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CONFIDENTIAL (FR)

January 11, 1978

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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January 11, 1978

SELECTED DOMESTIC NONFINANCIAL DATA
AVAILABLE SINCE PRECEDING GREENBOOK
(Seasonally adjusted)

	Latest Data			Per Cent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At annual rate)		
Civilian labor force	Dec.	1-11-78	98.9	-.9	4.3	3.1
Unemployment rate (%)1/	Dec.	1-11-78	6.4	6.9	6.9	7.8
Insured unemployment rate (%)1/	Dec.	1-11-78	3.8	4.0	4.1	4.6
Nonfarm employment, payroll (mil.)	Dec.	1-11-78	83.4	3.1	3.3	3.8
Manufacturing	Dec.	1-11-78	19.9	9.7	5.4	4.0
Nonmanufacturing	Dec.	1-11-78	63.6	1.1	2.6	3.8
Private nonfarm:						
Average weekly hours (hr.)1/	Dec.	1-11-78	36.0	36.1	36.0	36.2
Hourly earnings ($)1/	Dec.	1-11-78	5.41	5.39	5.32	5.02
Manufacturing:						
Average weekly hours (hr.)1/	Dec.	1-11-78	40.3	40.5	40.3	40.0
Unit labor cost (1967=100)	Nov.	12-30-77	157.5	6.1	8.0	6.5
Industrial production (1967=100)	Nov.	12-15-77	139.7	6.0	4.6	6.2
Consumer goods	Nov.	12-15-77	145.4	-.8	1.9	5.1
Business equipment	Nov.	12-15-77	153.0	3.1	5.0	9.2
Defense & space equipment	Nov.	12-15-77	79.0	-4.5	-8.9	1.8
Materials	Nov.	12-15-77	140.1	8.6	7.3	6.2
Consumer prices (1967=100)	Nov.	12-21-77	185.2	5.9	4.4	6.7
Food	Nov.	12-21-77	196.1	7.4	3.3	7.9
Commodities except food	Nov.	12-21-77	167.5	5.8	4.1	4.9
Services	Nov.	12-21-77	199.2	4.8	5.1	7.8
olesale prices (1967=100)	Nov.	12-8-77	197.8	7.9	7.8	6.1
Industrial commodities	Nov.	12-8-77	199.7	4.8	7.1	6.5
Farm products & foods & feeds	Nov.	12-8-77	188.9	27.3	12.7	4.9
Personal income ($ bil.)2/	Nov.	12-16-77	1597.4	11.2	12.5	11.5
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Nov.	1-4-78	61.8	-1.1	6.0	18.3
Capital goods industries	Nov.	1-4-78	19.3	-7.0	15.9	21.7
Nondefense	Nov.	1-4-78	15.7	-5.0	6.8	23.1
Defense	Nov.	1-4-78	3.6	-14.6	82.3	16.0
Inventories to sales ratio:1/						
Manufacturing and trade, total	Oct.	1-10-78	1.46	1.47	1.46	1.53
Manufacturing	Nov.	1-4-78	1.56	1.56	1.57	1.67
Trade	Oct.	1-10-78	1.35	1.37	1.33	1.35
Ratio: Mfrs.' durable goods inventories to unfilled orders1/	Nov.	1-4-78	.622	.629	.640	.641
Retail sales, total (S bil.)	Dec.	1-10-78	61.0	-.7	3.4	7.7
GAF3/	Dec.	1-10-78	13.9	.6	7.3	11.1
Auto sales, total (mil. units)2/	Dec.	1-9-78	11.0	6.1	6.2	.7
Domestic models	Dec.	1-9-78	8.9	6.6	5.7	-4.9
Foreign models	Dec.	1-9-78	2.1	3.9	8.4	33.8
Housing starts, private (thous.)2/	Nov.	12-16-77	2,105	-5.4	3.7	23.4
Leading indicators (1967=100)	Nov.	12-30-77	133.8	-.2	1.1	5.4

1/ Actual data used in lieu of per cent changes for earlier periods.
At annual rate.
Excludes mail order houses.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic activity continued at a brisk pace late in 1977. Although retail sales declined slightly in December there were very large advances in the prior two months and the average for the quarter was up sharply. In December, unit auto sales improved from the reduced November pace but remained below the especially strong rate in the first half of 1977. With sales of domestic autos below manufacturers' earlier expectations, auto assemblies were cut in December and this, together with the coal strike, probably offset most of the increases in industrial output in other sectors. Even so, demand for labor remained strong and the unemployment rate dropped sharply in December. Housing activity remained at very high levels through November. Outlays on capital goods appear to have picked up in the final quarter but inventory accumulation apparently was at a reduced rate. Price increases were more moderate during the last half of 1977 than the first half, but the underlying rate of inflation remained close to 6 per cent.

Retail sales declined 0.7 per cent in December. Exclusive of autos and mainly nonconsumer items the decline was smaller--0.4 per cent--and this followed increases of 1.8 and 2.4 per cent, respectively, in October and November. For the quarter as a whole the increase was 3.7 per cent with exceptionally strong gains for general merchandise, apparel and furniture and appliances.

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

	1977						
	QII	QIII	QIV	Sept.	Oct.	Nov.	Dec.
Total sales	1.7	1.5	3.8	0	3 0	1.2	-.7
(Real)1/	-.3	.7	n.a.	-.2	2.8	.7	n.a.
Total, less auto and nonconsumption items	2.1	1.9	3.7	.5	1.8	2.4	-.4
GAF2/	1.8	3.4	5.5	-.8	4.3	2.2	.6
Durable	1.2	.8	4.4	-1.1	5.7	-1.2	-1.5
Auto	-.3	-.5	5.4	-2.4	7.2	-1.4	-.2
Furniture and appliances	2.8	2.1	3.8	-2.1	2.9	2.3	1.2
Nondurable	2.0	1.9	3.5	.6	1.6	2.4	-.3
Apparel	-2.3	1.3	7.0	-3.1	5.9	4.4	-1.7
Food	3.8	.4	2.7	.7	.8	2.6	-.6
General merchandise2/	3 0	4.7	5.6	.5	4.2	1.4	1.3
Gasoline	2.1	0	2.0	-.4	1.4	1.4	0

1/ Deflated by all commodities consumer price index, seasonally adjusted.
2/ Excludes mail order stores.

AUTO SALES
(Millions of units; seasonally adjusted)

	1977						
	QII	QIII	QIV	Sept.	Oct.	Nov.	Dec.
Total	11.7	10.9	10.8	10.4	10.9	10.4	11.0
Imports	2.4	2.0	2.0	1.9	1.8	2.0	2.1
Domestic1/	9.3	8.9	8.8	8.4	9.1	8.3	8.9
Large	5.9	5.5	5.4	4.9	5.5	5.1	5.6
Small	3.3	3.4	3.4	3.4	3.7	3.2	3.3

1/ Parts may not add to total because of rounding.

Unit sales of domestic autos have now risen for four consecutive 10-day selling periods following the sharp fall-off in mid-November. In December, such sales averaged 8.9 million units, annual rate, up from 8.3 million for November. Total auto stocks averaged an equivalent of 61 days supply in the third and fourth quarters--the highest backlog in two years. Domestic auto production was cut back in December and earlier planned production for the first quarter reportedly has been pared; these steps are intended to keep dealer inventories from rising further over the near-term. Sales of foreign autos continued comparatively strong at a 2.1 million unit, annual rate, in December, about 19 per cent of the total U.S. market.

Recent advances in personal consumption expenditures reflect both substantial income growth and high levels of consumer confidence. In November, personal income grew at an annual rate of over 11 per cent, about in line with the rise over 1977. During the year, real disposable income posted its largest increase in four years.

Consumer confidence and buying plans have continued at a relatively high level. The Conference Board reported that its monthly composite index of consumer confidence--which tends to move in a confident fashion with retail sales--rose more than 10 points in December, reaching the highest level since the final months of 1972. Respondents felt more favorable toward present economic conditions and more optimistic about economic developments six months from now. In

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

	1976	1977					
	QIV	QI	QII	QIII	QIII to Nov.	Sept. to Oct.1/	Oct. to Nov.1/
Current dollars							
Total personal income	11.5	13.1	11.4	8.9	12.9	16.4	11.2
Nonagricultural income	11.4	12.0	11.9	10.2	11.3	14.5	8.3
Wage and salary disbursements	10.7	12.7	13.0	7.5	11.3	17.1	6.7
Private	10.9	14.9	15.1	7.7	10.8	15.8	6.5
Manufacturing	8.4	17.9	17.5	6.3	11.3	17.3	10.0
Government	9.5	4.9	5.0	7.1	13.6	22.0	7.6
Nonwage income	12.3	14.5	8.5	10.8	14.9	14.8	17.8
Transfer payments	7.6	11.6	-1.0	11.7	6.7	4.0	6.8
Dividends	29.5	1.0	20.1	21.4	5.8	2.8	5.6
Constant dollars2/							
Total personal income	6.8	4.3	2.4	3.4	8.1	13.1	5.3
Nonagricultural income	6.8	3.3	2.9	4.7	6.5	11.2	2.4
Wage and salary disbursements	6.0	4.0	3.9	2.2	6.6	13.8	.8
Memorandum:							
Real disposable per capita income	4.1	2.4	6.4	3.5			

1/ Per cent change at annual rate, not compounded.
2/ Deflated by CPI, seasonally adjusted.

contrast, the quarterly survey of the Michigan Survey Research Center--taken almost a month earlier than the Conference Board survey--indicated a slight weakening of sentiment.

Demand for labor continued strong in December. Total nonfarm payroll employment rose over 300,000 on a strike adjusted basis following a comparable increase in November. Employment gains were widespread, with trade, services, and State and local government continuing to show substantial increases. Manufacturing employment (strike-adjusted) rose about 120,000 in December. The factory workweek declined 0.2 hour to 40.3 hours, with an especially large reduction in the transportation equipment group. The latter probably resulted from the reduction in auto assemblies. Over the year, nonfarm payroll employment was up by 3.1 million.

The unemployment rate fell to 6.4 per cent in December--1.4 percentage points below a year earlier. The largest relative improvement was among adult men. The labor force was little changed in December while total employment was estimated to be up 400,000 from November. Over the year, household employment expanded 4.7 per cent--or 4.1 million persons--the largest percentage increase since 1947.

Industrial production apparently edged up a trifle in December, despite output losses arising from the coal strike and to cutbacks by auto manufacturers. Auto manufacturers reduced assemblies approximately 300,000 units (annual rate) from the 9.1 million unit rate

AVERAGE MONTHLY CHANGES IN EMPLOYMENT
(Thousands of jobs; seasonally adjusted)

	Average monthly change			Recent months	
	Dec. 75 to Dec. 76	Dec. 76 to June 77	June 77 to Dec. 77	Oct. 77 to Nov. 77	Nov. 77 to Dec. 77
Nonfarm payroll employment	195	298	214	320	217
(Strike adjusted)	191	305	241	306	328
Manufacturing	45	83	44	51	159
(Strike adjusted)	45	90	48	130	124
Durable	38	53	44	23	119
Nondurable	8	30	-1	28	40
Construction	3	47	13	35	18
Trade	53	57	41	72	25
Services and finance	69	70	90	96	93
State and local government	18	25	40	45	47
Total household employment	250	373	318	950	409
Nonagricultural	250	360	320	860	440

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1976	1977					
	QIV	QI	QII	QIII	QIV	Nov.	Dec.
Total, 16 years and older	7.9	7.4	7.0	7.0	6.8	6.9	6.4
Men, 20 years and older	6.2	5.6	5.1	5.1	5.0	4.9	4.7
Women, 20 years and older	7.6	7.1	6.9	7.0	6.9	7.1	6.7
Teenagers	19.1	18.6	18.1	17.7	16.6	17.1	15.4
Household heads	5.3	4.8	4.4	4.5	4.3	4.3	4.0
Married men	4.4	3.9	3.5	3.4	3.5	3.4	3.3
Fulltime workers	7.5	6.8	6.5	6.6	6.3	6.4	5.9
White	7.2	6.7	6.3	6.1	5.9	6.0	5.6
Black and other	13.4	12.8	12.8	13.6	13.4	13.8	12.5
Total, alternative seasonal adjustment method							
All additive factors	7.8	7.5	7.0	7.0	6.7	6.8	6.4
1975 factors	7.9	7.6	7.1	6.8	6.7	6.8	6.4

in November. However, tentative indicators suggest further gains in output of other consumer goods, business equipment and construction supplies. Industrial production is estimated to have risen nearly 6 per cent over the year. Most of the gain came early, with output advances at an 8-1/2 average annual rate in the first two quarters. Growth apparently slowed to a 3-3/4 per cent annual rate in the second half.

