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CONFIDENTIAL (FR)

December 13, 1978

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	Nov.	12-8-78	101.6	6.9	4.4	2.8
Unemployment rate (%) 1/	Nov.	12-8-78	5.8	5.8	5.9	6.7
Insured unemployment rate (%) 1/	Nov.	12-8-78	3.0	3.2	3.7	3.9
Nonfarm employment, payroll (mil.)	Nov.	12-8-78	87.0	6.5	4.1	4.2
Manufacturing	Nov.	12-8-78	20.6	9.5	6.2	3.8
Nonmanufacturing	Nov.	12-8-78	66.4	5.5	3.5	4.3
Private nonfarm:						
Average weekly hours (hr.) 1/	Nov.	12-8-78	35.9	35.8	35.8	36.0
Hourly earnings ($) 1/	Nov.	12-8-78	5.86	5.82	5.73	5.39
Manufacturing:						
Average weekly hours (hr.) 1/	Nov.	12-8-78	40.6	40.4	40.3	40.5
Unit labor cost (1967=100)	Oct.	11-29-78	167.0	9.4	2.2	5.7
Industrial production (1967=100)	Oct.	11-15-78	148.4	5.7	6.3	6.8
Consumer goods	Oct.	11-15-78	150.2	11.3	6.8	3.7
Business equipment	Oct.	11-15-78	166.8	5.1	7.3	9.3
Defense & space equipment	Oct.	11-15-78	88.1	8.2	10.2	11.7
Materials	Oct.	11-15-78	150.2	4.8	6.2	8.1
Consumer prices (1967=100)	Oct.	11-27-78	200.6	9.0	8.6	8.8
Food	Oct.	11-27-78	217.3	9.5	6.4	11.4
Commodities except food	Oct.	11-27-78	178.5	8.8	8.2	7.0
Services	Oct.	11-27-78	217.5	10.0	10.0	9.5
Producer prices (1967=100)	Nov.	12-7-78	216.4	7.5	11.7	9.6
Industrial commodities	Nov.	12-7-78	216.0	8.4	9.3	8.4
Farm products & foods & feeds	Nov.	12-7-78	215.2	4.5	19.3	13.8
P sonal income ($ bil.) 2/	Oct.	11-17-78	1764.2	14.6	10.6	11.9
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Oct.	12-4-78	77.3	6.4	18.6	21.6
Capital goods industries	Oct.	12-4-78	25.7	8.6	32.8	25.0
Nondefense	Oct.	12-4-78	22.2	10.4	30.2	38.1
Defense	Oct.	12-4-78	3.5	-1.5	51.9	-22.3
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Sept.	12-12-78	1.41	1.40	1.41	1.47
Manufacturing	Oct.	12-4-78	1.50	1.52	1.55	1.57
Trade	Sept.	12-12-78	1.31	1.30	1.31	1.34
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	Oct.	12-4-78	.576	.591	.598	.642
Retail sales, total ($ bil.)	Nov.	12-12-78	68.6	2.0	4.1	11.2
GAF 3/	Nov.	12-12-78	15.0	3.0	3.2	8.0
Auto sales, total (mil. units.) 2/	Nov.	12-7-78	10.9	-2.6	-8.6	5.1
Domestic models	Nov.	12-7-78	8.8	-4.0	-10.2	5.7
Foreign models	Nov.	12-7-78	2.1	3.7	-1.1	2.2
Plant & Equipment expen. ($ bil.) 2/						
All Industries	1978 4/	12-7-78	153.09	—	—	12.7
	QIII'78	12-7-78	155.41	3.1	—	10.7
	QIV'78 4/	12-7-78	161.24	3.8	—	16.7
	QI'79 4/	12-7-78	163.34	1.3	—	13.2
Capital Appropriations, Mfg.	QIII'78	12-5-78	15,976	8.2	—	-8.5
Housing starts, private (thous.) 2/	Oct.	11-17-78	2,080	.0	-1.8	-2.8
Leading indicators (1967=100)	Oct.	11-29-78	139.3	.6	2.4	4.1

ctual data used in lieu of per cent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned-Commerce December Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Growth of economic activity apparently was vigorous in November. Hiring at nonfarm establishments was substantial, and industrial production posted a sizable gain. Unit auto sales were off from a month earlier, but retail sales rose sharply following a sizable upward-revised October gain. Business outlays appear brisk and indicators of near-term spending remain favorable. However, reports on capital spending plans for 1979 continue to show sharp slowing of activity during the year. Housing starts remained at a relatively high rate in October, and home sales rebounded strongly. Prices increases remain very large at both the producer and consumer levels.

Employment and Production

Employment growth was brisk in November, but the unemployment rate remained at 5.8 per cent as labor force growth was rapid. Jobless rates for most groups of workers were little changed in November; however, in recent months, rates have edged lower from the levels prevailing in the spring and summer.

Nonfarm payroll employment rose 470,000 in November, a second robust monthly increase following three months of small gains. The surge in hiring was widespread by industry. Labor demand in hardgoods manufacturing, which has accounted for most factory hiring over the past year, was again strong. In addition, employment in nondurable industries climbed sharply for the first time this year. The average workweek in manufacturing rose two-tenths hour to 40.6 hours.

CHANGES IN EMPLOYMENT 1/
(Thousands of jobs; based on seasonally adjusted data)

	1977	1978 H1	1978 QIII	1978 Oct.	1978 Nov.
	--- Average monthly changes ---				
Nonfarm payroll employment 2/	284	380	56	404	467
Manufacturing	66	55	-10	146	162
Durable	50	43	19	136	96
Nondurable	16	12	-29	10	66
Construction	30	54	7	40	42
Trade	79	84	45	94	65
Services and finance	82	78	71	40	118
State and local government	28	47	-44	-3	44
Private nonfarm production workers	215	260	69	264	417
Manufacturing production workers	52	37	-20	121	164
Total employment 3/	347	368	16	324	543
Nonagricultural	340	343	37	354	659

1/ Changes are from final month of preceding period to final month of period indicated.
2/ Survey of establishments. Not strike adjusted.
3/ Survey of households.

SELECTED UNEMPLOYMENT RATES
(Per cent; based on seasonally adjusted data)

	1973 Annual average	1978 QI	1978 QII	1978 QIII	1978 Oct.	1978 Nov.
Total, 16 years and older	4.9	6.2	5.9	6.0	5.8	5.8
Teenagers	14.5	16.9	15.9	16.2	16.3	16.2
20-24 years old	7.8	10.3	9.4	9.4	8.7	9.1
Men, 25 years and older	2.5	3.5	3.3	3.3	3.4	3.1
Women, 25 years and older	4.0	4.9	5.1	5.3	4.9	4.9
White	4.3	5.4	5.1	5.2	5.1	5.0
Black and other	8.9	12.3	12.0	11.8	11.4	11.8
Fulltime workers	4.3	5.7	5.4	5.6	5.3	5.2
White collar	2.9	3.5	3.6	3.6	3.3	3.3
Blue collar	5.3	7.1	6.5	7.0	6.9	6.6
Craft and kindred	3.7	5.1	4.3	4.4	5.0	4.0
Operatives, ex. transport	6.1	8.0	8.0	8.7	7.7	7.7

Industrial production is estimated to have risen about 3/4 per cent in November. Gains appear to have been widespread by sector. Output of consumer goods apparently advanced moderately, with an increase of 2 per cent in auto assemblies in November to a 9.7 million unit annual rate. Output of business equipment and of construction and business supplies also are estimated to have continued to post gains in November. Materials production was up as well, with further increases in metals (including raw steel) and in paper production.

Given the sustained gains in output, capacity utilization in manufacturing appears to have increased to about 85-3/4 per cent in November--the highest operating rate since August 1974 and only 2-1/4 percentage points short of the 1973 high. However, the November rate for materials industries shows somewhat greater slack, although rates for some materials--such as steel and cement--have moved up significantly this year.

Personal Income and Consumer Spending

Total personal income rose at a 14-1/2 per cent annual rate in October, a little faster than the rate of rise in the third quarter. The October spurt was due primarily to a sharp pick-up in private payrolls. The Federal pay raise effective October 1 added $2-1/3 billion to the October rise. Based on establishment reports of employment and earnings, the increase in private wage and salary disbursements probably was sizable again in November.

Retail sales excluding automobiles and nonconsumption items rose 2.5 per cent in November following an upward revised 0.8 per cent rise in October. Sales at these stores were up 4-3/4 per cent from the third quarter average. Gains were widespread by type of store in November. A particularly large rise occurred at general merchandise stores following a small decline in October.

Sales of new domestic-type autos were at an 8.8 billion unit annual rate in November, down almost half a million from the October pace. Brisk sales of new General Motors cars provided considerable support for over-all sales; this contrasts with the company's setbacks last fall when it introduced downsized intermediate models for 1978. Weaker sales at other companies--particularly Chrysler and AMC--have resulted in an appreciable build-up in dealer inventories, and both companies have scheduled temporary shutdowns in selected plants. Purchases of foreign cars edged up to a 2.1 million unit annual rate in November, bringing total sales for the month to a 10.9 million unit annual rate. For the first two months of the fourth quarter, total auto sales have averaged 5 per cent below the average selling rate of last spring and summer.

Despite recent advances in income and sales, consumers reportedly have become more pessimistic about the economic outlook. The Survey Research Center of the University of Michigan reported that its index of consumer sentiment dropped sharply in November and was at its lowest level since 1975. Respondents were more pessimistic about present and anticipated business conditions, and inflationary expectations remained high.

PERSONAL INCOME
(Based on seasonally adjusted data)

	1977	1978 QI	1978 QII	1978 QIII	Aug. 78 to Sept. 78	Sept. 78 to Oct. 78
	- - Average monthly change, in billions of dollars - -					
Total personal income	$13.5	$12.4	$16.5	$15.8	$12.9	$21.3
Nonagricultural income	12.3	15.7	14.1	15.4	11.6	19.8
Agricultural income	1.2	-3.3	2.4	.4	1.3	1.4
Wage and salary disbursements	8.3	13.1	10.6	7.0	8.2	15.6
Private	7.0	12.2	9.6	6.2	7.4	12.3
Manufacturing	2.7	4.0	1.9	1.9	2.7	4.1
Other income	5.7	1.0	6.4	9.1	5.1	6.4
Transfer payments	1.3	1.0	.2	3.7	1.1	1.5
	- - Per cent change, compound annual rate 1/ - -					
Total personal income						
Current dollars	11.4	9.3	13.8	12.0	8.9	14.6
Constant dollars 2/	4.4	1.4	2.6	3.1	-.2	5.5
Wage and salary disbursements						
Current dollars	11.0	12.1	15.9	8.6	8.9	16.7
Constant dollars 2/	4.1	3.9	4.5	.0	-.3	7.6

1/ Monthly per cent changes at annual rates, not compounded; 1977 per cent change from QIV to QIV.
2/ Deflated by the CPI for all urban consumers, seasonally adjusted.

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

	1978					
	QII	QIII	Nov./QIII	Sept.	Oct.	Nov.
Total sales	4.7	2.0	4.7	.7	1.3	2.0
(Real) 1/	2.1	.2	n.a.	0	.6	n.a.
Total, less auto and nonconsumption items	3.9	2.1	4.7	1.5	.8	2.5
GAF	6.1	2.1	3.7	1.0	-.7	3.0
Durable	7.3	2.8	5.3	-.4	2.3	1.6
Auto	6.9	.8	5.3	-1.5	3.2	1.0
Furniture & appliances	6.9	2.8	4.0	1.5	-.4	2.2
Nondurable	3.4	1.5	4.4	1.4	.8	2.3
Apparel	6.3	4.6	2.0	.5	-1.8	1.7
Food	3.3	1.1	4.1	.9	1.5	1.9
General merchandise	5.8	.9	4.3	.9	-.4	3.8
Gasoline	.1	0	4.4	2.5	1.6	.4

1/ Deflated by all commodities SA consumer price index.

AUTO SALES
(Seasonally adjusted, millions of dollars)

	1978					
	QI	QII	QIII	Sept.	Oct.	Nov.
Total	10.8	12.1	11.2	10.6	11.2	10.9
Imports	2.0	2.1	2.0	1.9	2.0	2.1
Domestic	8.8	10.0	9.2	8.7	9.2	8.8

Business Investment

Indicators of near-term business investment spending commitments continue to be strong. New orders for nondefense capital goods jumped more than 10 per cent in October and now have risen 22 per cent since mid-year. As in recent months, the strength in aircraft bookings was particularly impressive. In addition, machinery orders, which had been on a plateau for most of this year have risen about 10 per cent during the last two months. Businesses also continued to award construction contracts at a substantial rate in October, bolstered by commitments for several large power plants. While this series is volatile from month to month, the real value of contracts for the first 10 months of 1978 is running about 10 per cent ahead of the same period a year ago.

On the other hand, the Commerce Department November survey of anticipated plant and equipment expenditures indicates slower growth next year, in line with that reported in recent private surveys. If these plans are realized, nominal growth over the first half of next year will decelerate to an 8 per cent annual rate from a 14 per cent rate over the last half of 1978. Although this survey is typically quite accurate, it underestimated the actual growth of spending somewhat in the past two years.

Data on manufacturer's newly approved capital appropriations are consistent with other survey evidence. Despite a rebound in the third quarter, appropriations remained well below the level reached in

CONTRACTS AND ORDERS FOR PLANT AND EQUIPMENT
(Per cent change from preceding comparable period, seasonally adjusted)

	1978 QI	1978 QII	1978 QIII	1978 Sept.	1978 Oct.	1977: first 10 months t 1978: first 10 months
Current dollars						
Total 1/	11.6	-4.8	11.6	-.2	13.5	23.0
Nondefense capital goods orders	5.6	3.5	5.3	4.2	10.4	23.4
Construction contracts 2/	47.8	-40.2	57.9	-20.4	32.8	20.8
1972 dollars						
Total 1/	9.4	-5.9	8.8	-.6	12.5	14.1
Nondefense capital goods orders	3.5	2.4	2.9	3.5	9.2	14.7
Construction contracts 2/	46.2	-42.3	54.1	-20.4	33.3	11.2

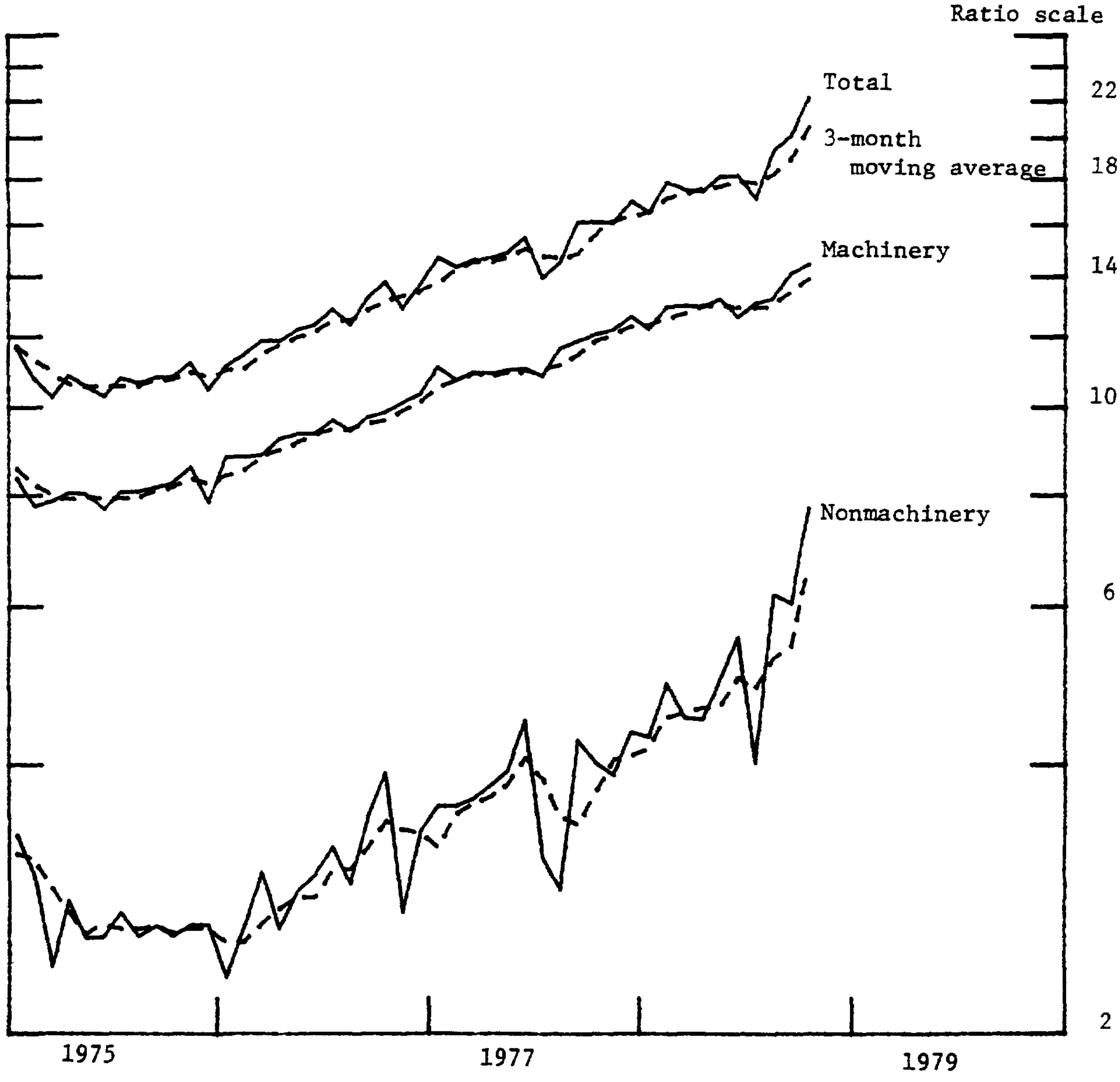
1/ The Commerce Department creates this series by adding new orders for nondefense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and for private nonbuilding projects (e.g., electrical utilities, pipelines, etc.).
2/ FRB staff estimate. Derived by subtracting new orders for nondefense capital goods from the published total for contracts and orders.

