Not seasonally adjusted; thousands)

	Not at work	At work less than 35 hours
January 1977	1,248	4,232
January 1976	212	782
January 1975	260	720
January 1974	689	2,400
January 1973	1,044	3,252
January 1972	309	900

time were employed less than 35 hours during the survey week due to bad weather. Both counts were 2-1/2 times the average of the previous five Januarys.

Since the mid-month survey there have been numerous reports of large layoffs due to the weather and natural gas shortages. However, these have not been reflected in a major way in rising claims for unemployment insurance. There were about 400,000 initial claims for unemployment insurance under regular State programs, seasonally adjusted, during the week ending January 29--not significantly different than the volume earlier in the month. A special Labor Department survey in 22 States reported that during the final week of January only 46,300 workers filed claims related to energy problems. These data appear to suggest that through the end of January at least, a large number of the unofficially reported layoffs were of short duration--less than the one full week of unemployment necessary to collect unemployment benefits.

Personal income rose vigorously in the last two months of 1976, bringing the fourth quarter rise to a 10.8 per cent annual rate. The rebound of manufacturers' payrolls from strikes in the auto, truck, and farm equipment industries, recovery in farm income, the Federal pay raise, and larger than usual year-end dividend payments were significant factors. In real terms, personal income grew at an 11 per cent annual rate during November and December. Real per capita disposable income was up 2.8 per cent at an annual rate in the fourth quarter after remaining practically unchanged in the third quarter.

PERSONAL INCOME
(Per cent change from previous quarter at a compound annual rate; based on seasonally adjusted data)

	1976 I	1976 II	1976 III	1976 IV	Oct. 76- Nov. 76*	Nov. 76- Dec. 76*
Current Dollars						
Total Personal Income	10.1	9.5	7.3	10.8	14.7	16.3
Nonagricultural Income	12.6	7.8	9.2	11.4	13.9	13.8
Wage and Salary Disbursements	12.6	9.4	7.8	10.7	13.4	11.5
Private	14.1	10.1	8.2	10.5	14.8	12.8
Manufacturing	18.0	10.9	5.7	8.5	22.0	10.3
Government	7.2	7.1	6.7	11.5	8.6	6.7
Nonwage Income	7.1	9.3	6.3	11.0	17.1	23.9
Transfer Payments	14.1	-2.3	10.9	9.0	17.9	4.9
Dividends	11.7	16.7	12.1	28.6	13.3	131.5
Constant Dollars**						
Total Personal Income	5.2	4.7	1.1	6.0	11.2	11.4
Nonagricultural Income	7.7	3.1	2.9	6.5	10.4	9.0
Wage and Salary Disbursements	7.6	4.6	1.7	5.9	9.9	6.6
Addenda: Real Disposable Per Capita Income	5.4	4.0	-0.0	2.8		

* Per cent change at annual rate, not compounded.
** Deflated by CPI, seasonally adjusted.

The dollar volume of retail sales in January is apparently down somewhat from December because of a decline in auto sales. In addition to the effects of the exceedingly bad weather, an unusually large surge in sales, such as was reported in December, is often followed by some consolidation in the following month. Excluding autos, retail sales appear to have changed little in January.

Unit auto sales for the first 20 days of January continued near the advanced December level. Primarily because of the severe weather, sales fell sharply in the final 10 days and, for the month as a whole, unit volume averaged 8.8 million, annual rate, for domestic autos. Sales of imported models rose in January, in part because of price incentives.

The book value of manufacturing inventories rose at only $0.5 billion annual rate in December, as a decline in nondurables was offset by a modest rise of durables. The rate of increase for the fourth quarter was $8.7 billion, little more than half the rate of accumulation in the third quarter. By stage of processing, inventories of materials and supplies declined sharply further in December, while work-in-process and finished goods stocks continued to rise. The slower rate of accumulation in the fourth quarter reflected a runoff of nondurable goods inventories, resulting in a leaner stock position and improving the outlook for nondurable production. In durables, the rate of inventory investment in the fourth quarter rose about in line with rapidly increasing shipments, but in December the inventory sales ratio dropped sharply as sales rose strongly. It also appears that the sharp rise in sales reduced inventories at retail outlets further in December.

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

	1976						1977
	II	III	IV	Oct.	Nov.	Dec.	Jan.**
Total sales	1.9	1.2	3.2	1.0	1.9	3.1	
(Real*)	1.0	0.3	1.9	0.6	1.5	2.7	
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	

* Deflated by unpublished BEA price measures.
** January estimates will appear in the Greenbook Supplement.

AUTO SALES
(Seasonally adjusted, millions of dollars)

	1976								1977
	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
Total	10.3	10.2	9.9	10.5	10.0	9.5	9.5	10.8	10.5
Imports	1.4	1.6	1.6	1.6	1.8	1.9	1.5	1.5	1.7
Domestic	8.9	8.6	8.3	8.9	8.2	7.6	8.0	9.3	8.8
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	

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

	1975		1976					
	III	IV	I	II	III	IV	Nov.	Dec.
Manufacturing and trade	8.6	-.4	23.1	31.5	29.6	n.a.	6.1	n.a.
Manufacturing	-4.2	.6	7.5	14.2	15.4	8.7	5.3	.5
Durable	-7.3	-4.4	1.7	6.8	6.8	9.0	6.5	2.8
Nondurable	3.1	5.0	5.8	7.5	8.6	-.2	-1.2	-2.3
Trade, total	12.8	-1.0	15.6	17.3	14.2	n.a.	.8	n.a.
Wholesale	3.1	-2.0	5.1	9.0	4.3	n.a.	3.8	n.a.
Retail	9.7	1.0	10.5	8.3	9.9	n.a.	-3.0	n.a.
Auto	5.9	.9	1.1	.1	4.8	n.a.	.7	n.a.

INVENTORY RATIOS

	1974	1975	1976				
	IV	IV	II	III	IV	Nov.	Dec.
Inventory to sales							
Manufacturing and trade	1.63	1.54	1.51	1.53	n.a.	1.52	n.a.
Manufacturing	1.81	1.70	1.63	1.66	1.66	1.66	1.60
Durable	2.25	2.20	2.03	2.04	2.05	2.06	1.94
Nondurable	1.33	1.21	1.22	1.26	1.24	1.24	1.23
Trade, total	1.45	1.36	1.37	1.38	n.a.	1.36	n.a.
Wholesale	1.23	1.21	1.22	1.22	n.a.	1.23	n.a.
Retail	1.63	1.48	1.48	1.51	n.a.	1.46	n.a.
Inventories to unfilled orders:							
Durable manufacturing	.551	.613	.625	.640	.635	.640	.635

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

	1976						Dec. 75 to Dec. 76
	QI	QII	QIII	QIV	Nov.	Dec.	
New Orders Received by Manufacturers							
Total Durable Goods							
Current Dollars	8.1	5.5	-.8	5.8	3.0	7.7	23.2
1967 Dollars 1/	6.6	4.7	-2.4	2.8	2.5	6.8	15.3
Nondefense Capital Goods							
Current Dollars	6.3	5.6	5.8	2.4	-10.0	6.3	23.9
1967 Dollars 1/	4.7	4.5	4.4	.6	-10.2	5.9	17.0
Construction Contracts for Commercial and Industrial Building 2/							
Current Dollars	1.4	11.0	-7.1	19.2	7.0	-16.4	9.3
Square Feet of Floor Space	-8.6	24.1	-3.8	-2.8	-9.5	3.3	1.1
Contracts and Orders for Plant & Equip. 3/							
Current Dollars	15.5	.6	1.6	5.8	-16.5	5.0	22.5
1972 Dollars 4/	14.2	-.8	1.3	6.6	-17.0	5.5	20.6

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.).

4/ BCD series No. 20.

Business Fixed Investment[1/]
(Billions of 1972 Dollars)

	1972 $		Percent Change, Compound Annual Rate 1976			
	1976	76QIV	QI	QII	QIII	QIV
Business Fixed Investment	115.2	117.8	7.8	8.3	9.6	.8
Producers' Durable Equipment	77.6	78.8	9.3	8.3	11.7	-2.1
Nonelectrical Machinery	30.4	31.0	-7.2	12.2	4.8	4.7
Ex. Agr. Equipment	25.1	26.4	-10.3	19.3	3.9	19.4
Agricultural Equipment	5.2	4.7	7.4	-14.7	9.1	-46.5
Electrical Machinery	12.3	13.1	29.7	5.7	23.2	20.5
Transportation Equipment[2/]	21.8	21.0	32.2	7.7	24.1	-30.1
Trucks	9.9	9.6	29.4	23.2	74.2	-46.6
Autos	8.4	7.8	61.6	2.8	11.3	-36.2
Other Equipment	13.1	13.6	1.1	2.9	-1.2	19.5
Nonresidential Structures[2/]	38.1	39.0	4.7	8.4	5.3	6.9
Nonfarm Building[2/]	18.5	18.4	4.4	-11.1	8.8	-5.2
Industrial	5.0	4.6	-2.2	-27.3	-22.0	-9.8
Commercial	9.1	9.0	2.9	-3.3	12.4	-10.2
Utilities	13.0	13.8	10.3	40.0	16.4	12.1
Drilling and Mining	4.0	4.2	-12.5	21.6	-22.5	41.5

[1/] Unpublished detailed data are provided to the Board on a confidential basis.

[2/] Includes data not shown separately.

Real <u>business fixed investment</u> increased at an annual rate of only 0.8 per cent in the fourth quarter as strikes took their toll among components of producers durable equipment. If the strike affected industries--whose deliveries by December had reattained reached pre-strike levels--are excluded, the remainder of business fixed investment showed a 16.4 per cent annual rate of increase in the fourth quarter.

Growth in new orders for nondefense capital goods slowed in the fourth quarter, with most of the weakness in transportation equipment. Orders for the machinery component showed continued strength, rising over 13 per cent annual rate in the fourth quarter after advancing 15 per cent annual rate in the third quarter. However, spending on nonresidential buildings continued to be weak in the fourth quarter and contracts for commercial and manufacturing buildings expressed in square feet of floor space have continued to edge down.

<u>Private housing starts</u> rose sharply further in December to a seasonally adjusted annual rate of 1.94 million units--the highest in more than three years. The increase was broadly based by type of structure and by region, despite unfavorable weather in some areas. A recovery in multifamily construction may be taking hold; the fourth quarter rise to a 524,000 unit annual rate represented a gain of over 30 per cent from the prior quarter. The recent increase

PRIVATE MULTIFAMILY HOUSING STARTS AND
HUD SUBSIDY PROGRAMS

	Multifamily units started (Thous., Saar)	Per cent started under HUD subsidy programs			
		All programs	Sec. 8[1/]	Sec. 235[1/]	Other
1975-Dec.	321	5.2	2.0	2.8	0.4
1976-Jan.	279	13.4	2.0	8.9	2.5
Feb.	252	12.7	2.0	9.7	1.0
Mar.	307	5.3	3.2	1.8	0.3
Apr.	312	7.7	4.2	1.3	2.2
May	357	9.0	4.9	2.5	1.6
June	371	7.3	5.7	1.2	0.4
July	259	10.5	3.3	5.4	1.8
Aug.	366	5.0	2.8	1.5	0.7
Sept.	560	23.1	15.0	6.4	1.7
Oct.	477	20.7	12.5	8.2	0.0
Nov.	479	9.0	7.3	1.7	0.0
Dec.	617	10.1	7.7	2.0	0.4

Note: Estimated from HUD data.

1/ Section 8 and Section 235 programs provide rental assistance to low and moderate income households.

