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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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SUPPLEMENTAL NOTES

The Domestic Nonfinancial Economy

Industrial production in November is estimated to have increased 0.7 per cent. Gains were widespread, but output of consumer durable goods other than automotive products declined. The advance in total industrial production in November was somewhat stronger than in the two preceding months but close to the average monthly increase over the first ten months of the year. The November index is 7.3 per cent above the level a year earlier.

Output of consumer goods rose 0.5 per cent, due to a further sizable increase in the output of automotive products and a fairly strong gain in the production of consumer nondurable goods. Production of home goods, which is nearly one fifth of the consumer goods component of the index, declined in November for the second consecutive month because of cuts in the output of appliances and furniture. Production of business equipment is estimated to have increased 0.7 per cent in November--somewhat more than in the preceding two months, reflecting continued gains in commercial, transit, and farm equipment. Output of construction and business supplies also advanced sharply last month.

Production of materials advanced strongly again in November. Durable goods materials production increased by 0.8 per cent because of continued strength in output of basic metals and parts for equipment and consumer durables. Production of nondurable goods materials rose only slightly further. Output of energy materials advanced 0.9 per cent.

Capacity utilization in manufacturing increased by .3 percentage point in November to 85.7 per cent, the highest rate since July 1974. The operating rate in advanced processing industries rose by .4 percentage point to 84.4 per cent, as production of transportation equipment and machinery showed continued gains. Motor vehicle manufacturers were operating near capacity in November and output of aerospace and miscellaneous transportation equipment was at its highest level since October 1969.

Capacity utilization for industrial materials rose by .4 percentage point to 87.0 per cent. The utilization rate for durable goods materials increased by .5 percentage point, mainly reflecting gains in basic metals and components for equipment and consumer durables. Energy materials capacity utilization rose by .7 percentage point. The operating rate for nondurable goods materials was little changed.

The utilization rate in manufacturing for November was 2.3 percentage points below the 1973 peak value of 88 per cent. In advanced processing industries, the rate was only 1 percentage point below the 1973 high of 85.4, while in primary processing industries and in materials the rates were between 5 and 6 percentage points below their exceptionally high 1973 peak values.

The book value of total manufacturing and trade inventories increased at an annual rate of \$38.1 billion in October. This rate of accumulation was well above the September rate of \$23.2 billion and the third quarter rate of \$31.3 billion, but still well below the pace during the first half of the year. In October the ratio of all manufacturing and trade inventories to sales declined to 1.39, the lowest level since December, 1950.

The book value of retail trade inventories increased at a seasonally adjusted annual rate of \$7.6 billion in October. This rate, up sharply from the slight decline in September, was still somewhat below the third quarter \$8.5 billion rate of accumulation. The October increase in stocks was accompanied by a substantial pickup in sales (1.3 per cent), and the ratio of all retail inventories to sales edged down to 1.40--low on an historical basis.

Retail inventories of durable goods rose at an annual rate of \$5.7 billion; this is well above the modest third quarter rate of rise which was tempered by a drop in September. The build-up in durable goods inventories in October were concentrated at retailers of automobiles, where unit stocks were also reported to be up substantially in October. Book value of inventories of nondurable goods rose at an annual rate of \$2.0 billion, following \$.7 billion rate increase (revised) in September. Stocks at department stores declined for the first time since last February, indicating that some corrections in the overstocked general merchandise sector have been taking place.

The book value of wholesale trade inventories rose at a seasonally adjusted annual rate of \$18.9 billion, more than twice the downward revised September pace and almost four times the pace recorded for the third quarter as a whole. While the October increase in stocks was robust, it was accompanied by a sharp pickup in sales (4.2 per cent); as a result the ratio of all wholesale inventories to sales fell to 1.18, somewhat low on an historical basis.

Wholesalers' stocks of durable goods increased at an annual rate of \$7.3 billion, following the \$2.4 billion rate gain in the preceding month. A large increase occurred in stocks merchants of motor vehicles, primarily importers of foreign cars. Nondurable goods wholesalers added to stocks at an annual rate of \$11.6 billion, well above the August pace. Inventories held by wholesalers of raw farm products increased at a \$4.1 billion annual rate; some of this book value gain probably reflected recent rapid price advances for many foodstuffs. Stocks of the miscellaneous grouping of nondurable-goods establishments, which includes apparel and related goods; rose very sharply in October.