Reflecting recent sales growth and small production advances, manufacturers' inventories continued to grow at a slow pace in November. In book value terms such stocks rose at a $3.7 billion annual rate, about half the October pace and considerably below the pace earlier in the year. The ratio of inventories to shipments for all manufacturing was unchanged at the reduced 1.56 level in November--quite low when compared to those during most months of the past five years. Stocks of nondurable goods declined in November as a drop in food processors' inventories was only partially offset by moderate increases in other nondurable goods. Durable goods stocks increased in November with about half of the rise in nondefense capital goods.

Residential construction continued strong in November; private housing starts were at an annual rate of 2.1 million units, the second highest monthly figure since the current upswing began two years ago. The rate of starts in October and November together was 5 per cent above the third quarter pace. For the single-family sector,

BUSINESS INVENTORIES
(Change at annual rates in seasonally adjusted book value; billions of dollars)

	1976			1977					
	QII	QIII	QIV	QI	QII	QIII(r)	Sept.(r)	Oct.(r)	Nov.(p)
Manufacturing and trade	33.8	29.5	11.4	34.2	32.1	26.4	31.9	13.8	n.a.
Manufacturing	14.2	15.4	6.5	11.2	17.8	9.4	12.7	7.5	3.7
Durable	6.8	6.8	6.4	7.8	10.9	5.5	4.0	1.4	6.8
Nondurable	7.5	8.6	.0	3.3	6.8	3.9	8.7	6.1	-3.0
Trade, total	19.6	14.1	4.9	23.0	14.3	17.1	19.2	6.3	n.a.
Wholesale	11.6	4.1	3.5	12.0	2.6	4.7	12.3	3.5	n.a.
Retail	8.0	10.1	1.5	11.1	11.8	12.4	6.9	2.8	n.a.
Auto	.1	4.8	1.3	2.2	2.4	1.3	-7.1	2.1	n.a.

INVENTORY RATIOS

	1976		1977					
	QIII	QIV	QI	QII	QIII(r)	Sept.	Oct.(r)	Nov.(p)
Inventory to sales:								
Manufacturing and trade	1.51	1.49	1.46	1.46	1.48	1.47	1.46	n.a.
Manufacturing	1.67	1.66	1.58	1.58	1.59	1.57	1.56	1.56
Durable	2.04	2.04	1.94	1.94	1.93	1.91	1.89	1.91
Nondurable	1.27	1.25	1.20	1.20	1.22	1.21	1.20	1.19
Trade, total	1.36	1.34	1.34	1.34	1.37	1.37	1.35	n.a.
Wholesale	1.24	1.24	1.24	1.21	1.24	1.24	1.24	n.a.
Retail	1.47	1.42	1.42	1.45	1.48	1.48	1.44	n.a.
Inventories to unfilled orders:								
Durable manufacturing	.640	.632	.635	.631	.640	.640	.629	.622

where starts remained above a 1-1/2 million unit rate in November, 1977 was the best year since 1955. Combined sales of new and existing homes rose to a record high in November. With demand conditions remaining strong, home prices have continued to rise at rapid rates. After rising sharply in October, housing starts in the more volatile multifamily sector, fell in November to an annual rate of 570,000 units, partly reflecting fewer Federally-subsidized starts. The November rate was slightly below the average pace for the third quarter. For the year as a whole, multifamily starts appear likely to total about 530,000 units--still well below the previous peak of over a million units in 1972.

Shipments of nondefense capital goods declined in November, the average for the October-November period was 3-1/2 per cent above the third quarter figure, about the average rate of increase over the first three quarters of the year. Incoming data suggest a moderate further expansion of capital spending in early 1978. Contracts and orders for plant and equipment were little changed in November after falling sharply in October. New orders for nondefense capital goods were estimated to have fallen 5.0 per cent in November. The October-November average of orders for nondefense capital goods was 6.6 per cent above the third quarter average, but there has been a marked deceleration in the ordering pace over the second half of 1977. These orders have shown considerable volatility mainly because of sharp fluctuations in transportation equipment bookings; these dropped sharply again in

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

	1976	1977					Per cent change[3/] from:	
	QIV	QI	QII[1/]	QIII[2/]	Oct.[1/]	Nov.[2/]	Month ago	Year ago
Single & Multifamily								
Permits	1.53	1.52	1.63	1.70	1.85	1.89	+ 2	+ 19
Starts	1.77	1.76	1.91	2.06	2.22	2.11	- 5	+ 23
Under construction[4/]	1.18	1.24	1.32	1.37	1.43	n.a.	+ 4	+ 25
Completions	1.39	1.59	1.57	1.76	1.61	n.a.	- 15	+ 20
Single-family								
Permits	1.03	1.06	1.08	1.13	1.22	1.26	+ 4	+ 19
Starts	1.28	1.31	1.42	1.47	1.58	1.54	- 3	+ 24
Under construction[4/]	.69	.73	.79	.80	.83	n.a.	+ 4	+ 26
Completions	1.05	1.19	1.20	1.35	1.19	n.a.	- 20	+ 18
Multifamily								
Permits	.50	.46	.56	.58	.63	.63	--	+ 20
Starts	.49	.45	.49	.59	.63	.57	- 11	+ 21
Under construction[4/]	.50	.51	.54	.57	.59	n.a.	+ 4	+ 25
Completions	.34	.39	.37	.41	.42	n.a.	+ 1	+ 28
Mobile home shipments	.25	.27	.26	.27	.32	.31	- 2	+ 27

1/ Revised.
2/ Preliminary.
3/ Per cent changes based on latest available data
4/ Seasonally adjusted, end of period.

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

	1977 QII	1977 QIII	1977 Sept.	1977 Oct.	1977 Nov.	Nov.76 to Nov.77
Contracts and orders for plant & equip.[1]						
Current dollars	12.2	1.7	11.7	-16.7	-.6	12.7
1972 dollars	10.7	-.6	9.5	-15.8	-1.7	5.7
New orders received by manufacturers						
Total durable goods						
Current dollars	4.1	-1.6	1.3	5.9	-1.1	18.3
1967 dollars[2]	2.8	-3.5	.4	5.0	-1.8	10.2
Nondefense capital goods						
Current dollars	4.1	.1	10.3	1.9	-5.0	23.1
1967 dollars[2]	2.8	-1.5	9.6	.9	-5.5	15.2
Construction contracts for commercial and industrial buildings[3]						
Current dollars	1.9	31.9	.8	-21.2	10.6	4.0
Square feet of floor space	4.6	9.5	-4.6	-7.0	12.0	34.4

1/ The Commerce Department creates this series 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.)

2/ Deflated by appropriate wholesale price index.

3/ Current dollars series obtained from FR seasonal. Floor space is seasonally adjusted by Census.

November accounting for part of the overall decline. The machinery component, which had been increasing steadily in recent months, also moved lower in November falling about 2-1/4 per cent.

Construction contracts for commercial and industrial buildings, both as measured in dollar value and in square feet of floor space, advanced sharply in November after showing a sizable drop in October. The average value of contract awards during these two months was more than 10 per cent below the third quarter average.

Federal outlays in November, at $36.9 billion, were stronger than the Administration had anticipated. Even so, the spending rate moderated from the very high $38.8 billion level registered in October. Federal receipts at $27.6 billion in November were below earlier anticipations and preliminary data for December suggest a continuation of the weaker pattern of receipts. Despite the weaker receipts, the Federal budget deficit declined a little in November; however, for the first two months of the current fiscal year the deficit is about $3.6 billion higher than that of the same period in fiscal 1977.

Indicators of State and local government spending suggest that conservative attitudes still prevail in this sector. The value of construction put-in-place fell in November to a level nearly 12 per cent below the recent high reached in June 1977. Some of the current weakness was to be expected due to this year's further decline of school enrollments and a downgrading of highway priorities. However, other types of projects have also been cut sharply, especially hospital and non-educational construction. Retrenchment in these areas seems to indicate a general caution in undertaking large capital projects despite vastly improved fiscal positions and record bond sales by such governmental units. State and local employment increased further in December and was nearly 400,000 above December 1976. A large portion of this gain was attributable to implementation of public service employment programs and spending of grants-in-aid from Federal countercyclical initiatives.

Consumer prices rose 0.5 per cent in November, following four months of more moderate increases. Food prices were responsible for most of the acceleration, rising 0.6 per cent in contrast to 0.1 to 0.2 per cent average monthly increase from June through October. Increases for fuels and energy slowed markedly, as declines in fuel oil and electricity prices offset most of the increase in gasoline. The price rise for nonfood commodities was 0.5 per cent, the largest increase since last February, as new car prices rose 1.5 per cent. The latter increase reflected the second month of phasing in 1978 domestic model price increases as well as recent increases in foreign car prices. The services component of the Consumer Price Index continued to rise at a moderate pace in November. Over the year there was little change in the underlying rate of inflation, as consumer prices excluding food, energy items, and used cars rose somewhat over 6-1/2 per cent annual rate in the half-year ending in May as compared with a 6 per cent annual rate over the June-November period.

The Wholesale Price Index for December will be released on January 12 and reported in the Greenbook Supplement. Farm prices--as measured by the Wholesale Price Index--rose sharply in both October and November. The index of prices received by farmers (a USDA series which is not seasonally adjusted) rose 1 per cent in December--an increase that appears to be mainly seasonal.

The average hourly earnings index rose 0.4 per cent in December to a level 7.4 per cent above December 1976. Over the year wage increases in manufacturing, transportation, and services were above the average while construction wages rose less rapidly than the overall index.

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

	Relative Importance Dec. 76	1976	1977 QI	QII	QIII	Oct.	Nov.
All items	100.0	4.8	10.0	8.1	4.2	3.3	5.9
Food	23.7	0.6	14.6	12.7	1.7	1.2	7.4
Commodities (nonfood)	38.8	5.1	7.4	4.2	2.7	3.6	5.8
Services	37.5	7.3	9.8	9.4	7.4	4.2	4.8
Memoranda:							
All items less food and energy 2/ 3/	68.9	6.1	8.3	7.1	4.6	4.0	4.7
Petroleum products 2/	4.5	3.5	7.1	7.0	3.2	12.9	5.8
Gas and electricity	2.9	12.5	10.7	12.1	13.2	10.9	-4.9

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Estimated series.
3/ Energy items excluded: gasoline and motor oil, fuel and coal, gas and electricity.

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

	Relative Importance Dec. 76	1976	1977 QI	QII	QIII	Oct.	Nov.
Finished goods	41.1	3.3	8.8	8.4	1.8	9.2	5.2
Consumer foods	10.4	-2.5	12.7	13.8	-7.5	3.8	5.1
Consumer nonfoods	18.7	4.9	8.7	6.3	5.2	6.9	3.4
Producer goods	12.1	6.4	5.5	6.3	5.6	18.1	8.3
Intermediate materials 2/	45.3	6.4	8.0	4.3	7.8	6.4	2.3
Crude materials 3/	3.8	13.5	21.7	-2.0	8.9	-3.0	15.3
All commodities	100.0	4.7	10.6	3.2	1.9	9.9	8.6
Farm and food products	21.6	-1.1	19.1	-2.5	-17.0	15.8	27.3
Industrial commodities	78.4	6.4	8.1	5.1	7.6	6.7	4.8
Industrial commodities ex. fuels and power	67.7	6.2	6.7	3.8	7.2	8.4	3.2

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.
3/ Excludes crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco.

HOURLY EARNINGS INDEX[1/]
(Per cent change from preceding comparable period
at a compound annual rate; based on seasonally
adjusted data)

	1976		1977					
	QIII	QIV	QI	QII	QIII	QIV	Nov.[2/]	Dec.[2/]
Private nonfarm	7.0	6.7	8.1	6.7	7.7	7.9	4.2	4.8
Construction	4.6	4.6	5.7	4.5	4.0	4.9	2.0	2.0
Manufacturing	8.8	6.8	7.9	7.8	9.2	7.5	7.1	1.9
Trade	6.8	8.2	9.0	6.9	6.5	7.6	4.2	9.9
Transportation and public utilities	6.5	5.2	6.0	7.3	8.0	10.5	6.1	12.6
Services	5.5	7.5	10.3	5.7	8.4	8.4	-.6	4.5

1/ Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2/ Monthly change at an annual rate, not compounded.

SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Latest data Level	Net change from: Month ago	Three months ago	Year ago
	$ billions		Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	December	36.22	7.0	6.6	5.1
Nonborrowed reserves	December	35.65	17.1	7.4	3.6
Money supply					
M1	December	335.1	6.8	5.7	7.3
M2	December	806.2	5.4	6.7	8.9
M3	December	1373.6	7.0	9.1	11.0
Time and savings deposits (less CDs)	December	471.1	4.3	7.3	10.1
CDs 2/	December	74.7	3.8	3.8	1.0
Thrift deposits (S&Ls + MSBs + Credit Unions)	December	567.4	9.4	12.5	14.2
Bank credit (end of month)	December	870.0	-.7	8.3	10.4

Indicator		Latest data Period	Latest data Per cent or index	Net change from: Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	1/4/78	6.69	.14	-.67	1.96
Treasury bill (90 day)	"	1/4/78	6.16	.11	.18	1.75
Commercial paper (90-119 day)	"	1/4/78	6.68	.14	.37	2.05
New utility issue Aaa	"	1/6/78	—	—	—	—
Municipal bonds (Bond Buyer)	1 day	1/5/78	5.64	.10	.04	-.14
FNMA auction yield (FHA/VA)		1/9/78	9.13	.24	.36	.67
Dividend price ratio (common stocks)	wk. endg.	1/4/78	5.06	-.07	.20	1.35
NYSE index (12/31/65=50)	end of day	1/9/78	50.05	-1.67	-2.45	-7.02

Indicator	Period	Net Change or Gross Offerings: Latest Data	Year ago	Year to Date 1977	Year to Date 1976
			$ billions		
Credit demands					
Business loans at commercial banks 1/	Dec.	1.1	.5	23.9	4.6
Consumer instalment credit outstanding 1/	Nov.	2.9	1.6	28.0	17.5
Mortgage debt outstanding (major holders) 1/	Oct.	8.5	5.3	78.3	50.8
Corporate bonds (public offerings)	Dec.	1.6e	2.6	24.4e	26.5
Municipal long-term bonds (gross offerings)	Dec.	3.4e	2.3	46.6e	35.2
Federally sponsored agcy. (net borrowing)	Dec.	.9e	--	7.6e	2.9
U.S. Treasury (net cash borrowing)	Jan.	5.9e	3.2	5.9e 3/	3.2 4/

1/ Seasonally adjusted.
2/ $ billions, not at annual rates.

e Estimated.
3/ 1978
4/ 1977

DOMESTIC FINANCIAL DEVELOPMENTS

The advance in economic activity in the fourth quarter was associated with a sustained high level of borrowing by nonfinancial sectors. Short- and intermediate-term borrowing by businesses increased during the quarter--despite a marked slowing in the expansion of bank loans to business in December--more than offsetting a moderation in long-term credit raised in bond markets. In the household sector, mortgage financing continued to increase at a very rapid rate throughout the fourth quarter, even as deposit inflows to thrifts were falling off; consumer instalment borrowing, in addition, does not seem to have moderated from its previous strong pace. Public sector demands on credit markets also remained very substantial, as the Federal deficit increased, and a sizable amount of advance refunding activity again contributed to a large volume of State and local bond issuance.

Fourth quarter M_1 growth was down somewhat from the very rapid pace of the previous two quarters, as M_1 expanded moderately in December following a small decline in the previous month. With short- and intermediate-term market interest rates exceeding depository ceiling rates on savings and shorter-maturity time deposits at banks and thrifts institutions, growth in deposits subject to these ceilings also slowed over the quarter. By increasing their reliance on borrowings and other sources of funds not subject to such ceilings, however, depository institutions were able to step up the pace of their lending activity in the fourth quarter.

Given moderate growth in M_1 and Federal funds trading around 6-1/2 per cent from early October through the first week of January, a substantial amount of short-term borrowing was accommodated with little net change in short-term interest rates--after some initial adjustment to the 6-1/2 per cent Federal funds rate level. In early January, however, short-term market rates rose as much as 50 basis points, largely in response to an increase in the funds rate to 6-3/4 per cent, along with a 50 basis point rise in the discount rate. At about the same time, banks increased their prime lending rate from 7-3/4 to 8 per cent.

Most long-term rates rose early in the fourth quarter accompanying the adjustment in short-term rates, then increased further in December as investor expectations apparently were affected by incoming information indicating greater than anticipated strength in economic activity and an increasing likelihood of a substantial reduction in Federal taxes. Most recently, long-term rates have extended their upward movement in association with the early January rise in short-term interest rates. After a year-end rally, stock prices have fallen markedly in response not only to rising interest rates, but also to the decline in the value of the dollar on international money markets; the widely followed Dow-Jones Industrial average, for example, is now 6 per cent below its level at the end of 1977.

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1976 1/		1977 2/				Change from:	
	May-June High	December Low	Sept. 30	Dec. FOMC 20	Jan. 3	Jan. 10	Sept. 30	Dec. FOMC
Short-term rates								
Federal funds 1/	5.58	4.63	6.35	6.54	6.69	6.56 3/	+.21	+.02
Treasury bills								
3-month	5.53	4.27	5.89	6.01	6.18	6.65	+.76	+.64
6-month	5.93	4.50	6.19	6.37	6.45	6.86	+.67	+.49
1-year	6.32	4.62	6.25	6.51	6.55	6.93	+.68	+.42
Commercial paper								
1-month	5.65	4.48	6.15	6.60	6.64	6.60	+.45	0
3-month	5.90	4.63	6.25	6.66	6.69	6.72	+.47	+.06
Large negotiable CDs 4/								
3-month	5.95	4.60	6.30	6.70	6.70	7.00	+.70	+.30
6-month	7.00	4.71	6.60	6.95	6.95	7.38	+.78	+.43
Bank prime rate	7.25	6.25	7.25	7.75	7.75	8.00	+.75	+.25
Intermediate- and long-term rates								
Corporate								
New AAA 5/	8.95	7.93	8.14	8.36	--	--	--	--
Recently offered 6/	8.84 7/	7.84	8.12	8.38	8.48	8.47p	+.35	+.09
Municipal (Bond Buyer) 8/	7.03 9/	5.83	5.51	5.55	5.66	5.64	+.13	+.09
U.S. Treasury (constant maturity)								
3-year	7.52	5.64	6.94	7.29	7.39	7.72	+.78	+.43
7-year	7.89	6.32	7.26	7.62	7.72	7.94	+.68	+.32
20-year	8.17	7.26	7.61	7.92	8.00	8.18	+.57	+.26

Stock prices	January Low	December High	Sept. 30	FOMC Dec. 20	Jan. 3	Jan. 10	Sept. 30	Dec. FOMC
Dow-Jones Industrial	881.51	994.18 10/	847.11	806.22	817.74	781.53	-65.58	-24.69
N.Y.S.E. Composite	49.06	56.96	52.81	51.11	51.82	49.77	-3.04	-1.34
AMEX	86.42	107.26	118.88	124.44	126.69	120.15	+1.27	-4.29
Keefe Bank Stock 6/	520	664	597	601	588	588	-9	-13

1/ Daily average for statement week.
2/ One-day quotes except as noted.
3/ Average for first 6 days of statement week ending January 11.
4/ Highest quoted new issues.
5/ 1977 figures are averages for preceding week.
6/ 1977 figures are one-day quotes for preceding Friday.
7/ High for the year was 8.94 on January 7.
8/ 1977 figures are one-day quotes for preceding Thursday.
9/ High for the year was 7.13 on January 7.
10/ High for the year was 1003.87 in statement week ending September 29.

Monetary Aggregates and Bank Credit

As in other recent quarters, a bulge in M_1 growth in the first month of the fourth quarter was followed by much slower expansion in the ensuing two months. In December, M_1 increased at a 6-3/4 per cent annual rate, after declining slightly in November. Growth in this aggregate over the fourth quarter averaged 6-3/4 percent, somewhat below the rate of expansion in the second and third quarters. In the year just ended, M_1 increased at a 7-1/2 per cent annual rate (on a fourth-quarter-over-fourth-quarter basis) as compared with growth of 5-1/2 per cent in 1976 and 4-1/2 per cent in 1975.

The slower M_1 growth in the fourth quarter took place against a background of somewhat stronger expansion estimated for nominal GNP; as a result, M_1 velocity--which had remained unchanged in the third quarter--increased at an annual rate of over 4 per cent in the fourth quarter. The rise in velocity appears to have reflected the delayed impact on money demand of the increases in interest rates that occurred in the second and third quarters, rather than a reacceleration of the pace of financial innovation. For the third consecutive quarter, the relationship between the growth of M_1 and movements in GNP and interest rates conformed closely to expectations based on historical experience.

By the end of September, the rise in interest rates had pushed yields on Treasury securities maturing in less than four years above regulatory ceiling rates on deposits of comparable maturity, con-

MONETARY AGGREGATES
(Seasonally adjusted)[1/]

	1977 QII	QIII	QIV	Oct	Nov	Dec.[p]	Dec. over Dec.[p]	QIV over QIV.[p]
	Net changes at annual rates, per cent							
Major monetary aggregates								
1. M_1 (currency plus demand deposits)	8.4	9.3	6.7	12.0	-1.8	6.8	7.3	7.4
2. M_2 (M_1 plus time & savings deposits at CBs other than large CDs)	9.2	10.3	7.5	10.1	4.5	5.4	8.9	9.6
3. M_3 (M_2 plus all deposits at thrift institutions)	10.0	12.4	10.7	12.5	7.5	7.0	11.0	11.6
Bank time and savings deposits								
4. Total	8.3	10.0	12.9	14.6	18.3	12.2	11.1	11.4
5. Other than large negotiable CDs at weekly reporting banks	9.8	10.9	8.1	8.6	9.0	4.3	10.1	11.1
6. Savings deposits	8.5	6.6	4.4	3.3	-0.5	0.0	8.2	10.5
7. Individuals 2/	9.2	10.0	6.8	5.3	1.8	1.2	9.3	10.7
8. Other 3/	5.0	-36.8	-24.3	-24.8	-33.8	-17.4	-6.8	7.8
9. Time deposits 4/	10.8	15.0	11.2	13.2	17.5	8.1	11.9	11.7
10. Small time 4/	18.8	7.4	1.0	5.1	-9.4	2.2	9.0	10.4
11. Large time 4/	-6.0	32.6	32.7	30.5	74.3	18.2	17.5	14.5
Deposits at nonbank thrift institutions 5/								
12. Total	11.2	15.5	15.2	15.9	11.8	9.4	14.2	14.6
13. Savings & loan assoc.	12.3	16.8	16.1	16.3	12.3	10.6	15.4	15.9
14. Mutual savings banks	6.8	10.5	10.2	11.1	8.2	4.5	9.0	9.4
15. Credit unions	15.0	19.3	22.1	27.0	18.5	13.0	19.7	20.1
	Average monthly changes, $ billions							
Memoranda:								
16. Total US Govt deposits	-0.4	0.2	0.2	-0.4	-3.6	4.7	0.0 8/	
17. Total large time depos. 6/	0.9	1.4	6.6	5.2	9.4	5.1	2.0 8/	
18. Nondeposit sources of funds 7/	0.7	1.4	0.7	-0.3	2.6	-0.1	0.7 8/	

1/ Quarterly growth rates are computed on a quarterly average basis.
2/ Savings deposits held by individuals and nonprofit organizations.
3/ Savings deposits of businesses, governments, and others, not seasonally adjusted.
4/ Small time deposits are time deposits in denominations less than $100,000. Large time deposits are time deposits in denominations of $100,000 and above excluding negotiable CDs at weekly reporting banks.
5/ Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.
6/ All large time certificates, negotiable and nonnegotiable, at all commercial banks.
7/ Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money, Euro-dollar borrowings and loans sold, less interbank loans.
8/ Average monthly change during the year.
p Preliminary.

tributing to a slowing in the growth of savings and small-denomination time deposits at banks and thrift institutions in the fourth quarter. At banks, the inflows of savings deposits from individuals decelerated substantially over the quarter, and with continued outflows from government accounts, the level of total savings deposits was about unchanged in both November and December. Although small-denomination time deposits outstanding expanded slightly in December, they had fallen appreciably in November and were little changed, on average, over the quarter. The resumption of growth in December may have indicated that the reallocation of interest sensitive portions of existing asset portfolios into credit market instruments at prevailing interest rates was nearing completion. Consistent with this interpretation, noncompetitive tenders in Treasury bill and short-term note auctions in December declined from their very high November levels. 1/ Growth in the combined total of savings and small-denomination time deposits at banks during the quarter was less than half its rate in the previous quarter, but the effect of this slower growth on M_2 expansion was offset somewhat by a sharp rise in large time deposits included in this aggregate; increases in these deposits accounted for more than 40 per cent of the total advance in M_2 in the fourth quarter and two-thirds of the increase in the interest-bearing component of that aggregate.