PLANT AND EQUIPMENT EXPENDITURES
(Per cent change from previous quarter, annual rate)

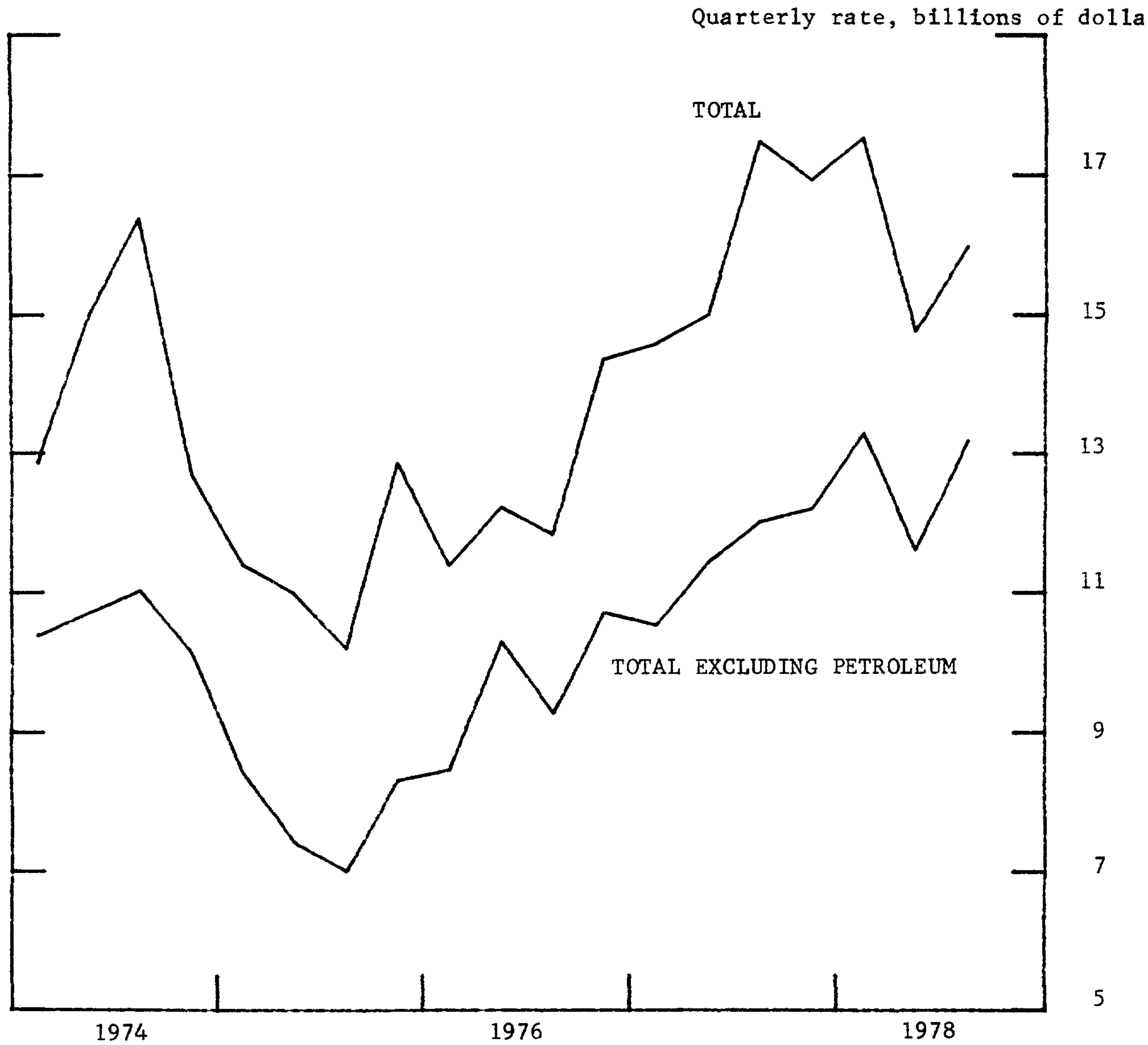
	1978 QI	1978 QII	1978 QIII	1978 QIV	Anticipated 1/ 1979 QI	Anticipated 1/ 1979 QII
All Business	19.0	19.3	12.9	15.9	5.3	11.4
Manufacturing	1.0	41.9	3.3	36.3	-1.0	19.1
Durables	7.7	42.9	11.3	26.3	-.7	22.3
Nondurables	-4.3	40.9	-3.3	46.0	-.3	16.5
Nonmanufacturing	35.0	4.3	21.1	1.7	10.7	5.5

1/ Expenditure plans from November Commerce Survey.

ORDERS FOR NONDEFENSE CAPITAL GOODS
(Billions of dollars, S.A.A.R.)



MANUFACTURERS' NEWLY APPROVED CAPITAL APPROPRIATIONS
Seasonally adjusted



the second half of 1977. Since spending normally lags appropriations by about one year, this year's appropriations pattern suggests a distinct slowing of investment growth during 1979.

Inventory investment appears to have moderated in September and October. The book value of manufacturers' stocks rose at a seasonally adjusted annual rate of $11-1/2 billion in October--the smallest monthly increase so far this year. As throughout this year, most of the accumulation occurred in durable stocks, which increased at an annual rate of $10-2/3 billion. Manufacturers' inventory investment in October was accompanied by a substantial increase in shipments (2 per cent); as a result, the ratio of book-value inventories to sales for all manufacturers declined to a near-record low.

Although over-all inventories do not appear to be out of line with sales, some overhang emerged this fall at retailers of general merchandise including department stores. In the third quarter, the constant-dollar ratio of inventories to sales for this category moved above its 1974 peak. Merchants appear to have recognized these imbalances, however, and reports indicate that they have slowed deliveries, have rerouted orders, and are offering exceptional Christmas sales. Manufacturers' inventory reductions were reported in October in the home goods and apparel groupings--an area that had registered a rise in stocks in the preceding month. Moreover, the strong rise in general merchandise sales in November should help ease the inventory problem in this area.

BUSINESS INVENTORIES
(Annual rate of change in seasonally adjusted book values; billions of dollars)

	1977			1978				
	QII	QIII	QIV	QI	QII	QIII	Sept.1/	Oct.2/
Manufacturing and trade	28.3	25.2	17.8	44.2	44.3	32.4	26.4	n.a.
Manufacturing	15.7	10.2	2.8	16.6	22.8	18.0	14.2	11.5
Durable	7.8	7.7	3.8	13.2	15.9	14.0	11.6	10.6
Nondurable	7.9	2.4	-1.0	3.4	6.9	4.1	2.5	.9
Trade, total	12.6	15.0	14.9	27.6	21.5	14.4	12.2	n.a.
Wholesale	2.6	4.7	7.5	19.5	11.8	6.1	13.2	n.a.
Retail	10.0	10.3	7.4	8.1	9.8	8.2	-1.0	n.a.
Auto	2.2	1.5	2.9	.9	.2	-.2	-1.2	n.a.

1/ Revised.
2/ Preliminary.

INVENTORY TO SALES RATIOS

	1977			1978				
	QII	QIII	QIV	QI	QII	QIII	Sept.1/	Oct.2/
Manufacturing and trade	1.46	1.48	1.44	1.46	1.42	1.43	1.41	n.a.
Manufacturing	1.60	1.61	1.56	1.56	1.52	1.54	1.52	1.50
Durable	1.96	1.96	1.90	1.90	1.86	1.87	1.83	1.81
Nondurable	1.22	1.22	1.18	1.17	1.15	1.16	1.15	1.13
Trade, total	1.32	1.35	1.33	1.36	1.31	1.32	1.31	n.a.
Wholesale	1.21	1.24	1.23	1.27	1.20	1.21	1.20	n.a.
Retail	1.43	1.44	1.42	1.45	1.42	1.43	1.41	n.a.

1/ Revised.
2/ Preliminary.

Residential Construction

Private housing starts--at a 2.1 million unit annual rate in October--have fluctuated since March in a narrow range just below last year's fourth-quarter high. Single-family starts held steady again in October, continuing the pattern of little change that has prevailed for seven months. The more volatile multifamily starts rose moderately in October, after a sharp rebound in September, but they remained below the second-quarter high. Total residential building permits were off 3 per cent in October, but were slightly above the reduced third-quarter average.

On a regional basis, much of the strength in home building since March has come from the South and the Northeast regions--both areas where recovery from the 1973-1974 housing downturn had been relatively slow. The West, which had been the early leader in the housing expansion, has seen considerably less activity this year than in the strong final quarter of 1977.

Sales of single-family houses rose sharply in October, after falling off somewhat in September. Sales of existing houses, which have held up well so far this year, rose further, and there was a record surge in new-house sales. The substantial step-up in new-house sales--a particularly volatile series--followed several months in which these transactions had dropped below year-earlier levels. The particularly sharp increase in house sales during October may have reflected, in part,

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

	1977	1978					Per cent change from:	
	QIV	QI	QII	QIII	Sept.2/	Oct.1/	Month earlier	Year earlier
Total								
Permits	1.79	1.57	1.72	1.64	1.73	1.68	-3	-6
Starts	2.15	1.72	2.11	2.08	2.08	2.08	0	-3
Under construction3/	1.25	1.26	1.30	1.31	1.31	1.33	+1	+12
Completions	1.69	1.76	1.90	1.95	1.97	1.84	-7	+11
Single-family								
Permits	1.20	1.01	1.11	1.05	1.09	1.13	+3	-5
Starts	1.55	1.23	1.47	1.45	1.46	1.45	-1	-6
Under construction3/	.77	.78	.77	.79	.78	.79	0	+8
Completions	1.28	1.30	1.43	1.35	1.45	1.40	-3	+12
ltifamily								
Permits	.60	.56	.61	.59	.64	.56	-13	-7
Starts	.60	.49	.64	.62	.62	.63	+2	+4
Under construction3/	.48	.48	.52	.53	.52	.54	+3	+17
Completions	.42	.46	.47	.59	.52	.45	-15	+7
Mobile home shipments	.32	.29	.26	.26	.27	.29	+5	-10

1/ Preliminary.
2/ Revised.
3/ Seasonally adjusted, end of period.

SALES AND INVENTORIES
OF NEW SINGLE-FAMILY HOMES

	Sales			New Homes for Sale	Month's Supply of New Homes for Sale
	Total	Existing	New		
1972	2972	2254	718	416	5.9
1973	2968	2334	634	422	8.1
1974	2792	2273	519	350	9.0
1975	3002	2453	549	316	7.3
1976	3652	3006	646	358	6.1
1977	4392	3572	819	408	5.5
1977-QI	4113	3267	846	358	5.0
QII	4207	3407	800	367	5.5
QIII	4469	3653	816	389	5.7
QIV	4809	3960	849	403	5.7
1978-QI	4463	3670	793	404	6.1
QII	4644	3810	835	418	5.9
QIII	4762	3973	788	419	6.4
1978-Aug.	4864	4080	784	418	6.4
Sept.	4742	3950	792	419	6.3
Oct.	5269	4290	979	412	5.1

Note: All data are averages except new homes for sale which is monthly data reported at the end of the period. Published annual data may not agree with calculated quarterly data.

some buying in anticipation of further increases in house prices and mortgage interest rates. In addition, the good weather that prevailed throughout the month may have been a factor.

Government Sector Activity

Federal Government receipts on a unified budget basis were larger than expected during the past two months, primarily because of large flows from individual tax withholding. Federal spending in October also appears to have exceeded earlier expectations, as sizable increases were reported for defense procurement, local public works, and direct loans by the Small Business Administration. Nevertheless, preliminary Treasury data suggest Federal spending may have slowed during November.

One program that has experienced a sharp fall-off in spending in recent months is the public service employment program. It appears that local program sponsors allowed the level of subsidized employment to fall from 725,000 to about 650,000 during the third quarter in anticipation of the fiscal 1979 reduction in funding for the program. While these cutbacks likely have contributed to the recent weakness in State and local employment, over-all hiring in this sector rebounded somewhat by rising 40,000 in November.

Construction expenditures by States and localities have continued strong. The October increase in the value of construction put-in-place was $1.7 billion (annual rate); in real terms these expenditures were up 15 per cent from a year ago.

Prices

Inflation has continued unabated. Consumer prices rose at about a 9 per cent annual rate in October for the second month, and they have risen at a 9-1/2 per cent annual rate so far this year. In November, producer prices of finished goods increased at about a 9 per cent annual rate--close to the rate in the preceding two months.

The food component has remained a major factor in price movements at all levels. Retail food prices accelerated further in October as meat and poultry prices turned up after several months of decline. However, livestock and beef prices declined in November; consequently, food price increases at the producer level--although still large--slowed somewhat from the October rate.

Prices of several energy items, notably gasoline, have recently become an important influence on the over-all inflation rate. Large gasoline stocks had held retail prices nearly unchanged in the first half of the year; but supplies now are tighter, particularly for unleaded gasoline, as a result of increased consumer demand and some production problems. At the same time, natural gas prices have continued to rise rapidly, with a particularly sharp increase at retail in October. Moreover, regulations implementing the Natural Gas Policy Act of 1978 took effect at the beginning of December and these will permit further sizable increases in natural gas prices.

Price increases for items outside of the food and energy area have accelerated in recent months, especially at the producer level. In particular, higher prices for some machinery, aircraft, tools, and equipment in November pushed the price index for capital equipment up at an 11-3/4 per cent annual rate; during the preceding 10 months these prices had risen at about a 7-1/2 per cent annual rate. In addition, there were further large price increases for construction supplies.

Wages, Productivity, and Costs

Labor costs continued to rise at a rapid raee in recent quarters. Wage rates, as measured by the average hourly earnings index, have risen at an 8.3 per cent annual rate so far this year. Hourly compensation, which includes both wages and benefits, increased at almost a 9 per cent annual rate during the second and third quarters. At the same time, productivity gains have provided only a small offset to compensation increases. Revised data indicate that output per hour in the nonfarm business sector rose at a 2-1/3 per cent annual rate in the third quarter to a level just 0.3 per cent above a year ago. Reflecting these movements in compensation and productivity, unit labor costs in the third quarter stood 9 per cent above the level a year earlier.