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

	1976						Per cent change in Dec. from:	
	QI	QII	QIII	QIV(p)	Nov.(r)	Dec.(p)	Month ago	Year ago
All Units								
Permits	1.17	1.13	1.34	1.53	1.59	1.51	- 5	+39
Starts	1.40	1.43	1.59	1.82	1.72	1.94	+13	+51
Under construction 1/	1.06	1.06	1.11	n.a.	1.17	n.a.	+ 2*	+11*
Completions	1.30	1.33	1.37	n.a.	1.45	n.a.	+10*	+ 4*
Single-family								
Permits	.87	.81	.89	1.04	1.07	1.04	- 3	+28
Starts	1.12	1.09	1.19	1.30	1.24	1.32	+ 7	+38
Under construction 1/	.59	.61	.64	n.a.	.68	n.a.	+ 2*	+21*
Completions	.97	.99	1.05	n.a.	1.10	n.a.	+13*	+11*
Multifamily								
Permits	.30	.32	.45	.50	.52	.48	- 8	+71
Starts	.28	.35	.40	.52	.48	.62	+29	+92
Under construction 1/	.46	.46	.47	n.a.	.49	n.a.	+ 3*	- 1*
Completions	.33	.34	.32	n.a.	.34	n.a.	+ 1*	-13*
MEMO:								
Mobile home shipments	.27	.24	.24	.26	.25	.25	--	+12

* Per cent changes based on November 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 --.

continued to reflect Federal subsidy and related programs, as indicated in the accompanying table. However, fundamental economic factors, such as the relatively small increase in most construction materials costs recently, reductions in financing costs over the course of last year, and tightening rental markets, are believed to be adding to this stimulus.

Most recent data on spending by State and local governments indicate continued weakness. January employment figures show a decline of 18,000 jobs. Construction put in place in December showed no recovery from sharp declines in the previous two months. The cold weather is affecting spending in offsetting ways. While school closings serve to postpone certain costs, other activities--such as snow removal, disaster relief, and increased fuel costs--are net additions to spending.

Federal Spending. To accommodate President Carter's fiscal proposals, the Congress has been reconsidering the "Second Concurrent Budget Resolution" which was passed last September and which sets a binding ceiling on expenditures and a floor on revenues. Recent reports indicate that the Congressional Budget Committees plan to boost their outlay target to around $419 billion and lower their receipts estimate to $348.5 billion. The resulting deficit would be $70.3 billion. These new projections compare with the Second Concurrent Resolution's target of $413 billion for outlays and $367.5 billion for receipts. Incoming data, however, for the current fiscal year through January suggest that spending has remained moderate relative to Congressional targets.

A deceleration of wage increases was apparent in 1976 major collective bargaining settlements. Wage boosts negotiated during 1976 averaged 8.3 per cent for the first contract year, as compared with a 10.2 average during 1975. Manufacturing contracts, which included the auto, rubber, and electrical equipment settlements, provided increases averaging 9.0 per cent for the first year; nonmanufacturing agreements called for 7.2 per cent first-year adjustments. Excluding cost-of-living escalators, all agreements negotiated last year provide for average wage increases of 6.4 per cent over the life of the contract. In January, the often volatile average hourly earnings index rose at an annual rate of 11.9 per cent with unusually large increases reported for services and construction. But since January 1976, this wage rate index has risen 7.2 per cent--off significantly from the 8.0 per cent increase over the year ending January 1976.

Output per hour in the nonfarm business sector edged down 0.1 per cent at an annual rate during the fourth quarter, as production was damped by the auto and agricultural equipment strikes while growth in hours worked continued. Manufacturing productivity declined at 0.5 per cent rate, reflecting a 3.3 per cent decrease in durable manufacturing productivity, but a 3.2 per cent rise in the nondurable sector.

The productivity drop brought an accelerated rise in unit labor costs to 7.7 per cent at an annual rate in the fourth quarter. However, over the year, the rise in unit labor costs was more moderate--

MAJOR COLLECTIVE BARGAINING SETTLEMENTS
(Per cent)

	Average Adjustment 1975	1976
Wage-rate settlements (1,000 or more workers)		
First-year adjustment	10.2	8.3
Average over life of contract	7.8	6.4
Wage and benefit settlements (5,000 or more workers)		
First-year adjustment	11.4	8.5
Average over life of contract	8.1	6.6

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

	QI	QII	QIII	QIV	Jan. 75- Jan. 76	Nov. 76- Dec. 76**	Dec. 76- Jan. 77**
Private Nonfarm	6.9	6.5	7.1	6.7	7.2	6.1	11.9
Construction	5.1	7.6	5.5	4.0	6.8	2.9	19.9
Manufacturing	7.4	6.3	9.2	6.7	7.3	8.2	4.3
Trade	5.2	5.6	6.9	8.0	6.9	7.1	9.9
Services	8.3	6.6	4.8	7.8	8.2	9.1	25.4
Transportation and Public Utilities	9.1	9.3	6.6	4.6	6.6	-3.9	7.3

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

** Monthly change at an annual rate, not compounded.

PRODUCTIVITY AND COSTS
(Per cent change from preceding period, seasonally adjusted, compound annual rate)

	1976				
	I^r	II^r	III^r	IV^p	75:IV-76:IV
Output per hour					
Private business	7.3	3.2	2.9	1.5	3.7
Nonfarm business	5.7	4.8	2.7	-0.1	3.3
Manufacturing	4.7	7.4	5.7	-0.5	4.3
Durable	3.6	9.9	6.1	-3.3	4.0
Nondurable	5.9	4.7	6.3	3.2	5.0
Compensation per hour					
Private business	10.7	6.9	7.6	8.9	8.5
Nonfarm business	9.4	8.2	7.2	7.6	8.1
Manufacturing	9.2	8.6	6.2	7.7	7.9
Durable	8.5	9.4	4.3	6.1	7.1
Nondurable	9.9	6.5	8.6	10.7	8.9
Unit labor costs					
Private business	3.2	3.5	4.5	7.3	4.6
Nonfarm business	3.5	3.2	4.3	7.7	4.7
Manufacturing	4.3	1.1	0.4	8.3	3.5
Durable	4.8	-0.4	-1.7	9.7	3.0
Nondurable	3.8	1.7	2.2	7.2	3.7

4.7 per cent, up from 3.1 per cent during 1975. For 1976 as a whole productivity growth slowed to 3.3 per cent from 5.0 per cent in 1975--fairly typical of the second year of a recovery--but the rate of increase remained well above trend. The rise in hourly compensation over the four quarters of 1976 (8.1 per cent) was practically unchanged from 1975 (8.2 per cent).

Consumer prices rose 0.4 per cent in December. Large increases were posted for gas and electricity prices (mainly due to the imposition of new natural gas rates), but food prices increased only moderately following their November decline.

The CPI rose 4.8 per cent during 1976, down from 7.0 per cent over 1975. Most of this moderation came from nearly level overall food prices, and smaller increases in energy prices. Excluding both of these categories consumer prices rose 6.2 per cent during 1976--half a per cent less than in the preceding year.

Wholesale prices will be released by BLS on February 11 and reported in the Greenbook Supplement.

RECENT PRICE CHANGES

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

	Relative importance Dec 75	Dec. 74 to Dec. 75	Dec. 75 to Dec. 76	Dec. 75 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	4.7	2.3	4.7	9.0	10.9
Farm and food products	22.8	-0.3	-1.1	-0.3	-11.0	7.9	31.9
Industrial commodities	77.2	6.0	6.4	3.4	9.6	8.9	3.8
Excluding fuels and related products and power	66.8	5.1	6.1	4.8	7.6	7.2	6.7
Materials, crude and intermediate2/	48.1	5.5	6.8	3.9	9.5	10.2	6.6
Finished goods							
Consumer nonfoods	18.7	6.7	4.8	1.4	10.1	6.8	2.9
Producer goods	11.9	8.2	6.5	5.1	5.7	10.0	8.8
Memo:							
Consumer foods	11.1	5.5	-2.5	-3.6	-12.2	11.7	28.9
			Consumer Prices				
All items	100.0	7.0	4.8	4.5	5.8	4.2	4.8
Food	24.7	6.5	0.6	-0.7	1.8	1.1	2.6
Commodities (nonfood)	38.7	6.2	5.1	4.2	6.6	5.4	6.0
Services	36.6	8.1	7.3	8.4	7.1	5.4	4.5
Memo:							
All items less food and energy 2/3/	68.1	6.7	6.2	6.6	6.7	4.9	5.0
Petroleum products 2/	4.5	10.1	3.5	-4.0	15.6	8.1	0.0
Gas and electricity	2.7	14.2	12.2	9.2	13.6	17.3	31.8

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		January	34.83	11.2	10.1	3.2
Nonborrowed reserves		January	34.76	10.7	10.4	3.2
Money supply						
M1		January	313.3	5.4	4.5	6.2
M2		January	745.3	9.2	10.7	11.2
M3		January	1247.8	11.0	11.9	13.1
Time and savings deposits (Less CDs)		January	432.0	12.1	15.4	15.2
CDs (dollar change in billions)		January	63.7	-0.1	0.6	-1.3
Savings flows (S&Ls + MSBs + Credit Unions)		January	502.4	13.3	13.7	15.9
Bank credit (end of month)		January	777.4	9.0	6.9	6.8
Market yields and stock prices				Percentage or index points		
Federal funds	wk. endg.	2/2/77	4.60	.13	-.46	-.22
Treasury bill (90 day)	"	2/2/77	4.74	.33	-.13	-.08
Commercial paper (90-119 day)	"	2/2/77	4.80	.17	-.20	-.20
New utility issue Aaa	"	2/4/77	8.16	.26	--	-.52
Municipal bonds (Bond Buyer)	1 day	2/3/77	5.93	.15	-.41	-.93
FNMA auction yield	(FHA/VA)	2/7/77	8.52	.06	-.15	-.55
Dividends/price ratio (Common stocks)	wk. endg.	2/2/77	4.10	.17	.11	.47
NYSE index (12/31/65=50)	end of day	2/8/77	55.33	56.79	53.29	53.10

Credit demands		Net change or gross offerings: Current month		Year to date	
		1976	1975	1976	1975
Mortgage debt outst. (major holders)	November	6.4	4.2	54.6	38.4
Consumer instalment credit oustanding	December	1.8	1.5	16.5	6.8
		1977	1976	1977	1976
Corporate bonds (public offerings)	January	2.8e	2.2	2.8e	2.2
Municipal long-term bonds (gross offerings)	January	3.4e	2.3	3.4e	2.3
Federally sponsored Agcy. (net borrowing)	January	.6	.5	.6	.5
U.S. Treasury (net cash borrowing)	February	9.2	9.0	12.6	16.8
Business loans at commercial banks	January	1.2	.6	1.2	.6
Total of above credits		25.4	20.3	91.7	67.6

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Information received since the last FOMC meeting generally has indicated a further expansion of money and credit consistent with the pick-up in economic activity that began late last year. Statistics have not yet become available to indicate the impact on financial flows that could be developing from the economic disruption caused by adverse weather conditions. Overall credit demands of businesses and households appear to have remained strong in the past two months, while State and local governments have continued to be large borrowers in the bond market. In addition, the Federal Government has increased its net issuance of intermediate- and long-term securities in order to finance a large first quarter deficit.

The prospect of further growth in credit demands arising from the more rapid expansion of the economy and large Federal budget deficits weighed on investor sentiment in the weeks immediately following the January FOMC meeting. As a consequence, market rates of interest generally edged a bit higher--extending the rise which had already carried them from 12 to 75 basis points above their mid-December lows.