1/ However, sales of money market mutual funds accelerated somewhat in December, increasing $210 million by the 28th of the month, as compared with a $139 million gain in November.

The slowing of deposit growth at thrift institutions in the fourth quarter was less pronounced than for savings and small time deposits at commercial banks, reflecting in part the higher offering rates allowed on deposits at thrifts. When measured on the sensitive month-end basis, deposit growth at thrifts fell from 18 per cent in the third quarter to 10 per cent in the fourth, but expansion in the earlier quarter apparently had been boosted by a shifting of the proceeds of maturing wild card deposits, a rise in offering rates, and stepped-up promotional activity. 1/ Deposit inflows in the fourth quarter, though decelerating throughout the quarter, were only slightly below the pace of the first half of the year. Nearly all of the continued growth appears to have occurred in time deposits maturing in four years or more, on which effective offering yields still exceeded rates available on Treasury securities in the fourth quarter by more than 40 basis points.

On the asset side of the bank balance sheet, loan growth moderated significantly in December as outstanding levels of security loans and loans to nonbank financial institutions declined and the expansion of business loans was sharply curtailed. In the previous two months, total loans had increased rapidly, however, so that over the entire fourth quarter bank lending accelerated slightly to an annual rate of 14.6 per cent.

1/ Growth rates shown for thrift institutions in the Monetary Aggregates table (1.12) are computed by averaging month-end data, thereby smoothing the changes in deposit growth rates.

COMMERCIAL BANK CREDIT 1/
(Seasonally adjusted changes at annual rates, per cent)

	1977							1977 through Dec
	QI	QII	QIII	QIV	Oct	Nov	Dec	
Total loans & investments 2/	10.6	12.6	8.6	8.3	13.5	11.8	-0.7	10.4
Investments	10.9	9.4	-2.9	-5.8	-3.7	-2.3	-11.3	2.9
Treasury securities	26.7	5.4	-19.4	-26.4	-27.6	-34.3	-18.9	-3.9
Other securities	0.5	12.1	8.4	7.4	11.5	17.5	-6.8	7.3
Total loans 2/	10.5	14.0	13.7	14.3	20.9	17.8	3.7	13.8
Business loans	11.4	12.6	10.2	16.0	26.1	14.8	6.4	13.1
Security loans	—	18.1	4.3	19.3	-12.8	110.2	-35.6	10.7
Real estate loans	15.0	17.9	16.3	15.0	14.3	15.5	14.6	17.0
Consumer loans	11.8	16.5	18.4	n.a.	12.7	15.7	n.a.	16.2 3/
Memoranda:								
1. Commercial paper issued by nonfinancial firms 4/	15.4	59.3	-7.7	7.9	-7.9	-31.8	65.3	19.2
2. Business loans at banks net of bank holdings of bankers acceptances	16.4	13.3	8.9	14.9	22.9	14.6	6.6	14.0
3. Sum of memo items 1 and 2	16.3	16.7	7.4	14.4	20.7	11.3	10.6	14.4
4. Memo item 3 plus business loans from finance companies	17.1	17.1	8.2	n.a.	28.6	11.7	n.a.	16.2 3/

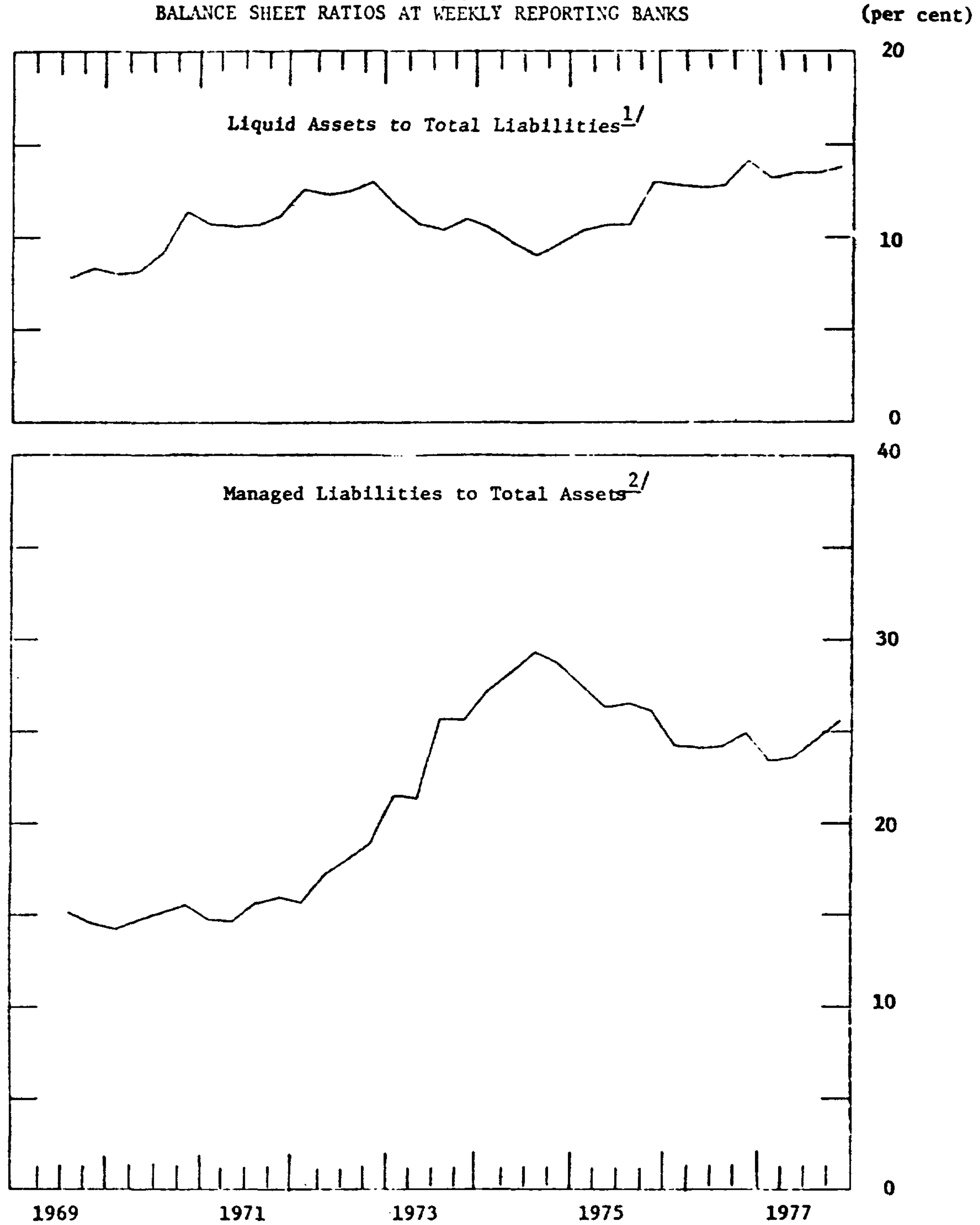
1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Loans include outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.
3/ 1977 through November.
4/ Measured from end-of-month.

n.a.--not available

To finance loan growth during the fourth quarter in the face of slower deposit inflows, banks reduced their portfolios of Treasury securities and increased their use of managed liabilities. Treasury security holdings, which had already declined in the third quarter, fell further in each month of the fourth quarter at both large and small banks. Portfolios of other securities increased in the fourth quarter, although they too declined in December. A rise in municipal tax warrants included in this latter investment category, along with an increase in holdings of bankers acceptances included as a component of business loans, has helped to cushion the impact of reductions in Treasury securities on bank liquid asset positions. The ratio of liquid assets to total assets at weekly reporting banks, shown in the top panel of Chart 1, for example, rose in the fourth quarter and is now close to its record high level of one year ago.

The issuance of large time deposits slowed somewhat in December, perhaps reflecting the pickup in demand and small time deposit growth, but over the fourth quarter total negotiable and nonnegotiable large time deposits rose almost $20 billion, nearly five times their increase during the previous quarter. Banks also continued to rely on nondeposit funds in the fourth quarter, obtaining an additional $2.1 billion from this source. As a result of these increases in CDs and nondeposit funds, the ratio of managed liabilities to total assets at weekly reporting banks, also shown in Chart 1, rose substantially in the fourth quarter. This ratio has been rising

Chart 1
BALANCE SHEET RATIOS AT WEEKLY REPORTING BANKS



1/ Liquidity ratio is calculated as the sum of Treasury and other securities maturing in one year or less, loans to brokers and dealers and domestic commercial banks, holdings of bankers' acceptances and gross sales of Federal funds, all divided by liabilities less capital accounts, valuation reserves, and demand deposits due to banks.

2/ Borrowing ratio is calculated as the sum of all large denomination negotiable CDs plus net Federal funds purchased and RPs plus gross liabilities to own foreign branches plus all other liabilities for borrowed funds other than borrowing from Federal Reserve Banks, all divided by total assets less Federal funds sold less cash items in the process of collection.

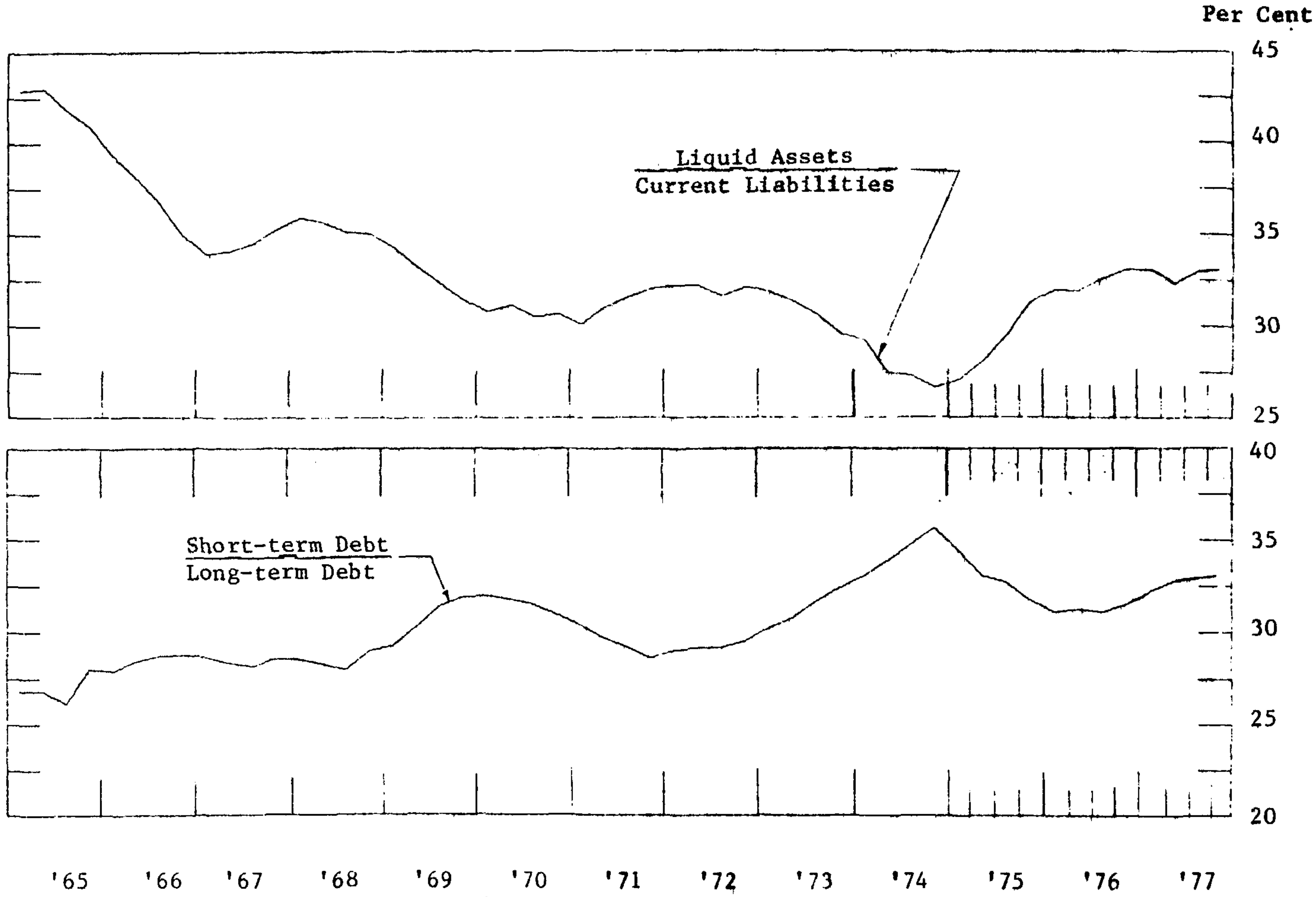
since early 1977, when it was at its lowest point in the current recovery, and is now about 10 per cent above its level at that time.