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

	Relative importance Dec. 1977	1977	1978 H1	1978 QIII	1978 Oct.	1978 Nov.	Dec. 77 to Nov. 78
Finished goods	41.2	6.6	10.5	5.0	10.3	9.0	8.9
Consumer foods	10.3	6.6	17.9	-1.0	20.1	7.4	11.8
Consumer nonfoods	18.7	6.1	8.2	7.6	7.7	8.3	8.1
Capital equipment	12.2	7.2	7.9	6.4	7.1	11.8	7.8
Materials:							
Intermediate 2/	45.5	6.4	7.9	6.7	13.7	9.8	8.3
Construction	8.3	8.3	11.9	8.5	14.2	14.0	11.5
Crude nonfood	4.6	6.8	13.9	12.2	25.0	22.1	15.6
Crude food	6.3	1.4	34.1	-9.4	43.4	15.0	20.4

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.

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

	Relative importance Dec. 77 2/	1977	1978 H1	1978 QIII	1978 Sept.	1978 Oct.	Dec. 77 to Oct. 78
All items	100.0	6.8	10.4	7.8	9.1	9.0	9.5
Food	17.7	8.0	18.4	3.0	6.2	9.5	12.7
Commodities (nonfood)	41.6	4.9	6.6	7.8	10.2	8.8	7.2
Services	40.7	7.9	10.4	10.3	9.5	10.0	10.4
Memoranda:							
All items less food and energy 3/	73.7	6.4	9.0	8.3	8.2	10.0	8.9
Gas and electricity	3.4	8.7	17.0	4.5	4.0	15.6	13.1
Gasoline	4.2	4.9	-.2	14.0	17.2	16.9	5.6
Homeownership	22.8	9.2	13.3	14.7	15.6	13.9	13.9

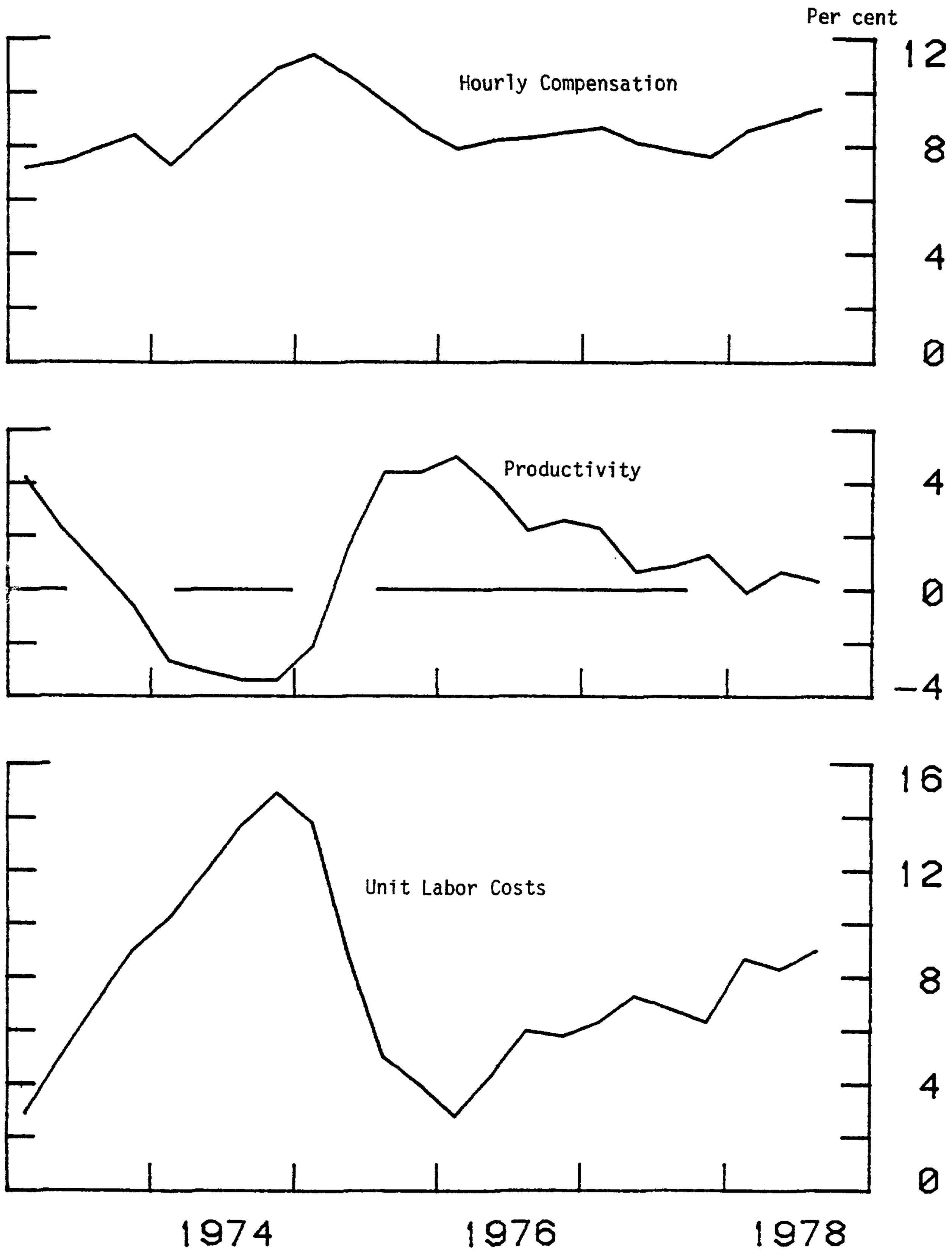
1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Based on new index for all urban consumers.
3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, gas and electricity.

HOURLY EARNINGS INDEX 1/
(Per cent change at compound annual rates; based on seasonally adjusted data)

	Dec. 76 to Dec. 77	Dec. 77 to Nov. 78	Dec. 77 to Mar. 78	Mar. 78 to June 78	June 78 to Nov. 78
Total private nonfarm	7.4	8.3	9.8	7.9	7.6
Manufacturing	8.2	8.3	9.1	7.2	8.5
Contract construction	4.0	8.0	11.9	9.3	5.1
Transportation and public utilities	9.4	6.2	6.3	7.3	5.4
Total trade	7.5	9.3	12.0	7.5	8.8
Services	6.7	7.7	10.6	5.5	7.2

1/ Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

PRODUCTIVITY AND COSTS
Nonfarm Business Sector
(Per cent change from same quarter a year ago)



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SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net Change from:		
	Period	Level	Month ago	Three months ago	Year ago
	$ billions		Per cent at annual rates		
Monetary and credit aggregates[1/]					
Total reserves	November	41.3	-3.8	4.0	6.6
Nonborrowed reserves	November	40.6	13.2	8.5	7.2
Money supply					
M1	November	360.7	-4.3	4.5	7.3
M2	November	870.6	4.4	8.0	8.1
M3	November	1493.1	7.0	10.4	9.2
Time and savings deposits (less CDs)	November	510.0	10.9	10.7	8.7
CDs[2/]	November	95.4	7.2	9.1	24.5
Thrift deposits (S&Ls + MSBs + Credit Unions)	November	622.5	10.9	13.9	10.8
Bank credit (end of month)	November	970.0	6.5	8.7	11.4

Indicator		Latest data		Net Change from:		
		Period	Per cent or index	Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	12/6/78	9.87	.10	.57	3.37
asury bill (90 day)	"	12/6/78	8.93	.08	1.33	2.88
ercial paper (90-119 day)	"	12/6/78	10.25	.24	2.18	3.71
ew utility issue Aaa	"	12/8/78	9.26	.04	.49	.92
Municipal bonds (Bond Buyer)	1 day	12/7/78	6.29	.12	.16	.75
FNMA auction yield (FHA/VA)		12/11/78	10.40	.13	.63	1.51
Dividend price ratio (common stocks)	wk endg.	12/6/78	5.49	.05	.47	.36
NYSE index (12/31/65=50)	end of day	12/11/78	54.31	1.59	-6.07	2.58

	Net Change or Gross Offerings				
	Period	Latest Data	Year ago	Year to Date 1978	Year to Date 1977
Credit demands					
Business loans at commercial banks[1/]	November	1.9	1.6	26.6	20.7
Consumer instalment credit outstanding[1/]	October	3.1	3.2	35.9	27.8
Mortgage debt outstanding (major holders)[1/3/]	September	8.8	8.9	79.4	70.6
Corporate bonds (public offerings)	November	1.6[e]	2.2	18.7[e]	22.6
Municipal long-term bonds (gross offerings)	November	4.1[e]	3.3	44.3[e]	43.1
Federally sponsored agcy. (net borrowing)	November	~~1~~.4	.5	20.8	6.3
U.S. Treasury (net cash borrowing)	December	1.7	10.0	51.7	56.9

1/ Seasonally adjusted.
2/ $ billions, not at annual rates
3/ Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA, and GNMA.
e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Aggregate borrowing by nonfinancial sectors during November apparently continued at about the October pace. Short- and intermediate-term business borrowing increased, while gross issues of long-term corporate securities remained around the reduced October volume. Net mortgage borrowing by households apparently rose in November while consumer instalment debt expansion probably changed little. In the public sector, gross offerings of State and local debt exceeded the previous month's volume, reflecting major New York City financing and increased borrowings by various local housing authorities. Mainly because of sales directly to foreign governments, the Treasury essentially completed its domestic market borrowing for this year early in November.

M-1 contracted in November and growth in the other major monetary aggregates slowed, reflecting continued weakness in both demand and savings deposits at commercial banks. To meet relatively strong loan demands, banks reduced investments and expanded managed liabilities. Deposit inflows to thrift institutions also tapered off despite sizable increases in money market certificates at S&Ls and mutual savings banks.

The Federal funds rate has risen from about 9-5/8 per cent to the 9-7/8 per cent area since the last FOMC meeting. Against this backdrop, other private short-term rates have increased somewhat, but in many cases remain a bit below the peak levels reached in the first

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1977 1/		1978 2/				Change from:	
	High	Low	FOMC Oct. 17	Oct. 31	FOMC Nov. 21	Dec. 12	Oct. 31	Nov. FOMC
Short-term rates								
Federal funds 1/	6.65	4.47	8.78	9.29	9.68	9.86 3/	+.57	+.18
Treasury bills								
3-month	6.27	4.41	8.15	8.75	8.83	8.86	+.11	+.03
6-month	6.51	4.55	8.62	9.23	9.08	9.21	-.02	+.13
1-year	6.62	4.67	8.45	9.13	9.09	9.22	+.09	+.13
Commercial paper								
1-month	6.58	4.53	8.84	9.13	9.79	10.03	+.90	+.24
3-month	6.66	4.63	8.99	9.40	10.15	10.28	+.88	+.13
Large negotiable CDs 4/								
3-month	6.62	4.60	9.35	10.13	10.40	10.50	+.37	+.10
6-month	6.84	4.65	9.70	11.00	11.00	11.00	0	0
Bank prime rate	7.75	6.25	10.00	10.25	11.00	11.50	+1.25	+.50
Intermediate- and long-term rates								
Corporate								
New AAA 5/	8.36	7.90	--	9.23	9.25	9.26p	+.03	+.01
Recently offered 6/	8.48	7.95	9.03	9.24	9.24	9.32p	+.08	+.08
Municipal (Bond Buyer) 7/	5.93	5.45	6.10	6.21	6.11	6.29	+.08	+.18
U.S. Treasury (constant maturity)								
3-year	7.39	5.74	8.54	9.32	8.89	9.16	-.16	+.27
7-year	7.66	6.48	8.61	9.00	8.76	8.91	-.09	+.15
20-year	7.96	7.20	8.66	8.90	8.70	8.83	-.07	+.13

	Low 8/	High 8/	FOMC Oct. 17	Oct. 31	FOMC Nov. 21	Dec. 12	Oct. 31	Nov. FOMC
Stock prices								
Dow-Jones Industrial	807.74	985.74	866.34	792.45	804.05	814.97	+22.52	+10.92
N.Y.S.E. Composite	50.13	56.98	56.89	51.67	52.96	54.03	+2.36	+1.07
AMEX	110.37	126.86	163.55	136.75	145.69	150.76	+14.01	+5.07
Keefe Bank Stock 6/	530	633	676	694	596	607	-87	+11

1/ Daily averages for statement week, except where noted.
2/ One-day quotes except as noted.
3/ Average for first 6 trading days of statement week ending December 13.
4/ Highest quoted new issues.
5/ 1978 figures are averages for preceding week.
6/ 1978 figures are one-day quotes for preceding Friday.
7/ 1978 figures are one-day quotes for preceding Thursday.
8/ Calendar week averages.

half of November when international capital flows were significantly affecting the domestic interest rates structure. With reduced foreign official purchases, rates on short-dated Treasury bills have risen more than 3/4 percentage point above their mid-November lows. Rates on intermediate -and long-term securities have risen by 5 to 20 basis points, partly offsetting the rally in bond prices in early November. In home mortgage markets, rates on new commitments and secondary market yields have risen about 10 to 20 basis points. Major stock price indexes, on the other hand, have edged up lowering stock yields slightly.

Monetary Aggregates and Bank Credit

M-1 declined at an annual rate of 4-1/4 per cent in November, as demand deposit balances at commercial banks contracted. The second consecutive month of weakness in M-1 following September's strong gain partly reflected the accelerated rise in short-term market interest rates since August, as well as transfers of funds from demand accounts to savings accounts authorized for automatic transfer services (ATS).[1] Even in the absence of such deposit shifts, however, M-1 growth in November would have declined at about a 1 per cent rate, according to staff estimates.

1/ At the end of November, almost one-third of all commercial banks and 80 per cent of banks with assets over $300 million were offering ATS. In all, ATS account balances at month-end were estimated at $1.9 billion. Most of these funds--about 50 to 60 per cent--may have come from commercial bank demand deposits, while less than 5 per cent appear to have shifted from deposits at thrift institutions.

MONETARY AGGREGATES
(Seasonally adjusted)1/

	1978 QI	QII	QIII	Sept.	Oct.	Nov.p	Nov. '77 to Nov. '78p
Major monetary aggregates							
1. M-1 (currency plus demand deposits)	6.2	9.9	7.6	14.1	3.7	-4.3	7.3
2. M-1+ (M-1 plus savings deposits at CBs and checkable deposits at thrift institutions)	4.9	6.9	5.3	12.2	1.8	-6.7	5.0
3. M-2 (M-1 plus time & savings deposits at CBs, other than large CDs)	6.9	7.9	8.9	12.5	7.0	4.4	8.1
4. M-3 (M-2 plus all deposits at thrift institutions)	7.7	7.8	10.1	14.0	10.0	7.0	9.2
Bank time and savings deposits							
5. Total	12.8	10.1	9.5	13.8	7.9	23.9	12.1
6. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2)	7.3	6.4	10.0	11.8	9.1	10.9	8.7
7. Savings deposits	2.6	1.6	1.3	9.7	-1.6	-10.7	1.1
8. Individuals 2/	2.4	1.8	2.5	8.7	-2.9	-8.6	1.5
9. Other 3/	2.6	0.0	-15.5	16.2	16.0	-39.5	-3.9
10. Time deposits	11.4	10.5	17.3	13.6	17.7	28.1	15.4
11. Small time 4/	3.6	6.8	8.5	11.9	23.5	4.7	8.4
12. Large time 4/	26.9	17.3	32.7	16.4	8.1	66.6	28.4
13. Time and savings deposits subject to rate ceilings (7+11)	3.0	3.8	4.4	10.7	9.4	-3.9	4.3
Deposits at nonbank thrift institutions 5/							
14. Total	8.8	7.6	11.6	15.8	13.4	10.3	10.6
15. Savings and loan associations	9.0	7.9	12.8	16.9	14.6	11.6	11.4
16. Mutual savings banks	5.8	3.9	7.1	11.3	11.2	8.6	6.8
17. Credit unions	17.4	16.6	13.6	20.9	6.8	n.a.	n.a.
	Average monthly changes, billions of dollars						
MEMORANDA:							
18. Total U.S. Govt. deposits 6/	-1.2	1.1	1.5	1.3	3.8	0.5	1.1
19. Total large time deposits 7/	4.6	2.8	3.1	3.2	0.8	13.0	4.1
20. Nondeposit sources of funds 8/	1.7	0.7	1.2	1.0	5.1	-2.2	1.1

p--preliminary. n.a.--not available.
1/ Quarterly growth rates are computed on a quarterly average basis.
2/ Savings deposits held by individuals and nonprofit organizations.
3/ Savings deposits of business, government, 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 average of current and preceding end-of-month data.
6/ Includes Treasury demand deposits at commercial banks and Federal Reserve Banks and Treasury note balances.
7/ All large time certificates, negotiable and nonnegotiable, at all CBs.
8/ Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money (including borrowings from the Federal Reserve), Eurodollar borrowings, and loans sold, less interbank borrowings.