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

	1977			QI	1978			
	QII	QIII	QIV		QII	QIII	Sept.(r)	Oct.(p)
Manufacturing and trade	28.3	25.2	17.8	44.2	44.3	31.3	23.2	38.1
Manufacturing	15.7	10.2	2.8	16.6	22.8	18.0	14.2	11.5
Trade, total	12.6	15.0	14.9	27.6	21.5	13.3	9.0	26.6
Wholesale	2.6	4.7	7.5	19.5	11.8	4.8	9.2	18.9
Retail	10.0	10.3	7.4	8.1	9.8	8.5	-.2	7.6
Durable	3.8	5.1	3.9	3.9	2.1	2.1	-.9	5.7
Auto	2.2	1.5	2.8	.9	.2	-.2	-1.2	4.9
Nondurable	6.2	5.2	3.5	4.1	7.7	6.4	.7	2.0

r = revised

p = preliminary

INVENTORY/SALES RATIOS

	1977			QI	1978			
	QII	QIII	QIV		QII	QIII	Sept.(r)	Oct.(p)
Manufacturing and trade	1.46	1.48	1.44	1.46	1.42	1.43	1.41	1.39
Manufacturing	1.60	1.61	1.56	1.56	1.52	1.54	1.52	1.50
Trade, total	1.32	1.35	1.33	1.36	1.31	1.32	1.31	1.29
Wholesale	1.21	1.24	1.23	1.27	1.20	1.21	1.20	1.18
Retail	1.43	1.45	1.42	1.45	1.42	1.43	1.41	1.40

r = revised

p = preliminary

The Domestic Financial Economy

Money market certificate issuance continued strong in November, with sales of over \$15 billion (see Table). S&Ls and commercial banks attracted a record volume of money market certificate deposits in November, whereas MSBs experienced a significant slowdown in certificate issuance which may help explain the decline in total deposit growth at MSBs. It should be noted that November figures for commercial banks and MSBs are for a five-week period, compared to four weeks in previous surveys. On a weekly average basis, the pace of commercial bank certificate issuance in November was only slightly stronger than in October, and the decline in certificate sales by MSBs was especially marked.

The November slowdown in 6-month certificate sales at savings banks occurred despite an increase in the proportion of MSBs offering the new instrument. As of the end of November an estimated 75 per cent of MSBs offered the money market certificate, of which about 63 per cent were paying ceiling rates. The proportion of commercial banks offering money market certificates continued to increase to 77 per cent, 83 per cent of which were paying ceiling rates at the end of the month.

Table 1
Estimated Money Market Certificate Inflows

	Inflows (\$ billions): ^{1/}						Money Market Certificates Outstanding As of the End of November:	
	June	July	August	September	October	November	\$ billions	Per Cent of Total Deposits Outstanding ^{2/}
Commercial Banks	2.1	3.4	2.3	1.9	4.2	5.8	19.7	4.9
S&Ls	4.9	6.0	3.1	4.0	6.9	7.4	32.3	7.6
MSBs	1.6	1.9	1.5	1.1	2.8	1.9	10.8	7.7
All Institutions	8.6	11.3	6.9	7.0	13.9	15.1	62.8	6.5

^{1/} Commercial bank and MSB certificate inflows through the last Wednesday of the month.

^{2/} Per cent of small-denomination time and savings deposits for commercial banks.

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MONETARY AGGREGATES
(Seasonally adjusted)^{1/}

	1978						Nov. '77	to Nov. '78 ^P
	QI	QII	QIII	Sept.	Oct.	Nov. ^P		
<u>Major monetary aggregates</u>								
1. M-1 (currency plus demand deposits)	6.2	9.9	7.6	14.1	3.7	-4.6	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	-7.1	4.9	
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	4.3	8.1	
4. M-3 (M-2 plus all deposits at thrift institutions)	7.7	7.8	10.1	14.0	10.0	6.8	9.2	
<u>Bank time and savings deposits</u>								
5. Total	12.8	10.1	9.5	13.8	7.9	23.7	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	10.7	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	
.. Small time ^{4/}	3.6	6.8	8.5	11.9	23.5	4.7	8.4	
.. Large time ^{4/}	26.9	17.3	32.7	16.4	8.1	67.8	28.5	
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	
<u>Deposits at nonbank thrift institutions ^{5/}</u>								
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	13.1	4.1
20. Nondeposit sources of funds ^{8/}	1.7	0.7	1.2	1.0	5.1	-1.7	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.