Business Finance

Business use of short-term credit increased somewhat further in the fourth quarter. But with the growth of fixed investment remaining moderate and balance sheets still considerably stronger than they were several years ago, net borrowing by businesses in long-term credit markets fell, on a seasonally adjusted basis. For the nonfinancial corporate sector, the gap between capital expenditures and internally generated funds is estimated to have narrowed slightly in the quarter, and the increase in short-term borrowing appears to have been accompanied by the further accumulation of financial assets. As can be seen in Chart 2, these changes resulted in a small increase in the ratio of short-term debt to long-term debt, while the ratio of liquid assets to short-term liabilities remained unchanged. Since late 1976, corporations in the aggregate have been increasing the proportion of their borrowing done in short-term markets, while maintaining liquid asset ratios near the relatively high levels reached following the period of balance sheet restructuring.

Borrowing by nonfinancial businesses through commercial paper issuance and bank loans (net of changes in bank holdings of bankers acceptances) accelerated to a 14.4 per cent annual rate in the October-December period, about double the rate of expansion in the preceding quarter. Growth in the bank-loan component increased

CHART 2
LIQUIDITY MEASURES FOR NONFINANCIAL CORPORATIONS



Liquid assets include cash and deposits, U.S. Gov't. securities, State and local obligations and open market paper. Short-term debt consists of short-term bank loans, open market paper, finance company loans, U.S. Gov't. loans, and construction loans. Current liabilities include short-term debt plus trade debt plus profit taxes payable. Flow of Funds data, seasonally adjusted. Data for 1977-IV are preliminary.

to 15 per cent (SAAR) in the fourth quarter from 9 per cent (SAAR) in the third quarter, and the outstanding volume of commercial paper issued by nonfinancial corporations rose slightly in the most recent period, after a small decline in the previous quarter. The advance in bank lending to business was quite rapid in October and November, while, at the same time, commercial paper outstanding was declining. In contrast, borrowing at banks in December expanded more slowly as commercial paper rose. 1/ The slowing of loan growth occurred almost entirely at large banks, as did the acceleration earlier in the quarter. 2/

The volume of bonds offered publicly by nonfinancial corporations fell appreciably in December, resulting in a contra-seasonal slowing in total public bond offerings from the third to the fourth quarter. The moderation in the most recent period was concentrated among industrial issuers; bond sales by utilities rose slightly. In addition, there was a large slate of longer-term

---

1/ Moreover, a significant portion of the increase in bank loans in December was accounted for by one large loan to be repaid in January, which was made to facilitate a corporate acquisition. Business loan growth on a seasonally adjusted basis has tended to decline in December for the past four years, suggesting the possibility that a change in seasonal patterns may account for some of this weakness.

2/ During the quarter business borrowing at large banks rose at a 14.6 per cent annual rate (net of changes in holdings of bankers acceptances), well above the rate of increase recorded in the first three quarters of the year. The pace of business loan growth at small banks, although remaining robust, slowed somewhat in the fourth quarter, as it did throughout the year.

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

	1977					1978	
	H1	QIII	QIV e/	Nov. e/	Dec. e/	Jan. f/	Feb. f/
	Gross offerings						
Corporate securities--total	4,148	3,767	4,234	4,800	4,100	2,800	2,900
Publicly offered bonds	2,018	2,122	1,967	2,100	1,600	1,400	1,500
By quality 1/							
Aaa and Aa	1,152	1,075	1,019	1,258	725	--	--
Less than Aa 2/	866	1,047	948	842	875	--	--
By type of borrower							
Utility	753	588	660	780	375	--	--
Industrial 3/	678	930	499	805	350	--	--
Financial	587	604	808	515	875	--	--
Privately placed bonds	1,215	1,019	1,267	1,000	1,800	800	800
Stocks	915	626	1,000	1,700	700	600	600
Foreign securities--total	581	744	533	487	673	--	--
Publicly offered 4/	443	520	342	425	300	325	300
Privately placed	138	224	191	62	373	--	--
State and local govt. securities--total	6,421	5,384	4,729	4,600	4,600	5,300	4,900
Long-term	4,128	3,667	3,500	3,300	3,400	3,600	3,400
Short-term	2,293	1,717	1,229	1,300	1,200	1,700	1,500
	Net offerings						
U.S. Treasury	1,383	3,800	7,180	11,400	3,630	2,800	10,200
Sponsored Federal agencies	701	448	766	494	1,158	1,100	1,800

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

debt issues by financial concerns, as finance companies continued to borrow heavily to meet expanding credit demands from businesses and consumers, and savings and loan associations publicly offered a substantial volume of mortgage-backed bonds.

New stock offerings also declined in December, but with an extremely large volume in November, equity issuance rose from the third quarter to the fourth quarter. 1/ Continuing the pattern of recent quarters, public utilities accounted for most of the offerings in the last three months; over 1977 they raised about two-thirds of the funds obtained in equaity markets. The preponderance of utility issues partly reflects relative movements in stock prices last year, when the New York Stock Exchange index of utility stock prices declined only 2 per cent, while the New York Stock Exchange index of the prices of industrial stocks fell about 11 per cent.

Government Securities Markets

Offerings of municipal bonds increased in December, contrary to the normal seasonal pattern, and thus gross long-term tax-exempt borrowing was maintained in the fourth quarter at only a little under the third quarter pace. The rise in the December volume was due largely to a record amount of advance refunding issues, and securities sold for this purpose accounted for about one-fourth of the

1/ The rise in offerings in November was accounted for in large measure by an AT&T stock issue which raised around $700 million to refund a like amount of outstanding debentures.

dollar amount of gross offerings over the entire quarter. Such activity continues to be encouraged by relatively low yields on municipal bonds; the Bond Buyer Index increased only about 15 basis points over the quarter, less than half the increase in other bond yields.

Treasury demands on credit markets accelerated somewhat in the fourth quarter in order to meet an expanding Federal deficit. A portion of the deficit was financed by drawing down existing cash balances, but net new borrowing from the public increased about $6 billion not seasonally adjusted, from the third quarter. 1/ With the growth of nonmarketable issues about the same in both quarters, this rise was reflected almost entirely in issues of marketable debt. The debt managers have continued to stress the use of coupon issues to raise new money. Since the December FOMC meeting auctions of 2-year notes and 15-year bonds have netted the Treasury $2.1 billion of new cash from the domestic public. 2/ Maturing issues of Treasury bills have been rolled over in recent weeks, but earlier in the fourth quarter $4.7 billion of new money was obtained through bill sales--the largest amount since the first quarter of 1976, but only 25 per cent of total cash raised in marketable offerings in the fourth quarter.

1/ This comparison excludes the effect on borrowing totals of a temporary loan from the Federal Reserve to the Treasury made at the end of the third quarter and repaid at the beginning of the fourth.

2/ This total does not include $600 million of new cash raised through the sale of 2-year notes to foreign official institutions submitting noncompetitive tenders.

Foreign purchases of marketable Treasury debt slowed significantly in the second half of December before picking up in early January. For the quarter as a whole, however, foreign official institutions purchases about $12.3 billion of marketable Treasury securities--equivalent to about two-thirds of the total increase in marketable debt. 1/

Mortgage and Consumer Finance

The volume of net mortgage lending in the fourth quarter appears to have been maintained at close to the very high third quarter rate. Growth of real estate loans at commercial banks declined only slightly in the fourth quarter. At the same time, mortgage holdings of savings and loan associations increased by a record amount in November following a large gain in October. Moreover, outstanding loan commitments at S&Ls rose $1.2 billion (SA) to a new record level in November, and it is likely, therefore, that the growth in mortgage credit at these institutions remained quite large in December.

Savings and loan associations have been able to sustain an unusually high level of lending in the face of moderating deposit inflows by increasing their reliance on borrowed funds. Outstanding advances from Federal Home Loan Banks rose $1.4 billion seasonally adjusted in December, bringing the increase for the fourth quarter to $2.6 billion--the largest quarterly expansion since 1973-74. S&Ls also borrowed $1.3 billion from other sources during October and November, including over $400 million in mortgage-backed bond

1/ Foreign official institutions acquired $3.4 billion of this amount through noncompetitive tenders in auctions of coupon securities and 1-year bills.

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 2/ with funds in short supply
1976--High	8.95	--	+92	18
Low	8.65	--	+37	2
1977--Mar.	8.70	+5	+48	2
Apr.	8.78	+8	+47	11
May	8.85	+7	--	12
June	8.88	+3	+81	8
July	8.93	+5	+76	7
Aug.	8.93	0	+92	14
Sept.	8.90	-3	+65	12
Oct.	8.90	0	+62	11
Nov.	8.93	+3	+70	18
Dec. 2	8.95	+2	+69	17
9	8.95	0	+60	16
16	8.95	0	+59	14
23	8.95	0	--	16
30	9.00	+5	--	22
1978--Jan. 6	9.00	0	--	N.A.

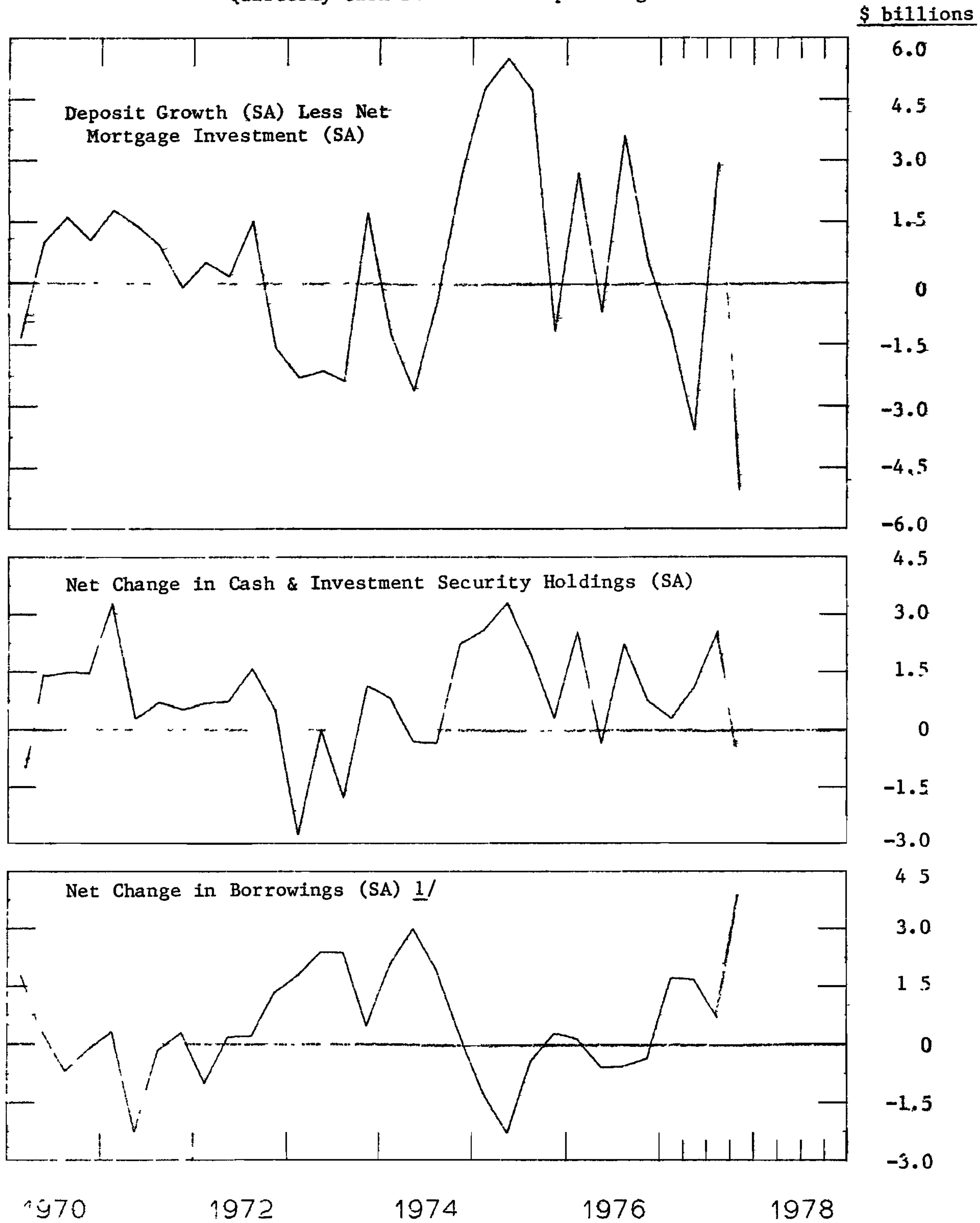
1/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.
2/ Per cent reporting supply of funds slightly or substantially below normal seasonal patterns.