Despite the transfers to ATS accounts, total savings deposits at commercial banks contracted at a 10-3/4 per cent annual rate in November, a record monthly decline which may have been partly in response to the widening differential between market rates and deposit rate ceilings during November. Although a quarter of these outflows were from State and local government accounts, the bulk of the drop occurred in the accounts of individuals. Reflecting the weakness in its major deposit components, the newly defined M-1+ declined at an annual rate of 6-3/4 per cent.

Growth in small time deposits at banks slowed sharply in November due to a contraction in deposits with an original term to maturity of less than 4 years. It is for this category of small time deposits--excluding the money market certificate (MMC) component--that the differential between regulated interest rate ceilings and yields on market instruments of similar maturity has been greatest. Net of MMCs, in fact, small time deposits have been declining since May. In contrast, those large time deposits not subject to interest ceilings but included in M-2 rebounded from the reduced October pace to advance at more than twice the already high annual rate of the third quarter. On balance, the weakness in savings and small time deposits along with the decline in M-1 reduced the rate of expansion in M-2 to 4-1/2 per cent, the slowest pace in 3 years.

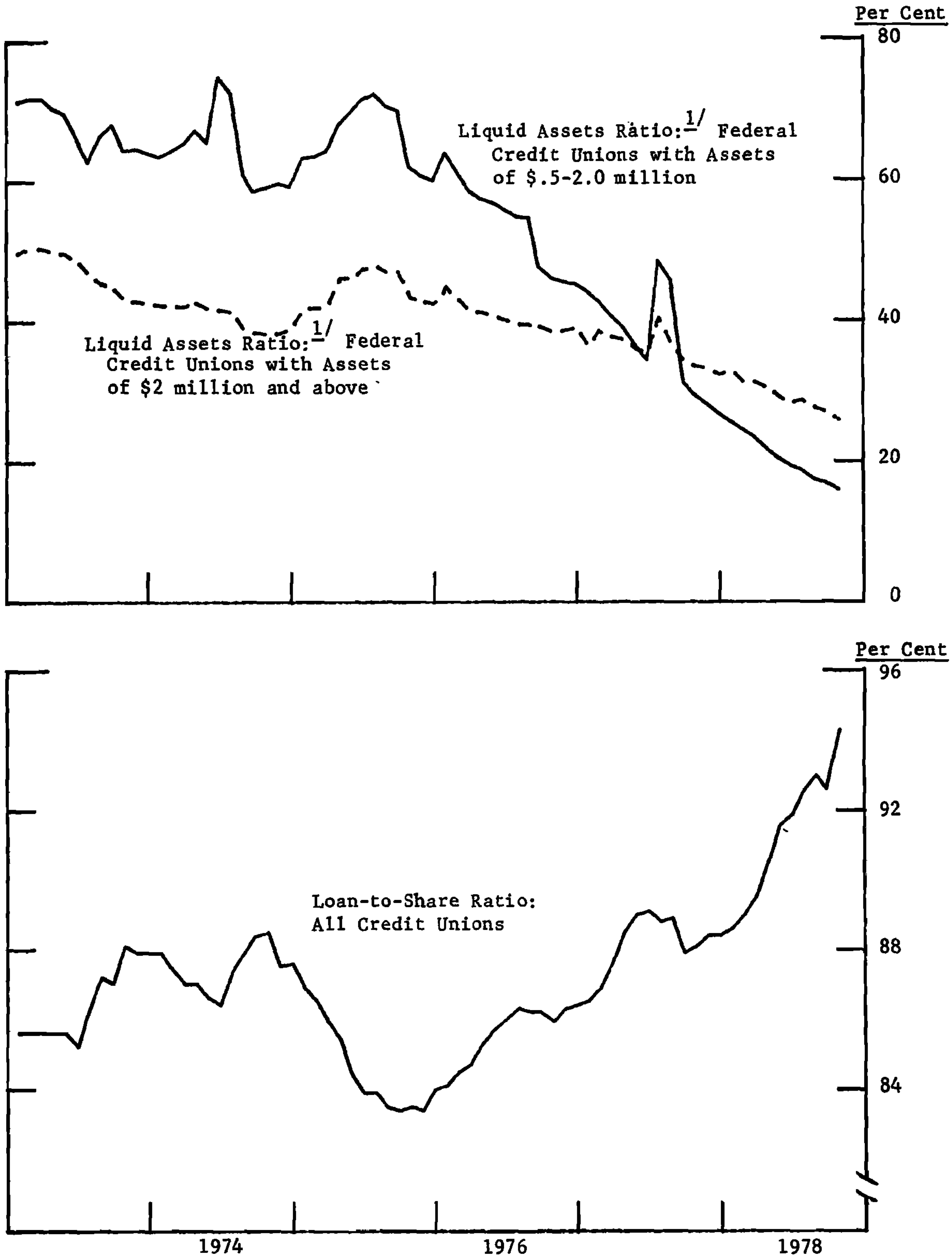
In addition to the sluggishness in M-2, a moderation in thrift institution deposit growth contributed to a slowing of

M-3 expansion in November. S&Ls and mutual savings banks experienced smaller deposit gains despite stepped-up issuance of money market certificates.[1] The competition from MMCs and other higher yielding investment outlets apparently had their first sizable impact on credit union deposit flows in October, when share accounts fell at an annual rate of 4 per cent (end-of-month basis). The National Credit Union Administration responded to the deposit losses by authorizing Federally-chartered credit unions, as of November 20, to offer 6-month MMCs at ceiling rates and in minimum denominations applicable to other thrift institutions. Balance sheet positions of many of these institutions have tightened substantially, as reflected in declines in aggregate liquid asset ratios to the lowest levels in 10 years and in an unusually high loan-to-deposit ratio (see Chart on page 7).

Total loans at commercial banks advanced slightly faster in November than in the previous month. A modest slowdown in lending to business, agricultural, and nonbank financial customers was more than offset by an acceleration in real estate lending above the already rapid rate of recent months and a smaller run-off of

1/ Survey results, available only for S&Ls, indicate that in November deposits flowed into the 6-month money market certificates at a record $7-1/2 billion pace. Outstanding 6-month certificate balances at S&Ls reached $32 billion in mid-November, accounting for nearly 8 per cent of total deposits at these institutions. At mutual savings banks, money market certificates outstanding had increased nearly $3 billion in October to $9 billion, a figure approaching 7 per cent of total deposits at MSBs.

Measures of Credit Union
Liquidity
(seasonally adjusted)



1/ The sum of Government securities, savings and loan association shares, and loans to other credit unions as a per cent of notes payable and share accounts larger than $5,000.

COMMERCIAL BANK CREDIT
(Per cent changes at annual rates, based on seasonally adjusted data)[1/]

	1978 QI	1978 QII	1978 QIII	1978 Sept.	1978 Oct.	1978 Nov.	12 months ending Nov.
1. Total loans & investments[2/]	10.6	17.0	8.7	9.7	9.8	6.5	11.4
2. Investments	5.2	11.7	1.1	3.2	-4.5	-20.4	2.0
3. Treasury securities	2.1	17.1	-6.1	-8.6	-24.7	-61.8	-6.2
4. Other securities	7.1	8.5	9.0	10.1	7.1	2.8	6.9
5. Total loans[2/]	12.7	19.1	11.7	12.3	15.3	16.6	15.3
6. Business loans	15.3	17.4	10.3	9.1	10.6	10.0	13.9
7. Security loans	-34.2	88.9	-26.8	25.1	-67.7	-52.2	-12.4
8. Real estate loans	17.2	19.3	17.6	15.7	16.7	21.1	19.3
9. Consumer loans	16.4	23.7	15.6	12.9	17.3	n.a.	n.a.
MEMORANDA:							
10. Commercial paper issued by nonfinancial firms[3/]	-2.5	30.6	18.9	6.8	33.9	52.7	24.2
11. Business loans at banks net of bank holdings of bankers acceptances	16.8	17.9	10.3	9.2	12.4	12.8	14.9
12. Sum of items 10 & 11	15.2	18.8	10.9	9.0	13.9	15.8	15.5
13. Memo item 12 plus business loans from finance companies	14.8	17.4	9.1	10.1	18.8	n.a.	n.a.

n.a.--not available.
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 to a bank's own foreign branches, nonconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company.
3/ Measured from end of month.

NOTE: Data adjusted to reflect benchmarking for the June 30, 1978 Call Report. A description of the revision will be available in the Greenbook Supplement.

security loans.[1] From late October to mid-November, large banks increased their lending to foreign commercial banks by about $1-3/4 billion, and also may have increased net claims on their own foreign branches. These bank-related international transactions represented part of the sizable outflow of private capital that was balanced by an inflow of funds from foreign official institutions, which purchased large amounts of Treasury securities with dollars acquired from intervention in exchange markets.[2] During late November, with the emergence of official sales of Treasury securities, large-bank lending to foreign commercial banks expanded only modestly while net lending to own foreign branches apparently declined.

The need for funds by banks, associated with continued robust loan growth and declines in deposits subject to rate ceilings, was intensified at mid-month when the supplemental reserve requirement became effective. As a result, bank dependence upon managed liabilities increased substantially and security holdings were reduced. Weekly reporting banks issued large negotiable CDs heavily throughout November, helping to raise the level of total large time deposits outstanding at all banks by $13 billion. Although banks experienced an inflow of $5-1/2 billion (daily average basis) in Treasury note balances under the tax and loan program introduced on November 2, traditional nondeposit sources of funds--with

1/ Information from weekly reporting banks also indicates a substantial increase in consumer loans in November, which may stem in part from a sale by Sears, Roebuck, and Company of $600 million in receivables to 16 large banks.

2/ Foreign official institutions purchased $9.4 billion of Treasury securities from October 25 to November 15 but then sold about $2 billion from mid-November to the end of the month.

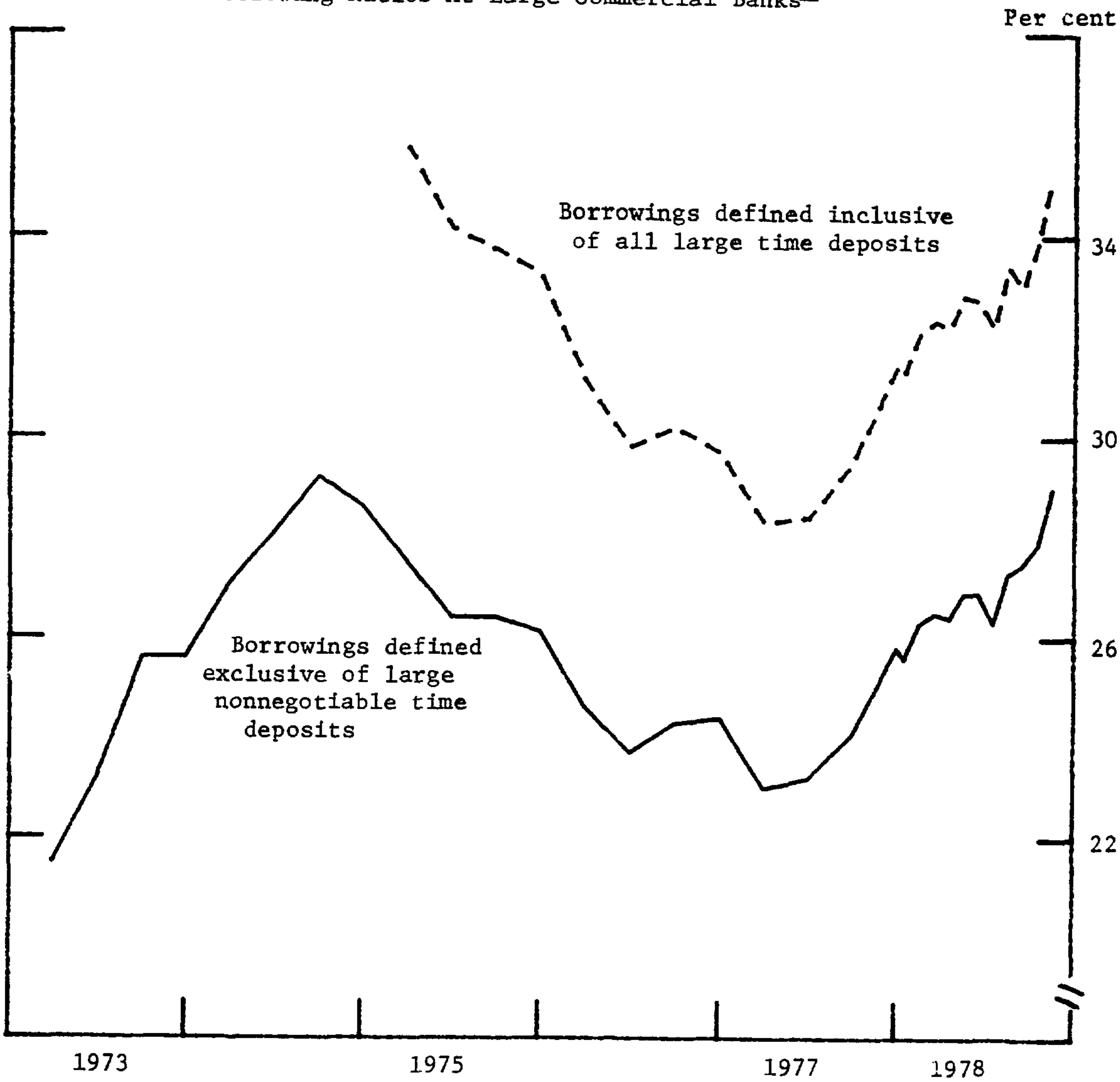
a short average maturity similar to funds in Treasury note balances--fell by $2-1/4 billion, partly reversing the very large increase of the previous month. On balance, the ratio of managed liabilities--which exclude Treasury balances--to net assets at banks increased by more than in any other month of the current expansion, and the more comprehensive measure (i.e. including all large CDs) approached the previous peak in early 1975, the first observation for this series (see Chart on page 11).

On the asset side, banks sold net $5 billion of Treasury securities in November, nearly matching the accumulated net sales over the previous 3 months, and also curtailed accumulation of other securities.