Most recently, however, rates have stabilized or retraced part of these earlier rises and are, on balance, little changed from their levels at the time of the January meeting. Market participants have been encouraged by the persistence of Federal funds trading around the 4-5/8 percent level and a moderation in the growth of the

SELECTED FINANCIAL MARKET QUOTATIONS
(One day quotes, except as noted, in per cent)

	1976 1/		1977			Change from:	
	May-June High	December Low	January FOMC Jan. 18	Feb. 1	Feb. 8	1976 Low	Jan. FOMC
Short-term rates							
Federal funds 1/	5.58	4.63	4.65	4.60	4.63 6/	0	-.02
Treasury bills							
3-month	5.53	4.27	4.69	4.74	4.63	+.36	-.06
6-month	5.93	4.50	4.91	5.02	4.87	+.37	-.04
1-year	6.32	4.62	5.14	5.25	5.14	+.52	0
Commercial paper							
1-month	5.65	4.48	4.75	4.63	4.50	+.02	-.25
3-month	5.90	4.63	4.75	4.75	4.75	+.12	0
Large neg. CD's 2/							
3-month	5.95	4.60	4.85	4.90	4.75	+.15	-.10
6-month	7.00	4.71	5.30	5.30	5.10	+.39	-.20
Bank prime rate	7.25	6.25	6.25	6.25	6.25	0	0
Intermediate and long-term rates							
Corporate							
New AAA 3/	8.95	7.93	8.05	8.22	8.16p	+.23	+.11
Recently offered 4/	8.84 7/	7.84	8.06	8.18	8.16p	+.32	+.10
Municipal (Bond Buyer) 5/	7.03 8/	5.83	5.89	5.92	5.93	+.10	+.04
U.S. Treasury (constant maturity)							
3-year	7.52	5.64	6.38	6.60	6.42	+.78	+.04
7-year	7.89	6.32	7.06	7.18	7.12	+.80	+.06
20-year	8.17	7.26	7.56	7.64	7.61	+.35	+.05
Stock prices							
Dow-Jones Industrial	1003.87	881.51	962.43	958.36	942.24	+60.73	-20.19
N.Y.S.E. Composite	56.96	49.06	56.04	55.75	55.33	+6.27	-.71
AMEX	107.26	86.42	111.12	111.77	113.24	+26.82	+2.12
Keefe Bank Stock	664	520	660	650	641	+121	-19

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 February 9.
7/ High for the year was 8.94 on January 7.
8/ High for the year was 7.13 on January 7.
n.a.--Not available.
p--Preliminary.

monetary aggregates. The near-term pressures on credit markets also have been eased somewhat by a lightening of the corporate bond calendar caused by several cancellations and postponements, and by the generally good reception accorded the Treasury's mid-February financing operation. Despite the recent declines, current yields are still from 12 to 35 basis points above their December lows--except in the intermediate sector where Treasury yields have risen as much as 75 basis points on balance. Although the net increase in rates early this year has erased much of the steep decline registered toward the end of 1976, most short-and long-term market rates of interest still are a little lower than they were in mid-November.

Banking and Monetary Aggregates

Growth in M_1 slowed to a 5.4 per cent annual rate in January following December's rapid expansion, but for the two months combined M_1 increased at an average rate of 6-3/4 per cent--somewhat faster than in the last half of 1976. Strength in M_1 in December and early January may have been related to the strong increase in sales and personal income late last year and to the decline in interest rates over the second half of 1976. A contraction in M_1 in the last half of January, however, may be associated with the effect of the weather on payments flows and the aggregate level of transactions.

M_2 growth also decelerated in January, as the expansion of time and savings deposits other than large CD's apparently was affected by reductions in bank offering rates on certain time and savings accounts and the rise in market interest rates. Savings deposit

MONETARY AGGREGATES[1/]
(Seasonally adjusted changes)

	QIII	QIV	Dec	Jan	Dec-Jan	12 months ending Jan
			Per cent at annual rates			
M_1 (currency plus demand deposits)	4.1	6.0	8.1	5.4	6.8	6.2
M_2 (M_1 plus time deposits at commercial banks other than large CDs)	9.2	12.2	12.5	9.2	10.9	11.2
M_3 (M_2 plus deposits at thrift institutions)	11.6	14.0	12.8	11.0	12.0	13.1
Adjusted bank credit proxy	3.8	8.3	10.8	4.7	7.7	5.3
Time and savings deposits at CBs						
a. Total	7.1	12.1	18.1	10.3	14.3	9.2
b. Other than large negotiable CDs	13.2	16.8	15.6	12.1	13.9	15.2
1. Savings deposits	13.4	26.9	28.0	20.9	24.7	24.9
2. Time deposits	12.7	8.2	4.3	4.8	4.5	7.7
3. Small time deposits[2/]	25.8	26.5	4.4	0.7	2.5	20.7
Deposits at nonbank thrift institutions						
a. Savings and loan assoc.	16.5	18.3	14.8	14.7[e]	14.8[e]	17.4[e]
b. Mutual savings banks	12.2	12.1	8.4	8.3[e]	8.4[e]	11.3[e]
c. Credit unions	16.0	18.3	17.8	17.4[e]	17.7[e]	17.9[e]
			Billions of dollars (Average monthly changes, seasonally adjusted)			
Memoranda:						
a. Total U.S. Government deposits	1.1	-1.0	-3.4	0.1	-0.6	0.2
b. Negotiable CDs	-2.7	0.5	1.7	-0.1	0.3	-1.3
c. Nondeposit sources of funds	-0.1	0.3	0.1	-0.9	-0.1	0.0

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.

inflows, although remaining quite large, declined from an annual rate of 28 per cent in December to 21 per cent in January, with slower growth largely concentrated in the business and State and local government categories for which reports of offering rate reductions have been most prevalent.[1/] Inflows into small time deposit accounts have been particularly weak for the last two months, after rising at an annual rate of more than 25 per cent in the second half of 1976.

Reductions in offering rates also may have had an impact on deposit flows at thrift institutions in recent months. Although on a quarterly average basis deposit growth increased in the fourth quarter, month-end data show a significant deceleration beginning in October. In January, the month-end series shows a decline in the growth rate to 11.6 per cent from 14.4 per cent in December.

While growth in demand and other time deposits at commercial banks slackened somewhat in January, inflows of funds to those accounts remained sufficient to enable these institutions to run down negotiable CD's and nondeposit liabilities and still add substantially to their earning assets. All of the expansion in assets occurred in loans, as bank holdings of both Treasury and other securities fell slightly in January.

1/ Savings deposits of State and local governments, which total about $3 billion at weekly reporting banks, declined $500 million at such banks in January, after expanding very rapidly in December (not seasonally adjusted). About $300 million of the decrease is accounted for by one large municipality which shifted its funds to Treasury bills following a reduction to 4-1/2 per cent in the rate it was offered on its savings account.

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

	1976 HI	1976 QIII	1976 QIV	Dec	Jan	Oct-Nov	Dec-Jan	12 months ending January
Total loans and investments [2/]	4.9	7.2	7.9	2.0	9.0	10.9	5.5	6.8
Treasury securities	36.8	0.0	10.6	28.0	-9.9	1.9	8.9	18.1
Other securities	-1.0	8.3	6.3	-6.4	-3.2	12.6	-4.8	2.8
Total loans [2/]	1.6	8.2	7.9	-0.2	16.0	12.0	7.9	6.2
Business loans	-4.9	3.5	9.6	-3.3	8.1	16.2	2.3	1.2
Real estate loans	8.0	6.0	8.1	10.0	8.2	7.1	9.1	7.8
Consumer loans	4.9	11.3	11.0	16.2	n.a.	8.2	n.a.	n.a.
Memoranda:								
a. Nonfinancial commercial paper [3/]	50.9	-36.1	23.1	69.4	37.5	--	54.5	18.9
b. Business loans less bankers acceptances	-3.5	0.5	5.9	-4.8	14.6	11.3	4.8	0.4
c. Business loans less bankers acceptances plus nonfinancial commercial paper	-0.3	-2.2	7.0	0.0	16.1	10.5	8.1	1.5
d. Business loans (including bankers acceptances) plus nonfinancial commercial paper	-1.7	0.6	10.5	1.3	10.0	15.1	5.6	2.2

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.
3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.

n.a.--Not available.

Business Finance

Recent short-term business credit flows are particularly difficult to interpret because of the rapid increase in bank holdings of bankers acceptances in the closing months of 1976 for tax purposes, and their sharp run-off in January. In addition, the staff is of the judgment that there have been changes in the December-January pattern of business borrowing in recent years that have not yet been fully reflected in our seasonal factors. These developments suggest the desirability of focussing on two-month average flows over October-November and December-January and on business loans at banks excluding their holdings of bankers acceptances.

Viewed in this way, it appears that business loan growth has moderated from the unusually rapid pace last fall, but still remains significantly greater than it was last summer. (See memo Item b in the table.) In October and November, commercial and industrial loans to a wide variety of industries had risen sharply--especially at large banks. This increase--at more than an 11 per cent annual rate at all banks--appeared to reflect in part unintended increases in business inventories early in the quarter, and also some abatement in capital market financing. With inventory accumulation declining--especially in manufacturing--and with capital market financing picking up, business loan growth (again, excluding acceptances) slowed to about a 5 per cent annual rate in December-January. This slowdown was particularly noticeable at large banks and was widespread across industry classifications. Smaller borrowers seem to account for much of the recent increase in business lending; business loan growth has accelerated at small banks, which tend to service smaller customers, and staff conversations with loan officers at larger banks also indicate that in recent months smaller, nonprime customers are taking down lines of credit more rapidly than larger customers.

In December-January, issuance of commercial paper by non-financial corporations rose by over $1 billion seasonally adjusted, after declining $1.2 billion from mid-year through November. As a result, the expansion in total short-term business credit--as measured by business loans less bank holdings of acceptances plus nonfinancial commercial paper--was only slightly smaller in December-January than in October-November, and averaged about a 9 per cent annual rate over this four-month period--the largest four-month rise in this series since the end of 1974.

In long-term markets, the forward calendar of new corporate bond issues moderated during January as the rise in interest rates prompted postponement or cancellation of six issues totaling more than $500 million; in addition, underwriters reported that several unannounced offerings had been shelved. Nonetheless, a large volume of offerings early in the month--in part reflecting acceleration of some issues to take advantage of relatively low rates--brought gross issuance in January to $2.8 billion, well above the fourth quarter pace. Higher quality (Aa and above) issues accounted for almost three-fourths of

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

	1976				1977		
	H1	QIII	QIV e/	Dec. e/	Jan. e/	Feb. f/	Mar. f/
	Gross offerings						
Corporate securities--							
Total	4,666	3,495	4,367	5,200	4,700	3,600	4,500
Publicly offered bonds	2,499	1,568	2,183	2,550	2,800	1,600	2,500
By quality 1/							
Aaa and Aa	1,354	700	792	700	2,075	--	--
Less than Aa 2/	1,145	868	1,308	1,850	725	--	--
By type of borrower							
Utility	720	575	735	530	660	--	--
Industrial	1,055	515	865	1,270	1,100	--	--
Other	724	478	500	750	1,040	--	--
Privately placed bonds	1,055	1,293	1,467	2,000	1,200	1,200	1,200
Stocks	1,112	634	717	650	700	800	800
Foreign securities--							
Total	928	702	812	680	450	--	--
Publicly offered 3/	530	422	598	250	300	233	300
Privately offered	398	280	214	430	150	--	--
State and local gov't. securities							
Total	5,032	4,416	4,245	3,550	4,800	4,600	4,700
Long-term	2,886	2,735	3,040	2,350	3,400	3,500	3,500
Short-term	2,146	1,681	1,205	1,200	1,400	1,100	1,200
	Net offerings						
U.S. Treasury	5,128	5,215	4,646	5,984	2,837	8,250	10,800
Sponsored Federal agencies	207	383	171	135	684	-107	1,530