INTEREST RATES
(One day quotes--in per cent)

	1978			
	Highs	Lows	Nov. 20	Dec. 14
Short-term Rates				
Federal funds (wkly. avg.)	9.87(12/6)	6.58(1/11)	9.68(11/22)	9.79(12/11)
3-month				
Treasury bills (bid)	9.12(11/28)	6.09(4/24)	8.21	8.90
Comm. paper (90-119 days)	10.31(11/16)	6.63(1/6)	10.22	10.30
Bankers' acceptances	10.70(11/1)	6.70(1/6)	10.33	10.35
Euro-dollars	12.06(11/14)	7.00(2/8)	11.00	11.38
CDs (NYC) 90 days				
Most often quoted new	10.38(12/13)	6.65(1/4)	10.25(11/15)	10.38(12/11)
6-month				
Treasury bills (bid)	9.48(11/8)	6.43(1/4)	8.91	9.20
Comm. paper (4-6 mos.)	10.41(11/15)	6.66(1/5)	10.30	10.36
CDs (NYC) 180 days				
Most often quoted new	10.75(12/13)	6.85(1/4)	10.72(11/15)	10.75(12/11)
1-year				
Treasury bills (bid)	9.38(11/9)	6.53(1/4)	8.99	9.25
CDs (NYC)				
Most often quoted new	10.25(12/13)	7.05(1/4)	10.04(11/15)	10.25(12/11)
Prime municipal note	5.45(12/8)	3.55(3/3)	5.20(11/17)	5.45(12/8)
Intermediate- and Long-term				
Treasury (constant maturity)				
3-year	9.32(10/31)	7.38(1/4)	8.85	9.20
7-year	9.00(10/31)	7.71(1/5)	8.72	8.96
20-year	8.90(10/31)	8.00(1/5)	8.69	8.88
Corporate				
Seasoned Aaa	9.12(12/13)	8.28(1/3)	9.00	9.12(12/11)
Baa	9.88(12/13)	9.09(1/3)	9.82	9.88(12/11)
Aaa Utility New Issue	9.30(12/14)	8.61(3/24)	9.25(11/17)	9.30
Recently offered	9.35(12/14)	8.48(1/6)	9.24(11/17)	9.35
Municipal				
Bond Buyer index	6.45(12/14)	5.58(3/16)	6.11(11/16)	6.45
Mortgage--average yields in				
FNMA auction	10.40(12/11)	9.13(1/9)	10.27(11/13)	10.40(12/11)

APPENDIX A*
BANK CREDIT REVISION

The commercial bank credit figures used in this month's analysis of financial developments reflect revisions based on the June 30, 1978 Call Report. This appendix explains the effects of these revisions on previous estimates of loans and investments.

According to the June Call Report data, growth in commercial bank credit was considerably larger over the first half of 1978 than the partially estimated data had indicated. The seasonally adjusted annual rate of growth in total loans and investments over that period was 14.0 per cent or 2.3 percentage points above the estimated 11.7 per cent as shown in Table I. The new higher level for total bank credit reflected upward revisions in all major credit components.

The level of the total bank credit series was raised \$9.8 billion as of June 30, 1978, and the level of the total loan series was raised \$6.6 billion as shown in Table II. These were unusually large revisions and were exceeded only by those in June and December 1976. Levels of U.S. Treasury securities and "other securities" were increased by \$1.8 billion and \$1.5 billion respectively--also substantial revisions and in the case of Treasury securities, larger than any previous benchmark revisions.

Revisions in the original monthly estimates reflect three sources of error, as discussed below.

1. Nonmember bank credit estimates. Data from the June Call Report suggest that total credit at nonmember banks (including loans to domestic commercial banks) increased between December 31, 1977 and June 28, 1978 by \$9.5 billion more than previously estimated.^{1/} Loans were \$7.0 billion higher. By historical standards, these revisions are very large (only those for June 1976 were larger) and they indicate comparatively much stronger growth at nonmember banks than might be suggested by the nonmembers' share of outstanding bank credit in December 1977. Estimates of U.S. Treasury security holdings were raised \$0.9

* Prepared by Edward R. Fry, Senior Economist and Mary Jane Harrington Economist, Banking Section, Division of Research and Statistics.