Business Finance

Net borrowing by nonfinancial firms at banks and in the commercial paper market accelerated to a 15-3/4 per cent annual rate of growth in November, while the gross volume of long-term security offerings remained near the previous month's moderate pace. Bank business loans (net of holdings of bankers acceptances) expanded at a 12-3/4 per cent annual rate, up somewhat from October. Business loan activity at small banks picked up sharply, while lending by large banks (net of acceptances) fell below the third-quarter pace. According to the Senior Loan Officer Opinion Survey in mid-November, covering 121 large banks, there was only a slight decline in perceived loan demand from the mid-August survey, despite a

Borrowing Ratios At Large Commercial Banks[1/]



1/ The numerator includes gross liabilities of banks to their foreign branches, large negotiable CD's, net Federal funds purchased, and borrowings from others. Beginning in 1975 all large time deposits are included. The denominator is total assets less Federal funds sold less cash items in process of collection. The data are monthly averages of Wednesday figures, plotted for the last month of each quarter through 1977 and monthly in 1978.

considerable increase since August in the nominal cost of credit and a substantial further tightening of non-price lending terms.[1] The commercial bank prime rate has been raised 1/2 percentage point since the November FOMC meeting, to 11-1/2 per cent.[2]

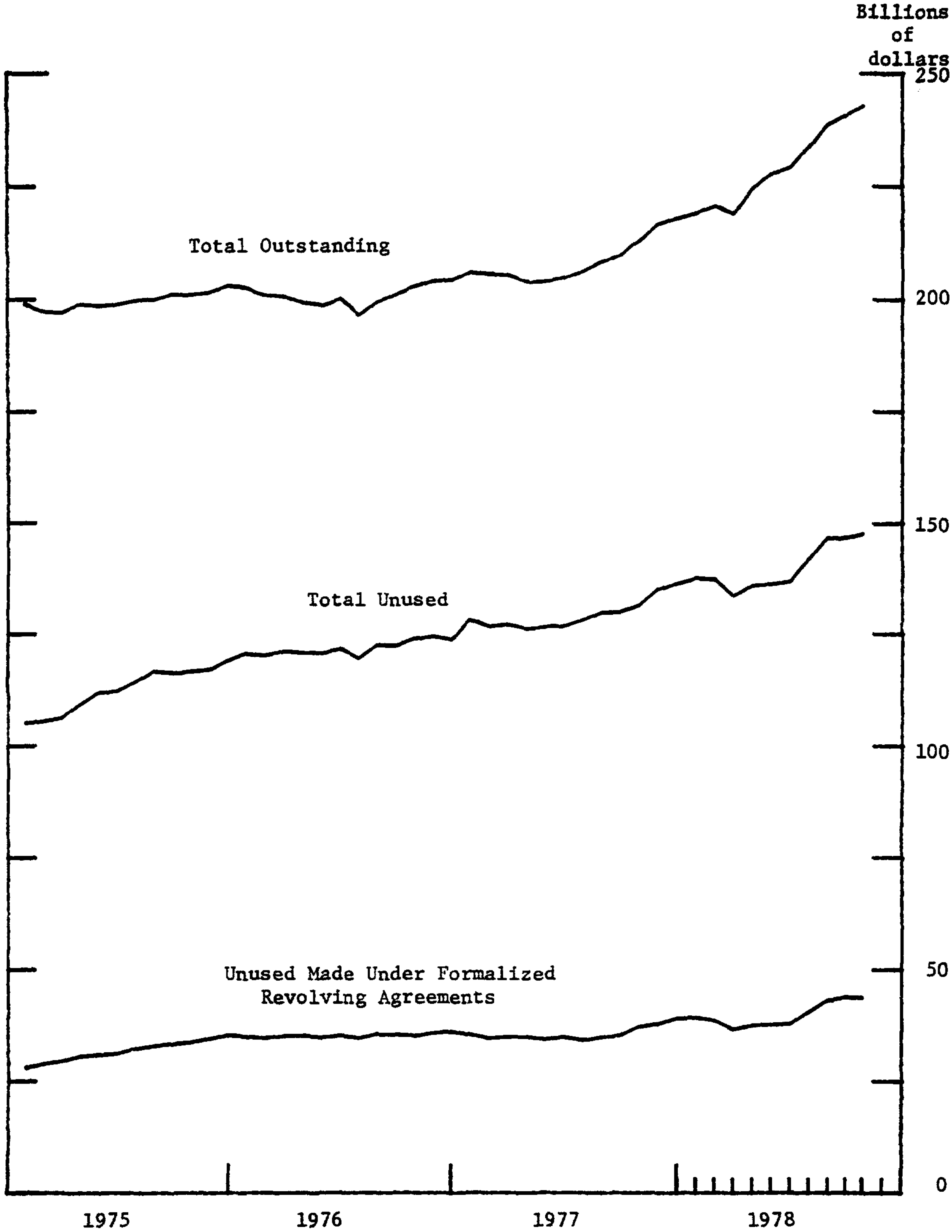
Corporate treasurers reportedly have been seeking recently to augment their revolving credit lines in order to ensure continuity of bank financing in the face of possibly more restrictive overall credit conditions. The most recent data from the Federal Reserve's monthly survey of large banks show that unused business loan commitments generally, and especially those made under formalized revolving agreements, rose sharply from mid-year to October (see Chart on page 13). This increase in unutilized commitments, coupled with declining Treasury holdings and rising managed liabilities, suggests some increased vulnerability at large banks to further liquidity pressures.

Commercial paper issued by nonfinancial firms rose $800 million in November, considerably more than the monthly average gain this year. About half the expansion was accounted for by

1/ A summary of the Senior Loan Officer Opinion Survey will appear in the Greenbook Supplement.

2/ Since the middle of November some major banks in Pittsburgh and Boston as well as a few smaller institutions in other parts of the country have announced a base rate for loans to small businesses that is lower than the conventional prime rate charged to larger firms but will move with it. The differential ranges between 100 and 150 basis points. In most cases small businesses are defined as those having less than $1-1/2 million in assets or less than $1/2 million in net worth. Possible motivations for announcing a small-business prime include the desire to maintain or increase the bank's market share of high-quality small-business loans and to forestall legislated controls of interest rates.

BUSINESS LOAN COMMITMENTS AT SELECTED LARGE BANKS[1/]
(End of period; not seasonally adjusted)



1/ Sample consists of 136 weekly reporting banks accounting for about 85 per cent of commercial and industrial loans.

greater than seasonal issuance by electric and gas companies. Also issuing commercial paper were several new entrants along with a few firms which had been out of the market for more than a year. Business credit at finance companies bounced back in October (latest data available), rising $1.8 billion or 37 per cent (SAAR), after a $300 million decline in September. Expansion in wholesale automotive paper accounted for more than half of the increase, as car dealer inventories expanded.

The volume of publicly offered corporate bonds increased slightly on a seasonally adjusted basis in November, although it remained below the pace recorded in the third quarter. While bond offerings by public utilities fell below the large October volume, industrial corporations and financial concerns--mainly finance companies--increased their offerings, with higher-rated obligations dominating the November slate.

Corporate bond yields have edged higher, since the November FOMC meeting, in part reflecting upward pressure from recent increases in short-term interest rates. Although yields have returned to near their highest levels for the current business expansion, risk premia remain relatively narrow (see Chart on page 16).

The volume of stock offerings was about unchanged in November from October's level, but somewhat below the third-quarter pace. The sharp deterioration of stock prices that occurred in late

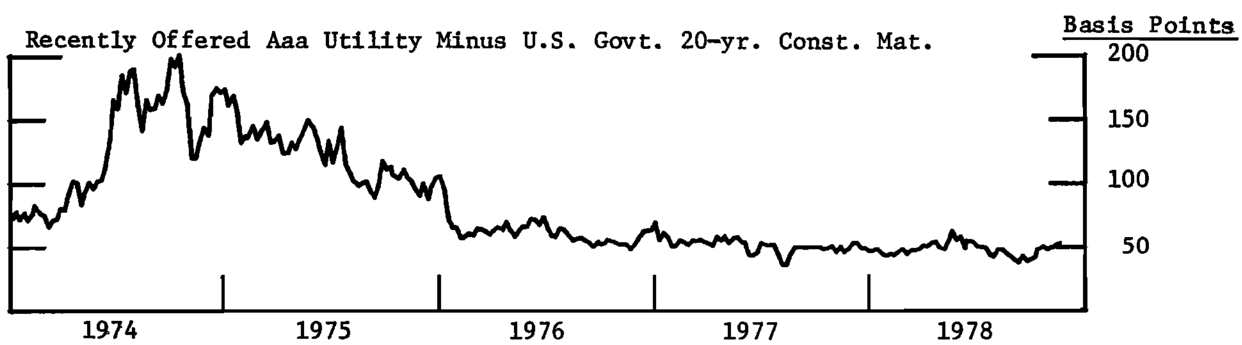
GROSS OFFERINGS OF CORPORATE AND FOREIGN SECURITIES
(Monthly totals or monthly averages, in millions of dollars)

	1977	1978					1979
	Year	H1	QIII e/	Oct. e/	Nov. e/	Dec. f/	Jan. f/
	Seasonally adjusted						
Corporate securities--total	4,518	3,587	4,676	3,759	3,750	3,500	3,700
Publicly offered bonds	2,016	1,489	2,314	1,619	1,700	1,750	1,800
Privately placed bonds	1,501	1,366	1,393	1,425	1,325	1,250	1,200
Stocks	1,001	732	969	715	725	500	700
	Not seasonally adjusted						
Publicly offered bonds	2,016	1,695	1,724	1,800	1,600	1,400	2,200
By quality 1/							
Aaa and Aa	1,089	820	870	950	1,100	--	--
Less than Aa 2/	927	875	854	850	500	--	--
By type of borrower							
Utility	692	525	770	1,100	520	--	--
Industrial 3/	700	578	540	400	480	--	--
Financial	624	592	414	300	600	--	--
Foreign securities--total	621	640	328	790	358	--	--
Publicly offered 4/	437	466	183	750	250	--	--
Privately placed	184	174	145	40	108	--	--

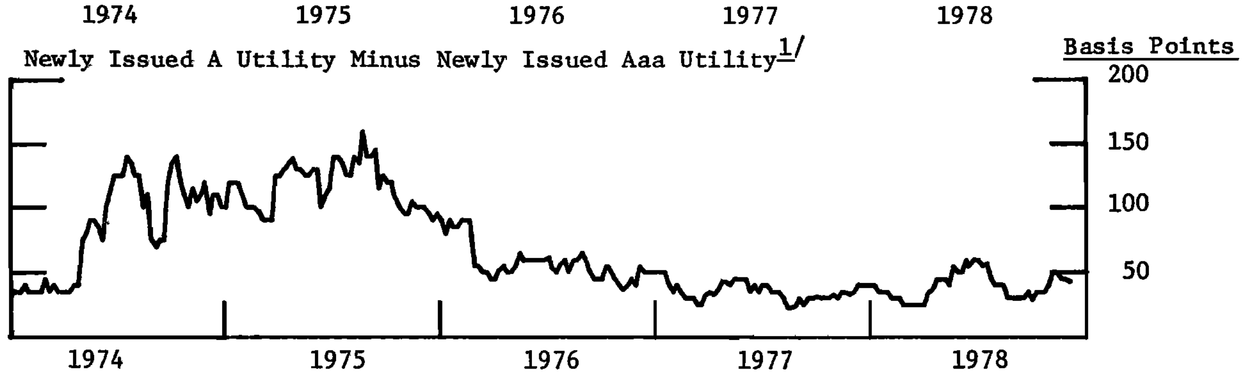
1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's.
3/ Includes equipment trust certificates.
4/ Classified by original offering date.
e/ Estimated.
f/ Forecast.

Selected Long-term Interest Rates and Risk Premia
(Weekly)

Recently Offered Aaa Utility Minus U.S. Govt. 20-yr. Const. Mat.



Newly Issued A Utility Minus Newly Issued Aaa Utility1/



1/ Source: Salomon Brothers

October resulted in the postponement of several issues in November As in other months during 1978, public utilities accounted for the majority of new stock issues.

Major stock price indexes have edged higher since the last FOMC meeting, but remain well below their 1978 highs recorded in mid-September. Market professionals cite the recent strengthening of the dollar on foreign exchange markets as contributing to the improvement in stock prices, although gains have been muted by unfavorable consumer and wholesale price statistics, upward movements in interest rates, and predictions by many private economists of a mild recession in 1979.

Government Securities Markets

Rates on Treasury issues in each maturity class have risen since the November FOMC meeting, in a range of 5 to 25 basis points The term structure of yields on Treasury securities continues to exhibit the steeply humped pattern that began to emerge in September of this year, with the peak still centering on the 12-month maturity area. For maturities beyond 5 years, the curve is essentially flat. The recent accentuation of the hump in the yield curve seems to indicate market expectations of a turning point in late 1979 in the business and interest rate cycles. Similar indications can be found in the Treasury bill futures market where rates begin to decline for delivery dates after mid-1979.

Since the last FOMC meeting, the Treasury has raised no new cash through marketable borrowing in domestic markets. This

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

	1977	1978					
	Year	H1	QIII	Oct.	Nov.[e/]	Dec.[f/]	Jan.[f/]
				Seasonally adjusted			
State and local government securities, gross offerings							
Total		5,811	6,364	4,120	5,600	5,350	4,400
Long-term		3,917	4,394	3,011	4,200	3,800	3,000
Short-term		1,894	1,970	1,109	1,400	1,550	1,400
U.S. Government securities, net offerings							
U.S. Treasury[1/]		3,654	3,080	-325	-255	-838	3,605
Sponsored agencies		2,320	1,641	307	3,053	1,258	1,238
				Not seasonally adjusted			
State and local government securities, gross offerings							
Total	5,771	6,204	6,017	4,522	5,400	4,200	4,200
Long-term	3,891	4,092	4,187	3,087	4,100	3,000	3,000
Short-term	1,880	2,112	1,830	1,435	1,300	1,200	1,200
U.S. Government securities, net offerings							
U.S. Treasury[1/]	3,422	2,382	3,560	1,823	1,700	1,350	2,700
Sponsored agencies	601	2,012	2,130	697	2,667	797	915

1/ Marketable issues only.
e/ Estimated.
f/ Forecasted.

unexpected development mainly reflects exceptionally large sales of nonmarketable issues to foreign accounts,[1] together with a smaller than anticipated deficit. As a result, the Treasury was able to cancel a large cash management issue in early December and has essentially completed its market borrowing for the year.

Borrowing by sponsored credit agencies increased markedly in November, totaling about $3 billion, seasonally adjusted, compared with only $300 million in October. Borrowing by the housing agencies accounted for the bulk of this increase and represented the largest one-month total for the year to date.

Gross offerings of State and local long-term debt totaled $4.2 billion in November, about $1 billion above the October volume. Virtually the entire total was for new capital. The increase in offerings partly reflected sales of securities by various housing authorities--up about $300 million over October-and security offerings by the Municipal Assistance Corporation and New York City as part of the $4.5 billion 4-year financing plan.[2] A long-term bond sale

1/ For the quarter to date, foreign purchases of nonmarketable issues have totaled about $5.5 billion. In addition, approximately one-third of the $6.0 billion of total marketable borrowing estimated for the fourth quarter was purchased by foreign official institutions.