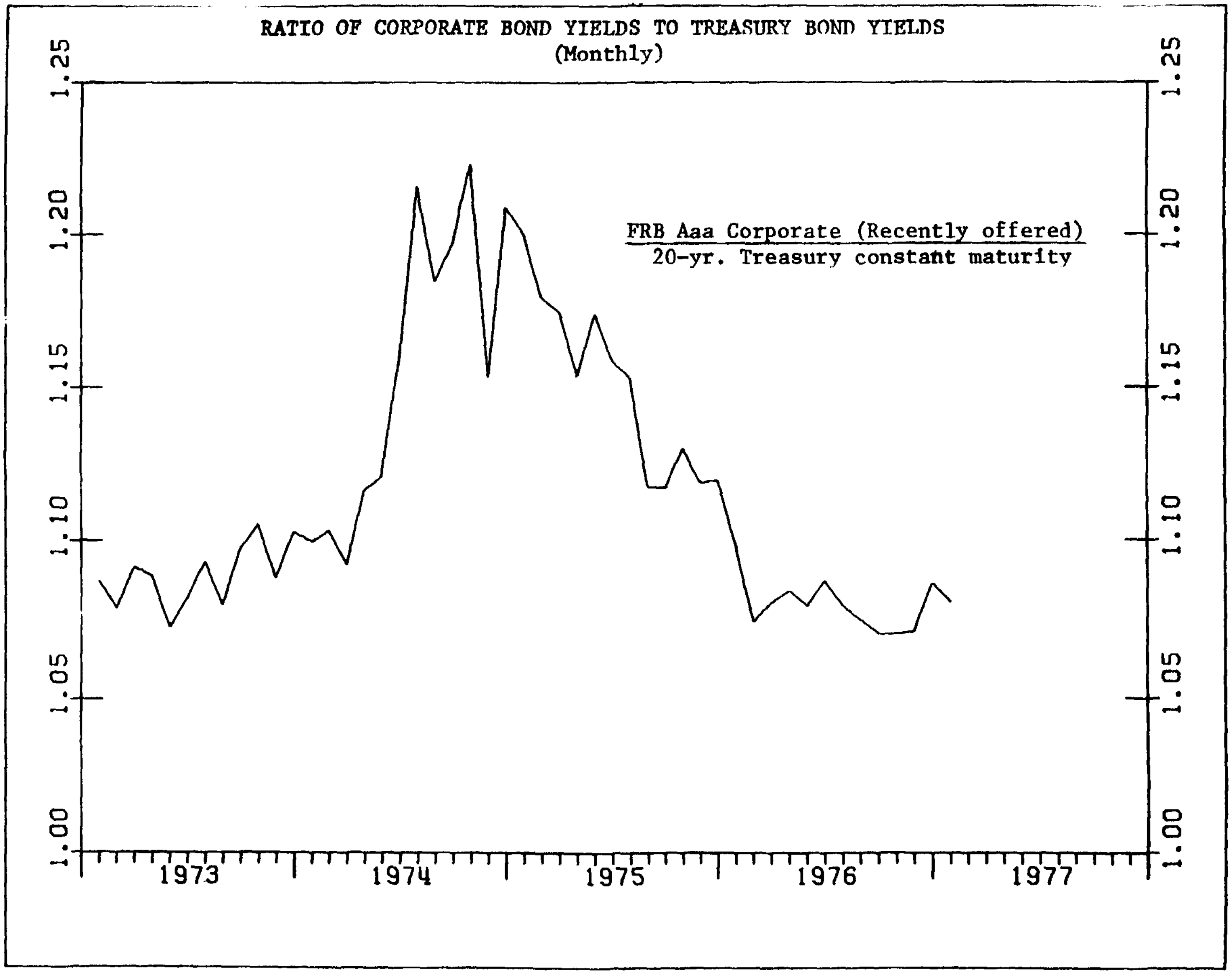
e/ Estimated.
f/ Forecast.
1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's.
3/ Classified by original offering date.

January's total, in contrast to less than 40 per cent in the fourth quarter. Despite the rise in rates, four Bell System subsidiaries proceeded with their plan to retire outstanding high coupon bonds that were not yet callable by offering to purchase them at premiums over both current market and call prices. Encouraged somewhat by the decline in bond prices after the announcement, investors holding approximately 75 per cent of $630 million bonds outstanding accepted the companys' offer.

Yields on corporate issues have increased about 10 basis points since the last FOMC meeting, and are now about 30 basis points above their recent lows. Over this period, long-term Treasury and corporate rates generally have moved in close alignment. As can be seen in Chart 1, the ratio of yields on high-rated corporate issues to those on long-term Government securities fell substantially in 1975 and has been quite low by historic standards throughout the past year. This behavior probably has reflected improved investor attitudes towards corporate debt since the recession trough and the Treasury's increased borrowing in long-term markets over the past two years. The narrowness of the current rate spread suggests that corporate bond yields may well continue to be sensitive to supply pressures in the Government sector.

Most stock prices have drifted lower since the January FOMC meeting. Utility stock indexes, however, moved up through most of January, reaching 3-year highs late in the month, reflecting in part

Chart 1



RATIO OF CORPORATE BOND YIELDS TO TREASURY BOND YIELDS
(Monthly)
FRB Aaa Corporate (Recently offered)
20-yr. Treasury constant maturity
1.25
1.20
1.15
1.10
1.05
1.00
1973
1974
1975
1976
1977

the effects on utility earnings expected from cold weather. Utilities accounted for most of the moderate amount of new stock financing in January, as they have since last summer.

U.S. Government

Recent declines have left interest rates on short-term Treasury issues a little below their levels at the time of the January meeting, but yields on intermediate- and long-term issues are mostly unchanged. Since their lows in mid-December, intermediate-term yields have risen about 3/4 of a percentage point, while increases in yields on bills and long-term coupon issues have ranged from 25 to 35 basis points. Market participants apparently have interpreted the indications of a strengthening economy and the prospect of larger budget deficits from the new Administration's economic recovery package as implying a much swifter rise in interest rates over the next few years than previously had been anticipated. In addition, the Treasury's announcement that it would continue to rely heavily on intermediate-term notes in financing its deficit may have contributed to a disproportionate rise in rates on these instruments, because some observers had been expecting more emphasis on bill financing under the new Administration.

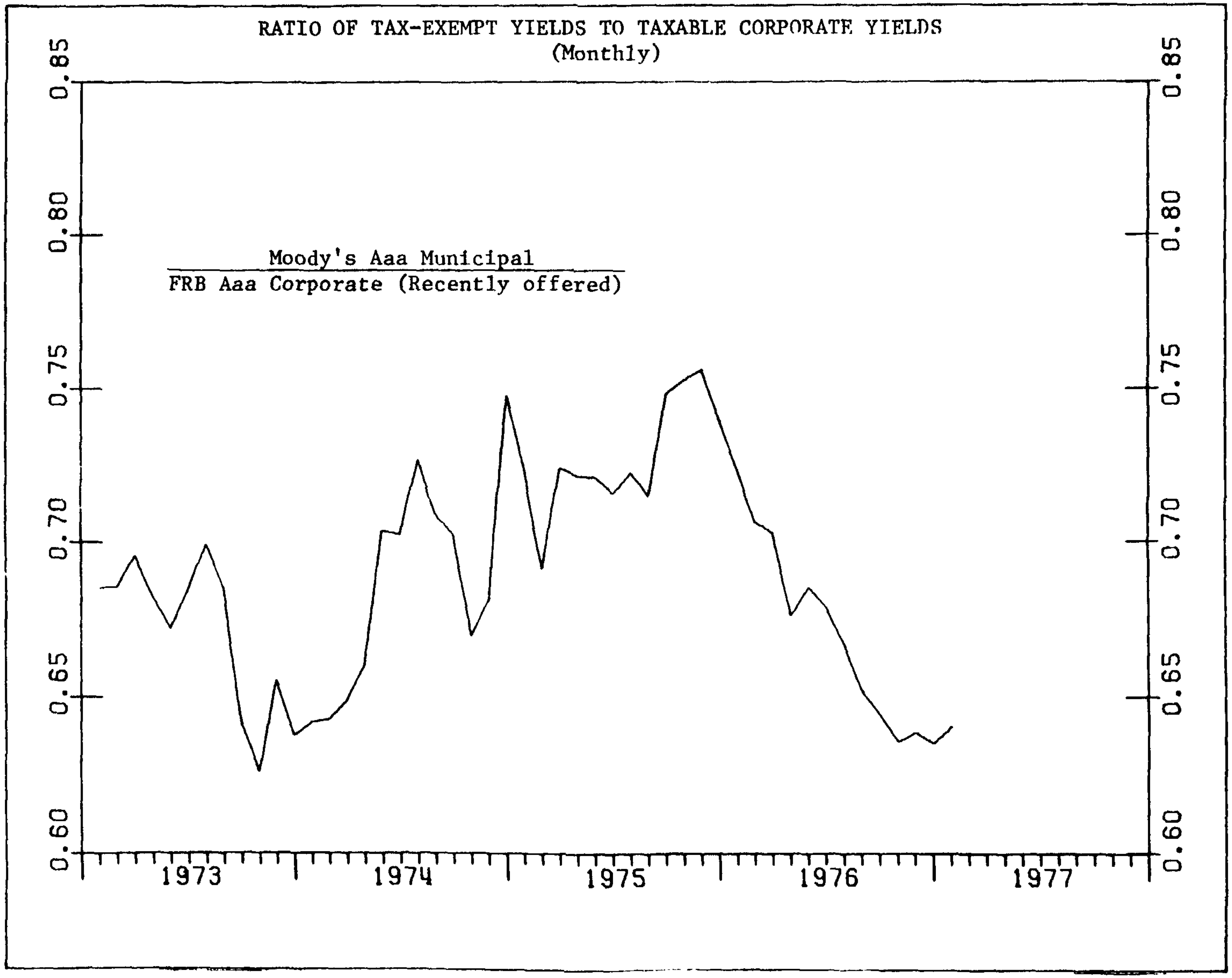
The Treasury has raised $6.2 billion, net, in the credit markets since the January meeting, including $3.75 billion in the mid-February refunding completed last week. In this operation, the Treasury auctioned $3.0 billion of 3-year notes, $2.0 billion of 7-year notes and $750 million of 30-year bonds. Despite the routine structure of the refunding package, its total size was at the upper end of the expectations of many observers, causing some negative market impact at its announcement. However, the issues were well received in the auction. Noncompetitive tenders were substantial (aided by the higher limit on individual bids first adopted for the November refunding), and the strength of overall retail demand was reflected in a relatively moderate level of awards to primary dealers. In general, dealer holdings of government securities declined substantially over January from very high levels near the end of December, and the improved technical position of the Treasury securities market has undoubtedly contributed to its better performance in the past week.

State and Local Governments

Long-term security offerings by State and local governments rose to $3.4 billion in January, a record for the month. About $500 million of this total was attributable to continued heavy issuance of bonds for advance refundings and a significant portion--about $700 million--of the remainder represented municipal utility financing.

Despite the sizable volume of new issues marketed, yields on tax-exempt bonds rose much less in January than did rates on other long-term securities. This relative strength of the municipal bond market extends a trend that began in late 1975, as can be seen in Chart 2, which shows the ratio of yields on prime municipal bonds to those on prime corporate issues. The gradual improvement in the

Chart 2



RATIO OF TAX-EXEMPT YIELDS TO TAXABLE CORPORATE YIELDS
(Monthly)
Moody's Aaa Municipal
FRB Aaa Corporate (Recently offered)
0.85
0.80
0.75
0.70
0.65
0.60
1973
1974
1975
1976
1977

finances of New York City and other troubled localities and a reduction in investors' perceptions of the risks inherent in municipal obligations have contributed to this change in the yield relationship. In addition, the municipal market has benefitted from the renewed buying interest of property-casualty insurance companies and commercial banks, which together acquired 43 per cent of the net increase in State and local securities during 1976 as compared with 20 per cent in 1975. Municipal bond funds also have become a more important factor in the past year or so; since last fall, their growth has been further accelerated by the introduction of open-end funds which had acquired assets totaling about $700 million by the end of January.