^{1/} Initial estimates for nonmember banks are for the last-Wednesday of each month. These estimates are based on data reported weekly by the smaller member banks, using the ratios derived from Call Reports that relate nonmember amounts to the amounts reported by smaller member banks. Previous estimates reflected Call Report relationships as of December 31, 1977, and data reported weekly for member banks.

billion and those for "other securities", \$1.6 billion--a near-record change. Nonmember estimates were revised for earlier months back through January 1978--i.e., to the previous Call Report benchmark. Also, the revised levels were carried forward from June 1978 into the current monthly estimates. Revisions of levels for recent months, however, had little effect on changes in bank credit for those months.

2. Estimates of domestic interbank loans. Most banks that report weekly data currently include interbank loans in their total loans figures, so it is necessary to subtract estimates of interbank loans from reported total loans in order to derive the desired measure of loans to the nonbank public. Estimation errors in these interbank estimates--based on current weekly data from member banks and Call Report blowups representing nonmembers--frequently are large. Based on the June 30, 1978 benchmark, interbank loans estimated previously for June 28 were raised \$3.3 billion. This error was about the same as that for June 1977, and it was considerably larger than that of any other Call period. Interbank loans at small member banks declined substantially between December 31, 1977 and June 30, 1978, and those at insured nonmember banks also declined somewhat. However, loans at non-insured banks--largely U.S. branches of foreign commercial banks--increased rather than following the trend at other banks. These diverse changes resulted in an increase in the ratio of interbank loans at nonmember banks to those at small member banks from 130 per cent in December to 162 per cent in June--a record high for this blowup ratio. While this ratio is extremely volatile, revised loan estimates after June assume that nonmember interbank loans will continue high relative to small member bank loans. Available monthly reports for U.S. branches of foreign banks indicate that interbank loans continued to increase through the third quarter.

Because of their extreme volatility, interbank loans are difficult to estimate and these estimates are frequently a major source of error in bank credit estimates. However, in this case, revisions in interbank loans paralleled those for total loans, so the upward revision in loans excluding interbank, the concept used in the bank credit series, was considerably smaller than the revisions in total loans.

3. "Window-dressing" estimates. When the last Wednesday current reporting date differs from the Call Report date, as usually happens, an estimate of the difference in levels between these two dates is included in the initial bank credit estimates for the June 30 and December 31 Call dates. The change between the Wednesday and Call dates is termed "window dressing," and, frequently in the past, estimates of this change have contributed substantially to benchmark revisions. In June 1978, the actual change in total bank credit between June 28 and June 30 was \$9.2 billion--\$3.7 billion above the estimated "window-dressing." The source of error in the total loans estimate was \$2.9

billion with all loan categories showing upward revisions. "window-dressing" was also underestimated \$0.9 billion for U.S. Treasury securities but slightly overestimated for "other securities." The volume of "window-dressing" in the June 1978 period was much larger than in any previous June period.

"window-dressing" errors affect only the June levels and changes involving June levels--e.g., since the "window-dressing" correction raised June but not subsequent months, estimated increases in bank credit were lowered for July and the third quarter by a corresponding amount. The combined effects of errors in nonmember bank credit, interbank loans, and "window-dressing" resulted in a somewhat smoother growth pattern around mid-year--a 13.7 per cent annual rate in total credit in June compared with the previous estimate of 6.0 per cent and 11.0 per cent in July compared with an estimated 16.7 per cent.

Taking account of both revisions in nonmember bank and "window-dressing" estimates, the net effects on major loan categories varied considerably. Business loans was the only category to show a downward revision--\$1.4 billion lower than the estimated June 30 level, reducing the first-half growth rate from 18.0 per cent to 16.7 per cent. Business loan estimates also were reduced by the previous December 1977 benchmark adjustment, but historically, revisions have generally been upward. Real estate loans were \$1.5 billion higher on the June Call than previously estimated--close to the average correction of other recent benchmarks.