2/ MAC publicly offered $250 million of 30-year bonds and privately placed $401 million of mostly 20-year securities and New York City privately placed $200 million of Federally-guaranteed City bonds with New York public employee pension funds. The City is planning a public sale of short-term non-guaranteed notes in early 1979. If successful, this sale would represent the City's first entry into the public securities market since March 1975.

scheduled for December by Cleveland, Ohio--another financially troubled municipality--was canceled after the City Council refused to approve the sale.[1]

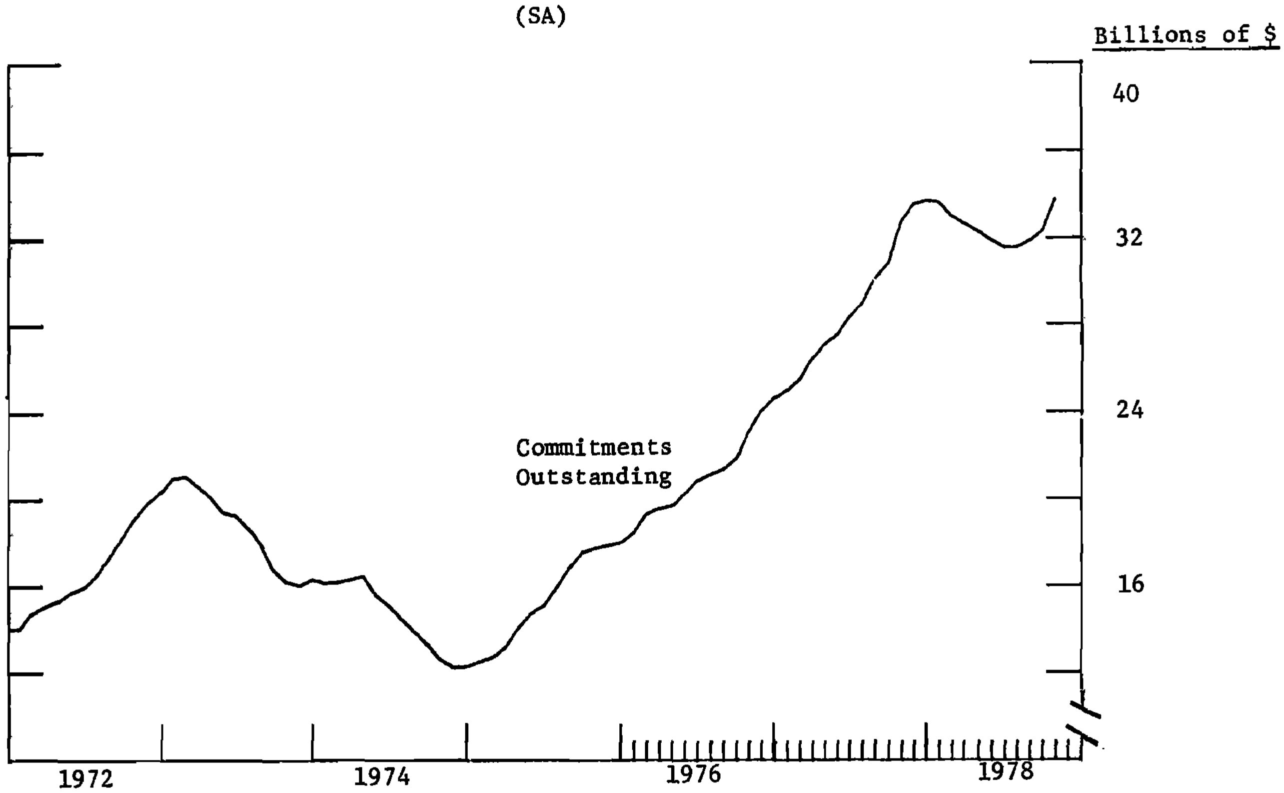
Mortgage Markets

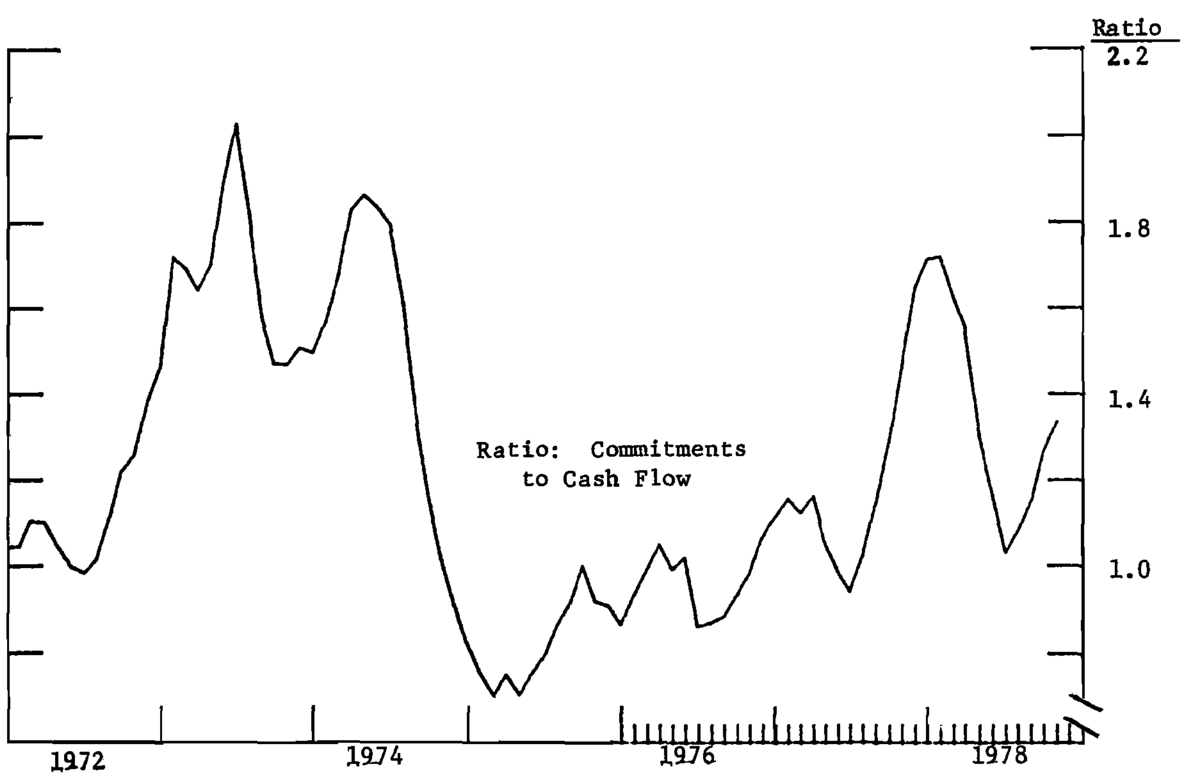
Net mortgage lending apparently picked up somewhat further in November, but remained below last year's fourth quarter peak, even in nominal terms. As noted earlier, real estate loans at commercial banks expanded somewhat more rapidly than in October. FNMA gross mortgage purchases declined moderately in November, but new issues of GNMA-guaranteed mortgage-backed securities held near the strong October pace, and net mortgage acquisitions at S&Ls probably rose further from the reduced third-quarter rate.

Although S&Ls experienced slower deposit growth in October, they issued an enlarged volume of new mortgage commitments, and their outstanding loan commitments increased for the third consecutive month--reaching a new high that was 7 per cent above the June-July low and 3 per cent above year-earlier levels. Consequently, based on staff deposit projections through January, the ratio of outstanding commitments to subsequent 3-month cash flow continued to rise from the June low (see Chart on page 21).

1/ In addition, Moody's once again lowered its rating on Cleveland's general obligations (to B from Ba) because of lack of planning to retire debt obligations and failure to enact revenue raising measures. Around $15 million of bond anticipation notes issued by Cleveland mature December 15. The City is attempting to negotiate with local banks for a rollover of these obligations.

Savings and Loan Association Mortgage
Commitments and Cash Flow
(SA)





1/ Cash flow is net deposits plus mortgage repayments for the subsequent three month period. Forecasted cash flow figures were used to compute the ratios for August, September, and October of this year.

The average contract interest rate on new commitments for 80 per cent conventional home mortgage loans at sampled S&Ls rose for the seventh consecutive week (ending December 8). Within States where usury ceilings were not restrictive, this series has increased about 15 basis points since the last FOMC meeting to 10.35 per cent, 67 basis points above early June and well above usury ceilings of 10 per cent or less that prevail in 19 States.[1] Average commitment rates rose to 10.75 per cent in the West and were at 10.25 per cent in other FHLMC regions.

In the more volatile secondary market for home mortgages-which remains largely exempt from the direct effect of usury ceilings--yields also rose further. On FHA/VA loans, average yields in the latest FNMA biweekly auction (December 11) of optional delivery forward purchase commitments increased an additional 7 basis points to 10.40 per cent, only 18 basis points below the peak reached in September 1974. On conventional loans, FNMA auction yields were up 13 basis points further to 10.77 per cent.

1/ The FHLMC series has recently been adjusted to reflect free-market rates by excluding quotations from S&Ls in States with binding usury ceilings. Inclusion of S&Ls in States with binding ceilings would have lowered the December 1 average by 9 basis points (latest available).

INTEREST RATES AND SUPPLY OF MORTGAGE FUNDS
AT SELECTED S&Ls

Period	Conventional home mortgages: 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 mortgage funds in short supply
1977--High	9.00	--	+92	22
Low	8.65	--	+37	2
1978--High	10.30	--	+101	69
Low	9.00	--	+30	19
1978--Aug	9.80	+ 5	+100	57
Sep	9.78	- 2	+72	60
Oct	9.88	+10	+65	59
Nov 3	9.90	+2	+65	57
10	10.05	+15	+75	59
17	10.20	+15	+95	50
24	10.28	+ 8	n.a.	59
Dec 1	10.30	+ 2	+103	61
8	10.35	+ 2	+109	56

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	885	570	8.98	8.39
Low	108	83	8.81	50	35	8.46	7.56
1978--High	717	363	10.77	1011	605	10.40	9.48
Low	75	48	9.28	130	80	9.13	8.43
1978--Nov 6							9.39
13	488	200	10.49	453	182	10.27	9.40
20							9.35
27	373	187	10.64	335	139	10.33	9.43
Dec 4							9.39
11	262	142	10.77	283	144	10.40	9.43

1/ Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, reflect 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 required.
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.

Consumer Credit

Growth in consumer instalment credit outstanding slowed during October--on the basis of newly revised data[1]--to an annual rate of about 14 per cent, down from 17 per cent in the third quarter and from a peak rate of 21 per cent in the second quarter. A large increase in debt liquidations coupled with only a moderate rise in newly extended credit accounted for the reduced growth rate in the stock of debt outstanding.

Preliminary estimates suggest continuation of moderate expansion in consumer credit during November, as less robust domestic-model auto sales may have restrained increases in credit extensions associated with a pickup in sales of other consumer durables. Despite the apparent pickup in instalment lending by commercial banks noted earlier, the reduced deposit flows and tighter balance sheet positions at credit unions observed in October may have begun to restrain consumer credit availability by last month.

1/ Historical revisions of consumer credit statistics have incorporated certain improvements in estimation methods, corrections for nonbank holders, and newly-available detail on open-end instalment credit at gasoline companies and retailers. As a result, recent levels of credit outstanding have been raised about 7 per cent. Growth in credit outstanding during 1977, formerly $31 billion, was revised to $35 billion, an increase of 18-1/4 per cent as compared with the previous estimate of 17 per cent.

Delinquency rates on auto loans at major finance companies retreated in October from their fairly high third-quarter mark. The average delinquency rate on commercial bank consumer instalment loans in the third quarter remained essentially unchanged from its second-quarter level, which was well below the 1975-Q1 peak.

Consumer finance rates--as of the third quarter--were less than fifty basis points above year-earlier levels. Usury ceilings may be restraining rate increases in some States.

RESTRICTED

U.S. International Transactions
(in million of dollars; receipts, or increase in liabilities, +)

December 13, 1978

		1976	1977		1978					
		Year	Year	Q4	Q1	Q2	Q3	Aug.	Sept.	Oct.
1.	**Trade balance** 1/	-9,353	-31,059	-10,170	-11,201	-7,802	-7,947	-1,872	-2,548	-2,499
2.	Merchandise exports	114,694	120,585	29,457	30,664	35,067	37,033	12,513	12,986	13,000
3.	Merchandise imports	-124,047	-151,644	-39,627	-41,865	-42,869	-44,980	-14,385	-15,534	-15,499
4.	**Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)**	-9,935	-3,907	-5,142	-6,211	2,700	-674	-1,496	1,982	-670
	Through interbank transactions with									
5.	a) Own offices in foreign countries	-6,282	-2,717	-5,545	-3,526	4/	1,980	-236	6,380	-2,566
6.	b) Unaffiliated banking offices in foreign countries	-3,220	-2,203	-147	-2,369	4/	-772	-595	-3,125	2,353
	Through nonbank transactions									
7.	a) Claims on nonbanks in foreign countries (increase, -)	-3,142	-423	-487	-180	4/	-2,523	-1,082	-859	-1,110
8.	b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	2,709	1,436	1,037	-136	4/	641	417	-414	653
9.	**Private securities transactions, net** (excl. U.S. Treas. Oblig.)	-7,829	-3,050	38	-514	81	61	-9	325	-553
10.	Foreign net purchases of U.S. corp. bonds	415	1,130	206	123	158	415	238	107	205
11.	Foreign net purchases of U.S. corp. stocks	853	1,325	580	341	1,027	108	-102	254	-56
12.	U.S. net purchases (-) of foreign securities	-9,097	-5,505	-748	-978	-1,104	-462	-145	-36	-702
13.	**Foreign net purchases of U.S. Treasury obligations**	2,641	543	-297	881	805	-1,034	-108	671	291
14.	**Change in foreign official reserve assets in U.S. (increase +)**	13,062	35,456	15,152	14,964	-5,483	4,577	1,945	-936	7,714
	By Area									
15.	G-10 countries and Switzerland	3,922	29,414	14,476	12,327	-3,099	5,436	3,261	-379	5,628
16.	OPEC	6,802	5,989	757	1,354	-2,389	-1,645	-1,466	-335	1,463
17.	All other countries	2,338	53	-81	1,283	5	786	150	-222	623
	By Type									
18.	U.S. Treasury securities	9,315	30,218	12,900	12,979	-5,728	3,167	1,328	-652	4,652
19.	Other 2/	3,747	5,238	2,252	1,985	245	1,410	617	-284	3,062
20.	**Change in U.S. reserve assets (increase -)**	-2,532	-237	-2	246	328	14	49	-67	-85
21.	**All other transactions and statistical discrepancy**	13,946	2,254	421	1,835	9,371	5,003	1,491	573	-4,198
MEMO:										
	Current account 3/	4,339	-15,265	-6,959	-6,854	-3,261	n.a.	n.a.	n.a.	n.a.

1/ International accounts basis, seasonally adjusted.
2/ Includes deposits in banks, commercial paper, bankers' acceptances, and borrowing under repurchase agreements.
3/ Seasonally adjusted.
4/ Data not shown separately because of break in series.

RESTRICTED

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. In the last two weeks of November the dollar's average exchange value rose by 2 per cent, and on December 1 the weighted-average exchange value of the dollar was nearly 11 per cent above its low point just before the November 1 announcement of dollar-support measures. In early December, however, the dollar came under renewed selling pressure, apparently triggered by the political unrest in Iran and the approach of the December 16 OPEC meeting to decide on future oil prices.

. As a net result of these movements, the dollar's average exchange value gained about 1 per cent over the four week period since the last green book.

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The dollar's fluctuations over the past month were most pronounced against the Japanese yen and Swiss franc. Each of these currencies depreciated by about 6 per cent against the dollar in the last two weeks of November, then rose by about 2 per cent against the dollar in early December. Announcements during the period regarding the formation of the European Monetary System had little net impact on the dollar's exchange value. As expected, France announced that it would re-join the European currency band, or "snake". The Italian government also stated its intention --

subject to parliamentary approval -- to join the arrangement at the beginning of the year, with initially wider fluctuation margins for the lira. The British decided not to participate, and Norway, which had been a member of the snake although not a member of the EC, announced that it would not join the EMS and withdrew from the snake.

The New York Trading Desk intervened on both sides of the market over the past month, purchasing foreign currencies, , at times when the dollar was rising and providing intervention support at times when the dollar was under downward pressure. On a net basis the Desk sold foreign currencies equivalent to $880 million on behalf of the System and $520 million equivalent for the account of the Treasury. Over 90 per cent of the Desk's net foreign currency sales were of German marks with the remaining operations in Swiss francs and Japanese yen. The System made additional swap drawings to finance its share of this intervention, raising outstanding System swap debt to $4.6 billion equivalent. The Treasury augmented its foreign currency holdings through sales of SDR's. In late November the Treasury sold SDR's to the Bundesbank and the Bank of Japan, receiving $760 million equivalent of marks and $640 million equivalent of yen. On December 12 the Treasury sold three- and four-year mark denominated notes (schuldsheine) for value December 15. This was the first phase of the Treasury's planned sale of up to $10 billion worth of securities denominated in marks, Swiss francs and possibly yen.

<u>OPEC surpluses and investment flows</u>. The OPEC current-account surplus will probably be at the lower end of a $5-10 billion range, much smaller than earlier expected and far less than the 1977 surplus of about $30 billion. We expect the 1978 surplus on goods and services to be on the order of $10 billion (compared with $35 billion last year) and OPEC grant aid this year to decrease to $3-4 billion. (See table.) The decline in OPEC's terms of trade has been a major factor in the reduction of the surplus.