Mortgage and Consumer Credit

Secondary market yields on GNMA-guaranteed pass-through securities have risen along with bond rates, but issues of these securities remained sizable in January. However, mortgage bankers have attempted to hedge against further increases in interest rates by enlarging the volume of their offerings to FNMA in its bi-weekly auctions of forward purchase commitments.

Meanwhile, interest rates on new commitments for conventional home mortgages at reporting S&L's have edged off slightly further on balance since late December. Outstanding commitments at savings and loan associations after seasonal adjustment reached another new high at the end of December. Mortgage take-downs at S&L's also remained substantial in December, funded in part by seasonal declines in liquidity and increases in borrowing from Federal Home Loan Banks. In January, a reduction in such borrowing more than offset the small December increase.

For the fourth quarter as a whole, mortgage debt outstanding increased at an annual rate of $94 billion, about 7 per cent above the accelerated third quarter pace. Net mortgage takings increased primarily at S&L's and commercial banks, while life insurance companies remained a negligible factor in the market. The share of new mortgages backed by 1-4 family residences dropped slightly further, reflecting the recent pick-up in construction of multifamily and nonresidential properties.

Despite a decline in bank card credit resulting from sharply higher repayments and comparatively modest gains in the retail sales components for which credit cards are most frequently used, total consumer instalment credit expanded rapidly in December in association with the pick-up in automobile sales. Nevertheless, the rate of growth in such credit was only slightly more rapid in the fourth quarter than in the second and third quarters. For the year 1976 instalment credit outstanding increased just over 10 per cent, compared with an average 15 per cent rate during similar phases of earlier expansions. As a result, the ratio of repayments to disposable income, a frequently cited measure of debt burden, edged up only slightly from its post-recession low in the second quarter of last year, and stood 1-1/2 percentage points below its high of 15.9 per cent established in 1969.

NET CHANGE IN MORTGAGE DEBT OUTSTANDING
(Billions of dollars, SAAR)

	1975	1976			
	Q4	Q1	Q2	Q3	Q4 e/
Total	70	76	73	88	94
By type of holder					
Savings and loan assoc.	39	36	44	49	52
Commercial banks	10	11	9	10	12
Mutual savings banks	3	3	3	4	5
Life insurance companies	1	4	*	2	3
FNMA - GNMA	6	1	-3	-1	-1
Other 1/	11	21	20	24	23
By type of property					
1- to 4-family	52	58	53	65	68
Multifamily	*	*	1	2	3
Other 2/	17	17	18	22	23
Memo: 1-4 as per cent of total	(75)	(77)	(74)	(73)	(72)

1/ Includes net changes in mortgage-backed securities guaranteed by the Government National Mortgage Association, Federal Home Loan Mortgage Corporation, or Farmers Home Administration, some of which may have been purchased by the institutions shown separately but not reported among their mortgage holdings.

2/ Includes commercial and other nonresidential as well as farm properties.

e/ Estimated.

* Less than $500 million.

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
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.	8.78	- 7	--	3
1977--Jan. 7	8.70	- 8	--	4
14	8.73	+ 3	+68	7
21	8.73	0	+63	5
28	8.73	0	+51	6
Feb. 4	8.68	-5	+52	n.a.

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

SECONDARY HOME MORTGAGE MARKET ACTIVITY

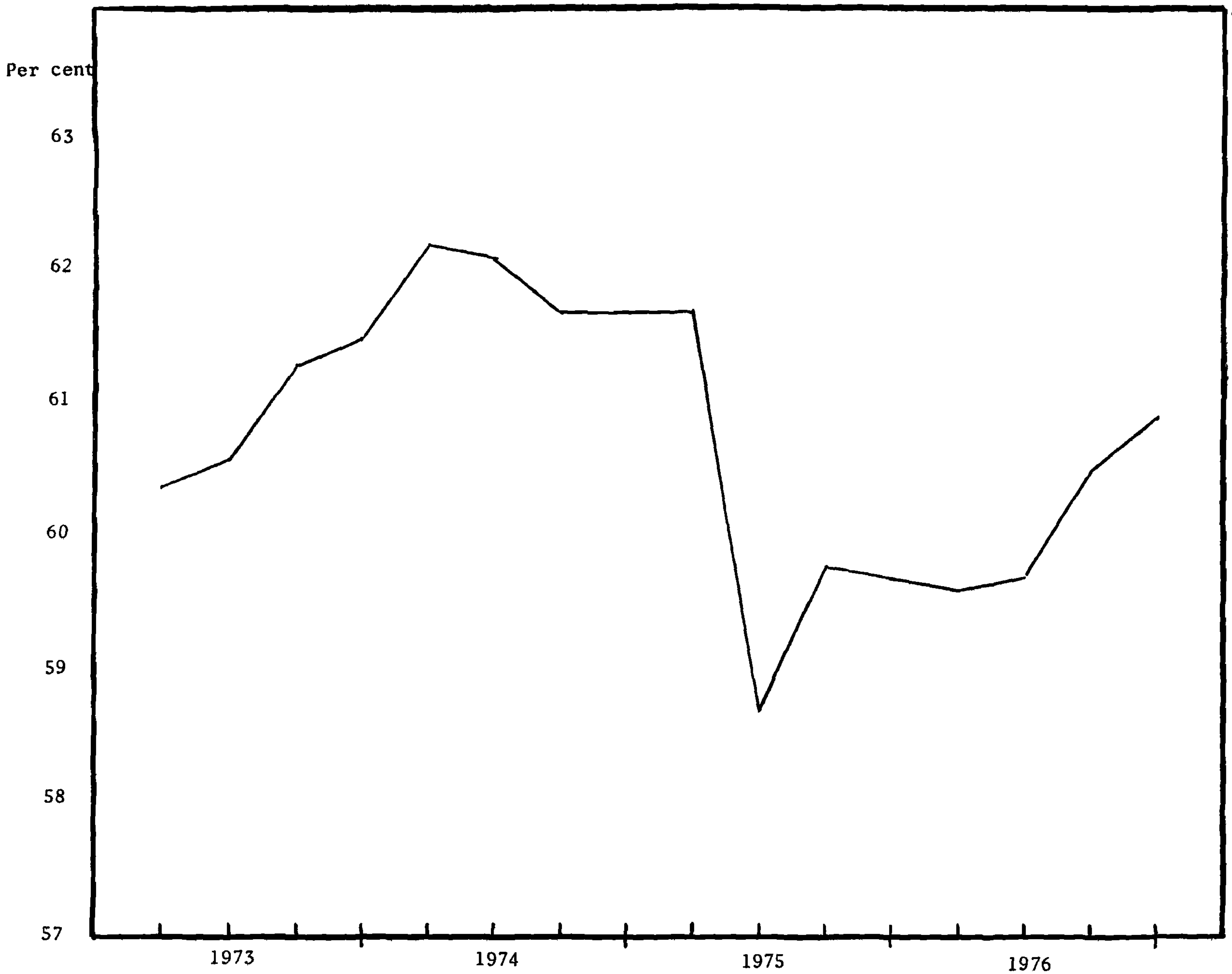
	FNMA auctions of forward purchase commitments						Yields on GNMA guaranteed mortgage backed securities for immediate delivery 2/
	Conventional			Govt.-underwritten			
	Amount ($ millions)		Yield to FNMA 1/	Amount ($ millions)		Yield to FNMA 1/	
	Offered	Accepted		Offered	Accepted		
1976--High	171	127	9.31	634	321	9.20	8.44
Low	33	23	8.80	21	19	8.39	7.57
1977--Jan. 3							7.56
10	184	133	8.81	386	286	8.46	7.92
17							7.92
24	143	106	8.83	362	263	8.49	7.92
31							7.95
Feb. 7	152	120	8.85	390	214	8.52	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.

As reported in previous Greenbooks, however, there appears to have been considerable substitution of mortgage for instalment debt in the current recovery and a more comprehensive measure of debt burden, including both kinds of household debt as a proportion of disposable income, has retraced two-thirds of its sharp 1974-1975 decline (Chart 3).

Chart 3
RATIO OF HOME MORTGAGE AND CONSUMER INSTALMENT
DEBT OUTSTANDING TO DISPOSABLE PERSONAL INCOME
(Source: Flow-of-Funds Accounts)



CONSUMER INSTALMENT CREDIT

	1974	1975	1976	1976 1/ QIII	1976 1/ QIV	1976 1/ Dec.
Total						
Change in outstandings						
$ Billions	9.0	6.8	16.7	16.7	18.5	21.9
Per cent	6.1	4.4	10.3	10.0	10.7	12.5
Bank share (%)	44.4	41.7	39.7	43.8	42.4	50.0
Extensions						
$ Billions	160.0	163.5	186.6	186.8	194.1	200.4
Bank share (%)	45.4	47.2	47.5	47.9	48.0	49.0
Liquidations						
$ Billions	151.1	156.6	169.8	170.1	175.6	178.5
Ratio to disposable income	15.4	14.5	14.4	14.3	14.4	14.7
Automobile Credit						
Change in outstandings						
$ Billions	0.3	2.6	7.5	7.1	8.1	12.2
Per cent	0.7	5.2	14.2	12.6	13.6	20.3
Extensions						
$ Billions	43.2	48.1	55.8	55.8	57.9	63.2
New-car loans over 36 mos. as % of total new-car loans						
Commercial banks 2/	8.8	14.0	25.4	28.5	30.7	--
Finance companies	8.6	23.5	33.7p	36.2	37.2p	37.6p
New-car finance rate (APR)						
Commercial banks (36 mo. loans)	10.97	11.36	11.08	11.07	11.03	11.02
Finance companies	12.61	13.11	13.17p	13.18	13.21p	13.22p

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.