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		
1977--High	416	278	9.21	855	570	8.98	8.43
Low	123	83	8.81	50	35	8.46	7.56
Dec. 5							8.23
12	262	169	9.17	329	224	8.89	8.24
19							8.29
27	329	191	9.21	855	570	8.98	8.39
1978--Jan. 3							8.43
9	404	193	9.28	1011	605	9.13	8.54

1/ Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, reflects the average accepted bid yield for home mortgages, assuming a prepayment period of 12 years for 30-year loan without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total eligible 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.

Chart 3
Quarterly Cash Flow at All Operating S&L's



1/ Includes FHLB advances and other borrowings such as mortgage-backed bonds and commercial bank loans.

issues. As can be seen in Chart 3, liquid asset holdings, on the other hand, were not run down significantly in the fourth quarter and liquidity ratios at S&Ls, although down somewhat from the third quarter, remain well above the low levels reached in 1974.

With the demand for mortgage credit apparently remaining strong and thrift deposit flows moderating, average interest rates on new commitments for conventional home loans at selected S&Ls have begun to edge higher, increasing 5 basis points since the December FOMC meeting. During the fourth quarter, this rate rose about 10 basis points--well below the rate increases recorded on other taxable long-term bonds. Yields in secondary mortgage markets also have risen in recent weeks in reaction to supply pressures in the mortgage market and to rising yields on other longer-term investments. Offerings to FNMA jumped sharply in late December and early January as mortgage originators sought protection against possible further declines in mortgage prices.

The growth of consumer credit picked up in November to a 16 per cent annual rate. The higher net flow primarily reflected a drop in repayments as new credit extended was somewhat below the October level. Based on October and November figures, the expansion of consumer instalment credit in the fourth quarter will probably match or slightly exceed the third quarter's 15 per cent annual rate, but remain below the very rapid rates of growth earlier in the year.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976	1977 1/ QII	QIII	Oct.	Nov.
Total							
Change in outstandings							
Billions of dollars	8.9	7.3	19.9	31.9	29.9	31.5	34.2
Per cent	6.1	4.7	12.3	16.8	15.1	15.4	16.3
Bank share (per cent)	41.5	39.6	54.0	51.6	51.2	50.1	48.5
Extensions							
Billions of dollars	147.0	163.9	192.4	224.4	228.0	237.4	236.1
Bank share (per cent)	46.2	47.2	48.9	49.0	49.1	49.5	49.2
Liquidations							
Billions of dollars	148.0	156.6	172.4	192.5	198.1	205.9	201.9
Ratio to disposable income	15.2	14.4	14.6	14.9	15.0	15.2	14.8
Automobile Credit							
Change in outstandings							
Billions of dollars	0.3	3.2	10.2	13.7	12.9	10.2	14.9
Per cent	0.6	6.1	18.3	19.8	17.8	13.4	19.1
Extensions							
Billions of dollars	45.3	51.5	62.8	72.8	72.9	73.0	76.0
New car loans over 36 months as per cent of total new car loans at:							
Commercial banks 2/	8.8	14.0	25.4	38.9	42.8	n.a.	44.6
Finance companies	8.6	23.5	33.9	45.3	51.1	51.8	52.5
New car finance rate (APR)							
Commercial banks (36 mo. loans)	10.97	11.36	11.08	10.82	10.85	10.83	10.86
Finance companies	12.61	13.11	13.17	13.12	13.12	13.14	13.17

1/ Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.

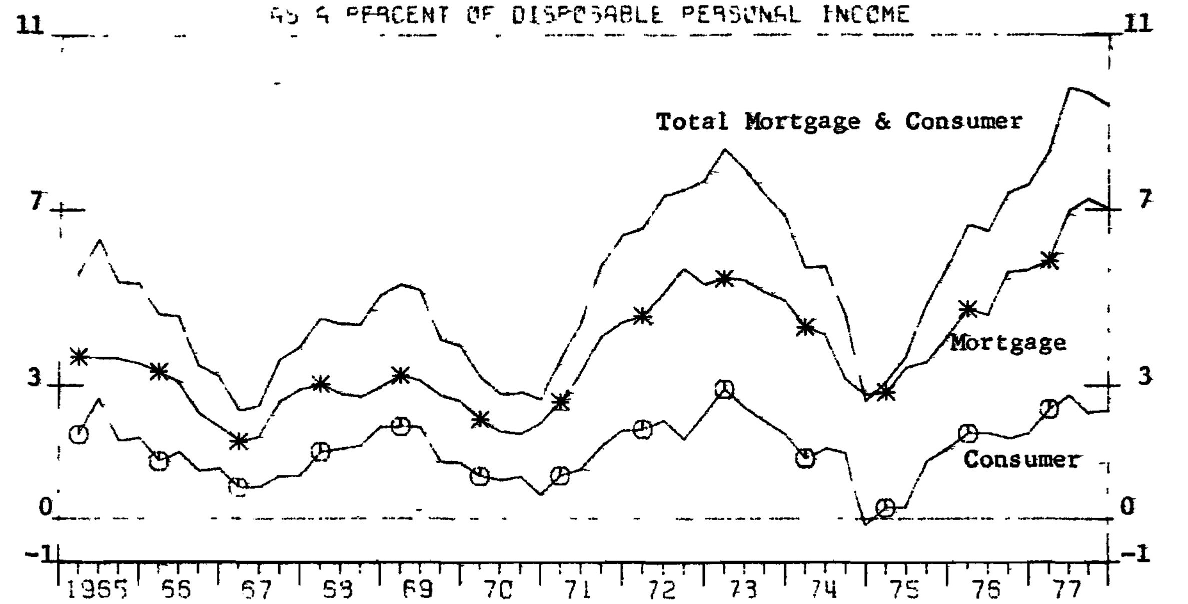
2/ Series was begun in May 1974, with data reported for the mid-month of each quarter. Figure for 1974 is average of May, August, and November.

n.a.--not available.

CHART 4

HOME MORTGAGE AND CONSUMER CREDIT FLOWS

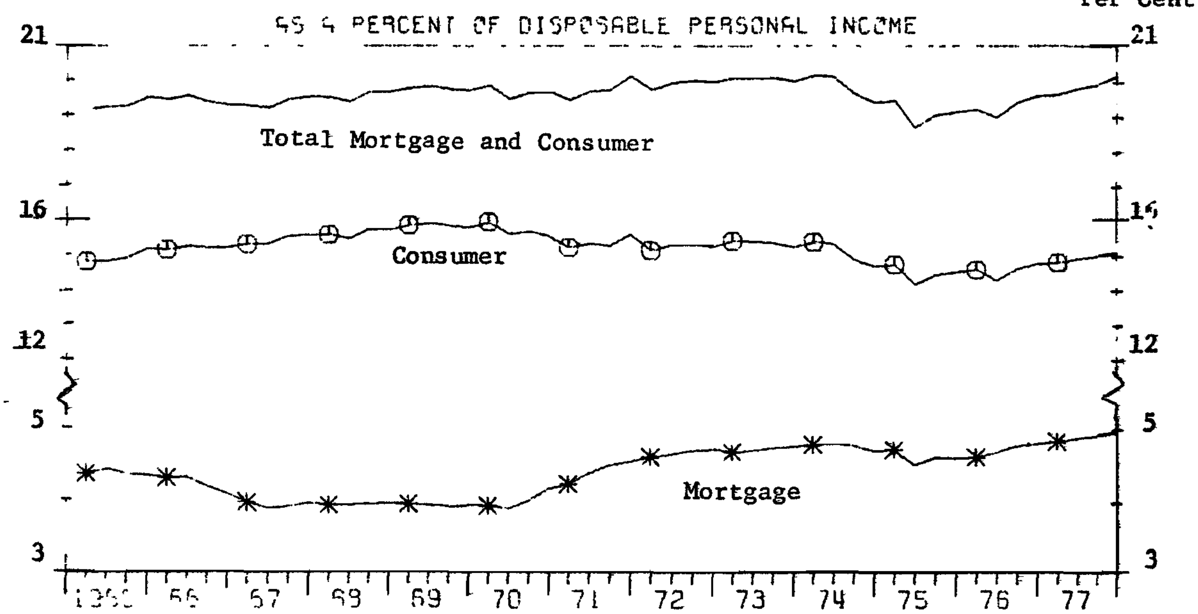
AS A PERCENT OF DISPOSABLE PERSONAL INCOME



Fourth quarter based on projections.

HOME MORTGAGE AND CONSUMER INSTALMENT CREDIT REPAYMENTS

AS A PERCENT OF DISPOSABLE PERSONAL INCOME



Fourth quarter based on projections.

The slower growth of consumer credit in the second half of 1977 contributed to a slight decline in the ratio of household borrowing to disposable income. Nonetheless, as can be seen in Chart 4, this measure of the burden of household indebtedness remains historically high. The ratio of repayments to disposable income has also been rising, but due to the lengthening of instalment-loan maturities and a greater emphasis on mortgage debt, it has not yet surpassed its previous peak level. Moreover, direct measures of debt repayment problems, such as loan delinquency ratios, are well below their highest levels, and did not increase last year.

RESTRICTED

January 11, 1978

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

IV - T - 1

		1976	1977				
		YEAR	Q1	Q2	Q3	Oct.	Nov.
1.	Merchandise exports	114,694	29,458	30,590	30,869	9,343	9,333
2.	Merchandise imports	124,014	36,561	38,347	38,378	12,795	12,160
3.	Trade Balance	-9,320	-7,103	-7,757	-7,509	-3,452	-2,827
4.	Bank-reported private capital flows	-10,302	-1,625	1,792	2,708	-3,770	-454
5.	Claims on foreigners (increase -)	-21,270	3,677	-4,554	159	-3,139	251
6.	Long-term	-2,362	-306	22	-466	-86	366
7.	Short-term	-18,908	3,983	-4,576	625	-3,053	-115
8.	(of which on commercial banks in offshore centers 2/)	(12,863)	(2,058)	(-3,649)	(1,898)	(-1,560)	(-296)
9.	Liabilities to foreigners (increase +)	10,968	-5,302	6,346	2,549	-631	-705
10.	Long-term	208	43	104	210	46	-56
11.	Short-term	10,760	-5,345	6,242	2,339	-677	-649
12.	to commercial banks abroad	8,030	-4,502	3,879	3,684	-1,643	-691
13.	(of which to commercial banks in offshore centers 3/)	(4,115)	(-3,315)	(3,271)	(3,096)	(-2,336)	(138)
14.	to other private foreigners	2,719	366	696	182	52	145
15.	to int'l and regional organizations	11	-1,209	1,667	-1,527	914	-103
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,783	983	-1,370	1,248	-920	401
17.	Other private securities transactions (net)	-7,480	187	-1,048	-1,676	83	-40
18.	Foreign net purchases (+) of U.S. corp. securities	1,250	879	736	514	255	282
19.	(of which stocks)	(853)	(376)	(371)	(138)	(134)	(251)
20.	U.S. net purchases (-) of foreign securities	-8,730	-692	-1,784	-2,190	-172	-322
21.	(new foreign issues of bonds and notes)	(-10,122)	(-1,349)	(-1,995)	(-2,344)	(-506)	(-348)
22.	Change in foreign official res. assets in the U.S.	13,091	4,916	7,436	7,889	5,969	5,953
23.	OPEC countries (increase +)	6,820	2,435	1,368	1,416	386	847
24.	(Of which U.S. corporate stocks)	(1,828)	(236)	(435)	(363)	(91)	(130)
25.	Other countries (increase +)	6,271	2,481	6,068	6,473	5,583	5,106
26.	Change in U.S. reserve assets (increase -)	-2,530	-388	6	151	44	-86
27.	Other transactions and statistical discrepancy (net payments (-))	13,758	3,030	941	-2,811	2,046	-2,947
28.	Other current account items	8,355	2,983	3,298	3,224		
29.	Military transactions, net 4/	-34	416	211	477		
30.	Receipt of income on U.S. assets abroad	21,369	6,133	6,660	6,430		
31.	Payment of income on foreign assets in U.S.	11,561	-2,881	-3,156	-3,215		
32.	Other services, net	2,743	340	553	767		
33.	Remittances and pensions	-1,878	-526	-492	-567		
34.	U.S. Gov't grants 4/	-2,284	-499	-478	-668		
35.	Other capital account items	-4,761	-1,198	-3,478	-878		
36.	U.S. Gov't capital, net claims 4/ (increase -)	261	-235	-514	-873		
37.	U.S. direct investment abroad (increase -)	-4,596	-404	-1,998	-1,100		
38.	Foreign direct investment in U.S. (increase +)	2,176	537	568	511		
39.	Nonbank-reported capital, net claims (increase -)	-2,602	-1,096	-1,534	584		
40.	Statistical discrepancy	10,164	1,245	1,121	-5,157		
MEMO:							
41.	Current account balance 4/	-965	-4,120	-4,459	-4,285	n.a.	n.a.
42.	Official settlements balance	10,561	-4,528	-7,442	-8,040	-6,013	-5,867
43.	O/S bal. excluding OPEC	-3,741	-2,093	-6,074	-6,624	-5,627	-5,020

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 grants to Israel under U.S. military assistance acts, exports financed by those grants, and offsetting capital transactions.
*/ Less than $50,000.