The level of security loans was increased by \$0.9 billion as of June 30 on the revised basis, reflecting almost entirely a "window-dressing" error. These loans increased \$2.5 billion between June 28 and June 30. While a financing on June 30 and a reduction in System repurchase agreements (apparently resulting in a temporary increase in bank financing of security portfolios of dealers) were taken into account, the total effect was underestimated. Agricultural loans and loans to nonbank financial institutions were revised upward by \$0.5 billion and \$0.3 billion respectively.

Consumer loans (not shown on tables) accounted for a substantial part of bank loan growth in 1978. This series is a component of the Consumer Credit series and the 1978 data for consumer loans reflect not only benchmark revisions to the June 30 levels but also a major revision in Consumer Credit statistics. As of June 30, 1978, seasonally adjusted consumer loans in the bank series were increased from \$128.5 billion to \$153.5 billion. This increase reflects the combined effects of the benchmark correction and a conceptual change that incorporates loans previously classified as "all other" into the consumer loan category. This conceptual change

involves the elimination of a previous arbitrary adjustment that was designed to remove certain credit used by households for business or other nonconsumer purposes. After this change, consumer loans in the Consumer Credit series correspond to "other loans to individuals" on the Call Report. The substantial change in level, however, affected current changes and annual rates only moderately. Consumer loans increased at an annual rate of 20.5 per cent over the first half of 1978 compared with an estimated rate of 18.2 per cent.

Table 1
Commercial Bank Credit^{1/}
Comparison of Old and Revised Rates of Growth^{2/}
(Seasonally adjusted changes at annual percentage rates)

	<u>Total loans and investments</u> ^{3/}		<u>U.S. Treasury securities</u>		<u>Other securities</u>		<u>Total loans</u> ^{3/}		<u>Business loans</u> ^{3/}		<u>Real estate</u>	
	<u>Old</u>	<u>Revised</u>	<u>Old</u>	<u>Revised</u>	<u>Old</u>	<u>Revised</u>	<u>Old</u>	<u>Revised</u>	<u>Old</u>	<u>Revised</u>	<u>Old</u>	<u>Revised</u>
<u>1978</u>												
1st half	11.7	14.0	5.9	9.6	6.1	7.8	14.1	16.2	18.0	16.7	17.0	18.7
1st qtr.	9.7	10.6	-	2.1	5.3	7.1	12.3	12.7	16.3	15.3	16.1	17.2
2nd qtr.	13.5	17.0	11.7	17.1	6.7	8.5	15.4	19.1	19.0	17.4	17.2	19.3
3rd qtr.p/	10.7	8.7	-8.5	-12.0	8.8	9.0	14.0	11.7	11.0	10.3	17.1	17.6
January	13.6	14.4	8.8	11.3	10.6	12.2	15.0	15.4	12.9	12.3	14.9	16.3
February	7.9	8.5	33.6	36.0	-	2.3	5.9	5.9	11.6	10.5	16.8	17.4
March	7.4	8.5	-41.2	-39.8	5.3	6.8	15.5	16.5	23.6	22.5	15.9	17.2
April	18.5	19.9	25.1	27.5	15.0	17.2	18.3	19.4	17.5	15.3	15.0	15.6
May	15.6	16.6	-6.1	4.9	5.9	7.4	21.2	22.1	32.8	30.7	19.4	21.9
June	6.0	13.7	16.1	28.2	-0.7	0.7	6.2	14.8	6.0	5.4	16.5	19.6
July p/	16.7	11.0	15.9	4.8	5.2	5.8	19.6	13.2	10.8	10.3	16.9	17.4
August p/	5.2	5.1	-32.5	-32.2	11.0	10.9	9.4	9.2	12.3	11.3	18.5	19.0
September p/	9.9	9.7	-8.7	-8.6	10.2	10.1	12.5	12.3	9.5	9.1	15.2	15.7
October p/	9.5	9.8	-24.9	-24.7	7.2	7.1	14.8	15.3	10.5	10.6	16.2	16.7

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^{1/} Last-Wednesday-of-month series except for June and December which are adjusted to the last business day of the month.

^{2/} Data revised to reflect adjustment to June 30, 1978 Call Report benchmark.

^{3/} Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank's holding company (if not a bank) and nonconsolidated nonbank subsidiaries of holding companies.