p--preliminary

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

February 9, 1977

IV - T - 1

		1975	1976				
		YEAR	Q2	Q3	Q4	Nov.	Dec.
1.	Merchandise exports	107,088	28,371	29,536	29,826	9,641	10,442
2.	Merchandise imports	98,058	29,803	32,647	33,080	10,746	11,721
3.	Trade Balance	9,030	-1,432	-3,111	-3,254	-1,105	-1,279
4.	Bank-reported private capital flows	-12,840	-1,246	-1,607	-4,127	-3,902	-1,750
5.	Claims on foreigners (increase -)	-13,487	-4,764	-3,341	-8,926	-3,472	-4,645
6.	Long-term	-2,373	-385	-989	-461	-268	-53
7.	Short-term	-11,114	-4,379	-2,352	-8,465	-3,204	-4,592
8.	(of which on commercial banks in offshore centers 2/)	(-7,212)	(-2,393)	(-2,258)	(-4,085)	(-2,190)	(-2,069)
9.	Liabilities to foreigners (increase +)	647	3,518	1,734	4,799	-430	2,895
10.	Long-term	-300	-25	66	221	-5	55
11.	Short-term	947	3,543	1,668	4,578	-425	2,840
12.	to commercial banks abroad	-666	2,220	1,957	2,707	-1,363	1,787
13.	(of which to commercial banks in offshore centers 3/)	(1,798)	(1,205)	(299)	(2,864)	(-1,888)	(1,779)
14.	to other private foreigners	1,549	468	905	1,116	942	265
15.	to int'l and regional organizations	64	855	-1,194	755	-4	788
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,667	-598	3,020	-50	530	-599
17.	Other private securities transactions (net)	-3,701	-1,226	-2,729	-2,097	-570	-1,018
18.	Foreign net purchases (+) of U.S. corp. securities	2,505	131	77	-60	-168	247
19.	(of which stocks)	(3,054)	(102)	(-31)	(-177)	(-111)	(159)
20.	U.S. net purchases (-) of foreign securities	-6,206	-1,357	-2,806	-2,037	-402	-1,265
21.	(new foreign issues on bonds and notes)	(-7,168)	(-1,622)	(-3,011)	(-2,340)	(-434)	(-1,504)
22.	Change in foreign official assets in the U.S.	5,211	3,310	1,272	6,029	926	4,234
23.	OPEC countries (increase +)	5,940	2,737	1,228	332	-63	351
24.	(of which U.S. corporate stocks)	(1,643)	(591)	(374)	(308)	(62)	(116)
25.	Other countries (increase +)	-729	573	44	5,697	989	3,883
	Change in U.S. reserve assets (increase -)	-607	-1,578	-407	228	-431	740
	Other transactions and statistical discrepancy (net payments (-))	240	2,770	3,562	3,271	4,552	-328
28.	Other current account items	2,667	2,159	1,977			
29.	Military transactions, net 4/	-883	-146	366			
30.	Receipt of income on U.S. assets abroad	18,219	5,594	5,797			
31.	Payment of income on foreign assets in U.S.	-12,212	-3,134	-3,085			
32.	Other services, net	2,163	765	824			
33.	Remittances and pensions	-1,727	-452	-464			
34.	U.S. Gov't grants 4/	-2,893	-468	-1,461			
35.	Other capital account items	-6,952	-1,202	49			
36.	U.S. Gov't capital, net claims 4/ (increase -)	-1,731	-212	301			
37.	U.S. direct investment abroad (increase -)	-6,307	-202	-1,245			
38.	Foreign direct investment in U.S. (increase +)	2,437	422	784			
39.	Nonbank-reported capital, net claims (increase -)	-1,351	-1,210	209			
40.	Statistical discrepancy	4,525	1,813	1,536			
MEMO:							
41.	Current account balance	11,697	727	-1,134	n.a.	n.a.	n.a.
42.	Official settlements balance	-4,604	-1,732	-865	-6,257	-495	-4,974
43.	O/S bal. excluding OPEC	1,336	1,005	363	-5,925	-558	-4,623

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).

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

4/ Excludes prepayments for military purchases.

Foreign exchange markets. In the four weeks since the last green book, the trade-weighted exchange value of the dollar has appreciated by about 1/3 per cent, due apparently to a continued shift in market expectations toward higher U.S. interest rates relative to foreign interest rates.

The strong shift in exchange market sentiment in favor of the pound over the past month has been based on recently concluded international agreements to provide substantial funds to the U.K. government to finance possible future intervention support for the sterling exchange rate. A $3.9 billion loan to the United Kingdom from the IMF was approved on January 3, following the December announcement by the U.K. government of its new economic program negotiated with the IMF. On January 10 the Bank for International Settlements announced a $3 billion facility to offset reductions in official sterling balances, and in late January the U.K. Treasury announced a $1.5 billion seven-year Euro-dollar loan. Against this background, an unwinding of leads and lags and recently prohibited third-country sterling trade financing, and a heavy foreign participation in several large U.K. government bond issues combined to swell the demand for sterling.

During the same period, British interest rates have fallen sharply. The Bank of England has reduced its Minimum Lending Rate (MLR) four times so far in 1977, from 14.25 per cent at the beginning of January to a current level of 12 per cent. In order to prevent the MLR from falling even further, the Bank of England on February 3 temporarily suspended use of its formula pegging the MLR to the U.K. Treasury bill tender rate.

During the past four weeks the Canadian dollar depreciated by 1-3/4 per cent, dropping below 98 cents. Declining Canadian interest rates and a New York speech by Quebec Premier Levesque predicting future independence for Quebec, contributed to the Canadian currency's decline.
Bank of Canada

reduced its discount rate a further 1/2 percentage point to 8 per cent.

The Italian lira also experienced downward pressure over the past month. On January 17 the Italian government reduced its non-interest bearing import deposit requirement from 40 per cent to 25 per cent. A further reduction to 10 per cent is scheduled for the end of February. Reductions in the Italian foreign currency purchase tax continued throughout the period and the tax, currently at 0.5 per cent, is scheduled to end on February 18.

After trading steadily at the 5 cent level following the inauguration of the new Mexican President at the beginning of December, the Mexican peso abruptly fell nearly 14 per cent to 4.3 cents on January 20. Some depreciation of the peso had been widely expected and was apparently precipitated when several public sector agencies and private firms simultaneously attempted to purchase dollars to make debt repayments in a thin market. The peso has since moved up gradually to just below 4.5 cents.

The mark and associated snake currencies depreciated against the dollar by an average of 1-1/4 per cent over the past four weeks.

The System continued its program to acquire Swiss francs, , and make weekly repayments on its outstanding Swiss franc swap debt. Over the past four weeks, repayments totaling $46 million equivalent reduced the outstanding Swiss franc swap obligations of the System to $981 million equivalent.

The price of gold fluctuated narrowly in the $131-$134 range over the past month, then moved up to $136 in recent days. On January 26, the IMF held its sixth gold auction, selling 780,000 ounces of gold at a common price of $133.26, approximately equal to the price then prevailing in the London gold market. Beginning with the next auction on March 2, the Fund will hold auctions on the first Monday of each month, rather than every six weeks, and will reduce the amount of gold sold at each auction to 525,000 ounces.

OPEC investment flows. The estimated surplus of the OPEC countries on goods and services widened further in the fourth quarter of 1976 to $13 billion, compared with $11 billion in the third quarter and an average of $10 billion per quarter in the first half. With demand for oil running very strong in anticipation of the January 1, 1977 price increases, OPEC oil revenues in the fourth quarter were about $33 billion, up from an estimated $30.5 billion in the third quarter and an average of $28.5 billion per quarter in the first half. OPEC imports probably continued to rise in the fourth quarter but more slowly than oil revenues. After OPEC grants the investible surplus was about $12.7 billion for the quarter. For the year 1976 the OPEC surplus on goods and services is estimated at $44 billion, substantially above the 1975 figure of $35 billion. After estimated OPEC grants of $1.6 billion in 1976, there remained an investible surplus of about $42.4 billion.

The share of the investible surplus that was utilized in ways on which data are not available was especially high in the fourth quarter. These unidentified flows were equivalent to two thirds of the fourth-quarter surplus, compared with slightly less than one-half for 1976 as a whole and much smaller percentages in 1974-75. This category of OPEC investments is believed to be made up largely of direct, portfolio, and real estate investment in countries other than the United States and the United Kingdom, direct loans from OPEC governments to public-sector borrowers in developed countries other than the U.K., loans to developing countries in part extended through regional development organizations, Euro-bonds, and prepayments of imports from countries other than the United States.

Estimated Disposition of OPEC Surpluses
(in billions of dollars)

	1974 Year	1975 Year	1976 Year	1976 1st Half	1976 Q-3	1976 Q-4
I. In United States	12.0	10.0	11.6	7.1	2.8	1.7
A. Short-term assets 1/	9.3	0.3	0.3	0.9	0.3	-0.9
B. Treasury bonds and notes	0.2	2.0	4.1	2.4	0.8	0.9
C. Other deposits and securities 2/	1.3	4.0	3.4	2.4	0.5	0.5
Total deposits and securities	10.8	6.3	7.8	5.7	1.6	0.5
D. Direct investment	0.3	1.0	-0.5	-1.2	0.3	0.4
E. Other 3/	0.9	2.7	4.3	2.6	0.9	0.8
II. In United Kingdom	7.2	0.2	-1.2	-0.8	-0.4	0
A. Liquid sterling assets 4/	5.3	0	-2.4	-1.6	-0.7	-0.1
B. Other loans and investments	1.9	0.2	1.2	0.8	0.3	0.1 5/
III. In Euro-currency Markets	24.5	9.1	10.3	3.7	3.8	2.8 5/
A. United Kingdom	13.8	4.1	5.8	2.2	1.8	1.8 5/
B. Other centers (est.) 6/	10.7	5.0	4.5	1.5	2.0	1.0 5/
IV. International Institutions	3.3	3.5	1.5	1.6	-0.1	7/
A. IBRD bonds	1.5	0.9	0.5	0.4	0.1	7/
B. IMF Oil Facility	1.8	2.6	2.0	1.2	-0.2	0
V. Total Identified Above	47.0	22.8	22.2	11.6	6.1	4.5
VI. All Other (Residual)	10.6	9.8	20.2	7.4	4.6	8.2
VII. Total = Investible Surplus	57.6	32.6	42.4	19.0	10.7	12.7
VIII. OPEC Grant Aid	2.4	2.4	1.6	1.0	0.3	0.3
IX. Surplus on Goods and Services 8/	60.0	35.0	44.0	20.0	11.0	13.0

Note: Figures for full year and fourth quarter 1975 exclude December where indicated by footnote 5 in fourth quarter column.

1/ Principally Treasury bills, repurchase agreements, bank deposits and CD's.
2/ Long-term bank deposits, corporate and Federal agency bonds, and equities.
3/ Real estate, prepayments of imports, debt repayment, and miscellaneous investments.
4/ Treasury bills and bonds, bank and other deposits.
5/ October-November only.
6/ Including domestic-currency bank deposits in centers other than the United Kingdom and United States.
7/ Less than $50 million.
8/ With oil receipts on a cash basis.

Net new OPEC investment in the United States declined again in the fourth quarter, dropping to an estimated $1.7 billion from $2.8 billion in the third quarter and about $3-1/2 billion per quarter in the first half of last year. The drop in the fourth quarter resulted from a shift from accumulation to liquidation of short-term assets (bank deposits, CD's, Treasury bills, and repurchase agreements). For all of 1976 the increase in holdings of these assets was, as in 1975, very small. Estimated changes in the fourth quarter in the rates of inflow into other types of investment in the United States appear to have been nil or minor. However, comparison of the second half of 1976 with the first half shows a substantial diminution in net acquisition not only of short-term assets but of most other types of deposits and securities as well. From the first half of the year to the second, net new purchases of Treasury bonds and notes decreased from $2.4 billion to $1.7 billion and purchases of equities from $1.1 billion to $0.9 billion, while net acquisitions of long-term CD's amounted to $0.6 billion in the first half and gave way to net liquidations of $0.3 billion in the second. Purchases of corporate and Federal Agency bonds were $0.7 billion in each half-year.

None of the fourth-quarter decline in the share of OPEC investment flowing to the United States is reflected in changes in identified flows to other countries, except for investment in the United Kingdom. OPEC holdings of sterling and non-sterling assets in Britain were about unchanged in the fourth quarter, on the basis of data that in some cases do not go beyond November. This stability contrasted with net liquidations in all of the preceding six quarters as large drawdowns of liquid sterling assets ("sterling balances") outweighted increases in other assets in the U.K. (mostly private securities, real estate, and non-sterling loans from OPEC governments to British public sector borrowers). Net liquidation of sterling balances slowed to $0.1 billion in the fourth quarter, all of the liquidation occurring in the first three weeks of October.

Flows of OPEC funds into the Euro-currency market in October-November were at about the same rate as in the third quarter. Transfers of resources by OPEC to the IBRD and IMF were negligible.

U.S. International Transactions. Both exports and imports increased sharply in December, but the trade deficit widened and produced a deficit for the fourth quarter that was slightly larger than the third quarter deficit. Relatively low interest rates in the United States at the end of the year gave rise to a large net outflow of private capital through banks and a sizable volume of foreign bond issues in the U.S. market. Foreign official assets in the United States showed a large increase in December as a number of foreign central banks accommodated inflows of dollars by taking them into their reserves.