Almost one-half of this year's contraction in the OPEC surplus will be borne by Saudi Arabia, whose surplus will probably fall from an estimated $14 billion last year to about $3 billion this year. There have also been smaller surpluses this year in most of the other Middle East countries and Indonesia, while the deficits of Nigeria and Venezuela have widened. Algeria and Ecuador appear to have kept their deficits from increasing. The reduction in the all-OPEC surplus, which began to be sizable in the second half of last year, seems to have bottomed out around mid-1978 as oil exports began to revive, and the current-account balance for the second half may approximate the $3 billion of the first half. The second-half surplus could be less if the current wave of strikes in the Iranian oil fields persists.

OPEC oil exports (accruals basis) declined 8-1/2 per cent in the first half of 1978 compared with the year-earlier level. This resulted from a price rise of about 1-1/2 per cent (in mid-1977) and a volume decrease of 10 per cent caused by inventory cutbacks in consumer countries and increased oil supplies from non-OPEC sources. Exports rose

Estimates of OPEC Current Account and Investible Surplus
(in billions of dollars)

	1977			1978		
	1st H	2nd H	Year	1st H	2nd H 1/	Year 1/
Current Account						
Oil exports	68	69	136	62	68	129
Other exports	5	5	10	5	5	11
Imports f.o.b.	-40	-45	-84	-47	-51	-99
Trade balance	33	29	61	20	22	42
Net services & private transfers	-13	-14	-27	-16	-16	-32
Balance on above	20	15	35	4	6	10
Grant aid	-2	-3	-5	-2	-2	-4
Current-account balance	17	12	30	3	3	6
Investible Surplus						
Current-account balance	17	12	30	3	3	6
Credit to (-) or from oil companies	5	-2	3	3	-3	-1
Investible	22	10	33	6	0	5
Investments:					3rd Q	
In United States	5.4	3.8	9.2	0	-1.8	
a. Treas. bills & bank deposits	.4	-.9	-.5	-1.0	-1.8	
b. Other securities	3.8	3.7	6.5	.5	0	
c. Other capital flows 2/	1.2	1.0	2.2	.5	n.a.	
In United Kingdom	.6	.1	.7	-.1	.1	
a. Liquid sterling assets	.2	-.1	.1	-.2	.1	
b. Other loans & investments	.4	.2	.6	.1	0	
In Euro-currency market 3/	8.9	3.0	11.9	-.5	n.a.	
Other investments	7.1	3.1	11.2	6.6	n.a.	

1/ Projected.
2/ Direct investment, import prepayments, debt repayment, real estate, miscellaneous.
3/ Including domestic-currency deposits outside the U.S. and U.K.
Note: Numbers may not add to totals because of rounding.

again in the third quarter, as economic activity in the major industrial countries continued to pick up and oil inventories began to be rebuilt in anticipation of a year-end price rise. Because of the higher demand and because increased Saudi output made up for some Iranian production losses during the November strike in Iran, OPEC oil exports in the second half of 1978 may approximate the year-earlier level. Even so, for the full year 1978 oil exports may be 5 per cent ($7 billion) below the 1977 total of $136 billion, with Saudi Arabia absorbing three-fourths of the shortfall. The new strike in Iran could cut the 1978 total further depending on its severity and duration and on whether Saudi production is further increased. Iranian exports normally average $60 million per day.

Commodity imports of OPEC countries in dollar terms increased in the first half of 1978 by nearly 20 per cent from a year earlier, of which two-thirds was due to higher prices, including the higher dollar cost of imports from countries with appreciating currencies. For the full year 1978 the dollar value of imports is projected to increase 18 per cent ($14-1/2 billion) of which over 14 percentage points would reflect higher prices, roughly two-thirds of which latter would be related to the decline in the dollar. The all-OPEC terms of trade are estimated to have deteriorated 16 per cent from 1977-I to 1978-III. Another $5 billion of the decline in the current surplus will stem from higher net payments for services imports.

In the first six months of 1978 the OPEC countries appear to have had an investible surplus of $6 billion, of which one-half was an excess of cash receipts over shipments of oil exports due to the normal lag in payments and the downturn in shipments. This cash surplus did not show up in the markets for which we have current data on OPEC investments. The net inflow of OPEC funds (official and nonofficial) to the United States in the first half was approximately zero: a $1/2 billion net outflow on banking and security holdings, and a net inflow on other types of investments. Net purchases of Treasury bonds and notes, other bonds, and equities dropped to $0.5 billion from half-yearly rates of $3-3/4 billion in 1977, mostly reflecting a shift from accumulation to liquidation of Treasury bonds and notes. There was a $1 billion net liquidation of Treasury bills and bank deposits, mostly the former, and other investment flows slowed. OPEC holdings of Euro-dollar deposits were reduced $2.4 billion and sterling assets $0.1 billion, while holdings of Euro-currency and domestic-currency deposits in other currencies increased $1.9 billion at current exchange rates. In the second half of 1978 there may have been no investible surplus at all because of the payments lag preventing higher oil export shipments from being fully reflected in cash receipts. The third quarter saw a further $1.7 billion decrease in banking and security holdings in the United States.

OPEC decisions on 1979 prices are scheduled for December 16. If oil prices were not raised, in 1979 the OPEC current account would probahly show a deficit, even with an expected smaller rise in imports reflecting a stronger performance of the dollar. Some projections show even balance in the OPEC current account with a 5 per cent oil price rise; assuming price increases of 10 or 15 per cent would raise the current account surplus to $5-1/2 or $11 billion, respectively. According to these projections each 5 percentage points of price increase would raise oil exports $6-1/2 billion (the price effects on demand being negligible), which OPEC imports would rise $1 billion as higher revenues eased payments problems in some countries.

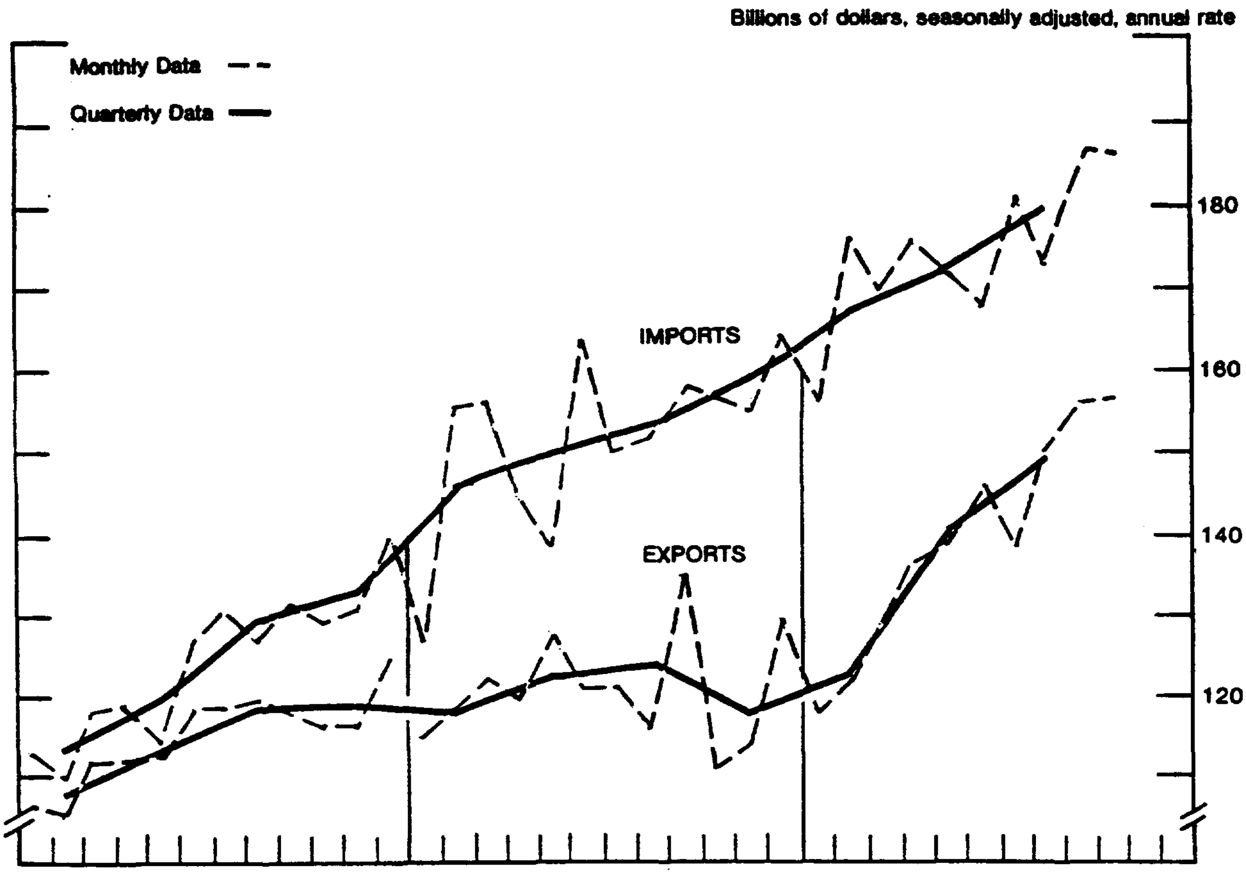
U.S. International Transactions. The merchandise trade deficit for October was $30 billion at an annual rate, slightly below the average for the second and third quarters, and far below the $45 billion for the first quarter. Conditions seem favorable for continued improvement as economic activity abroad picks up relative to the United States and as the increase in United States' price competitiveness due to depreciation takes full effect.

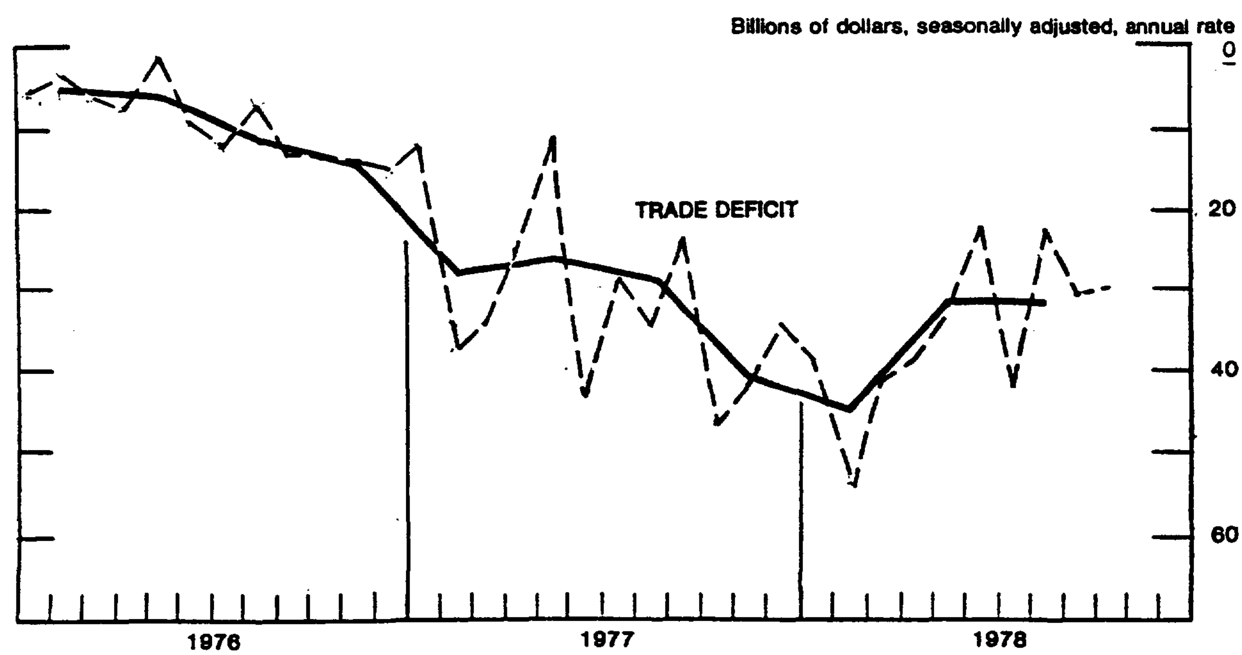
In October both exports and imports remained at about their high September levels. The volume of non-agricultural exports during each of the past two months was about 10 per cent above the levels recorded during the previous 6 months. This increase appears to have been broadly based, spread among industrial supplies, machinery, and aircraft. There is some evidence that this strength will continue into next year since export orders for durable goods are stronger this year than in the last few years (even when motor vehicles and aircraft are excluded).

Agricultural exports in October remained at about the September level of $30 billion at an annual rate, although somewhat below the peak level achieved during the second and third quarters. No marked change in the value of U.S. agricultural exports is expected in 1979 as a result of the recently announced acreage set-aside program for feedgrains. The program is essentially a repeat of this year's and is not expected to have any additional effect on prices or output.

U.S. Merchandise Trade

International Accounts Basis





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

	1977	1978				
	Year	1Q	2Q	3Q r	*Sept. r	*Oct.
EXPORTS	120.6	122.7	140.3	148.1	155.8	156.0
Agric.	24.4	26.0	32.0	31.5	30.1	29.6
Nonagric.	96.2	96.6	108.3	116.6	125.7	126.4
IMPORTS	151.7	167.5	171.5	179.9	186.4	186.0
Petroleum	45.0	39.8	43.2	43.3	46.8	42.1
Nonpetrol.	106.7	127.7	128.2	136.6	139.6	143.8
BALANCE	-31.1	-44.8	-31.2	-31.8	-30.6	-30.0

NOTE: Details may not add to totals because of rounding.
r/ Revised
*/ The monthly International Accounts figures are only rough estimates and are subject to considerable revision.

Non-oil imports in October continued the upward trend evident in the third quarter, after having been flat in the second quarter. The trend over the past four months has been largely due to increases in volume, in contrast to strong increases in prices earlier in the year. Import price increases have been relatively moderate in recent months, as the inflationary effects of the dollar depreciation have been partly offset by sharp declines in the world prices of our major food imports, coffee, cocoa, and sugar.

During the first six months of the steel trigger-price system (May-October) there was a 10 per cent decline in import tonnage compared to the same period last year. This decline coupled with the growth of domestic demand, reduced the share of imports to about 17 per cent of the domestic market, compared with about 19 per cent during May-October 1977, and about 21 per cent during the 6 months just preceding the trigger-price restrictions. The average price of steel imports during May-October 1978 was nearly 20 per cent higher than a year earlier. Part of this price increase is attributable to the trigger-price system, while part reflects the dollar's depreciation.

The failure of Congress to extend the President's power to waive countervailing duties past January 2, 1979 is not likely to have a large impact on U.S. imports in 1979. The value of imports involved is small ($560 million in 1977) and the average duty rate to be imposed is only 8 per cent. The imposition of duties could, though, have a very important impact on the progress of the GATT trade negotiations currently taking place in Geneva.

Oil imports were $42.1 billion at an annual rate in October. Volume was 8.7 million barrels per day, the same as the average for the first 10 months of 1978. The unit value for oil imports in October was still below the high levels reached in the first 2 months of 1978.

Capital account transactions showed that the G-10 countries increased their official reserve assets in the United States by $5.6 billion in October and by an estimated $5 billion more in the first two weeks of November. During the rest of November their assets fell by about $1.4 billion.

The surge in foreign official demand for Treasury bills, a by-product of the large intervention purchases of dollars, had a marked effect on the interest rate differentials between Treasury bills and other short-term money market instruments during late October and early November.

OPEC banking and securities holdings in the United States increased by $1.5 billion in October. The increase was largely the result of a shift by Venezuela of funds previously on deposit in the Eurodollar market to banks in the United States.