RESTRICTED

Foreign exchange markets. Over the four weeks since the previous green book the dollar has declined sharply, and then partially recovered. On net during the period the dollar has fallen by about 4-1/2 per cent against the pound and Swiss franc and by about 2 per cent against the French, Dutch and Belgian currencies. However, the dollar is little changed against the lira, and has risen against the yen and Canadian dollar. On a trade-weighted basis the dollar has declined a further 1-1/2 per cent, bringing its total depreciation since the end of September to about 5-1/2 per cent, and since the beginning of 1977 to about 6-1/2 per cent.

Most of the dollar's sharp decline during the past four weeks was concentrated on two days. On December 28 the trade-weighted value of the dollar fell in two stages -- about 1 per cent ahead of the release of U.S. trade figures for November, and a further 1/2 per cent after the designation of a new Federal Reserve Board chairman. Then on January 3, the first trading day of the new year, the dollar dropped another 1-1/2 per cent. The dollar's sharp 2-1/4 per cent recovery on the following day was sparked by an announcement that the U.S. Treasury had concluded a swap agreement with the Bundesbank, and that in conjunction with the System and other central banks, it would participate in joint foreign exchange market intervention. In addition, immediately after the announcement the New York trading desk openly offered to sell marks directly to several banks (departing from its usual procedure of operating anonymously through a single bank). Since then the dollar has declined slightly despite a 1/2 percentage point increase in the U.S. discount rate, a 15 basis point rise in the Federal funds rate, and sales of $400 million equivalent of marks by the System and Treasury.

The pound has been buoyed over the last four weeks by continued favorable news on the labor front. The government has resisted the wage demands of the firemen's union despite a strike now entering its eighth week. In addition mineworkers voted to accept a productivity scheme, thereby lowering the likelihood of a miners' strike over wages.

The snake was subject to intermittent pressure during the last four weeks, especially on those occasions when the mark was strengthening against the dollar. In response to these pressures the National Bank of Belgium on December 14 raised its discount rate 2 percentage points to 9 per cent, but on January 5, with the waning of snake pressures, the Bank cut the discount rate 1/2 percentage point.

. The System sold $698 million equivalent of marks for its own account during the last four weeks, raising its swap debt to the Bundesbank to $1,115 million. The System also sold $200 million equivalent of marks for the Treasury.

Gold rose about $13 during the last four weeks to around $173.

<u>OPEC investment flows</u>. The OPEC current account surplus appears to have declined in the third quarter of 1977. Oil exports in the third quarter (accruals basis) were nearly unchanged from the rate in the two previous quarters. OPEC imports, however, are believed to have continued to rise to levels about 20 per cent above those of a year earlier. The current account surplus before OPEC grants may have been about $9 billion in the third quarter of 1977, compared with $12-13 billion in each of the first two quarters. On this assumption, and taking account of OPEC grant aid and OPEC credits to oil companies, there appears to have been an investible surplus of around $7-1/2 billion in the third quarter. This was much less than the rate in the first half of 1977 not only because of the smaller current account surplus but also because the first-half investible surplus was swollen by $6.4 billion of net repayments of credit from oil companies to OPEC in reflection of a shortening in March of the lag in oil payments. The shortening of the lag, reported only recently, generally took the form of a cut in credit terms from 90 to 60 days, and raised OPEC cash receipts in March far above the normal level.

OPEC investments in the United States of $2.2 billion in the third quarter of 1977 were at a lower rate in dollar terms than in the first half of last year, although as a share of the investible surplus they increased. For the first nine months of 1977 investments in the United States came to $7.3 billion compared with $10.8 billion in the first nine months of 1976. The share of the OPEC investible surplus invested

Estimated Disposition of OPEC Surpluses
(in billions of dollars)

		1976 Year	1976 1st 9 Mos.	1976 Half	1977 Q-3	1977 1st 9 Mos.
I.	Surplus on Current Account excluding Grant Aid	39.8	30.0	25.0	9.0	34.0
II.	less OPEC Grant Aid	2.2	1.7	1.2	1.0	2.2
III.	less Net credit to oil companies	7.5	4.8	-6.4	.4	-6.0
IV.	=Investments (as shown below)	30.2	23.5	30.2	7.6	37.8
V.	In United States	12.1	10.8	5.1	2.2	7.3
	A. Short-term assets 1/	.3	1.2	.6	.4	.9
	B. Other deposits and securities 2/	7.7	6.2	3.6	1.4	5.0
	C. Other capital flows	4.2	3.4	1.0	.4	1.4
VI.	In United Kingdom	-1.1	-1.2	.6	.2	.8
	A. Liquid sterling assets	-2.4	-2.2	.2	.1	.3
	B. Other loans and investments	1.3	1.0	.4	.1	.5
VII.	In Euro-currency Markets	12.6	7.5	7.4	2.5	9.9
	A. United Kingdom	5.6	4.0	3.4	.5	3.9
	B. Other centers 3/	7.0	3.5	4.0	2.0	6.0
VIII.	International and Regional Institutions	1.8	1.7	.5	*/	.5
	A. IBRD Bonds	.5	.5	.1	*/	.1
	B. IMF Oil Facility	1.1	1.0	*/	*/	-.1
	C. Other	.2	.2	.4	0	.4
IX.	Other Investments	4.8	4.7	16.6	2.7	19.3

1/ Treasury bills, bank deposits and CD's, repurchase agreements.
2/ Direct investment, import prepayments, debt repayments, real estate, miscellaneous.
3/ Including domestic-currency deposits outside the U.S. and the U.K.
*/ Less than $50 million.

in the United States in the first nine months of 1977 appears to have been about 20 per cent, substantially below the 1976 share. Data for October 1977 show investments in short-term assets and other deposits and securities in the United States of $0.5 billion compared with $0.1 billion in October 1976.

Investments by OPEC countries in the third quarter in the United Kingdom ($0.2 billion excluding Euro-currency deposits) and the Euro-currency markets ($2.5 billion) were somewhat below first-half rates but apparently rose as a share of the investible surplus. For the first nine months of 1977 the Euro-currency market appears to have absorbed a little less than 30 per cent of the investible surplus, a share not much different from that of the comparable 1976 period. Investments in the United Kingdom in 1977 were a very small share of the OPEC surplus but contrasted with the disinvestment of 1976.

Unidentified investments were much smaller in the third quarter than their rate in the first half, both absolutely and as a share of the surplus. But for the first nine months of 1977 they were several times larger than in the entire year 1976 and equivalent to one-half of the estimated total investments by the OPEC countries in those nine months.

U.S. International Transactions. The U.S. trade accounts in November, net of the estimated effects of the Atlantic and Gulf Coast longshoremen's strike, showed a deficit slightly larger than the annual rate of about $30 billion that was recorded in each of the first three quarters of 1977. Foreign official assets in the United States increased by $5.1 billion in November, not including an increase of $0.8 billion in OPEC assets here.

U.S. International Transactions Summary
(in billions of dollars, (-) = Outflow)

	1976 Year	1977 Q-1	1977 Q-2	1977 Q-3	1977 Oct.	1977 Nov.
1. Trade balance 1/	-9.3	-7.1	-7.8	-7.5	-3.5	-2.8
2. (annual rate)		(-28.4)	(-31.0)	(-30.0)	(-41.4)	(-33.9)
3. Private capital trans. adj. 2/	-15.0	-0.5	-0.6	-0.2	-2.1	-0.1
4. Private capital as reported	-15.0	-0.5	-0.6	2.3	-4.6	-0.1
5. Reporting bias 3/	--	--	--	-2.5	2.5	--
6. OPEC net investment in U.S.	6.8	2.4	1.4	1.4	0.4	0.8
7. Other foreign official assets	6.3	2.5	6.1	6.5	5.6	5.1
8. U.S. reserve assets	-2.5	-0.4	*	0.2	*	-0.1
All other 4/						
9. Not seasonally adjusted	13.7	2.7	0.5	1.2	-1.0	-2.8
10. Seasonal component 5/	--	0.4	0.4	-1.6	0.6	-0.1
Memorandum:						
11. GNP net exports 6/	7.7	-1.9	-2.3	-1.7	n.a	n.a
12. Current-account balance	-1.4	-4.1	-4.3	-4.3	n.a	n.a

1/ Seasonally adjusted.
2/ Includes bank-reported capital, foreign private purchases of U.S. Treasury securities, and other private securities transactions.
3/ Adjustment for reporting bias in bank-reported data associated with weekend transactions. See page IV 10-11 in the June 1976 green book.
4/ Includes service transactions, unilateral transfers, U.S. government capital, direct investments, nonbank capital transactions, and statistical discrepancy.
5/ Equal but opposite in sign to the seasonal component of the trade balance.
6/ Includes revisions not yet included in published GNP accounts.
*/ Less than $50 million
e/ Estimated

Other capital transactions reported by U.S. banking offices and securities dealers involved a net outflow of about $100 million, considerably less than in October.

The U.S. merchandise trade deficit was $33.9 billion in November (annual rate, international accounts basis). The staff believes that the November deficit was not greatly affected by the longshoremen's strike, which halted containerized shipping through Atlantic and Gulf Coast ports between October 1 and November 29. Unlike the situation in October, it is estimated that in November the dock strike depressed imports and exports by similar amounts, indicating an underlying deficit slightly above the $30 billion rate that prevailed during the first three quarters.

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

	1976	1976		1977					
	Year	3Q	4Q	1Q	2Q[r]	3Q[r]	Oct.& Nov.	Oct.[r]	Nov.
EXPORTS	114.7	118.4	118.8	117.8	122.4	123.5	112.1	112.1	112.0
Agric.	23.4	25.0	23.5	24.5	26.8	24.1	20.6	20.2	21.0
Nonagric.	91.3	93.5	95.3	93.4	95.6	99.4	91.5	91.9	91.0
IMPORTS	124.0	129.6	133.2	146.2	153.4	153.5	149.7	153.5	145.9
Petroleum	34.6	37.6	37.4	44.1	47.7	45.8	43.5	42.9	44.0
Nonpetrol.	89.4	92.0	95.9	102.1	105.7	107.7	106.3	110.7	101.9
BALANCE	-9.3	-11.2	-14.4	-28.4	-31.0	-30.0	-37.7	-41.4	-33.9

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

Exports of both agricultural and nonagricultural goods in November were little changed from October in volume terms, and were roughly 10 per cent below their third-quarter volumes. The staff estimates that October and November exports would have closely matched their third-quarter volumes in the absence of the dock strike. The unit value index for nonagricultural exports increased slightly further in November; since early 1975 this index has risen about 5 per cent per year. The unit value index for agricultural exports rose in November, offsetting a dip in October; but the November index was 11 per cent below the average level that prevailed for the first half of last year, before the export prices of soybeans and corn began their steep declines.