Table II

Seasonally Adjusted Bank Credit^{1/}
Comparison of Old and Revised Levels^{2/}

(In billions of dollars)

	<u>Total loans and investments</u> ^{3/}		<u>U.S. Treasury securities</u>		<u>Other securities</u>		<u>Total loans</u> ^{3/}		<u>Business loans</u> ^{3/}		<u>Real estate</u>	
	<u>Old</u>	<u>Revised</u>	<u>Old</u>	<u>Revised</u>	<u>Old</u>	<u>Revised</u>	<u>Old</u>	<u>Revised</u>	<u>Old</u>	<u>Revised</u>	<u>Old</u>	<u>Revised</u>
<u>1978</u>												
January	885.4	886.0	96.3	96.5	159.4	159.6	629.7	629.9	206.4	206.3	178.8	179.0
February	891.2	892.3	99.0	99.4	159.4	159.9	632.8	633.0	208.4	208.1	181.3	181.6
March	896.7	898.6	95.6	96.1	160.1	160.8	641.0	641.7	212.5	212.0	183.7	184.2
April	910.5	913.5	97.6	98.3	162.1	163.1	650.8	652.1	215.6	214.7	186.0	186.6
May	922.3	926.1	97.1	97.9	162.9	164.1	662.3	664.1	221.5	220.2	189.0	190.0
June	926.9	936.7	98.4	100.2	162.8	164.2	665.7	672.3	222.6	221.2	191.6	193.1
July p/	939.8	945.3	99.7	100.6	163.5	165.0	676.6	679.7	224.6	223.1	194.3	195.9
August p/	943.9	949.3	97.0	97.9	165.0	166.5	681.9	684.9	226.9	225.2	197.3	199.0
September p/	951.7	957.0	96.3	97.2	166.4	167.9	689.0	691.9	228.7	226.9	199.8	201.6
October p/	959.2	964.8	94.3	95.2	167.4	168.9	697.5	700.7	230.7	228.9	202.5	204.4

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1/ Last-Wednesday-of-month series except for June and December which are adjusted to the last business day of the month.

2/ Data revised to reflect adjustment to June 30, 1978 Call Report benchmark.

3/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank's holding company (if not a bank) and nonconsolidated nonbank subsidiaries of holding companies.

APPENDIX B*
SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES*

Of the 121 respondents to the mid-November survey, just under one-half reported that business loan demand had strengthened over the previous three months, a slight decline from the August survey entirely accounted for by medium-size banks (those with assets under \$5 billion.) Although the proportion of reporting banks expecting a further strengthening of loan demand in the three months following the survey--about one-half--was unchanged from the previous survey, the number of medium-size respondents expecting loan demand to diminish over this period increased slightly.

At the time of the November survey, the prime rate continued to be under upward pressure after it had already been raised in a series of steps by 1-3/4 percentage points since the mid-August survey. Respondents--in particular, the large banks with deposits over \$5 billion--reported that this increase in the nominal cost of credit was paralleled by substantial tightening in standards of creditworthiness and other non-price loan terms. One quarter of the respondents indicated that their bank had stiffened their criteria to qualify for the prime rate in the previous three months, considerably more than the 10 per cent of respondents who had done so as of mid-August. There was a similar but less dramatic increase in the number of banks establishing firmer terms to qualify for spreads above prime.

A movement toward greater firmness when determining the availability of credit for new customers, which was already apparent in previous surveys, began by November to be applied to established customers as well. Both large and medium-size banks shared in this policy. In the past year more than 40 per cent of all respondents have become more stringent when reviewing credit applications from new customers.

Compensating balances were firmed by over one quarter of respondents, somewhat more than had reported tightening in the previous survey. Tightening was more pronounced among the large banks. Similarly, a notable increase in the proportion of banks less willing to make fixed-rate loans was accounted for primarily by large banks. Large banks have become somewhat less liquid in recent months--although their liquidity positions have been generally less affected over the current expansion than those of other banks, which had indicated some tightening of lending terms in preceding surveys.

* Prepared by Thomas F. Brady, Banking Section, Division of Research and Statistics.

There were notable increases in the number of respondents reporting less willingness to extend several other types of credit. Reluctance to lend was particularly evident for secured construction loans and real estate loans secured by both residential and nonresidential properties. Overall, one-third of the respondents had become less willing to make loans of these types in the three months ending in November--about twice what was reported in August--while the number of banks reporting less willingness to make instalment loans to individuals rose from one in twenty to about one in five. There were also notable increases in the number of banks less willing to make commercial and industrial loans and participation loans with correspondent banks.