U.S. International Transactions Summary
(in billions of dollars, n.s.a., (-) = outflow)

	1977 Year	1978 Q-1	1978 Q-2	1978 Q-3	Aug.	Sept.	Oct.
1. Trade balance, n.s.a. 1/	-31.1	-11.1	-7.3	-9.5	-2.7	-2.6	-2.3
2. Private capital trans. adj. 2/	-6.4	-7.6	4.6	-1.3	-1.6	1.9	-.1
3. Private capital as rept. net	-6.4	-5.8	3.6	-1.6	-1.6	2.9	-.9
4. Reporting bias 3/	--	-1.8	.5	.3	--	-1.0	.8
5. OPEC official net investments	6.0	1.4	-2.4	-1.6	-1.5	-.3	1.5
6. Other foreign official assets	29.5	13.6	-3.1	6.2	3.4	-.6	6.2
7. U.S. reserve assets	-.2	.3	.3	*	*	-.1	-.1
8. All other 4/	2.2	3.4	7.9	6.2	2.4	1.7	-5.2
Memorandum (seasonally adjusted annual rates)							
9. Trade balance	-31.1	-44.8	-31.2	-31.8	-22.5	-30.6	-30.0
10. GNP net exports of goods and services	-10.9	-24.1	-5.5	-6.6	n.a.	n.a.	n.a.
11. Current account balance	-15.3	-27.4	-13.0	n.a.	n.a.	n.a.	n.a.

1/ International accounts basis. For seasonally-adjusted number see line 9.
2/ Includes bank-reported capital, foreign purchases of U.S. Treasury securities, and other private securities transactions.
3/ Adjusted for reporting bias in bank-reported data associated with week-end transactions. See page IV 10-11 in the June 1976 greenbook.
4/ Includes service transactions, unilateral transfers, U.S. government capital, direct investment, nonbank capital transactions, and statistical discrepancy.
*/ Less than $50 million.

In total, the increase in foreign official reserve assets in the U.S. in October equaled $7.7 billion dollars (lines 5+6 on the previous table). Since the trade deficit during October (line 1) was only about a third of this size and since there are net receipts on services, large private capital outflows must have supplied much of the dollars purchased by foreign officials. The figures reported by banks and security dealers show only a $100 million net outflow (adjusted) for October as a whole. Partial weekly data reported by banks do show a larger net outflow for late October and the first two weeks in November. The rest of the private capital outflow for October shows up in the statistics as part of line 8, "all other transactions and statistical discrepancy" ($-5 billion). It is likely that this figure largely reflects alterations in corporate financing practices in anticipation of further depreciation of the dollar.

Foreign Economic Developments. The view that foreign growth will strengthen moderately in the next few quarters hinges increasingly on a pickup in German economic activity. The U.S. growth outlook has been lowered, thus imparting less stimulus to the rest of the world. It is now apparent that Japan will not attain its FY1978 7 per cent real growth target after 4 per cent growth (s.a.a.r.) for the second and third quarters of 1978. Previously reported indications of the renewed strength of the German economy have been confirmed by recent industrial production figures; a recovery of investment may now be underway. In Canada and the United Kingdom, GNP and investment spending slackened in the third quarter, but the figures for 1978 as a whole should compare favorably with other major countries. In Italy the mid-year pause may be coming to an end, and in France activity continues to recover gradually. The smaller industrial countries exhibit a mixed pattern: indicators in Belgium and the Netherlands on balance are signalling improvement, but Switzerland and Denmark currently are undergoing slowdowns.

The increasingly positive German outlook includes a reduction in year-over-year consumer price inflation to 2.2 per cent in November, down from 3 per cent earlier in the year. A factor contributing to the good inflation performances in Germany, Japan, and Switzerland is the past appreciation of their currencies -- in the cases of Japan and Switzerland, beyond levels warranted by relative changes in consumer price indices.

Of the three countries with the largest surpluses on current-account -- Germany, Japan, and Switzerland -- only in Japan has the appreciation of its currency resulted in declining net exports. The decline in

Japanese export volume accelerated in October, and the monthly current-account surplus fell dramatically, although mainly because of a once-for-all $1 billion payment to the U.S. for uranium enrichment services. The October German current-account surplus (n.s.a.) was the largest monthly figure in several years. The Swiss current account is projected to show a surplus of about $5 billion in 1978 -- huge in relation to Swiss GNP.

Individual Country Notes. In Japan, data released for the third quarter show an increase in GNP of only 4 per cent (s.a.a.r.) over the previous quarter. This disappointing rate of GNP growth -- together with a slightly downward revised figure of 4 per cent growth (s.a.a.r.) in the second quarter -- implies that real growth will not meet the official 7 per cent goal. Japanese officials already concede the expected shortfall, and the recent change in government has provided a convenient occasion to withdraw officially from their summit commitment on GNP growth.

The third-quarter GNP figures reveal that domestic demand remained relatively strong (7.2 per cent growth s.a.a.r.), despite a virtually unchanged level of private investment, primarily because of increased private consumption expenditure. The gain in domestic demand was largely offset, however, by an 0.7 per cent decline in the ratio of net exports to GNP in the quarter.

The current-account surplus in October declined dramatically to a level of only $160 million (from an average monthly level of over $1.6 billion in the previous nine months), mainly because of the inclusion in the import statistics of a $1 billion advance payment to the

Real GNP and Industrial Production in Major Industrial Countries
(percentage change from previous period, seasonally adjusted)

	1975	1976	1977	1977 Q4	1978 Q1	1978 Q2	1978 Q3	1978 July	1978 August	1978 September	1978 October
nada: GNP	1.3	5.5	2.7	1.5	0.7	1.0	0.9	*	*	*	*
IP	-5.4	5.1	4.0	1.4	0.6	1.4	1.6	0.8	-0.8	2.8	n.a.
ance: GDP	-0.5	5.8	2.0	0.5	1.8	0.3	n.a.	*	*	*	*
IP	-8.9	9.8	1.5	-0.8	2.7	0.8	-0.5	0.8	0.0	0.8	0.8
rmany: GNP	-2.0	5.7	2.6	1.5	-0.1	2.1	n.a.	*	*	*	*
IP	-5.5	7.9	2.7	0.9	0.0	-0.6	2.9	1.7	-0.8	0.8	n.a.
aly: GDP	-3.5	5.7	1.7	-0.1	1.8	0.4	n.a.	*	*	*	*
IP	-9.2	12.4	1.1	-2.1	5.5	-2.2	0.7	0.8	-1.3	2.7	n.a.
apan: GNP	1.5	6.3	5.2	1.5	2.6	1.0	1.0	*	*	*	*
IP	-11.1	11.1	4.2	1.5	2.9	1.7	0.5	-0.8	1.2	1.2	-0.3
nited Kingdom: GDP	-2.0	2.3	1.0	0.1	0.8	1.6	n.a.	*	*	*	*
IP	-4.8	1.9	3.8	-0.4	1.2	3.7	-0.4	-0.5	-0.2	-1.0	n.a.
nited States: GNP	-1.3	5.7	4.9	0.8	0.0	2.1	0.8	*	*	*	*
IP	-8.9	10.1	5.6	0.6	0.2	3.1	2.0	0.8	0.6	0.5	0.5

NP data are not published on monthly basis.

Consumer and Wholesale Prices in Major Industrial Countries
(percentage change, from previous period or as indicated)

				1977		1978			Latest 3 Months from:		
	1975	1976	1977	Q3	Q4	Q1	Q2	Q3	Previous 3 Months (at Ann. Rate)	Year Ago	Latest Month
Canada: CPI	10.8	7.5	8.0	2.2	2.2	1.8	2.4	2.5	6.4	8.9	October
WPI	6.5	4.3	9.1	0.9	1.1	2.7	3.0	1.5	12.0	9.9	October
France: CPI	11.7	9.6	9.5	2.4	1.9	1.6	2.9	2.7	9.8	9.2	October
WPI	-5.7	7.4	5.6	-0.9	0.0	1.2	2.0	1.8	8.7	6.1	October
Germany: CPI	5.9	4.6	3.9	0.2	0.2	1.3	0.9	0.0	-1.4	2.2	November
WPI	3.4	5.8	1.8	-1.8	-0.9	1.0	0.3	-0.6	-4.2	-0.1	October
Italy: CPI	16.9	16.8	18.4	2.5	3.3	2.6	3.0	2.4	11.4	11.8	October
WPI	8.5	22.9	17.4	1.5	2.0	2.1	2.3	1.8	8.0	8.4	October
Japan: CPI	12.1	9.7	8.3	0.3	0.8	0.9	2.0	0.8	5.3	4.1	November
WPI	3.0	5.0	1.9	-0.5	-0.7	-0.5	-0.3	-1.7	-5.1	-3.7	November
United Kingdom: CPI	24.2	16.6	15.8	1.6	1.5	1.7	2.7	1.7	6.7	7.9	October
WPI	24.1	16.4	19.2	3.3	1.6	2.5	2.0	2.1	7.0	8.4	November
United States: CPI	9.1	5.7	6.5	1.5	1.1	1.7	2.6	2.4	9.0	8.4	October
WPI	9.2	4.6	6.1	0.2	1.1	2.4	3.0	1.5	8.2	9.2	November

Trade and Current-Account Balances of Major Industrial Countries[a/]
(billions of U.S. dollars; seasonally adjusted)

			1977		1978			1978			
	1976	1977	Q3	Q4	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Canada: Trade	1.2	2.2	0.4	0.7	1.2	0.6	0.6	0.0	0.1	0.5	0.1
Current Account	-3.9	-3.9	-1.2	-0.7	-0.6	-1.0	-1.2	*	*	*	*
France: Trade	-4.2	-2.2	-0.5	0.1	-0.1	0.3	0.3	0.2	-0.2	0.3	0.2
Current Account	-6.0	-3.3	-0.8	-0.4	0.0	1.0	n.a.	*	*	*	*
Germany: Trade	13.5	16.5	3.7	4.8	4.3	5.0	5.5	1.3	2.0	2.3	n.a.
Current Account[b/]	3.9	3.8	-2.0	3.8	1.6	2.0	-0.8	-1.0	0.0	0.2	1.8
Italy: Trade	-6.5	-2.5	-0.2	-0.2	-0.1	0.5	-0.8	-1.1	0.2	0.1	0.3
Current Account[b/]	-2.9	2.3	2.3	0.7	0.3	n.a.	n.a.	*	*	*	*
Japan: Trade	9.9	17.5	4.2	4.6	7.4	6.8	6.7	2.1	2.1	2.4	0.8
Current Account	3.7	11.0	2.7	3.1	5.5	4.8	4.5	1.4	1.4	1.6	0.2
United Kingdom: Trade	-6.3	-2.9	-0.1	0.1	-1.1	-0.3	-0.5	-0.3	0.1	-0.4	0.2
Current Account	-2.0	0.6	1.0	0.9	-0.6	0.3	-0.1	-0.1	0.3	-0.3	0.4
United States: Trade	-9.3	-31.1	-7.3	-10.2	-11.2	-7.8	-7.9	-3.5	-1.9	-2.5	-2.5
Current Account	4.3	-15.3	-2.9	-7.0	-6.9	-3.3	n.a.	*	*	*	*

a/ The current account includes goods, services, and private and official transfers.
b/ Not seasonally adjusted.
* Comparable monthly current-account data are not published.

United States for uranium enrichment services. Even without this special item, however, the monthly current-account figure would have been significantly below previous levels because of an almost $1/2 billion reduction in exports in October. Export volume in October was more than 8 per cent (s.a.) below the September level, indicating that the previously noted adjustment of trade volumes to the appreciation of the yen is continuing.

Recent data in Germany tend to confirm the improvement in the outlook which occurred this summer. In the third quarter, industrial production recorded its sharpest jump since early 1976. GNP growth projections for 1978 have consequently edged upward into the 3 to 3-1/2 per cent range. There are indications that investment may now be responding to stronger demand in the other sectors. Orders for investment goods for the home market (s.a.) rose sharply in September, and a recent survey by one of the major research institutes reports a planned increase in investment outlays.

Germany's trade- and current accounts showed larger surpluses in the first three quarters this year than in the corresponding period of 1977. For October the trade surplus (n.s.a.) of DM4.8 billion and the current-account surplus (n.s.a.) of DM3.6 billion are the largest monthly figures in several years.

The historically high unemployment rate has declined only marginally, although employment has risen slightly. The strike of the steelworkers since November 28, in which a reduction of weekly working hours from 40 to 35 is the major issue, is viewed with growing concern, with regard to both production disruption and the cost effects of a settlement.

Canadian real GNP rose 3.6 per cent (s.a.a.r.) in 1978:Q3, down from a rate of 4 per cent in the previous quarter. Consumer expenditures on durable (automobiles) and semi-durable goods increased sharply (8.6 per cent s.a.a.r.), partly in anticipation of higher sales tax rates reimposed in early October by most of the Provinces. Real gross fixed capital formation did not increase in the third quarter of 1978, but it was still about 9 per cent (s.a.a.r.) above its level in 1978:Q1, following a substantial rise in the second quarter. The export sector showed the strongest profit gains, no doubt due to the depreciation of the Canadian dollar. Combined with a further rise of manufacturing capacity utilization and improving investment sentiment registered by surveys, the outlook for investment remains positive.

In the United Kingdom, the preliminary estimate of 1978:Q3 GDP (based on output data) indicates that real growth between the second and third quarters was only about 2 per cent (s.a.a.r.), compared with the 8 per cent figure recorded for the previous quarter. Nevertheless, the preliminary third quarter figure is 3-1/2 per cent above the 1977:Q3 level and thus indicates that U.K. economic activity has been reasonably strong during the past year. Most of this strength has come from consumer spending -- in the third quarter consumption rose 8 per cent (s.a.a.r.) and was 6 per cent above the 1977:Q3 level. Provisional data on fixed investment spending in 1978:Q3 indicate that total investment rose 2 per cent (s.a.a.r.) and manufacturing investment rose 4 per cent (s.a.a.r.) over their second quarter levels. Between 1977:Q3 and 1978:Q3 these growth rates were 4-1/2 and 6-1/2 per cent, respectively.

In the 12 months ending in September, average earnings rose 16 per cent, while retail prices increased at only half that rate. Ford Motor Company's recent wage settlement involving an increase in labor compensation of about 17 per cent has put the British government's policy of holding wage increases to 5 per cent in jeopardy. The government has announced certain sanctions against Ford, such as suspension of some government purchases of Ford automobiles.

French developments continue to be marked by an improving external position, gradual increases in output and fairly high inflation. Another trade surplus was recorded in October. The cumulative surplus since January stands at FF 2.6 billion (about $600 million), compared to a deficit of FF 10.8 billion in the same period last year. Current-account results are even stronger: a surplus of around FF 8 billion (about $1.9 billion) for 1978 as a whole is now expected.

Industrial production rose slightly in October, but output is still below levels recorded earlier this year. Hourly wage rates in the third quarter rose about 2.7 per cent -- less than the 4.2 per cent increase registered in the second -- and stood 12.5 per cent above the comparable 1977 period. Little deceleration is yet evident in the rise of consumer prices. The continued advance of economic "liberalization" in France -- notably the dismantling of price controls -- has contributed to some price increases. Remaining price controls on services and retail margins are scheduled to be dropped at the end of the year.

In Italy, the rise in industrial production in September was the strongest monthly increase since the beginning of the year and may indicate that recovery is resuming after a mid-year pause. The substantial increase in the value of imports between August and October (14 per cent s.a., not a.r.) also points in the same direction.

In the Netherlands, industrial production continued the upward tendency observed since June. On the negative side, industrial orders were unchanged in October, and the Central Statistical Office projects little change in industrial activity for November - January. In Belgium, the National Bank's composite economic indicator, which is considered reliable, rose 1.5 per cent in October to the highest level in the last two years. The Belgian unemployment rate is the highest in the EEC, and increased further in October.

The Swiss short-term outlook is deteriorating. Retail sales declined 1.3 per cent in real terms in October after a 1.6 per cent fall in September. The Swiss current account is expected to show a large surplus in 1978, on the order of $5 billion. Unlike other countries in surplus, the Swiss surplus results from invisibles (returns to capital and services) rather than the trade balance.

Inflation in Sweden over the past year (October to October) was down to 8 per cent, and it now looks as though inflation this year will be below the level which would trigger an automatic renegotiation of wages. At the same time, resurgent export growth has led to a 1.8 per cent rise in real GNP in January - September 1978, after a 2.5 per cent decline in 1977.