The U.S. deficit on merchandise trade was $13 billion (seasonally adjusted annual rate) in the fourth quarter, little changed from the third quarter. For the year 1976, a $10 billion trade deficit was recorded, following a surplus of $9 billion in 1975. (See table.)

The value of nonagricultural exports was up $2.7 billion (s.a.a.r.) in the fourth quarter. These exports were held down in October, and to a lesser extent in November, by reduced shipments of automobiles and parts to Canada as a result of the strike at Ford. In December these shipments returned to normal, and at the same time there was a surge in all other major categories of nonagricultural exports. December exports of machinery and consumer goods were particularly strong. New orders for exports of machinery had risen sharply in mid-1976, but machinery exports remained flat through November. New export orders for machinery took another jump in

U.S. Merchandise Trade[1/]
(seasonally adjusted annual rates)

	Year 1975	Year 1976	1975 Q4	1976 Q1	1976 Q2	1976 Q3	1976 Q4
VALUE (Bil.$, SAAR)							
Exports, total	107.1	114.5	110.6	107.1	113.5	118.1	119.3
Agricultural	22.2	23.4	23.0	21.2	23.3	25.3	23.7
Nonagricultural	84.8	91.2	87.7	85.9	90.2	92.9	95.6
Imports, total	98.1	124.1	101.7	114.2	119.2	130.6	132.3
Fuels	28.5	37.0	29.5	31.6	36.4	39.8	40.3
Nonfuels	69.5	87.0	72.2	82.6	82.8	90.8	92.0
Trade Balance	+9.0	-9.6	+8.9	-7.0	-5.7	-12.4	-13.0
UNIT VALUES (1974=100)							
Exports - Agric.	97.7	92.0	93.1	91.6	91.0	92.8	92.5
- Nonagric.	116.1	123.8	118.6	121.0	122.7	123.9	127.4
Imports - Fuels	103.5	109.7	104.4	108.2	109.1	109.7	111.6
- Nonfuels	110.6	111.8	107.7	108.8	111.2	113.1	114.0
VOLUME (1974=100)							
Exports - Agric.	101.5	113.3	110.0	103.2	114.2	121.4	114.4
- Nonagric.	96.3	97.0	97.4	93.5	96.9	98.8	98.8
Imports - Fuels	100.2	122.8	102.8	106.3	121.3	132.0	131.3
- Nonfuels	82.5	102.2	88.0	99.6	97.8	105.3	106.0

1/ International accounts basis.

December and were 9 per cent above October-November. Hence the machinery export picture seems to have brightened somewhat, even though fixed investment in most foreign countries continues to expand only slowly if at all.

Although the December increase in the value of nonagricultural exports was largely attributable to a larger volume of shipments, virtually all of the increase from the third to fourth quarter came from a 2.8 per cent rise in unit values.

For the year 1976, the value of nonagricultural exports was up 7-1/2 per cent over the year before. Nearly all of this increase came from higher unit value with volume up less than 1 per cent. In fact, 1976 volume averaged 3 per cent less than in the peak year of 1974.

Agricultural exports in December recovered from their depressed November value, but remained well below the pace in the third quarter and the month of October, when grain shipments to Europe were especially strong. Agricultural exports for the fourth quarter were $1.6 billion (s.a.a.r.) below the third quarter. Most of the decline was in the volume of shipments, but the average unit value was slightly lower as well.

For the year 1976, agricultural export value was up about $1 billion over the two previous years. The average unit value was lower for the second consecutive year as the world grain supply situation continued to ease. Volume was up sharply though, due mainly to drought-related demand for grain in the Soviet Union in early 1976 and in Europe beginning in the second quarter.

The value of nonfuel imports rose $15 billion (s.a.a.r.) in December after declining in the two previous months. Industrial supplies and foods and feeds showed the largest increases. The effects of the Ford strike are also seen in a recovery of automotive imports from Canada.

With the strong December figure, imports in the fourth quarter were $1.2 billion higher than in the third quarter, but this was a much smaller increase than was recorded from the second to the third quarter. Slower import growth during the autumn months was associated with the slowing of the domestic economic expansion and the tightening of inventories that occurred at the same time. The fourth-quarter increase in nonfuel import value was evenly split between volume and price increases. Prices of primary commodities -- industrial supplies and foods and feeds -- were up roughly 2 per cent while prices of durable goods were lower.

Nonfuel imports for the year 1976 were up $17 billion or 25 per cent from 1975, when imports were severely depressed by the U.S. recession. Almost all of the 1976 increase was in volume. Even so, volume in 1976 was only slightly above 1974 and was still not back to its 1973 peak.

<u>Imports of fuel</u> were $40 billion (s.a.a.r.) in December, about the same as the average for both the third and fourth quarters. Petroleum imports were at a rate of 8.3 million barrels per day (mbd)

in December, about 1 mbd in excess of estimated normal consumption requirements. December imports continued to be bolstered by the desire on the part of oil companies to stockpile as much oil as possible before the OPEC price increases took effect. In addition, weather has been colder than normal in the United States since the beginning of the heating season in October, and so petroleum consumption was an estimated 3/4 mbd higher in the fourth quarter than in the fourth quarter of 1975.

Petroleum imports for 1976 averaged 7.8 mbd -- 20 per cent higher than 1975, when fuel demands were reduced by the recession, and 1 mbd higher than the previous peak year of 1973. The growth of petroleum imports since 1973 has been the joint result of rising consumption associated with economic growth and declining domestic production. The average price paid for petroleum and petroleum products in 1976 was $12.14 per barrel, up 6-1/2 per cent from 1975.

Bank-reported private capital transactions resulted in a net outflow of $1.8 billion in December, bringing the total net outflow in the fourth quarter to $4.1 billion following an outflow of $1.6 billion in the third quarter. The net outflow for the year was $10 billion, well below the $13 billion outflow in 1975.

The incentive for an acceleration of the capital outflow through banks late in the year was created by the decline in U.S. interest rates relative to rates in other major countries. The outflow was accommodated by foreign central banks who as a group added almost $4 billion (excluding OPEC) to their reserve holdings in the United States in December and $6 billion total in the fourth quarter.

$1.2 billion of the bank-reported net outflow in the fourth quarter (adjusted to exlude day-of-week effects) was by U.S. banks and $2.9 billion was by U.S. offices of foreign banks. (See table.) U.S. banks substantially reduced their net lending to their own branches abroad and to other foreign commercial banks, but they increased their lending to nonbank foreigners by even more. This switch to direct lending from head offices, rather than via branches and banks abroad, was motivated by tax advantages to be gained from the placement of loans on head office books. U.S. banks competed vigorously to create acceptances by substantially reducing fees, thus reducing the cost of acceptance financing in the United States well below the cost of alternative Eurodollar trade financing or U.S. prime-based loans. In addition, the decision by U.K. authorities on November 18 to terminate the use of sterling for third-country trade financing led to an increase in the demand for dollar financing -- particularly by Japanese trading firms. As a result of these factors U.S. banks created and added to their loan portfolios $1 billion in foreign acceptances in December.

The U.S. offices of foreign banks did not face the same tax considerations as U.S. banks and therefore did not participate in the competition for acceptances or increase direct foreign lending. Nevertheless, their net outflow was unusually large in the fourth quarter as they provided $2.1 billion in relatively cheap funds from the United States to their own affiliates and other commercial banks abroad.

Bank-reported capital flows in 1976
(billions of dollars; increases in assets,-)

		First half		Third quarter		Fourth quarter	
	Year	U.S. banks	U.S. offices of foreign banks	U.S. banks	U.S. offices of foreign banks	U.S. banks	U.S. offices of foreign banks
Bank-reported private capital flows	-9.8	-3.6	-0.5	-1.9 1/	+0.3 1/	-1.2 1/	-2.9 1/
Net change vis-a-vis banks abroad	-7.1	-3.3	-0.3	-1.8 1/	+0.9 1/	-0.5 1/	-2.1 1/
Loans to official and other foreigners	-3.4	-0.6	-0.3	-0.1	-0.4	-0.9	-1.1
Acceptances and collections 2/	-2.0	-0.5	-0.2	+0.3	-0.3	-1.5	+0.2
Liabilities to private nonbank foreigners (including international and regional organizations)	+2.7	+0.8	+0.3	-0.3	+0.1	+1.7	+0.1
Change in bank-reported liabilities to foreign official agencies (excludes Treasury issues held in custody)	+0.7	-0.6	+0.2	-0.2	-0.2	+1.4	+0.1

1/ Adjusted to exclude day-of-week effects
2/ Includes minor foreign currency claims.

Much of this outflow occurred in December when the demand for funds by European banks was augmented by the desire to build up liquidity in order to "window-dress" year-end balance sheets.

New Foreign issues of bonds and notes in the United States were $1.7 billion in December. The strong December volume brought the fourth quarter total to $2.6 billion, about the average rate for 1976. Canadian issues were over $900 million -- largely issues that had been scheduled prior to the Quebec Provincial election in November. Lower U.S. long-term rates more than offset the increase in the premium paid by Canadian borrowers. Foreign new issues were only $500 million in January, nearly all Canadian. The calendar for February shows a moderate pickup to $850 million, but foreign borrowing in the U.S. bond market is beginning more slowly in 1977 than last year. New issues by the province of Quebec and Quebec Hydro which had been very large last year, have been notably absent so far this year, as investor resistance to these securities has grown. Some major U.S. institutional investors have reportedly placed a moratorium on their purchases of Quebec debt.

Foreign purchases of U.S. stocks. As the U.S. stock market turned upward in December, foreign investors (excluding direct OPEC purchases) became net purchasers of U.S. equities -- $160 million. However, for the fourth quarter as a whole, foreign investors reduced their holdings of U.S. equities by $275 million. In 1976, foreign investors purchases $750 million in U.S. stocks, as compared to over $3 billion in 1975.

OPEC reserve assets in the United States increased slightly in December, and for the fourth quarter as a whole remained essentially level. During the fourth quarter, those OPEC members with a relatively high ability to absorb imports ran down their reserve holdings in the United States by about $2 billion. This rundown was offset by increases in reserve holdings in the United States by Saudi Arabia.

Recent Trade and Current-Account Developments in Major Foreign Industrial Countries. The changes in the pace of economic activity in the major industrial countries that occurred in 1976 were accompanied by parallel increases in their volume of foreign trade. During the last months of 1975 and the first half of 1976, the volume of trade increased at double-digit annual rates. The pause in economic activity during the second half of 1976, however, was accompanied by a corresponding fall-off in the growth of trade volumes. (See Table I). Import volumes of these countries weakened less than export volumes owing, in part, to oil stock-piling in anticipation of the oil price increase. Since the respective 1974-75 troughs in economic activity, the trade-weighted (exports plus imports) real GNP of the six countries has risen by 7.2 per cent. The corresponding increase in the trade-weighted volume of their trade has been 19.5 per cent. Since the 1974-75 trough, U.S. real GNP increased by 10.4 per cent while trade volume increased by 20.9 per cent.

Changes in the trade and current-account balances of these countries reflected the higher level of external demand in the first half of 1976, caused in large part by inventory build-up, the pause in economic activity later in the year, and diverse internal domestic conditions. Some shifts represent a move towards a more balanced sharing of the current-account deficit imposed on oil-importing nations, while others reflect movements toward greater imbalance.