TABLE 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
 AT SELECTED LARGE BANKS IN THE U.S.
 (STATUS OF POLICY ON NOVEMBER 15, 1978 COMPARED TO THREE MONTHS EARLIER)
 (NUMBER OF BANKS & PERCENT OF TOTAL BANKS ANSWERING QUESTION)

L O A N D E M A N D											
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANKS USUAL SEASONAL VARIATION):	MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL BANKS ANSWERING
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
1. COMPARED TO THREE MONTHS EARLIER	2	1.7	52	43.0	57	47.2	9	7.5	1	0.9	121
2. ANTICIPATED DEMAND IN NEXT 3 MONTHS	5	4.2	55	45.5	51	42.2	10	8.3	0	0.0	121
I N T E R E S T R A T E P O L I C Y											
STANDARDS OF CREDIT WORTHINESS:	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
3. TO QUALIFY FOR PRIME RATE	1	0.9	28	24.0	88	75.3	0	0.0	0	0.0	117
4. TO QUALIFY FOR SPREAD ABOVE PRIME	5	4.2	34	28.4	78	65.0	3	2.5	0	0.0	120
WILLINGNESS TO MAKE FIXED RATE LOANS:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
5. SHORT-TERM (UNDER ONE YEAR)	1	0.9	1	0.9	74	61.2	37	30.6	8	6.7	121
6. LONG-TERM (ONE YEAR OR LONGER)	0	0.0	8	6.7	57	47.2	38	31.5	18	14.9	121
C R E D I T A V A I L A B I L I T Y A N D N O N P R I C E T E R M S											
REVIEWING CREDIT LINES OR LOAN APPLICATIONS FOR:	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
7. ESTABLISHED CUSTOMERS	0	0.0	12	10.0	107	88.5	2	1.7	0	0.0	121
8. NEW CUSTOMERS	9	7.5	32	26.5	80	66.2	0	0.0	0	0.0	121
9. LOCAL SERVICE AREA CUSTOMERS	1	0.9	15	12.5	102	85.0	2	1.7	0	0.0	120
10. NONLOCAL SERVICE AREA CUSTOMERS	13	10.9	25	20.9	81	67.5	1	0.9	0	0.0	120
COMPENSATING BALANCE REQUIREMENTS FOR:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
11. COMMERCIAL & INDUSTRIAL LOANS	2	1.7	31	25.7	85	70.3	3	2.5	0	0.0	121
12. LOANS TO FINANCE COMPANIES	1	0.9	17	14.1	100	82.7	3	2.5	0	0.0	121
WILLINGNESS TO MAKE OTHER TYPES OF LOANS:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
13. SECURED CONSTRUCTION & LAND DVLPMT SECURED REAL ESTATE LOANS:	0	0.0	4	3.4	76	62.9	33	27.3	8	6.7	121
14. 1-4 FAMILY RESIDENTIAL PROPERTIES	0	0.0	3	2.5	82	68.4	27	22.5	8	6.7	120
15. MULTI-FAMILY RESIDENTIAL PROPERTY	0	0.0	0	0.0	81	69.3	25	21.4	11	9.5	117
16. COMMERCIAL & INDUSTRIAL PROPERTY	0	0.0	2	1.7	83	68.6	32	26.5	4	3.4	121
17. INSTALLMENT LOANS TO INDIVIDUALS	0	0.0	2	1.7	108	90.0	9	7.5	1	0.9	120
COMMERCIAL AND INDUSTRIAL LOANS OF:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
18. 1-5 YEARS MATURITY	0	0.0	3	2.5	100	82.7	14	11.6	4	3.4	121
19. OVER 5 YEARS MATURITY	0	0.0	1	0.9	86	71.1	26	21.5	8	6.7	121
20. LOANS TO FINANCE COMPANIES	0	0.0	0	0.0	96	79.4	21	17.4	4	3.4	121
21. LOANS TO SECURITIES BROKERS & DEALERS	0	0.0	0	0.0	97	80.2	17	14.1	7	5.8	121
22. PARTICIPATION LOANS WITH CORRESPONDENT BANKS	0	0.0	8	6.7	99	81.9	12	10.0	2	1.7	121