The volume of nonpetroleum imports in November was 6 per cent below its third-quarter rate. November imports of nonmonetary gold were unusually strong, reflecting a $110 million private shipment from the Soviet Union. Automotive imports from overseas fell in November from their high October volume, but remained slightly above their third-quarter volume. The unit value index for nonpetroleum imports was up slightly in November from its third-quarter level.

The volume of petroleum imports rebounded in November to its third-quarter average of 9.2 million barrels per day (mbd), after dipping in October to 8.8 mbd. The average price of petroleum imports rose to $13.48 per barrel in November, compared with about $13.30 in both October and the third-quarter.

<u>International capital transactions</u> reported by U.S. banking offices and securities dealers showed an inflow of $6.0 billion in November, very largely reflecting purchases of dollars by several G-10 central banks. Data now available show a capital inflow (net) in October and November that exceeds our estimate of the current-account deficit by a substantial amount. Part of this may reflect seasonal factors, but there is also an indication of sizable capital outflows in transactions not reported by U.S. banks and securities dealers.

<u>Foreign official assets in the United States</u> (excluding OPEC's) increased by $5.1 billion in November.

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Whereas medium-term Treasury notes had been the main investment vehicle for the proceeds of foreign intervention purchases in the first ten months of 1977, the proceeds of November intervention were placed almost entirely in Treasury bills.

. These purchases contributed to a 60 basis-point depression of the yield on short-dated

Treasury bills (one month) relative to yields on other money-market instruments in December.

Bank-reported private capital flows show a $450 million net outflow in November. U.S.-based banks reported a $1.5 billion net inflow, probably reflecting some acceleration of their domestic credit activity, as well as year-end tax considerations. U.S. offices of foreign banks reported a $1.9 billion net outflow, perhaps reflecting the demand abroad for dollar borrowings to be switched into local currencies, and thereby adding to the supply of dollars absorbed by official intervention.

Foreign net purchases of U.S. corporate securities (excluding purchases by OPEC) increased to $300 million in November. Private foreign purchases (net) of $250 million of U.S. corporate stocks were considerably above the $100 million monthly average of the first ten months of 1977.

U.S. purchases (net) of foreign securities were $300 million in November, with purchases of yen-denominated bonds accounting for half the total. In the September-November period, recorded U.S. purchases of yen-denominated bonds were $250 million, while recorded U.S. sales (net) of Japanese corporate stocks were $175 million. The shift may reflect the view that appreciation of the yen has dimmed the earnings prospects of export-oriented Japanese corporations.

OPEC banking assets and security holdings in the United States increased by $0.8 billion in November, one and a half times the monthly average for the first ten months of 1977. A $1.1 billion increase in the holdings of Treasury notes and Federally-sponsored agency bonds more than accounted for the November increase.

The increase of $100 million in U.S. reserve assets in November reflected an IMF purchase of dollars (an increase in the U.S. reserve position in the IMF) for an interest payment of an oil-facility creditor.

Monetary and financial developments in major foreign countries. Interest rates abroad have generally continued to decline in recent months and are now well below rates prevailing a year ago (see Table). The decline in short-term interest rates abroad in the past year -- amounting to 850 basis points in the United Kingdom, over 700 basis points in Italy, and smaller but still sizable amounts in other countries -- is particularly striking in contrast to the increase in U.S. short-term interest rates. The marked shift in the interest-rate differential, in favor of dollar-denominated assets, has helped to moderate the depreciation of the U.S. dollar.

Recent shifts in interest rates have been, in part, a response to exchange-market pressures. In Germany and Switzerland, interest rates, which were already quite low, declined further in December and the early days of January as capital inflows added to domestic liquidity and as authorities acted to discourage continued inflows. In contrast, short-term rates rose sharply in Belgium and, to a lesser extent, in the Netherlands last month when pressure within the EC snake intensified.

Despite these recent actions, there is no evidence to suggest that monetary authorities want to alter the basic thrust of their policy, which remains geared to domestic considerations. Real activity everywhere remains sluggish, unemployment is rising, and rates of inflation, though still high, have declined (especially in Italy and the United Kingdom). Monetary growth targets for 1977 appear to have been hit

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

	Level 1976 Q4	Change: 76Q4 to 77Q3	Change: 77Q3 to Latest	Change: 76Q4 to Latest	Level Latest
I. 3-Month Rates 1/					
Belgium	12.38	-5.96	2.33	-3.63	8.75 (1/10)
Canada	8.98	-1.64	-0.21	-1.85	7.13 (1/10)
France	10.45	-1.93	0.61	-1.32	9.13 (1/11)
Germany	4.73	-0.63	-0.55	-1.18	3.55 (1/11)
Italy	17.83	-4.35	-2.73	-7.08	10.75 (1/11)
Japan	7.83	-1.89	-0.69	-2.58	5.25 (1/11)
Netherlands	8.32	-4.68	1.92	-2.76	5.56 (1/10)
Switzerland	1.97	0.63	-1.60	-0.97	1.00 (1/11)
United Kingdom	14.53	-7.63	-0.84	-8.47	6.06 (1/10)
United States	4.81	0.90	0.99	1.89	6.70 (1/4)
II. Long-Term Gov't. Bond Yields 2/					
Belgium	9.22	-0.80	0	-0.80	8.42 (12/1)
Canada	8.47	0.14	0.16	0.30	8.77 (12/28)
France	10.72	0.09	0.09	0.18	10.90 (12/16)
Germany	7.26	-1.56	-0.10	-1.66	5.60 (12/30)
Italy	13.92	0.66	-0.33	0.33	14.25 (12/30)
Japan	8.73	-1.87	-0.28	-2.15	6.58 (11/30)
Netherlands	7.43	-0.25	0.19	-0.06	7.37 (12/30)
Switzerland	4.42	-0.48	-0.19	-0.67	3.75 (12/30)
United Kingdom	13.82	-4.38	0.11	-4.27	9.55 (1/4)
United States	7.17	0.44	0.57	1.01	8.18 (1/10)

1/ The 3-month rates shown are averages of daily rates. All rates are interbank, except: Canada - finance company paper rate; Japan - rate on paper of 2-month or greater maturity; U.S. - 90-day CD rate (most often quoted).
2/ Long-term yields are end-of-period quotations. Rates quoted are all government bond yields (mostly composite yields). For the United States, the 20-year constant maturity bond yield is quoted.

reasonably well; targets for monetary growth this year have recently been announced in several countries. (See Table and the discussion of individual countries, below, for details.)

Yields on long-term assets abroad have changed only slightly in the past several months (see Table). In contrast to their rise in the United States, bond yields have generally declined abroad over the past year, as private credit demands have remained weak and inflation expectations have been lowered.

The German Bundesbank announced on December 15 that its target growth rate for "central bank money" (CBM) in 1978 is 8 per cent, in annual-average terms. CBM growth in 1977 is likely to have been about 9 per cent, compared with a target growth rate of 8 per cent, reflecting rapid monetary growth in mid-year and again in November. Bank lending to the public sector and to companies and private individuals was high in November, perhaps supporting the view that domestic demand in Germany has strengthened.

The German money market is typically tight in December, when major tax payments coincide with the seasonal increase in currency in circulation. This past year, however, the market was extremely liquid, largely as a result of the inflows of foreign exchange. Evidently concerned about the inflationary impact of continued capital inflows, the Bundesbank lowered its lending rates on December 15 (with the discount rate going from 3-1/2 to 3 per cent), thus reinforcing the tendency for market interest rates to decline. At the same time, the Bundesbank

Growth of the Money Stock in Selected Industrial Countries

	1977 (percentage change from preceding period, seasonally adjusted monthly rates) Q1	Q2	July	Aug.	Sept.	Oct.	Nov.	Percentage change in latest 3 months from same period year earlier
Canada (M_1)	0.8	0.7	-0.7	1.3	0.3	0.7	1.2	9.4
France (M_2)	1.1	0.7	2.0	1.7	1.1	n.a.	n.a.	12.2
Germany (CBM) 1/	0.6	0.5	1.1	1.2	0.7	0.8	1.4	9.4
Japan (M_2)	0.8	0.8	1.9	0.0	0.6	0.3	n.a.	10.6
Switzerland (M_1) 2/	0.1	-0.1	-3.1	-0.6	2.2	2.6	n.a.	4.0
United Kingdom (£M_3)	-0.6	0.9	1.3	0.2	2.1	1.8	0.7	7.2
United States (M_1)	0.4	0.7	1.5	0.5	0.6	1.0	-0.2	7.5
(M_2)	0.8	0.8	1.4	0.5	0.7	0.8	0.4	10.1

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

2/ Not seasonally adjusted.

announced the imposition of several controls on capital inflows. The Bundesbank also announced that it would offer (beginning on December 29) a DM1.7 billion federal government loan -- the largest such loan ever issued.

Monetary growth in Switzerland accelerated in October and November, after slow growth earlier in the year, so that the 5 per cent target for M_1 growth in 1977 is likely to have been hit. The acceleration of monetary growth and the decline in Swiss interest rates reflect the impact on domestic liquidity of exchange-market intervention, although the Swiss National Bank has attempted, through sales of government debt, to offset some of that impact. The target rate for M_1 growth in 1978 is unchanged at 5 per cent; in its announcement in December the National Bank stated that such a growth rate should leave room for economic expansion without endangering price stability, and reiterated that it reserves the right to deviate temporarily from the target to permit purchases of foreign currency if exchange-rate movements are deemed excessive.

. Short-term interest rates are currently no lower than they were in October, though they are well below year-earlier levels. There have been rumors, fueled this week by a statement by Bank of Japan Governor Morinaga, that there will be a cut in the Bank of Japan's discount rate from its present level of 4.25 per cent. The announcement in December of the government's budget for fiscal year 1978/79, and a second supplementary budget for 1977/78 -- both of which imply an increase in public borrowing -- may have exerted some upward pressure on interest rates.

The Bank of Japan announced, at the end of December, its credit ceilings for the first quarter of 1978. These ceilings, which were reached in consultation with the banks, reportedly will allow credit to expand as rapidly as the banks requested; they allow outstanding loans and discounts of the city banks to be 8.8 per cent higher in 1978QI than in 1977QI -- a historically low rate of increase, reflecting the weak demand for credit.

In the <u>United Kingdom</u>, the Bank of England's minimum lending rate (MLR) was raised sharply from 5 to 7 per cent at the end of November, following an acceleration of monetary growth in September and October that threatened the Bank's fiscal year 1977/78 target for 9-13 per cent growth of sterling-denominated M_3. Though market rates rose correspondingly, there was considerable market uncertainty concerning the direction of future interest-rate movements, as evidenced by an unprecedented spread among the clearing bank's base rates. In fact, sterling M_3 growth in November decelerated sharply, optimism concerning prospective inflation rates increased, and sterling's exchange value rose. Consequently, short-term interest rates and yields on long-term securities tended to back down; the MLR was lowered from 7 to 6.5 per cent on January 6.

Monetary growth in France (as measured by M_2) accelerated sharply in the third quarter, with monthly increases averaging almost 20 per cent (SAAR), as a large government deficit was financed by borrowing from the banking system; there was little change in other forms of bank lending. However, since the government borrowing requirement was probably reduced significantly in the fourth quarter, the Bank of France's target for the growth rate of M_2 of 12.5 per cent in the year to December 1977 may well have been achieved. The Bank of France indicated in October that it would like M_2 to increase 12 per cent from December 1977 to December 1978.

Policy objectives in Italy have been enunciated in conjunction with a stand-by credit arrangement with the IMF. Although the objectives for inflation and the current account are being met (with the current account swinging into surplus), the target for domestic credit expansion (DCE) is being exceeded. While bank lending in domestic currency has been subject to credit ceilings, lending by Italian banks in foreign currency, which is also part of DCE, is not subject to those ceilings. Net foreign indebtedness of Italian banks for onlending to Italian residents, which declined slightly in August-October, increased again in November and rose over $4 billion in the first 11 months of 1977.

In Canada, short-term interest rates have continued to fall, as the banking system has been quite liquid; excess cash reserves have been above what is deemed neutral, and excess secondary reserves have been high. The persistence of high bond yields reflects continued high inflation expectations and, perhaps, a pickup recently in bond offerings.

The current target for M_1 growth, announced in October by the Bank of Canada, is for a trend annual rate of growth of 7-11 per cent, measured from a base of June 1977. Growth so far has been near the bottom of the target range.

In December the Belgian National Bank raised its discount rate from 6 to 7 per cent and then to 9 per cent, in response to downward pressures on the exchange value of the Belgian franc within the European snake. The rate was lowered to 8.5 per cent on January 5, after pressures had eased somewhat.