The combined trade surplus of the six countries shown in Table II declined somewhat in 1976 from the level attained during the recession year 1975; within the group there was an extreme diversity

Table I. Trade Volume Indexes for Major Industrial Countries, 1975-1976
(Seasonally adjusted, 1970=100)

				1975				1976			
		1975	1976	QI	QII	QIII	QIV	QI	QII	QIII	Latest Period
Canada	Export Volume	112.9		113.6	113.5	111.7	112.8	122.8	127.2	132.8	117.1 (Oct.)
	Import Volume	155.9		156.1	156.6	154.0	156.9	159.4	171.4	164.5	154.2 (Oct.)
France	Export Volume	143.4		143.9	143.1	141.4	145.2	151.8	159.0	153.8	157.8 (Oct.)
	Import Volume	135.2		128.9	131.0	134.4	146.4	154.6	164.2	167.3	169.5 (Oct.)
Germany	Export Volume	134.6	151.8	132.9	133.2	133.6	138.6	146.5	149.9	155.8	155.0 (QIV)
	Import Volume	130.9	151.0	126.0	130.0	131.0	136.4	145.3	149.3	153.0	156.4 (QIV)
Italy	Export Volume	135.0		131.4	129.3	137.7	141.6	146.2	146.5	152.9	QIII
	Import Volume	103.4		97.0	97.8	105.1	113.6	119.3	118.5	113.7	QIII
Japan	Export Volume	158.4		157.8	152.9	155.6	167.1	196.9	199.6	194.9	182.0 (Nov.)
	Import Volume	121.7		122.5	117.7	124.2	122.4	132.8	135.5	141.0	143.3 (Nov.)
U.K.	Export Volume	125.0	135.4	128.9	122.6	120.0	128.3	131.6	137.1	133.1	139.8 (QIV)
	Import Volume	125.6	134.2	125.4	122.2	127.4	127.2	124.1	136.7	137.2	138.7 (QIV)
Average[1/] percentage change from previous period (annual rate) for above countries											
	Export Volume	-4.2		-18.3	-6.0	2.1	18.5	35.7	2.4	10.1	
	Import Volume	-7.8		-26.3	0.0	12.2	14.2	19.2	19.0	4.0	

1/ Weighted average using 1974 trade as weights.

Table 2. Merchandise Trade and Current Accounts of Major Industrial Countries
(In billions of U.S. dollars at seasonally adjusted annual rates) 1/

					1975				1976			
		1974	1975	1976	I	II	III	IV	I	II	III	IV
Canada	Exports	32.6	33.3	38.1	32.4	32.9	33.8	34.3	36.4	38.0	40.0	38.0
	Imports	30.9	34.0	36.9	33.6	34.2	34.0	34.2	36.8	37.0	36.7	37.0
	Trade Balance	1.7	-0.7	1.2	-1.2	-1.5	-0.2	0.1	-0.4	-1.0	3.3	1.0
	Current Account	-1.7	-4.9	-4.5[e]	-5.2	-4.8	-4.4	-5.2	-5.6	-5.2	-2.8	-4.4[e]
France	Exports	46.6	53.2	56.9	54.8	54.4	52.4	51.2	55.2	57.2	56.8	58.2
	Imports	50.0	51.8	60.9	52.8	50.0	50.4	53.6	56.8	58.0	62.8	66.0
	Trade Balance	-3.4	1.5	-4.0	2.0	4.4	2.0	-2.4	-1.6	-0.8	-6.0	-7.8
	Current Account	-5.9	-0.1	-6.3[e]	-1.6	3.6	-0.4	-1.6	-5.2	-1.6	-9.6	-8.8[e]
Germany	Exports	89.6	90.4	102.3	94.0	93.6	86.0	88.4	94.6	97.4	104.2	113.0
	Imports	69.9	75.0	88.4	74.4	76.4	73.2	76.4	80.5	83.9	91.1	98.2
	Trade Balance	19.7	15.3	13.9	19.6	17.2	12.8	12.0	14.1	13.5	13.1	14.8
	Current Account	9.7	4.0	3.7	9.2	4.4	1.6	0.8	5.2	4.0	3.2	2.5
Italy	Exports	29.8	34.3	36.7[e]	33.7	33.7	34.6	35.2	33.9	34.7	37.5	40.8[e]
	Imports	38.2	35.5	41.1[e]	34.4	33.0	35.2	39.3	38.2	38.7	39.9	47.6[e]
	Trade Balance 2/	-1.5	-1.1	-4.1[e]	-0.7	0.8	-0.5	-4.1	-4.3	-4.0	-2.4	-5.9
	Current Account (NSA)	-7.8	-0.5	-2.2[e]	-1.8	0.6	3.4	-4.3	-5.7	-5.4	2.9	-3.0[e]
Japan	Exports	54.5	54.7	66.0	58.4	54.4	52.8	56.4	62.8	64.8	66.0	68.5
	Imports	53.0	49.7	56.1	51.2	46.8	49.6	52.0	52.0	51.8	58.8	61.1
	Trade Balance	1.5	5.0	9.9	7.2	7.6	3.2	4.4	10.8	13.2	7.2	7.4
	Current Account	-4.7	-0.7	3.7	1.2	2.0	-3.2	-2.8	4.4	7.2	0.4	1.6
U.K.	Exports	37.2	41.7	44.1	43.4	41.6	39.4	41.9	43.5	43.5	43.4	45.0
	Imports	49.4	48.8	50.6	51.5	48.0	47.8	47.5	47.1	50.5	51.7	51.8
	Trade Balance	-12.2	-7.1	-6.5	-8.2	-6.3	-8.4	-5.6	-3.6	-7.0	-8.2	-6.8
	Current Account	-7.8	-3.7	-2.7	-4.3	-3.3	-4.7	-2.4	-0.02	-3.6	-4.2	-2.8
Trade Balance for Above Six Countries		-1.2	12.9	9.8	18.7	22.2	8.9	4.4	15.0	13.9	7.0	1.6

See footnotes on following page.

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Table 2 (cont.)

NOTES: French and German trade on a customs basis; others on a balance of payments basis. Import f.o.b., except c.i.f. for Germany and Italy. 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 *Federal Reserve Bulletin*.

2/ Balance of payments data from national sources seasonally adjusted by FRB staff; October and November customs data seasonally adjusted and converted to balance of payments basis by FRB staff. Fourth quarter 1976 estimated on basis of data through November.

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of experience. The relatively strong countries, Germany and Japan, sustained substantial current account surpluses with Germany reducing the level of its surplus marginally and Japan moving from a small deficit to a surplus. The current-account and trade-balance developments for Japan and Germany indicate that these countries contributed to the overall deficit of the other oil-importing countries. Among the relatively weaker countries, France and Italy experienced increases in their current-account deficits. The United Kingdom recorded a slightly lower, though still substantial, current account deficit. The Canadian current account exhibited little change.

Changes in the trade account of the OECD region with the LDC's indicate a move towards greater balance with an estimated decline of $9 billion in the aggregate 1975 trade deficit of $18.9 billion. The trade account deficits of LDC's were reduced as a result of growth in export values of 20 per cent and import growth of only 6 per cent in 1976. Rising commodity prices coupled with a rebound in external demand by industrial countries is responsible for the growth in exports, while restrictive domestic policy is credited with holding import growth down. The OPEC current account surplus increased from about $35.0 billion in 1975 to about $44.0 billion in 1976. Oil revenues rose and the growth rate of imported goods and services by OPEC nations was hampered by both physical and financial constraints.

Germany's trade surplus in 1976 was the third highest recorded in its history. The trade surplus narrowed only slightly despite an appreciation of the DM and a rise in the price of exports relative to imports. These developments were accompanied by strong import demand, but despite the appreciation of the DM, export volume continued to grow throughout 1976, showing particular strength in the second half of the year. German exports were sustained in part by the strong and growing demand by OPEC nations for German goods. The German balance on services and transfers remained in deficit resulting from large foreign-worker remittances and tourism by German residents. The resulting current-account surplus declined slightly.

During 1976 as a whole, Japan increased its trade surplus to bring its current account from a deficit in 1975 of $.7 billion to a surplus of $3.7 billion in 1976. The Japanese balance on services and transfers remained in deficit due to payments for royalties and freight services. Export and import volumes rose sharply during the first half of 1976, the increase in export volumes reflecting strong demand from non-oil LDC's as well as the increased level of world activity. Export volumes declined during the second half of the year while import volumes continued to rise steadily. The trade surplus in the last half of 1976 was, thus, substantially below that of the first half indicating a move toward greater adjustment.

Of the six major foreign countries, France experienced the sharpest movement in its 1976 current-account deficit, from $0.1 billion to an estimated $6.3 billion reflecting the substantial swing in its trade balance. The service account showed no substantial changes. The swing from trade surplus to deficit was due to an import volume growth more than double export volume growth. Import expansion was particularly strong due to the growth-oriented policy of the French government in the first half of 1976, to inventory restocking, the European drought, and oil stockpiling in anticipation of the OPEC price increase. Export volume actually declined in the third quarter as slack developed in foreign economic activity. The strong rate of growth of import volumes relative to export volumes, combined with falling terms of trade (export prices relative to import prices), produced a large increase in the deficit in the second half of 1976.

The trade and current-account deficits in Italy sharply increased starting in the fourth quarter of 1975. Export volume increased by 8 per cent during the first three quarters of 1976. Import volume rose in the first quarter of 1976 reflecting a sharp rise in economic activity but fell afterwards responding to the third quarter slack in activity, the depreciating lira, and the falling terms of trade. The Italian balance on services and transfers is traditionally in surplus due to receipts from tourism and emigrant remittances.

The United Kingdom experienced a slight reduction in its trade and current-account deficits. Export volumes grew at an annual rate of eight per cent while import volumes grew at 7 per cent during 1976 compared with 1975. The depreciating pound was accompanied by a relatively constant terms of trade from 1975 to 1976. Import volumes did not expand early in the year due to the lagging position of the United Kingdom in the recovery cycle. They began increasing in the second quarter with restocking and speculation against the depreciation of sterling. In the summer months, purchases of capital goods for the

North Sea oil project boosted import volumes. Export growth was relatively strong in 1976 with the exception of the third quarter. The relatively bouyant service account, stimulated by the effect of the pound's depreciation on such items as tourism expenditures, helped the United Kingdom reduce its 1975 current-account deficit of $3.7 billion by $1.0 billion.

Canada's trade balance moved from a small 1975 deficit to a surplus of $1.2 billion in 1976, but its current-account deficit is estimated to have narrowed only slightly to $4.5 billion. The Canadian economic recovery has been export-led. The volume of Canadian exports grew at three times the rate of import volume growth during 1976 as Canadian GNP grew at a rate somewhat less than that of its major trading partner, the United States. The Canadian trade account returned to its traditional surplus position during the third quarter of 1976 following a trade deficit in five of the previous six quarters. The current account remained in deficit for the third successive year as the service account deficit increased due to increased interest payments on growing external debts and an increasing deficit on the freight and shipping account.

The small OECD countries experienced relatively constant aggregate current-account and trade deficits of $7.5 and $11.5 billion respectively; the aggregate figure, however, conceals disparate movements among individual countries. Several of the smaller European countries experienced substantial swings -- on the order of $1 to $1.5 billion -- in these balances. The largest negative swings occurred in Austria and Denmark, where relatively rapid increases in total domestic demand led to sharply higher imports, and increases in trade deficits from less than

$2 billion in 1975 to over $3 billion in 1976 in each country. Current-account deficits rose correspondingly, from about $.5 billion to nearly $2 billion. Belgium and Norway experienced negative swings of more than $1 billion on current account (to deficits of about $.5 and $3.5 billion respectively), reflecting somewhat smaller increases in trade deficits. Finland and Switzerland experienced large positive swings on the order of $1 billion on current account. In both of these countries total domestic demand declined in 1976, and Finland enjoyed a sharp recovery in exports. The Netherlands' current-account surplus rose by about $700 million, spurred in part by exports of natural gas.