TABLE 2

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DOMESTIC ASSETS
(STATUS OF POLICY ON NOVEMBER 15, 1978 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS ANSWERING EACH QUESTION AS PERCENT OF TOTAL NUMBER OF BANKS ANSWERING QUESTION)

L O A N D E M A N D	SIZE OF BANK -- TOTAL DOMESTIC ASSETS IN BILLIONS												
	MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER		TOTAL		
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANKS USUAL SEASONAL VARIATION):													
1. COMPARED TO THREE MONTHS EARLIER	5	1	57	40	38	49	0	9	0	1	100	100	
2. ANTICIPATED DEMAND IN NEXT 3 MONTHS	10	3	57	43	33	44	0	10	0	0	100	100	
I N T E R E S T R A T E P O L I C Y	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL		
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	
	STANDARDS OF CREDIT WORTHINESS:												
3. TO QUALIFY FOR PRIME RATE	0	1	20	25	80	74	0	0	0	0	100	100	
4. TO QUALIFY FOR SPREAD ABOVE PRIME	5	4	24	29	57	67	14	0	0	0	100	100	
W I L L I N G N E S S T O M A K E F I X E D R A T E L O A N S :	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		CONSIDERABLY LESS		TOTAL		
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	
	5. SHORT-TERM (UNDER ONE YEAR)	0	1	0	1	43	65	38	29	19	4	100	100
6. LONG-TERM (ONE YEAR OR LONGER)	0	0	10	6	29	51	33	31	29	12	100	100	
C R E D I T A V A I L A B I L I T Y A N D N O N P R I C E T E R M S	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL		
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	
	REVIEWING CREDIT LINES OR LOAN APPLICATIONS FOR:												
7. ESTABLISHED CUSTOMERS	0	0	10	10	90	88	0	2	0	0	100	100	
8. NEW CUSTOMERS	5	8	24	27	71	65	0	0	0	0	100	100	
9. LOCAL SERVICE AREA CUSTOMERS	0	1	5	14	95	83	0	2	0	0	100	100	
10. NONLOCAL SERVICE AREA CUSTOMERS	10	11	5	24	85	64	0	1	0	0	100	100	
C O M P E N S A T I N G B A L A N C E R E Q U I R E M E N T S F O R :	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		CONSIDERABLY LESS		TOTAL		
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	
	11. COMMERCIAL & INDUSTRIAL LOANS	0	2	29	25	62	72	10	1	0	0	100	100
12. LOANS TO FINANCE COMPANIES	0	1	19	13	71	85	10	1	0	0	100	100	
W I L L I N G N E S S T O M A K E O T H E R T Y P E S O F L O A N S :	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		CONSIDERABLY LESS		TOTAL		
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	
	13. SECURED CONSTRUCTION & LAND DVLPMT	0	0	0	4	76	60	24	28	0	8	100	100
SECURED REAL ESTATE LOANS:													
14. 1-4 FAMILY RESIDENTIAL PROPERTIES	0	0	0	3	80	66	15	24	5	7	100	100	
15. MULTI-FAMILY RESIDENTIAL PROPERTY	0	0	0	0	74	68	16	22	11	9	100	100	
16. COMMERCIAL & INDUSTRIAL PROPERTY	0	0	0	2	86	65	10	30	5	3	100	100	
17. INSTALLMENT LOANS TO INDIVIDUALS	0	0	0	2	95	89	5	8	0	1	100	100	
C O M M E R C I A L A N D I N D U S T R I A L L O A N S O F :	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		CONSIDERABLY LESS		TOTAL		
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	
	18. 1-5 YEARS MATURITY	0	0	0	3	95	80	5	13	0	4	100	100
19. OVER 5 YEARS MATURITY	0	0	0	1	81	69	19	22	0	8	100	100	
20. LOANS TO FINANCE COMPANIES	0	0	0	0	90	77	10	19	0	4	100	100	
21. LOANS TO SECURITIES BROKERS & DEALERS	0	0	0	0	81	80	14	14	5	6	100	100	
22. PARTICIPATION LOANS WITH CORRESPONDENT BANKS	0	0	14	5	76	83	5	11	5	1	100	100	